Green Finance Institute

Request for Information

Battery Investment Facility
Fund Management Services

This RFI is intended as a pre-procurement research exercise with the intention that it will inform the development of a possible future facility. It does not commit the GFI or its partners to delivering on the creation of this facility in general, or on delivering any specific suggested attributes of the facility as set out in this document. Fund Managers who respond to this RFI will not receive any advantage or disadvantage to a future RFP which will be open to all eligible applicants. Information shared in response to this RFI will not be shared with other responders, but suggestions may be used for the final structure of any facility.

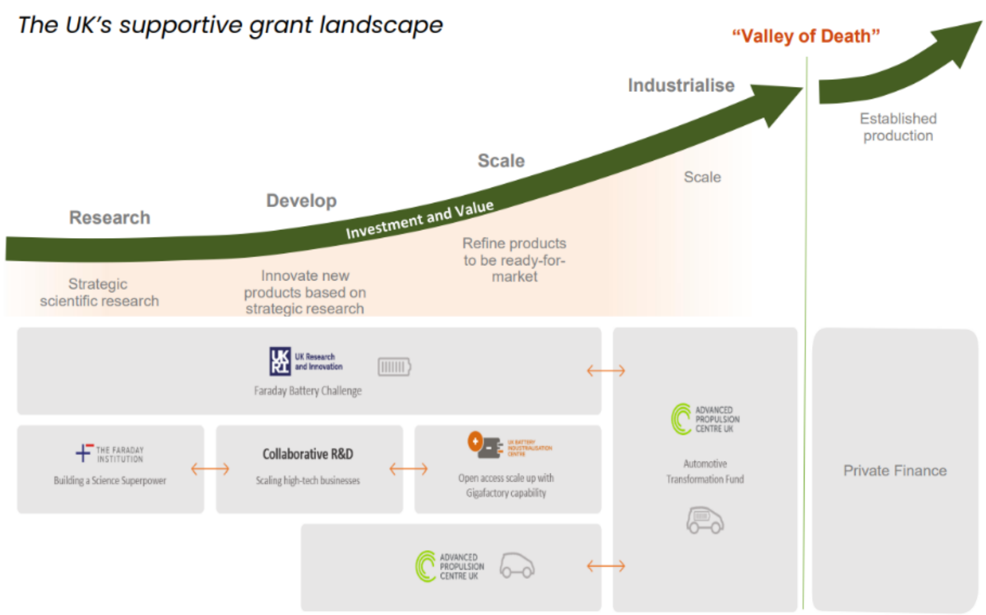
1. **What are we trying to achieve?**

The Green Finance Institute (GFI) has been developing a Battery Investment Facility (BIF) for 18 months and now seeks to progress it towards capital raising and procuring a Fund Manager. Ahead of a procurement process, we are conducting a request for information (RFI). Information gathered through this process will be reviewed and used to inform a Business Case for the facility, design the outline of the facility, and to shape the commercial approach to appointing a Fund Manager.

2. **What is the market context?**

The BIF was the result of the GFI's transport workstream assessment of the barriers to financial flows into the UK battery supply chain, and was one of the solutions the GFI developed to overcome these barriers. The facility is needed as the UK requires batteries for the transition to net zero, with applications ranging from transport to energy storage to balance the electricity grid. The opportunity of securing local production of batteries is estimated at a value of at least £24 billion to the UK economy for the automotive sector alone. However, the window of opportunity to secure investment for domestic production is closing. There are many recent examples of companies and investors being attracted to other countries following the US Inflation Reduction Act and EU Green New Deal. More background on the GFI work on this sector can be found in our Battery [report](#).

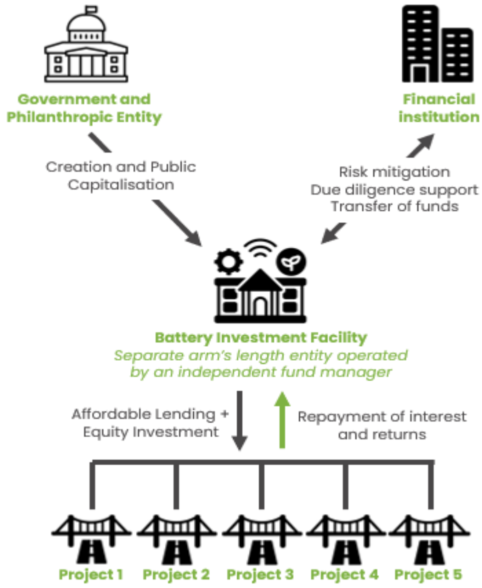
3. **What is the Battery Investment Facility?**



The above graph illustrates the current grant landscape in the UK, which has successfully driven investment to date in UK start-ups within the battery manufacturing supply chain. However, beyond grants, a funding gap exists for those companies that move to scale up their operations. For the battery sector, GFI analysis identified this funding gap exists at around the £5 million to £15 million level. At this stage, technologies are still seen as high risk by the investors with larger pools of capital, and too capital intensive for the earlier stage investors. This mis-match in risk profile between the technologies under development and investor appetite creates a funding gap that won't be solved without innovative financial mechanisms.

The established mechanisms from government departments or Public Finance Institutions are not currently designed to address the specific and unique needs for the scale up gap in this sector, therefore the BIF has been designed. The BIF is proposed to be a blended finance facility, seed funded by public capital, that will be used to de-risk and thus unlock private investment into the facility.

It is anticipated that the BIF will follow the traditional venture capital fund structure model, whereby Limited Partner (LP) investors provide capital in to a facility established as a Limited Liability Partnership (the BIF), managed by the selected Fund Manager. The precise terms of the different components of the facility's capital, such as returns, will be tested through procurement. The Figure below shows the expected BIF structure.



4. What is the scope and intended outcomes of the Battery Investment Facility?

The BIF will invest in key building blocks of the whole battery supply chain, ranging from raw-material mining and refining, cell assembly and recycling, pivotal to securing the long-term future of both existing and future large-scale battery manufacturing plants in the UK.

Unique features are:

- A focus on larger tickets sizes when compared with typical seed/series A investments in other technologies and sectors. The funding gap identified exists at around the £5 million to £15 million level;
- A de-risking mechanism, whereby public investment is provided within a facility structure design that will overcome risk barriers and crowd-in private investment. For example, the

public investment could be used to provide an asymmetric position in the facility's capital structure and returns, offering a risk cushion.

The primary objectives of the BIF are to:

- Support innovative UK companies to scale and support the development of a battery manufacturing supply chain;
- Increase investor appetite for companies within the battery supply chain;
- Maximise the private capital multiplier from public spending; and
- Create a blueprint to replicate similar blended finance structures in other sectors which can help the UK achieve its Net Zero ambition.

The public funder

The GFI has identified £10m of possible public funding to seed the BIF facility, with research indicating this initial public capital could crowd in 3-5 times private capital. The public funder is in the process of considering a possible investment that would permit an announcement of the BIF publicly, the launch of a procurement process for the BIF Fund Manager and a full capital raise for the facility. In the meantime, the GFI is conducting this RFI to gather feedback to inform a future public Request for Proposal (RfP) if the BIF is launched.

5. Objectives for the Fund Manager

The BIF will be established as a separate arm's length entity to the public funder, and will be operated by an independent Fund Manager. Specific objectives in managing the facility will include:

- Initial capitalisation of the facility by the end of the financial year 2024/25, or as soon after as possible, using a minimum initial investment of £10 million;
- Realising £40 million of private sector capital to be invested alongside the public investment in the facility;
- Completing investments into around five to ten companies. Investments will be made on the basis of a mutually agreed investment thesis, principally focusing on companies ready to scale operations within the battery manufacturing supply chain;
- Monitoring performance of the facility in line with mutually agreed KPIs and generating returns from investments made;
- Closing out the facility over a mutually agreed timeframe, which matches the desire to provide more patient capital when compared with a purely private investment fund.

How to respond:

• You are not required to answer every question.

• Responses to **each question (1-3, 5-6)** must be a maximum Two (2) sides of A4, font Arial, size 12, **question 4 and 7** have a maximum of Four (4) sides of A4, font Arial, size 12

• Attachments, either physical or via hyperlinks will not be evaluated

• Clarification period will be 12:00 (noon) 5 February 2024– 16:00 9 February 2024

• Clarification questions will not be accepted after the clarification period

• We will endeavour to respond to all clarifications raised by 17:00 12 February 2024

Deadline for responses is 17:00 6 March 2024

Please email your response to: cdrt@gfi.green

6. Questions

Question 1: Scope and objectives of facility

The proposed facility set out above is a new design and suggested as a pilot that could be scaled in future, but we welcome Fund Manager's views on whether the proposed scope is appropriate, specifically:

a. Do you believe the facility and its scope described above would achieve its primary objectives?
b. How could the scope be adapted to maximise the facility's attractiveness to investors?
c. Are there any red-lines we should be aware of when setting the facility's scope, issues which could dramatically affect the Fund's capacity to achieve commercial and policy outcomes?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 2: Pipeline and deployment

Batteries are key to the UK's objectives for a secure and net zero transition for transport, and GFI research has suggested the full battery supply chain would benefit from the support provided by this style of facility. It is essential that the facility has a sufficient pipeline, and that the right investments are selected. Based on your knowledge of investment opportunities in the battery supply chain in the UK, can you indicate:

a. Whether there are sufficient suitable investment opportunities in the UK?
b. The nature and mix of investments (including use of both debt and equity instruments) that are necessary to support the battery ecosystem and deliver the greatest impact?
c. The approach that you consider most effective to access suitable businesses with innovative technologies in the market?

d. The approach that you consider necessary for the due diligence of potential transactions, deploying capital and leading on transactions?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 3: Timelines

To ensure the most effective and efficient pilot vehicle, the public funder would like to set realistic expectations of the Fund Manager. Please share your observations on the following sub questions. How long (in months and years) do you believe it would take a Fund Manager to:

a. Raise capital;
b. Begin investments in businesses;
c. Fully commit all of its funding;
d. Generate revenue from investments;
e. Continue fund operations in order to provide sufficient time for businesses in the portfolio to reach revenues and profitability to be able to generate returns on investment.

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 4: Level of intervention

A de-risking mechanism provided by the public investment is being proposed, to unlock private investment. To determine the exact structure of this we welcome your thoughts on the below questions. Based on your experience of investor demand, what are your observations on the following:

a. Is there appetite in the market for government to be de-risking investments in this sector?
b. One example of a possible de-risking mechanism is public investment taking a junior position in the facility's capital structure, and therefore being an asymmetry in risk sharing, with the public investment offering a risk cushion. How do you think this should be structured and how effective do you think this type of intervention would be in unlocking private investment?
c. If there was an asymmetry in risk sharing, how much would the first loss provision need to be, as a portion of total deal size, to unlock private investment? Please rank the proposed portions of 10%, 20% and 30%, in order of most impact, and provide your rationale.
d. Another example of a possible de-risking mechanism is public and private sector investors taking asymmetric returns. How do you think that this could be structured and how effective do you think this type of intervention would be in unlocking private investment?
e. What other methods of de-risking support could government provide that would unlock private investment in the sector? For example, another method considered was pari-passu investment, but with the public investment having a different investment term, both longer or shorter.
f. What is a reasonable target for return on investment for the facility as a whole, notwithstanding possible variation of returns per type of shareholder or creditor? Where possible provide your evidence for this.

Your response should be a maximum Four (4) sides of A4, font Arial, size 12

Question 5: Fundraising

A key objective of the facility is to maximise the private capital multiplier from public spending. We would like to understand your view on what multiplier could be expected from the market, and how this process could be conducted.

a. How much private funding do you think could be raised and deployed for each of the following potential levels of public investment, if i) the investments were made on a pari passu basis or i.i) a first loss provision (as described in question 4) was to be provided? £5m, £10m, £20m, £50m. Where possible provide your evidence for this.
b. How would you comply with the Subsidy Control Act 2022 and the Principles of Managing Public Money in delivering an open and transparent facility when fundraising and selecting investor partners? This should also include how you will mitigate future challenge for instance, from investors that partner with the facility at a later stage and have less opportunity to access the de-risking support?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 6: Appetite and experience

We would like to understand what appetite there is for the role of the Fund Manager, and what level of experience possible Fund Managers would have.

a. Would your organisation consider competing for the role of Fund Manager?
b. Is there a minimum size the facility would need to be for you to consider competing?
c. Describe your credibility and capacity to manage the facility?
d. What would be your proposed fee structure and compensation model for services laid out above.

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 7: General

In addition to the questions above, we welcome wider comments and concerns from respondents, including:

a. Are there key fund design questions which you believe we should consider before undertaking procurement? Please specify questions below and your recommendations for answering these.
b. Would you be willing to register for the procurement framework to respond to a formal tender? Do you have any concerns around registering? If you do not want to register, please share your reasons. (Fund Administration & Disbursement Services DPS (FAADS) - CCS (crowncommercial.gov.uk)
c. Are there wider sectors or technology areas which may also be relevant for wider consideration by government in the future in using a similar blended finance approach to support investment for scale and growth?
d. Is there anything proposed in the current thinking that concerns you?
e. Please share any additional information you think would support this procurement process and facility design.

Your response should be a maximum Four (4) sides of A4, font Arial, size 12