

APPLICATION AND APPOINTMENT OF CO-INVESTMENT PARTNERS FOR THE SCOTTISH CO-INVESTMENT FUND (III) SCOTTISH ENTERPRISE

Application Format: Electronic Submission in PDF
Application Reference: SCF Accredited Partner Application

Important Notice on Financial Promotions

This document is exempt from the general restriction (in section 21 of the Financial Services and Markets Act 2000) on the communication of invitations or inducements to engage in investment activity on the grounds that it is made to or directed at the following persons or persons reasonably believed to be such persons, as applicable:-

- a) investment professionals in terms of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO"),
- b) certified high net worth individuals in terms of Article 48 of the FPO,
- c) high net worth companies, partnerships, trusts, unincorporated associations etc in terms of Article 49 of the FPO,
- d) sophisticated investors in terms of Article 50 of the FPO, and
- e) self-certified 'sophisticated investor' in terms of Article 50A of the FPO.

The content of this document has not been approved by an authorised person in terms of the Financial Services and Markets Act 2000, such approval being required by section 21 of the Financial Services and Markets Act 2000 unless an applicable exemption applies. This document may therefore not be subject to the controls which would apply if it were made or approved as a financial promotion by an authorised person.



European Union



The Scottish
Government

Riaghaltas na h-Alba

EUROPE & SCOTLAND

European Social Fund

Investing in a Smart, Sustainable and Inclusive Future

Contents

• Introduction	2
• Overview of Scottish Enterprise	3
• Overview of the Scottish Investment Bank	4
• SIB's Products and Services	5
• Investment Approach and Investor Requirements	6
• Background Information on the Scottish Co-Investment Fund	10
• Section 1 - Instructions to Applicants	13
• Section 2 – Evaluation Process	15
• Section 3 – Evaluation Criteria	16
• Section 4 – Scoring Principles	17
• Section 5 – Application Format	18
• Appendix I – Blank for your use	37
• Appendix II – Deals completed and full/partial exits in the last 2 years	38

Introduction

The Scottish Co-Investment Fund (SCF) is an investment fund established by Scottish Enterprise (SE), delivered by its investment arm, The Scottish Investment Bank (SIB). The SCF has been part financed by the European Regional Development Fund (ERDF), to invest on a commercial basis through formal partnering agreements with private sector investors such as business angels, angel syndicates, venture capital funds, private equity houses and corporate venture firms. The initial fund (SCF I) was established in 2003 and recapitalised in 2008 (SCF II). Between 2003 and 2015, SCF I and SCF II invested in total £107m and leveraged a further £197m of private sector investment.

In May 2015, the Scottish Enterprise Board approved funding of up to £75 million to fund SIB's investment activities over three years. We have now launched SCF III and are inviting interested investors to apply to become Accredited Partners who will be selected on the basis of their knowledge and experience.

Overview of Scottish Enterprise

Scottish Enterprise is Scotland's national economic development agency and aims to deliver a significant lasting effect on the Scottish economy. Our role is to help identify and maximise the best opportunities for economic growth. We support ambitious Scottish companies to compete within the global marketplace and help build Scotland's globally competitive sectors. We also work with a range of partners in the public and private sectors to attract new investment to Scotland and to help create a world-class business environment.

The Scottish Enterprise Business Plan (2015-18) identifies the critical role of boosting Scotland's international competitiveness to support long term economic growth. Investment is one of the four critical, and closely interconnected, drivers of growth identified in the plan, and it is recognised that Scotland needs an effective business environment, including funding for innovative growth companies. Co-investment is a critical mechanism of delivery to stimulate increased private sector investment and to attract even more international investment capital into Scotland. Increasing the pipeline of ambitious early stage and established companies with growth potential is fundamental to the achievement of a more internationally competitive Scotland.

The **Scottish Enterprise Business Plan** is available for download at our website.

Overview of the Scottish Investment Bank

The Scottish Investment Bank (SIB) is the investment arm of Scottish Enterprise (SE), operating Scotland-wide in partnership with Highlands and Islands Enterprise, to support economic growth by increasing the supply of risk capital finance to Scottish businesses, and helping more companies' access finance. SIB has been at the forefront in developing and delivering an innovative co-investment model, where SIB co-invests with private sector investors.

What We Do

Work in partnership with the UK and international private sector investment market to stimulate investment activity in Scotland.

- We manage a suite of funds, adopting an innovative shared risk co-investment model;
- Work with growing and internationally ambitious companies to help them articulate their funding requirements, develop their propositions, and secure the most appropriate package of finance for their needs;
- As part of Scotland's national economic development agency, we are able to provide our investee companies with a wide range of support to help them implement their international growth plans;
- We are well-connected with Scotland's globally recognised business angel network and work with private investors from around the world;
- We work with a range of private sector investors, including high net worth individuals, angels and angel syndicates, venture capital firms, private equity houses and corporate venturing investors;
- We continually expand and develop our products to address gaps in the funding market.

SIB's Products and Services

We manage a suite of investment funds and we are also the cornerstone investor in the privately-managed Scottish Loan Fund and an investor in Epidarex Capital's life sciences fund. These support Scotland's SME funding market to ensure businesses with growth and export potential have adequate access to capital. We have a team of specialist portfolio managers who support our investee businesses from investment through to exit. We also provide a team of financial readiness specialists to help companies prepare for new investment and more easily access finance.

The range of SIB's products and services are detailed further below:

SERVICE FINANCIAL READINESS	Specialist support to help businesses with growth and export potential identify the most appropriate sources of finance
SERVICE PORTFOLIO MANAGEMENT	Team of experienced portfolio managers who work alongside our co-investors to support management teams of investee companies deliver their growth ambitions
FUND SCOTTISH CO-INVESTMENT FUND*	Available to seed, start-ups or companies planning expansion. We can invest between £10k and up to £1.5m cumulatively in deal sizes up to £10m. We co-invest with Accredited SCF Partners
FUND SCOTTISH VENTURE FUND*	Available to seed, start-ups or companies planning expansion. We can invest between £10k and up to £2m in deal sizes up to £10m. We co-invest alongside a range of investors.
FUND RENEWABLE ENERGY INVESTMENT FUND	Alongside the private sector, REIF provides loans, equity and guarantees for projects with funding gaps. REIF will consider projects that support the delivery of energy from a renewable source
FUND SCOTTISH RECYCLING FUND	This fund provides commercial loans for projects that will develop or expand the sorting, reuse/repair and reprocessing capacity for waste materials in Scotland
EXTERNALLY MANAGED THE SCOTTISH LOAN FUND*	Managed by Maven Capital Partners LLP, the fund provides mezzanine loans of between £250k - £5m to eligible companies
EXTERNALLY MANAGED EPIDAREX CAPITAL	Managed by Epidarex Capital, this fund invests into innovative Scottish life science and health technology companies

* To date, part funded by the European Regional Development Fund and SE will submitting an application for additional funding for the new Programming Period.

Investment Approach and Investor Requirements

The Co-Investment Model

The model was designed to increase capacity within the Scottish investment market. The funds have directly encouraged more investors into the Scottish market and increased the incentives for investors and angels to operate within syndicates. The design of SIB's co-investment funds allows experienced investors to lead more and larger deals and is attracting investors from outside Scotland providing valuable expertise and greater scale capital. The model provides for efficient and effective delivery of investment capital into high growth businesses that has a positive impact on the Scottish economy.

The SIB Funds

SIB acts as a commercial investor in high growth companies which have a commercially viable business and are able to contribute to Scotland's economic growth proportionate to the levels of investment being sought. The Scottish Co-Investment Fund (SCF) and the Scottish Venture Fund (SVF) are primarily equity funds. Both funds operate on a co-investment basis where there must be a private sector investor investing in the company and SIB can match that investment up to a maximum of 50% of the total funding package within the SIB fund parameters, on equal commercial terms to the private-sector investor.

The SCF operates on the basis of SIB investing alongside experienced private sector investors who are Accredited Partners of this fund and who have signed a co-investment partnering agreement (examples available on request). The accredited partner sources, carries out diligences and negotiates the terms of the deal and thereafter brings the agreed co-investment opportunity to SIB to access matched funding provided it meets the Fund criteria. The investment proposition is led by the accredited partner.

For SVF, whilst still private sector investor led, SIB will undertake its own diligence on the company and the investment proposition, working closely with the private sector investor to agree the terms of the deal. The private sector investor is not required to sign a partnering agreement.

All transaction documentation will be reviewed on behalf of SIB by external lawyers appointed from the SE Framework for lawyers.

There are certain sectors where SIB investment is restricted and these are published on the SE website. SIB will not invest in a company which is undergoing an insolvency process, or a 'phoenix' company. SIB can decide not to invest in a company at its own discretion.

SIB Investor Requirements

There is a number of investor matters which SIB requires in the legal documentation irrespective of which fund is investing. The key requirements are:

- The right to appoint a non-executive director (fees to be agreed between candidate and company with fees paid by the company) and an observer (usually an SE employee) to the board;
- Appropriate information rights, including provision by the Investee Company of monthly management accounts, annual budget and minutes of meetings of Directors and members;
- An unfettered right of pre-emption to subscribe for its pro-rata share of any new shares issued by the Investee Company;
- The right to transfer shares to any member of the SE group, free from restriction as to price or otherwise and the right to freely assign its interests under the Investment Agreement (and any related documents, such as loan note instruments or loan agreements) to any member of the SE group. There should be no re-transfer provision relating to SE;
- The right to exchange confidential information to any member of the SE group and to provide information to auditors/funders of SE;
- The investment agreement should not be varied without SE's written consent, nor should it purport to give the accredited partner (SCF) or any other party the right to speak for or to give any consent or permission on behalf of SE. Similarly, the articles of association of the investee company should not be capable of being altered without SE's written consent;
- SE's specific consent must be obtained to the following: (i) the investee company entering into any dealings not in the ordinary course of business on an arm's length basis; and (ii) the expansion of the business otherwise than through the Investee Company or a wholly owned subsidiary of the investee company;
- For SCF investments, SE's obligation to release its subscription monies is subject to the accredited partner having: (i) confirmed that all conditions precedent have been fulfilled or waived; and (ii) unconditionally released its subscription monies to the company;
- Where appropriate, SE to be detailed as an investor in any press releases associated with new and follow-on investments.

What SIB Expects from its Co-Investors

Whether we invest through the SCF or SVF, there are certain standards we expect from the co-investors we invest alongside, which include:

- SIB expects its co-investors to act in a professional manner and in good faith towards SE/SIB at all times, and use such skill and care as would generally be expected of an investor engaging in risk investments;
- SIB expects certain standards of fair dealing, transparency and alignment of interests with its Accredited Partners and co-investors e.g. while SIB accepts that an investor has the right to charge fees to an investee company, it expects these fees to be reasonable in the circumstances and in line with the current market rate;
- SIB expects an investor to be free of conflicting interests with a company. If an investor does have any conflicts, actual or potential, these should be disclosed to SIB and the company and managed appropriately. This will include conflicts where an individual within a partner organisation is also acting in a consultancy or other role;
- Accredited Partners (in SCF investments) are expected to undertake appropriate levels of diligence on the investment opportunities presented to SIB;
- The co-investor or Accredited Partner's legal representatives are responsible for preparing the legal documentation, which should include SIB's legal requirements, to execute a transaction;
- SIB expects that investee companies will be managed in accordance with good corporate governance and its Accredited Partners and/or co-investors to support this;
- Each investee company will be allocated a portfolio manager (an SE employee) to manage the SIB investment. SIB expects its co-investor to engage with the portfolio manager as appropriate and share information and its views on the company and investment.
- SIB expects to be kept up to date with any changes in personnel of its Accredited Partners and co-investors.

Background Information on the Scottish Co-Investment Fund

How the Fund Operates

- The Fund enters into partnering agreements with private sector investors (“Accredited Partners”) with experience of investing, managing and returning value from investments;
- Investors interested in becoming an accredited partner apply to Scottish Enterprise whereupon SIB undertakes a robust diligence process, focussed on investment performance and relevant skills and experience of the investor.
- The Accredited Partners source, diligence and negotiate the deal and are willing to invest their own capital into the companies. If there is a funding gap, the accredited partner can call upon the SCF to co-invest alongside it on commercial and equal terms;
- The SCF can match Accredited Partners up to 50% of the total funding package, and can make follow-on investments into existing investee companies;
- The Accredited Partner sources, diligences and negotiates the terms of the deal and subsequently brings it to SIB if there is a funding gap;
- SIB has a transaction team to ensure deals brought to the fund by the Accredited Partners meet eligibility criteria and ensuring, via the legal due diligence process, that SE is investing on equal terms as the accredited partner(s);
- Post investment, the management of investments is overseen by the portfolio management function within SIB with wider SE support provided through SE account teams led by an account manager.

The SCF Process

The SCF process is detailed below:

Notification: Accredited Partner submit Notification in an agreed form containing information about the investee company, investment terms, diligence undertaken, confirmation of pari-passu investment and details of fees charged to the investee company.



SIB Review: Transaction Manager within SIB reviews Notification and follows-up with the Accredited Partner with any questions. SE Panel Lawyer is appointed. Transaction Manager requires initial draft of investment documentation.



Legal Review: Panel Lawyer undertakes a review of the investment documentation ensuring compliance with SIB requirements. SIB should receive the full disclosure bundle and business plan as part of this process. Once investment documents are in agreed form, the Accredited Partner is asked to submit a Cover Note in the agreed format.



Investment: SIB will make the investment after confirmation that Accredited Partner funds have been remitted and that all conditions precedent have been satisfied.



Post Investment: Post-investment, all SIB investments are managed by an experienced team of Portfolio Managers who manage investments on a fully commercial basis seeking to maximise economic and commercial returns.

Company Eligibility

In order to be eligible for investment from the SCF, companies must:

- Have a commercially-viable business;
- Deliver economic impact to Scotland proportionate to the levels of investment being sought;
- Fall within the EU definition of a Small to Medium Enterprise (SME)¹;
- Have secured an offer of funding from an accredited partner.

Fees

SE pays a contribution to administration and deal costs in the form of a fee to Accredited Partners based on a percentage of SE funds invested. On SE investments up to £100k, 5% will be paid whilst 3% will be payable on SE investments of £100k - £1.5m. Total maximum fees payable for investments up to £1.5m in any individual company will be capped at £47k.

1. http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

Section 1 – Instructions to Applicants

Your application should be submitted in accordance with these Instructions to Applicants and based on the Applications Format detailed in Section 5.

Confidentiality

1. All information obtained by you, and/or provided to you by or on behalf of SE, in connection with and/or during the application process (including, but not limited to, all information obtained by you, and/or provided to you by or on behalf of SE, as part of your application and any subsequent submissions) and which relates to SE and/or any other member of the SE group shall be regarded, and requires to be treated by you, as confidential, both during and after completion of the application process, and will not, without prior written consent of SE, be used, published or disclosed, except for information which is within, or subsequently enters, the public domain through no fault on your part, or information that is required to be disclosed by law. Without prejudice to the foregoing, any public announcements made by you that expressly refer to SE require the express written consent of SE.
2. Subject to paragraph 3 below, SE shall treat as confidential, and will not without your prior written consent disclose (except to Scottish Ministers, any member of the SE group, and employees, agents or representatives who require to know of it for the performance of their duties relative to the work of the Scottish Investment Bank), the information provided by you in connection with your application, except for information which is within, or subsequently enters, the public domain through no fault of SE, or information that SE is required to disclose by law including under the Freedom of Information (Scotland) Act 2002, the Environmental Information (Scotland) Regulations 2004, the INSPIRE Regulations 2009 and/or any code applicable from time to time relating to access to information held by public bodies.

Freedom of Information

3. Freedom of Information legislation (including the Freedom of Information (Scotland) Act 2002, the Environmental Information (Scotland) Regulations 2004, the INSPIRE Regulations 2009 and / or any code applicable relating to access to information held by public bodies from time to time), designates SE as a Scottish public authority and therefore subject to the provisions and obligations in that legislation. This means that any person who makes a valid request for information held by SE will be entitled to receive it, unless all or part of that information can be withheld as a result of exemptions under that legislation. As a result, we may need to disclose and/or publish any information you send us as part of your application. If you think that any of the information included in your application is commercially sensitive and/or confidential please identify it and explain (in broad terms) what harm might result from disclosure and/or publication. You should be aware that, even where you have indicated that information is commercially sensitive and/or confidential, we may be required to disclose and/or publish it.

Submission of Application

Your application should be submitted in PDF or MS Word format only to the email address at ScottishInvestmentBank@scotent.co.uk using the subject header "SCF III [Insert Investor Name] Partner Application". Hard copy submissions will not be accepted.

Questions can be submitted by applicants at ScottishInvestmentBank@scotent.co.uk using the subject header "SCF III Partner Application Enquiry".

Section 2 – Evaluation Process

This application process will be conducted in an open and transparent fashion. Applicants will be evaluated against a pre-determined evaluation matrix (detailed in Section 4) based upon answers within the application document. This selection process will use the answers to the questions within the application document to undertake a robust, rigorous and objective assessment of each applicant against the evaluation criteria.

All applications will be checked, first, for completeness and compliance. In the event that crucial information is found to be missing or incomplete, applicants may be requested to supply such details by return. Applicants are encouraged to use case studies throughout the sections to illustrate and support the content of the submission.

The level of detail included in the proposal is at the applicant's discretion subject to the confidentiality provisions detailed in Paragraphs 1-3 of Section 1 of this application pack.

A full evaluation of every complete application will be undertaken by an evaluation panel within SE using the evaluation criteria detailed in Section 4. The assessment and evaluation of applications shall be recorded for audit purposes with feedback given to applicants. SE reserves the right to invite applicants to present to the evaluation panel if this is considered appropriate.

Section 3 – Evaluation Criteria

Applicants will be evaluated against the following high-level evaluation criteria:

	SUB WEIGHTING	TOTAL WEIGHTING
FINANCIAL AND INVESTMENT STRATEGY		
Ability to Generate Returns and Add Value	30%	20%
Availability of Funding	25%	
Fee Structures	15%	
Investment Strategy and Policy	30%	
ECONOMIC IMPACT		
Economic Impact from Investments	50%	20%
Alignment with SE's Strategic Objectives	50%	
INFRASTRUCTURE		
Transaction Process	20%	30%
Portfolio Management Capability and Conflict Management	25%	
Adding Value to Investee Companies	25%	
Deal Sourcing Capability	15%	
Enhancing Performance	15%	
REFERENCES		
Relationship Management and References	100%	30%

Section 4 – Scoring Principles

Each sub-category will be scored 0-4 by each member of the Evaluation Panel in order to arrive at a weighted score for the 4 sections of the scorecard. These scores will then be weighted further to arrive at a total score for each applicant. A score of at least 2 in all 12 sub-categories of the scorecard, and a total weighted score in excess of 2, is required to obtain SCF III Accredited Partner status. Where successful applicants score less than 2.5 on a total weighted basis an application will be approved, but limited funding may apply and a plan may be needed between SIB and the applicant to address any areas of identified weakness within the application.

If any applicant scores 1 or below in any sub-category the application will be declined.

The scoring principles are set out in the table below:

Score	Scoring Principles
0	<p>Very Poor: the response is inadequate and is significantly below what would be expected because of one or all of the following:</p> <ul style="list-style-type: none"> • Response fails to demonstrate the ability to meet the requirement; • Response indicates a significant lack of knowledge, understanding and experience of the requirement.
1	<p>Poor: The response meets some of the requirement(s), but falls below what is expected for the following reasons:</p> <ul style="list-style-type: none"> • Response contains insufficient/limited detail or explanation to demonstrate how the requirement will be met; • The response does not demonstrate sufficient knowledge, understanding and experience of the requirement. • There is at least one significant requirement that has not been demonstrated in the response.
2	<p>Satisfactory: The response meets most of the requirement(s) as detailed below:</p> <ul style="list-style-type: none"> • Demonstrates a broad understanding of the requirement but lacks detail or explanation to demonstrate how the requirement will be fully met in certain areas; • The response demonstrates basic knowledge, understanding and experience of the requirement; • Some areas that have not been addressed and will require further clarity/ confirmation from the applicant.
3	<p>Good: This is demonstrated by a relevant and good response that meets the requirement characterised by:</p> <ul style="list-style-type: none"> • Good knowledge, understanding and experience of the requirement; • Experience demonstrated through use of relevant evidence/ case studies; • No significant areas that are lacking in the response.
	<p>Excellent: Exceeds the requirement, demonstrated through:</p> <ul style="list-style-type: none"> • A comprehensive and clear response that demonstrates a thorough knowledge, understanding and experience of the requirement; • Excellent experience demonstrated through use of relevant evidence/case studies; • No gaps in the response; • Response is likely to demonstrate additional value in several aspects of the requirement.

Section 5 – Application

Applicants should provide supporting information as ordered in the “**Information to be provided**” sections of the application guidelines. We would welcome the use of supporting appendices and case studies, where you consider appropriate in support of your application.

Failure to provide responses to any section under “Information to be provided” will result in the application being rejected and the applicant will then be required to re-submit their application.

APPLICANT DETAILS	
Applicants may continue their answers on a separate page if necessary. Each answer should be clearly marked with the section number and question to which it relates.	
Information to be provided	
Name of prospective partner	
Mailing address	
Registered Address (if different)	
Company / LLP No. (if applicable)	
Regulator (if applicable)	
Key individual contact name	
Key individual contact details (tel no. / email)	
Website (if appropriate)	

Category of investor e.g. Venture Capital / Angel Syndicate / Corporate Venturer / Private Equity / Other (please specify)

Details of the organisation's existing / anticipated professional advisory team – Financial / Legal / Others

An overview of the organisation's history and establishment

The ownership and management structure of the organisation

The model by which the organisation operates its investment activities

Details of any preferred deal structures (eg ordinary / preferred equity, convertible loan notes structures etc.), preference for EIS / SEIS qualifying companies, view of management incentives / ratchets etc. Please provide copies of template investment documents (if available)

Typical investee company - age, stage, location

Expected rate of investment over the next 3 years.

Please detail (i) the maximum SCF co-investment limit that you wish to have matched in any one portfolio company, and (ii) the total amount of investment that you are likely to make on annual basis.

A. FINANCIAL & INVESTMENT STRATEGY**20%****A.1. Ability to generate returns and Add Value (30%)**

Applicants should demonstrate

- Track record of successful exits
- Uplift in value being created in current portfolio
- Ability to grow businesses and add value
- Failure rates and write-off levels

Information to be provided

- A summary of deals completed, and full or partial exits achieved, in the last 2 years in the format provided in Appendix III below.

- An overview of the value that has been created in your unrealised portfolio and plans for exit.

A.2. Availability of Funding (25%)

Applicants should demonstrate

- Funding capability and appetite for follow-on funding.
- Breadth and quality of investor base and funding streams.
- Track record of supporting portfolio companies through follow-on funding.
- Their expectation of funds deployed into new investments vs. follow-on funding.
- Percentage of deals expected to receive follow-on funding.

Information to be provided

- The source(s) and quantum of funding for the organisation's investment activities. Your expectations regarding follow-on funding for portfolio companies vs. new investments over the next 2 years.

- Please provide an overview of any investment vehicles, such as Limited Partnerships, with defined investment periods and fund terms, which are currently in investment mode. Please highlight size of fund, investment period, percentage deployed to date and follow-on expectations.

A.3. Fee Structures (15%)

Applicants should demonstrate

- Envisaged fee structures for new and follow-on investments.
- Overview of fees charged historically versus proposed fee structure
- Level of historical fees paid to related / connected parties (including consultancy, advisory, director, executive and non executive fees paid via the applicant organisation or directly by portfolio companies).

Information to be provided

- Detail the types and level of fees typically levied against portfolio companies, such as transaction fees (initial investment and follow-on) and portfolio management fees. Please explain any changes planned to current fee levels?

- Details of any historic fees payable by portfolio companies to organisations that could be considered as “related” i.e. advisory firms, other syndicates. Will such arrangements remain in place?

A.4 Investment Strategy and Policy (30%)

Applicants should demonstrate

- Sector preferences if applicable.
- Examples of added value provided to investee companies at a strategic, financial and operational level.
- Deal origination – how investments are sourced.
- Minimum / Maximum investment per investee company.
- Historic and planned investment (holding) period.
- Historic and envisaged average deal size.
- Target returns and exit planning.
- Preference around syndication.
- Knowledge of the early-stage investment market in Scotland.

Information to be provided

- Please provide information regarding your Investment Strategy and Policy as detailed above

- What are your views on the Scottish early stage funding market?

B. ECONOMIC IMPACT

20%

B.1. Economic Impact from Investments (50%)

Applicants should demonstrate

- Track record of investing in and supporting companies with high growth potential
- Investing in companies with a history of export growth, high value job creation, turnover growth and /or supply chain enhancement. Supply chain enhancement is when the supply chain of investee companies has had a positive impact on the Scottish economy

Information to be provided

- Please provide examples of how you and your portfolio companies have historically delivered the following Scottish Enterprise key economic objectives since you invested.
 - Export growth and international expansion
 - High Value job creation
 - Turnover growth
 - Supply chain enhancement

B.2. Alignment with SE's Strategic Objectives (50%)

Applicants should demonstrate

- How their investments meet SE's strategic objectives of:
- **Internationalisation** - through investing in companies with export potential and through a history of companies invested in demonstrating that they have "internationalised" through exporting into new markets;
- **Innovation** - for example through investing in companies with an innovative technology offering and/or high level of R&D.
- **Investment** - for example by applicants demonstrating that they have invested in and supported investee companies through follow-on funding and/or sourcing/syndicating with new investors.
- **People** - for example through investing in companies with entrepreneurial management teams and /or by applicants supporting companies in sourcing executive and non-executive talent.

Information to be provided

- How do you intend to ensure that your portfolio companies continue to meet these objectives?

C. INFRASTRUCTURE**30%****C.1. Transaction Process (20%)****Applicants should demonstrate**

- Appropriate processes around whether to commit funding
- Overall approach to transacting a new/ follow-on investment
- Approach to undertaking diligence and whether this is internal / external
- Negotiating the terms of the investment documents – external lawyers appointed
- Depth, experience, skills, background and qualifications of those involved transacting investments
- Internal resource available for transacting investments
- Examples of difficult/challenging transactions and the approach to these and end result.
- Turnaround times between enquiry and completion and conversion rates/ ratios.

Information to be provided

- Please describe your decision making and governance process around whether to commit funding to (i) new investments and (ii) follow-on opportunities.

- Detail your approach to diligence i.e. internal or external and type typically undertaken.

- Do you use external lawyers to negotiate investment documents or in-house legal expertise?

- Short CVs of the key individuals tasked with the leadership and execution of the investment strategy of your organisation. These should also highlight any current responsibilities outwith your organisation and the time allocated to each.

- Highlight any individuals that are considered “key individuals” in relation to the operation of your organisation. How would the organisation deal with their prolonged absence or inability to perform their duties?

- Detail volume of introductions over the last year, the conversion rate, and time taken from introduction to completion.

C.2. Portfolio Management Capability and Conflict Management (25%)

Applicants should demonstrate

- Strong Portfolio Management capabilities
- Resource within the applicant's existing, or planned, headcount to successfully deliver on portfolio management strategy
- Experience, skills, background and qualifications of those involved in Portfolio Management
- Willingness to become more involved in underperforming investee companies
- An appropriate Conflict Management policy.
- Strategy around appointing Non-Executive / investor directors
- Experience of investor directors/ appointed Non-Executive directors

Information to be provided

- Outline the organisation's approach to portfolio management and investor reporting, level of engagement with investee companies, available resources (incl. ratio of investee companies to portfolio manager), reporting tools and processes.

- CVs for those involved in Portfolio Management, if different to those provided in C.1. above.

- Your approach to appointment of Directors (Non-Executive / Investor) and process for identifying suitable individuals.

- Please outline your approach to managing conflicts and potential conflicts.

- Outline a scenario where a portfolio company has under-performed and the actions that you initiated in order to address the position. What was the outcome?

C.3. Adding Value to Investee Companies (25%)

Applicants should demonstrate

- Ability to “upskill” management teams of investee companies.
- Added-value input into board composition of investee companies.
- Example of successful and less successful exits with an overview of lessons learned.
- A commitment / track record in securing appropriate external growth financing from third parties.
- How they support exit readiness and support companies in formulating and delivering their exit strategies.

Information to be provided

- How do you ensure that portfolio company management capability is improved during your period of ownership?

- Please outline your approach to Board appointments, both in relation to representing your organisation and Executive Management.

- Please provide examples of how portfolio companies have benefitted from your broad network in terms of increasing management capability.

- For Angel Syndicates - Have you ever appointed a Board Director from outwith your syndicate members? If so, please outline the circumstances. Is this something you would consider?

- Please provide examples of where you have facilitated further investment by third parties in order to accelerate growth plans, highlighting any later stage investment (>£1.5m) achieved

- Provide details of your approach to exit planning.

C.4. Deal Sourcing Capability (15%)

Applicants should demonstrate

- Ability to source proprietary deals
- Their envisaged approach regarding leading investments vs. syndication.
- Contacts and deals completed with non-Scottish based funders and strategic / industrial / corporate investors.

Information to be provided

- Your approach to sourcing proprietary dealflow, citing appropriate examples.

- Details of any deals completed alongside, or any strong relationships with, non-Scottish based funders and strategic / industrial / corporate investors.

C.5. Enhancing Performance (15%)

Applicants should demonstrate

- A culture of continuous improvement.

Information to be provided

- What are your objectives to enhance and build on your performance to date?

D. REFERENCES

30%

D.1. Relationship Management and References (100%)

Applicants should demonstrate

- Behaviour, attitude, resonance and alignment with SE.
- Experience in deal processes - legal, procedural.
- Responsiveness, openness and commitment to quality information.
- Evidence of working in partnership with co-investors and portfolio company management.
- Examples of strong /strained relationships with other investors and approach to building/minimising the impact of this.

Information to be provided

- Applicants are asked to provide references drawn from portfolio company management, co-investors and NXDs. These should cover successful exits, current portfolio and also companies where performance has not gone to plan. Diligence calls will be held with references as deemed appropriate.

Where applicants have a current relationship with SIB/SE, internal referencing will be undertaken in addition to undertaking an external referencing exercise.

Where applicants have no previous experience of working with SIB/SE, assessment against this section of the application will be based on external diligence only.

E. OTHER SUPPORTING INFORMATION

Information to be provided

- Details of any key sponsorships or marketing initiatives undertaken in the past year, or planned for the coming year, and aimed at your target sector.
- **Business Angel Syndicates only** - Please provide short profiles of all members of the Syndicate at the time of the application. (Note that this information will be treated by SIB in the strictest confidence.) Syndicates will be asked to update SIB on their current membership list at each annual review.
- **Business Angel Syndicates only** - Please provide a summary of how new members are invited / approved to join the syndicate and what diligence is performed. Please provide details /copies of documentation which new members must sign.
- **Business Angel Syndicates only** - Please provide short profiles of the key personnel within the Syndicate and detail the overall composition of the syndicate and the type of investors that make it up, any internal syndicate arrangements that may impact on diligence undertaken or transaction processes. For example, please highlight if certain members are required to carry out diligence or instances where a minimum number of designated members, or proportion of syndicate members, are required to invest for the syndicate to proceed with investments.
- If you have any formal marketing literature detailing your activities you may wish to submit this as part of your application.

Answers for this section should be attached as a clearly marked appendix

APPENDIX I

ADDITIONAL INFORMATION

