



Working with the Bank

The
Scottish
National
Investment
Bank



Investment considerations

1. Impact assessment and reporting

We will assess the scope, scale, and significance of the impact our investment could enable. As part of our investment agreement, we will require investees to commit to the development of either a Carbon Management Plan, Net Zero Strategy or equivalent, and an Environmental and Social Management System for their business, and to provide calendar year impact data and reporting so that we can aggregate portfolio impact performance. We work with our investee businesses to ensure that our impact reporting requirements are proportionate and achievable.

We develop an Impact Thesis and Theory of Change model for each business or project in our portfolio, which helps us to articulate the expected impacts and then monitor performance against them over the course of our investment. Our team will work with you to develop these documents as you move through the investment process.

As well as developing these models in a way that is individually tailored to each investment, the Bank also has specific impact and ESG requirements that apply to all of its investees. These are:

- ◆ All investees must adhere to our Ethical Investment Policy
- ◆ All must support Scotland's Fair Work principles, including paying at least the Real Living Wage to all direct employees and any use of zero hours labour must be justified to the Bank's satisfaction
- ◆ All investees must develop a Carbon Management Plan, Net Zero Strategy or equivalent, and Environmental and Social Management System within 12 months of the Bank's investment
- ◆ All investees must either have, or put in place in a proportionate and timely manner, policies and practices to support **equality, diversity and inclusion**. These policies and practices should be aligned with the Bank's equalities objectives as laid out in the Bank's Equality Strategy
- ◆ Where a company's activities would negatively impact the natural environment it must have, or be willing to put in place in a timely manner, appropriate mitigation measures
- ◆ All investees are required to provide impact reporting data to the Bank (biannually for direct investments; annually for funds); the metrics for reporting are agreed between investee and Bank ahead of investment.

Supporting our investee companies on their impact performance and reporting journey is one of the key areas where we believe we can add value. Our experience shows that many investees benefit from the insight that we can provide in supporting a journey to net zero and improving opportunities for people and our communities, developing reports as well as in putting good internal governance and working practices in place – this information can be useful to stakeholders' suppliers, customers, employees, and other investors.

2. Subsidy control

We operate in a manner compatible with the UK's subsidy control framework. We seek market comparable returns and will not unduly distort competition, intervening only where there is an established policy objective or equity rationale and when market funding is not sufficient or not available.

You will therefore be asked to demonstrate that you have been unable to secure part or all of the finance required. Suitable evidence will be either an open call for investment which did not yield the funding needed, or evidence that at least two financial institutions have been approached but did not want to provide sufficient financing. Other evidence may be required in addition.

We will require to invest alongside co-investors therefore we will work with you to consider what opportunity there may be to attract additional private sector investment. It may be appropriate for the Bank to operate as a lead or cornerstone investor where appropriate.



Investment considerations continued

3. Information requirements

We require detailed information about your business/project (the “subject”) to inform our assessment and decision(s) on whether to take the investment proposition forward.

The table below describes key items required at an early stage in reviewing a proposal; it is not exhaustive and, if progressed, information and diligence requirements will be discussed. This is given as an indication of the type of information a potential investee should have prepared at the start of our investment process.

You will be liable for the costs associated with external diligence (including valuations) and legal costs incurred/engaged by the Bank for its reliance, whether or not the transaction is completed, unless otherwise agreed. Estimates of these costs will be agreed with you before the relevant adviser(s) are appointed.

Information requested from potential investees

Subject area	Item	Minimum requirement (must include)
Business Summary	1	Any current information memorandum (“IM”), fundraising presentation and/or teaser;
	2	Detailed explanation of how the subject’s activities fit with the Bank’s missions, any expected quantification of these impacts, and the key risks to these impacts and confirmation of compliance with the Bank’s Ethical Investment Policy;
	3	Summary of the subject’s development plan, covering at least the next five years; and
	4	Complete listing of the subject’s advisers and sponsors.
	5	Timeline of the development of the business and the product and milestones along the way.
Financial model (detailed Excel model) including	1	Detailed financial model based on FAST standards ;
	2	Clear databook of assumptions driving the model, their source/rationale, and any supporting information/ documentation for these
	3	Three financial statements: income statement, balance sheet, and cashflow
Costs	1	Sources: uses breakdown of finance and costs/activities these are utilised for.
	2	Details of key customers and main suppliers including locations.
Other funding	1	Details of any existing or proposed indebtedness (incl. contingent liabilities); and
	2	Details of any grant or other government support received or in application.
Commercial information	1	Details of key contracts, framework agreements, MoUs, customers, suppliers and other key stakeholders (current or target);
	2	Product list and development roadmap;
	3	Current order book and sales pipeline;
	4	Any key market reports on the subject’s sector or targeted sector; and
	5	Key competitors and subject’s differentiation to these.
	6	Details on supply chain management by the subject and how does the current macro economic environment likely to affect the subject.
Organisation	1	Employee structure chart and gender split, salaries and equalities data;
	2	Detail of Board members, key management, including summary CVs and roles and any recent departures/ dismissals and reasons for; and
	3	Hiring plans over the investment period.

Continued over



Investment considerations continued

Information requested from potential investees (continued)

Subject area	Item	Minimum requirement (must include)
Ownership and structure	1	Details of the existing investors;
	2	Fundraising history and valuations at each round;
	3	Share classes and rights attached to these;
	4	Details of all the dilutive securities including options, warrants etc; and
	5	Expected valuation and terms for any current fundraising.
Legal	1	Corporate structure chart including all subsidiaries, their registration details, and entities sharing ownership with group companies;
	2	Summary of any specific constitutional restrictions;
Audited accounts	1	Audited accounts for last three years (or for the period available); and
	2	Current accounting and financial policies (including hedging).
IP	1	Detailed summary of the IP/patents held by the subject and in application.
Other	1	Summary of all the insurances policies taken by the management.
	2	Any other relevant items.
	3	Longer term plan and exit aspirations / strategy.

4. Investment timeline

We will endeavor to review and determine fit with the Bank's missions and investment strategy within two weeks of receiving your investment deck along with other appropriate information that we may require as outlined above.

Upon receipt of the required information, we will aim to complete our investment process within three to four months.

5. Milestones

We look for the businesses and projects we invest in to set milestones. These are set to help form the business plan and the strategic and operational priorities for the management team. For the Bank, it helps our team to track the performance of the business over the course of the transaction and investment. We look for the investee to set these milestones, but we will work with the business at the point of investment to agree on a set of ambitious but achievable milestones.

6. Managing the Bank's investment

Once the deal is complete, we will actively manage any investment made.

Following any deal there are usually several actions, therefore the Deal team will remain involved for a period after the investment has closed. However, overall responsibility for managing the investment will sit with our Portfolio team who will be introduced at the earliest possible time; in some cases this will be before the deal closes.

In order to monitor the investment, we will request information such as management accounts and progress reports at regular intervals. We will also require impact data reporting. In the case of equity investments, it is also anticipated that we will be able to observe all Board meetings, receive all the information that a Board Director is entitled to and, where required, appoint a Director to the Board.



Investment considerations continued

7. Communicating success

As a publicly funded institution, we are required to report regularly on the delivery of our missions and to share information on committed investment.

Summary information on investments will be communicated publicly on our website, in relevant external reports, and in the media. Our investee companies will be required to support these communications by providing access to relevant information and resources on request. We will have final sign off on the timing and content of all investment announcements and related website content.

8. Collecting and using corporate and personal information

The information we collect ensures that we understand your business or project and how it operates and is governed.

It acts as a baseline for impact reporting, assists our collation of the due diligence data needed to consider a potential investment, and helps meet our legal 'know your customer' obligations under financial crime prevention legislation.

The information will be held securely and kept strictly confidential by the Bank and will not be shared with third parties without your consent. It will only be used for these purposes and will not be shared with any other organisations outside the Scottish National Investment Bank group for marketing purposes.

Some of the information collected will constitute personal information for the purposes of UK Data Protection legislation and the UK GDPR. We will retain the information for only as long as it is required for the purpose for which it is used.

Please see our privacy policy (<https://www.thebank.scot/privacy-and-cookie-policy>) for further details on how we collect, store, use and share your personal data.



Theory of Change example

One of the tools we use to assess the potential impact of our investment is a Theory of Change (ToC). Below is an example of a ToC exercise. We will work with the investee to develop this depending on the parameters of the specific investment ask.

The business or project could also complete an exercise to write up their own ToC as a result of Bank investment.

Theory of Change Case Study:

Overview of investment: Modulate Homes is a Scottish house building company that specialises in the design and build of high-quality energy efficient modular homes. They are seeking investment to build 200 properties (mixed tenure) as part of a wider regeneration scheme for a current brownfield site in Edinburgh. The regeneration would include landscaping of the site, installation of a playground and address acute local housing shortages.

The company has approached the Bank to seek a £6 million equity investment as part of a wider investment round of £40million to support the construction of the properties. The plan, which has been approved by the Council, includes the build of the following types and tenure of properties:

Property type	For Sale	For market rent	Affordable housing (mid-market rent)	Social housing – linked to Housing Association
1 bed flat	-	10	10	10
2 bed flat	9	9	8	8
2 bed flat (accessible)	1	1	2	2
3 bed flat	9	9	8	8
3 bed flat (accessible)	1	1	2	2
3 bed house	25	10	5	5
4 bed house	25	10	5	5
Total	70	50	40	40

The modular construction, which has been successfully used in other developments across Scotland, is designed to reduce the carbon footprint of the initial build and result in energy efficient homes, with lower carbon emissions and heating bills. The design of the flats means that there will be a maximum of 4 dwellings per building and the design is tenure blind. Thereby, while each block can be effectively managed by one housing provider, the individual blocks do not have to be grouped together, and the agreed plans propose that the different tenured housing is mixed across the site to promote social inclusion.

The proposal allocates 40% of properties for affordable and/or social housing, which is higher than usual new build ratios. Modulate Homes have an agreement with a national housing association who will purchase and manage the homes allocated for mid-market rent and social housing. Another agreement is in place with an investor to purchase the homes allocated for market rent.



Theory of Change example continued

Impact and Mission(s)/Ambition(s) supported: Investment in Modulate Homes primarily supports the Bank's Place mission through increasing the supply of high-quality affordable homes, with a secondary net zero impact through the reduction of emissions.

Activity	Outputs	Outcomes	Ultimate Impact
◆ Bank invests £6 million as part of £40 million funding round to enable Modulate to construct 200 new homes. ◆ The investment will set out covenants around Fair Work, ED&I, GHG emissions, development of a Carbon Management Plan/Net Zero Strategy, and an ESMS – all of which will create positive impact. ◆ Bank supports Modulate Homes to demonstrate the effectiveness of its novel construction techniques.	◆ 200 new properties built, including 12 purpose built accessible flats – c480 people housed (2.4 average UK household). ◆ Mixed tenure housing opportunities. ◆ Jobs provided through construction and wider supply chain. ◆ Improved local area through redevelopment of existing brownfield site. ◆ Reduced emissions through energy efficient build.	◆ Quality housing stock in right location to meet local needs. ◆ Increased accessible housing stock. ◆ Improved employment and retention of local workers through provision of secure affordable housing. ◆ Enhanced built environment and utilisation of previously under-valued space. ◆ Improved community service provision with the addition of new park. ◆ Reduced domestic energy requirements through efficient build and running.	◆ Reduced homelessness and lessening of housing crisis. ◆ Increased community inclusion through mixed tenure model and provision of accessible homes. ◆ Improved health, wellbeing and employment outcomes through the provision of secure quality housing. ◆ Reduction of fuel poverty through energy efficient homes. ◆ Reduced emissions and delivery of net zero through new and improved construction techniques.



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Registered in Scotland with Company number SC677431

SNIB0970225