REQUEST FOR PROPOSAL (RFP) STAGE 1

(Pre-Qualification Questionnaire)

Selection of a Fund Manager for the UK India Infrastructure Equity Fund under India's National Investment and Infrastructure Fund (NIIF) Framework

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I. Background

1. The National Investment and Infrastructure Fund (NIIF) has been created by the Government of India (GoI) to catalyse capital from international and domestic investors into infrastructure and allied sectors in India. The GoI has committed INR 20,000 crores (~USD 3 billion) to be managed by NIIF Limited, the manager of NIIF, through one or more funds to be set up in partnership with non-GoI investors. A component of NIIF's investment strategy will be to anchor equity, quasi-equity and debt funds in partnership with investors targeting investments in the relevant sectors in India. NIIF expects to operate on the basis of three principles in implementing this strategy: commercial, additional and in partnership with others.

2. GoI is keen to leverage investments for NIIF including from or via the City of London as the City provides access to a wider pool of investors, inclusion in major indices, strong sectoral and emerging markets expertise and access to international capital, including from UK institutional investors.

II. UK-India NIIF Fund

3. The Government of the UK ("HMG") and GoI have agreed in principle to anchor a private equity infrastructure fund, the UK India Green Growth Equity Fund (the "Fund", "GGEF" or "UK India NIIF Fund") which will increase the flow of funds to India's infrastructure sector and provide global, including UK investors, with an investment opportunity that matches their risk-return preferences.

4. The GoI (through NIIF) and HMG (through the Department for International Development (DFID)) will anchor-invest up to £120 million each in the Fund which will target around £500 million initially, with the potential to unlock much more in future. The UK-India NIIF Fund will be set up as an Alternative Investment Fund (AIF) under India's Security and Exchange Board of India (SEBI) Regulations, 2012. The Fund will be denominated in Indian Rupees (INR).

X`Green Growth Focus

5. The Fund is expected to have a life of 12 years with a 5 year investment period and invest in growth-orientated companies in green infrastructure companies and/or projects situated in the various States across India, including in the following categories:

- Renewable energy
- Energy distribution/transmission
- Water treatment, waste management, clean transportation.
- Any other fledgling sub-sectors/ themes in the clean energy/environment space like energy storage/ fuel cells/ etc.

6. This investment strategy is indicative and subject to adjustment. It is expected to be firmed up with the Fund Manager and based on the proposals received in response to this RFP and during the Fund Managers engagement with prospective investors. The final investment strategy will be subject to agreement by GoI / NIIF and HMG.

Early Market Engagement

7. Two Early Market Engagements (EME's) were undertaken in New Delhi on 8 May 2017 and in London on 21 June 2017. More than 25 institutions including Fund Managers attended. The objective of conducting the early market engagement was (a) to communicate transparently this new opportunity to the wider market and (b) to seek expert views from knowledgeable market participants on the viability of the Fund and obtain inputs to shape the design concept. Refer Annex 2 for minutes of the meetings.

III. Purpose and Objectives

8. The primary purpose of this Fund is to help India enhance inclusive growth by boosting investment into green infrastructure on commercial terms. The success of the Fund is expected to crowd in private investment that will have a transformational impact on India's development. The secondary purpose is to promote the City of London as an important option for the Government of India to raise capital from global markets, including UK investors, for India's growth.

9. The objectives of this Fund are:

   i. Attract and/or increase climate friendly infrastructure investment opportunities for private investors in the Indian Market via the NIIF.
   ii. Successful raising of the UK India NIIF Fund with a preference of <u>first</u> close no less than £360m within 12 months of selection and <u>final</u> close equal to or greater than £500m within 18 months of first close. It is desirable to mobilise funds from or via the City of London and the UK, capitalising on the UK Government's anchor investment.
   iii. Demonstrate the successful deployment of capital in viable investments, effective management of those investments, successful and profitable realisation of investments leading to the Fund making an attractive net return overall.

IV. Governance Principles

10. The governing principles for the Fund are that it is:

   i. Sustainable (i.e. commercially attractive)
   ii. Developmental (i.e. for the purpose of inclusive economic growth)
   iii. Replicable (i.e. attract investors to successive funds)

iv. Leverage able, attracting both Indian, UK and global capital into the fund as well as into investee companies/projects as applicable
v. Governed in line with industry best practice. Institutional Limited Partners Association (ILPA) guidelines would apply.

11. NIIF represents a unique structure which combines public financing with that of a privately managed structure to crowd in private capital for financing green infrastructure. While NIIF will operate at an arms-length from GoI with a clearly identified mandate based on market principles, the Fund is expected to benefit through NIIF's role as a policy feedback provider to the GoI.

V. Two Staged RFP

12. NIIF Limited and DFID seek interest from credible Fund Managers with relevant experience managing assets of over £250 million and are eligible under applicable laws, including the relevant SEBI regulations, to manage this Fund under the NIIF framework. The early market engagements have provided useful feedback to firm up the concept design to the current level. The RFP stage is expected to further build on that based on the response of interested Fund Managers.

13. This RFP document does not detail the scope of work which is typical for such a fund. In brief, the scope of work for the Fund Manager will cover all activities that are customarily undertaken such as raising domestic and international capital from limited partners (LPs), sourcing and managing infrastructure investments across India, ensuring value addition to portfolio investments all through the holding period till the end of the life of the Fund, aiming for good returns to investors by delivering with the highest standards of governance, meeting all compliance requirements under applicable laws and effective external representation on behalf of the anchor sponsors. These terms will be detailed during the second round of the RFP as a part of the selection process. The terms will be formally agreed via the Contribution Agreement.

Forward Look

14. Indicative steps to a commercial launch of the UK India NIIF Fund are outlined briefly in Figure 1 below. For the selection of a Fund Manager, a two stage RFP process, reflected as step 1 and step 2 below is envisaged.

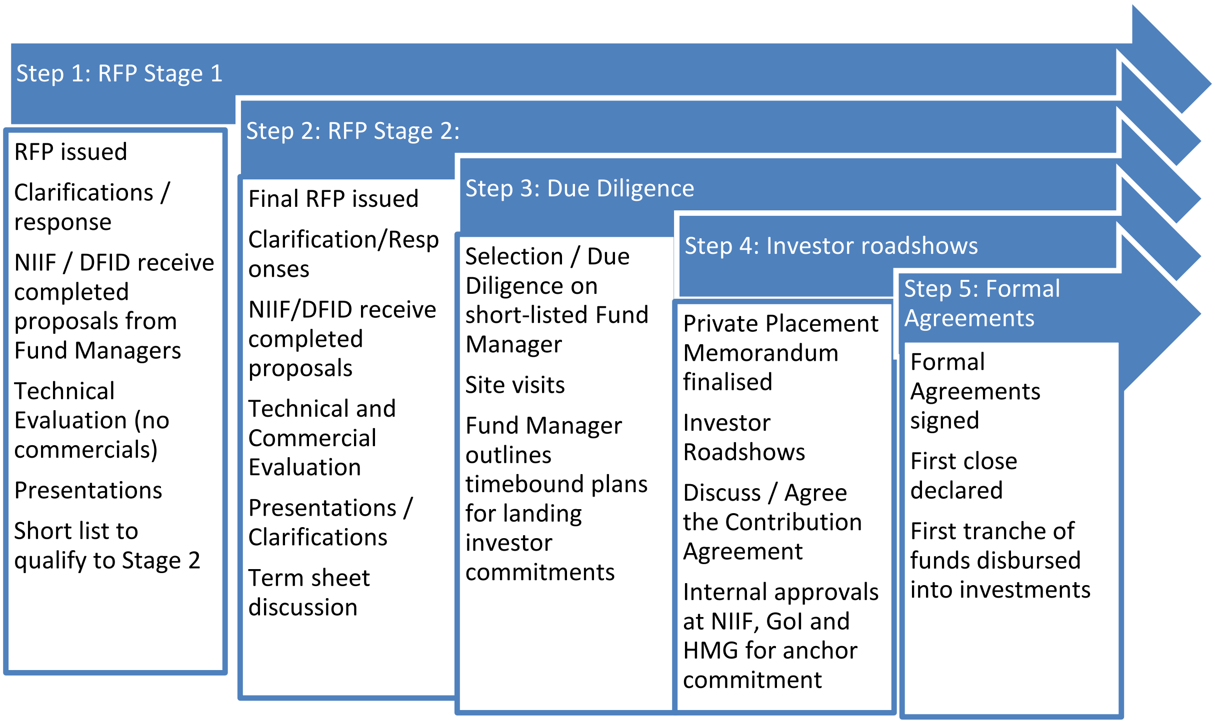

Figure 1: Five steps to the launch of the UK India NIIF Fund

Step 1: RFP Stage 1

15. Interested Fund Managers or General Partners (GPs) are expected to have read this RFP document including the EME information at Annex 2. Interested GPs may please send us their proposals demonstrating how they expect to deliver the objectives of the Fund.

16. Stage 1 evaluation will be 100% technical. There is no commercial scoring done even if some financial information is requested. The purpose of requesting that information is to better understand the current market best practices in order to reflect those in Step 2 - RFP Stage 2. Fund Managers may therefore kindly note that ideas or suggestions provided by any Fund Manager in their proposal in Stage 1, if assessed independently by DFID / NIIF team to be credible, can be used in the RFP document that will be issued in Stage 2. In order to qualify from Stage 1 and progress to Stage 2, a minimum Total Technical Score of 400 and a minimum Total Presentation Score of 20 must be achieved based on the qualification criteria (see section VI) for the details giving a minimum combined score of 420 (the “required capability”).

    Note: Achieving a combined score of 420 (the “required capability”) does not necessarily guarantee progression to Stage 2 of this process. The intention is to arrive at a minimum short list of 5 and a maximum of 8 potential suppliers who will progress to Stage 2. The Evaluation Team may shortlist less than 5 potential suppliers where less than 5 potential suppliers meet the required capability.

Where more than 8 potential suppliers meet the required capability, the 8 potential suppliers with the highest technical scores shall be shortlisted.

Step 2: RFP Stage 2

17. Only those Fund Managers who qualify from Stage 1 will be issued the RFP for Stage 2. At Stage 2, the combination of technical and commercials, weighted (equally), will determine the final short-list to select the Fund Manager. This stage is the formal Invitation to Tender (ITT) stage.

VI. Qualification Criteria

18. The Evaluation Team will apply the following scoring methodology to the Stage 1 technical criteria (T1 to T5);

	Technical Criteria	**Weighting**	**Maximum Score**
T1	Experience with the Fund's investment strategy and experience with infrastructure investments in India	25	150
T2	Successful performance track record at Firm and Team level in managing private equity infrastructure funds	25	150
T3	Track record in mobilising capital (volume and value) for investments in infrastructure and the quality and strength of returning investor base	20	120
T4	Methodology and approach in delivering the Fund's objectives	20	120
T5	Mobilising institutional investors from or via City of London and the UK	10	60
	Total Technical Score	**100**	**600**
	Presentation Criteria	**Weighting**	**Maximum Score**
P1	Presentation which demonstrates the tenderer understands the methodology and approach to delivering the Fund's objectives.	**5**	**30**
	Total Presentation Score	**5**	**30**

19. The score for each criteria will comprise of a score awarded (from 0-6) multiplied by the weighting allocated to each criteria in the table above. The score will be calculated by adding together the weighted scores for each criterion. To ensure a consistent and fair approach to the evaluations, the following scoring methodology will be applied by the evaluation team.

6	Demonstrates a level of capability and capacity, based on evidence and experience, which provides a high degree of confidence of effective delivery of **all** of the requirements of this RFP.
4	Demonstrates a level of capability and capacity, based on evidence and experience which provides an acceptable degree of confidence of effective delivery of **most** of the requirements in this RFP.
2	A limited demonstration of capability and capacity, based on evidence and experience, which provides a low degree of confidence of effective delivery of **most** of the requirements in this RFP.
0	Failure to demonstrate capability and capacity, based on evidence and experience, to provide any level of confidence of delivery of **any** material requirement in this RFP.

20. The Evaluation Team will apply the following scoring methodology for the bidder presentation criteria (P1).

6	A presentation which demonstrates an expert understanding of the issue and provides a high level of confidence in the delivery of the objective.
4	A presentation which demonstrates a good level of understanding of the issue and provides a good level of confidence in the delivery of the objective.
2	A presentation which demonstrates an insufficient level of understanding of the issue and insufficient confidence in the delivery of the objective.
0	A presentation which fails to demonstrate an understanding of the issue in question and provides no confidence in delivery of the objective.

Evaluation Team

21. The evaluation team will comprise officials of the NIIF and DFID India who will receive advice from professional advisers appointed by either of the anchor investors.

    The Technical Evaluation places emphasis on the degree of confidence that the evaluation team has in the Technical Response content and the potential Fund Manager's capability to deliver the requirements of this RFP effectively.

    The Presentation Evaluation places emphasis on the degree of confidence that the evaluation team has in the Presentation Response content and the potential Fund Manager's understanding and methodology approach to the delivery of the requirements of this RFP effectively.

VII. Timelines

22. The RFP timelines are:

	Dates
Step 1 - RFP Stage 1	
RFP release date	11 August
Clarifications	18 August – 1700 IST
Response to all clarifications	25 August
Proposal due date	5 September – 1700 IST
Presentations/ Q&A^	Week of 11th September
Step 2 - RFP Stage 2*	
RFP release date	4 October
Clarifications	7 October – 1700 IST
Response to all clarifications	12 October
Proposal due date	17 October – 1700 IST
Presentations / Q&A^	Week of 23 October
Notice of selection (non-binding) and discussion on terms and conditions	Week of 30 October onwards.
Steps 3 to 5	Bidders to propose realistic timeframes
Possible break clause if commitments raised are less than £360m by first close.	

^Lead Fund Manager should be present
*Stage 2 dates are indicative and subject to response to Stage 1

VIII. Checklist

23. The specific items requested from respondent firms are:

i. **Signed Cover Letter**. A cover letter must be submitted on the Fund Manager’s official letterhead agreeing to the terms in this RFP document or setting out clear qualifications, if any and a confirmation as regards eligibility of the Fund Manager in terms of the SEBI (Alternative Investment Funds) Regulations, 2012 (as amended and supplemented from time to time). The letter must identify all documents provided collectively in response to the RFP and must be signed by individual(s) authorized to bind the Fund Management firm contractually.

The letter must contain a statement that the proposal is being made without fraud or collusion; and the firm has neither offered nor received any monetary or non-monetary benefit from any individual or entity relating to the proponents of the RFP.

ii. **Detailed Proposal**: Please provide the information sought in Annex 1 along with supporting documentation as you consider relevant. This should not exceed 20 pages. The applicants may enclose appendices as they see fit and the combined proposal should be within 35 pages of A4 size (including the excel sheets). Please address the items in the RFP in the order in which they appear in the RFP. Kindly list the question number and question from the RFP in its entirety before stating your response.

Certain questions may require supporting documentation, which should be submitted as attachments. For example, in case subordination of capital is advised (refer point 5 of Annex 1), please provide the excel sheet with a working model of the financial implications to the Fund and its anchor LPs as relevant. Please state all assumptions clearly within the working excel.

IX. Submission Deadline

24. The completed RFP must be delivered (electronically, please) as per the deadline in the 'Timelines' Section. Earlier responses are welcome. Any RFP delivered after the deadline will not be considered.

The email subject line must read as follows:

"RFP Response NIIF UK India Fund - Name of the Firm" and should be sent to both DFID and NIIF at:

Attn:
Mr Gaurav Kapoor
Senior Private Sector Development Adviser
Email:J-Datta@dfid.gov.uk

Attn:
Mr Nitin Naveen Singh
Vice President - Investments
Email: nitin.singh@niifindia.in

Clarification Deadline

25. In order to clarify any issues in this RFP we will respond only to questions that are presented in writing via e-mail to:

Mr Puneet Rustagi (Email: puneet.rustagi@niifindia.in) and Mr Karthik Krishnan (Email: K-Krishnan@dfid.gov.uk)

All questions should be submitted to NIIF by 5 PM IST on Friday, August 18, 2017. These questions and clarifications will be consolidated into a 'clarification response' document and responded to by the team on Friday, August 25, 2017.

This ‘clarification response’ document will be available on the NIIF website (http://niifindia.in/Newsroom.html) without divulging the source of the query.

X. Information Use and Confidentiality

26. By providing a response to this RFP, you explicitly allow the NIIF team, Government of India and the UK Government to use the information for the purposes of the UK India NIIF Fund at their sole discretion. This information will be shared with specialist advisers who will be bound by appropriate non-disclosure agreements to ensure that confidentiality is maintained.

    i. If you consider that any of the information included in your response to this RFP is commercially sensitive, you should identify it and detail in broad terms what harm may result from disclosure if a request is received.

    ii. The time period applicable to that commercial sensitivity.

    iii. However, it should be noted that even where you have indicated information is commercially sensitive; it may be required to be disclosed under the Freedom of Information Act 2000 (the “FoIA”).

    iv. Further, neither the NIIF team, the GoI nor the UK Government shall be deemed to have accepted any obligation of confidentiality by virtue of receipt of any material marked “confidential” or equivalent. By submitting a response to this RFP you agree to the information contained in your response being securely held by any or all of the receiving parties in an electronic format and to the obligations placed upon the receiving parties by all relevant legislation.

    v. Any information provided within this RFP or in subsequent answers to clarification questions from you, is made available on condition that it is treated as confidential (except where it is already in the public domain). You must not disclose to any third party, member of staff, or advisor, unless such person needs to receive the relevant information for the purposes of your response to this RFP.

    vi. You should not disclose or make available to any Newspaper or Press Association or in any other way make public any information in respect of this RFP without the prior express written permission of the NIIF Team, the GoI or HMG or indeed any other Receiving Party.

XI. The right to change, clarify, vary or cancel the process.

27. NIIF, GoI and / or HMG shall not be committed to any course of action as a result of;

    I. Issuing this RFP.

    II. NIIF, GoI and / or HMG reserve the right to amend and cancel this RFP at any stage without providing any reason and without incurring and liability whatsoever.

    III. Communicating with potential suppliers or their representatives in respect of this RFP

    IV. Any other communication between the NIIF team, the GoI and / or HMG (whether directly or by its agents or representatives) and any other Party.

    V. By taking part in this process, you accept that the NIIF team, the GoI and / or HMG shall not be bound to accept any response to this RFP and reserve the right not to proceed to any subsequent or downstream part of this process, or conclude any contractual arrangements for some or all of the requirements for which responses to this RFP are invited.

    VI. The NIIF team, the GoI and / or HMG reserves the right to amend, add to, or withdraw all or any part of this RFP process.

XII. Collusive Behaviour

28. Any potential Fund Manager who;

    i. Fixes or adjusts the amount of its proposal by, or in accordance with any agreement or arrangement with any other party or

    ii. Communicates to any party other than the NIIF team, the GoI or HMG or any other receiving party the details, or approximate details of its proposed response to this RFP or information which would enable the details or approximate details to be determined / calculated (except where such disclosure is made in confidence in order to obtain to obtain commercial quotations necessary for the preparation of the response or insurance or any necessary security) or

    iii. Enters into any agreement or arrangement with any other party that such other party shall refrain from submitting a response (unless it is a consortium arrangement); or

    iv. Enters into any agreement or arrangement with any non-consortium party as to the amount or the details of any response it intends to submit; or

v. Offers or agrees to pay or give or does pay or give any sum of money by way of inducement or valuable consideration directly or indirectly to any party for doing or having done or causing or having caused to be done in relation to any other response, or proposed response, any act or omission,

vi. Shall (without prejudice to any other civil remedies available to the NIIF team, the GoI, HMG or DFID and without prejudice to any criminal liability which such conduct by a potential supplier may attract) be disqualified from participation in this RFP process.

XIII. Costs of a RFP

i. Potential Fund Managers will remain responsible for all costs and expenses incurred by them, their staff and their advisors or by any third party acting under their instructions in connection with this RFP. This will be regardless of whether such costs arise as a result of any direct or indirect amendments to this RFP by the NIIF team, the GoI, HMG or DFID at any time. For the avoidance of doubt, the NIIF team, the GoI, HMG and / or DFID shall have no liability whatsoever to any potential Fund Manager for the costs of any amendments, changes, discussions or communications.

ii. In the event that none of the RFP responses are considered satisfactory, the NIIF team, the GoI, HMG and / or DFID reserves the right to consider an alternative procurement option or not to award / implement a Formal Agreement. For the avoidance of doubt, the NIIF team, the GoI, HMG and / or DFID will not bear any costs in respect of any abortive effort should no Formal Agreement be awarded.

XIV. Conflict of Interest

i. When you submit an RFP and thereafter any subsequent proposals, any circumstances, including personal, financial and business activities that will, or might, give rise to a conflict of interest by taking part in this process or if awarded the Framework Agreement must be identified by the potential Fund Manager. This also applies to any sub-contractors or business partners proposed by the potential Fund Manager. Where a potential Fund Manager identifies any conflicts they should state how they intend to avoid such conflicts. The NIIF team, the GoI, HMG and / or DFID reserves the right to reject any RFP which in their opinion gives rise to, or could potentially give rise to, a conflict of interest.

XV. Treatment of Your RFP

When you submit a RFP we will;

ii. Ensure that it is registered upon receipt and held securely until after the deadline for receipt of RFP's and till the appointment of the Fund Manager.

iii. Witness the opening of all RFP's after the time and deadline of receipt of RFP's and separately register any commercial details of each RFP during the evaluation process.

iv. Disqualify any non-compliant RFP's (any RFP's failing to meet the terms and requirements of these instructions). The details of such RFP's will be recorded and marked as disqualified.

v. Ensure that all RFP's are evaluated objectively in line with the evaluation criteria specified in this document

vi. Following evaluation, inform all respondents of any decisions made in a fair and equitable manner.

Annex 1 – Information Format

Please ensure the proposal includes the points listed below. This is the minimum information required as part of the selection process. The proposal should not exceed 20 pages. The applicants may enclose appendices as they see fit and the combined proposal should not exceed 35 pages of A4 size (including the excel sheets, if provided).

Suggestions on how the Fund design can be refined keeping in view the objectives set out in Section III are welcome. In particular welcome responses to the following:

A. Details of your proposal:

1. Please describe your proposed Investment Strategy: This should include:
    a. Description of investment strategy/ geography/sectors/stages,
    b. Description of the extent to which the Fund fits with your firm's investment approach and activities
    c. Targeted return gross and net (IRRs)
    d. In house capacity for deal sourcing and networks across the sector and the states of India
    e. Please list up to three indicative pipeline projects (demonstrating the project level returns anticipated based on your judgement)
    f. Proposed investment limits and restrictions (ticket sizes, sectors, leverage, reinvestments, etc.)
    g. Co-investment strategy if any.
    h. Majority / minority positions and its relevance to your proposed investment strategy

2. Please state your proposal against these key terms of the Fund with a brief rationale:
    a. Investment period, any extensions
    b. Fund life, any extensions
    c. Target size, green shoe option, first close and final close (amounts and timeframes as relevant)
    d. Expected team size (number of staff, level and FTE if shared with your existing funds) plus level of expertise (qualifications) and whether identified or to be recruited, include CVs (where possible)
    e. What amount (in £m) do you propose to invest in the Fund?

3. What amounts can the anchor investment of £240m mobilise with you as the Fund Manager?

    a. What amount would you reliably be able to raise? How much of this would you expect to be able to source from or via the City of London and the UK? How confident are you and what is the basis for your confidence?
    b. Please describe the fundraising prospects for your investment strategy with UK, other international and Indian LPs - the expected

timeframes, soft commitments, types of investors targeted, name of placement agent (if relevant) and any other relevant information.

4. Describe how you will guide investors to manage foreign exchange risk, and whether you would like to propose specific approaches and/or structures to achieve this aim.

5. The default position of GoI and HMG is that our capital should be committed to the Fund on the same terms as other investors. Many EME participants supported this approach. Other EME participants suggested that there would be advantages if a part of the anchor investment capital is subordinated

   If you believe that the objectives of the Fund would be better achieved by subordinating a part of the anchor investment capital, please explain why, and how you would adjust your fee levels (and structure) in such a scenario (preferably using a working excel model which you can submit as an attachment). Please note that the default position is likely to be that any subordination of our capital would need to be compensated by risk-adjusted return rights.

   If you believe that subordination of anchor investment capital is not required to achieve the objectives of the Fund, again – please explain your reasoning.

   We will clarify in the second round of the RFP if we have decided to subordinate our capital and if so in what way.

6. What fee structures and indicative level of components, including performance related elements, would you propose for the Fund?

   Please suggest any innovative structures that you believe better align LP/GP incentives covering all fee categories and offsets. Please explain the financial implications with an excel model if required [for the excel model, please assume a target size of £500m for a 12 year fund (no extensions) with a 5 year investment period].

B. Information:

7. About the General Partners (GP) / Fund Manager

   a. Legal structure with affiliated entities (chart with description / ownership / role), lines of business
   b. Please specify related party entities clearly
   c. Organisational chart of the GP/manager with reporting lines
   d. Outline of GP processes
      i. Investment selection criteria, due diligence scope and checks

   ii. Decision making process, role of investment committees and whether any external expert in it, the role of the investor advisory committee and composition
   iii. Risk and monitoring process and at what levels and periodicity they are monitored
   iv. Compliance check processes on Tax transparency, Anti Money Laundering (AML) and Anti-Corruption Counter Fraud / AML controls, regulatory considerations, other key areas.
 e. Geographical presence in India, UK, other locations (number of employees, expertise, since when (year))

8. Performance track record (historic up to five and all currently active funds). For <u>each</u>, please provide:
   a. Type, sector, geography, stage
   b. AUM, strategies, launch date, investment period, end date, % capital deployed, termination date
   c. Performance to date (gross and net values for distribution to paid-in capital (DPI), total value to paid-in capital (TVPI) and internal rate of return (IRR) respectively.
   d. Brief remarks on the cause of sharp outperformance and / or underperformance, if relevant.
   e. Details of existing investors in your Funds (since when, whether repeat LPs, and if any from the UK)

9. Management Team performance. Please mention clearly if any key individuals are proposed to join the UK India NIIF Fund should your firm be successful in this selection and include their credentials:
   a. Title, role, date joined, years of experience, expertise area, sectors, office location, years of experience in Indian infrastructure investing
   b. Infrastructure investment experience (commitments, exits, amount and number, multiples)
   c. Incentives incl. carry split (if relevant)
   d. Key person and since when.
   e. Investment committee composition

10. Miscellaneous (please highlight if any of these will be different for the Fund)
   a. Advisory board/committee participation/functions/governance
   b. Valuation process / principles
   c. Details of auditors and any recent findings of significance
   d. Do you intend to partner with any other institution for this opportunity? If yes, please explain the fit and rationale of each of the institutions.

C. Additional information

11. Please feel free to provide any additional information that you may believe is relevant and helpful to your proposal.

Annex 2 - Minutes of the Early Market Engagement: New Delhi and London

New Delhi, 8th May 2017

Part (A) Summary of comments made by the Government of India (GoI) and the National Investment and Infrastructure Fund (NIIF):

- The objective of the Blueprint is to outline current thinking without defining the contents at this stage. The feedback from the EME shall inform further refinement;
- Goal is to have complementarity between the NIIF Master-fund and a series of sub-funds currently under creation by sector / size/ risk profile. The NIIF Master-fund will focus on large investments in core infrastructure sectors, particularly operating assets with a long-term, low risk profile (e.g., roads and ports);
- The objective for UK India Fund (the Fund) is to focus on the green growth space, including the potential to bring in development finance and take higher risks and target higher returns. The governments of the UK and India recognise there are issues in the proposed sectors and want to use the £240m as a catalytic anchor;
- This shall be primarily a renewable energy fund, with a small proposed allocation to emerging businesses because areas like clean transport, battery infrastructure for electric vehicles etc. present an opportunity to test global ideas in an Indian setting;
- There is a desire to invest in professionally managed platforms, particularly in the renewables sector. There is a recognition that a ‘control only’ strategy may not work in India. So the current thinking includes both control or meaningful minority stakes;
- NIIF has received market feedback from developers that there is a gap around ‘take out’, i.e. insufficient capital for developers to exit projects post-construction. There is a valuation aspect to this, but the developer community believes there is a scarcity of capital;
- Costs of technology and procurement of equipment have been driven down in India but the cost of capital – both equity and debt – is still high. Tariffs have come down significantly in India but there are other international markets where tariffs are even lower and the private sector is able to make profits. The sponsors are open to ideas to help reduce risk and thereby the cost of capital;
- The GoI is very open to market feedback on this Fund proposition. On the specific risks relating to state governments and DISCOMs, the GoI can’t make project-specific concessions but any suggestions on how to make the whole system work better are welcome.

Part (B) Summary of market comments in response to the questionnaire

Section 1: The value proposition

- Whilst there was some discussion of targeting a fund size larger than £500m, there was a general view that the current size was broadly sufficient as a starting point to 'crowd-in' new international investment, with the possibility of a second close or second vehicle later;
- An exclusive focus on clean energy is relatively untested in the Indian market currently. Global investors will likely query whether such a Fund provides sufficient risk diversification (i.e., India specific and sector specific) and there is significant counter-party risk with state distribution companies (DISCOMs);
- The Fund could position itself as a way for institutional investors to dip their toes into the Indian market. While a section of participants opined enhancements such as first loss, risk insurance etc. could make the fund more attractive, another section felt that it would create a perception of commercial unviability among certain class of investors.

Section 2: Sectoral focus

There was a broad range of views on the indicative investment allocations presented in the Blueprint:

- Infra investors have defined views on the definition of infrastructure. Whilst venture-capital style technology businesses could yield higher returns, it is an unfamiliar area to them. It would be better for the Fund to think more conventionally about yield and target global infra investors.
- There were differing views on the allocation to transmission/distribution:
    - One perspective was that the international experience with integrating renewables into the grid has been challenging and the deal flow in India to date has been limited;
    - A second view was that overall growth requires both primary and ancillary infrastructure. Distribution may not have done well so far but there could be 'sunrise' potential;
    - Another view was that transmission could be broadened to include energy transmission and distribution to increase the opportunity size. For e.g., the Fund could partner with GAIL to establish a new platform to roll out city gas distribution in Tier 2 cities.
- Given current market pricing in solar in particular and renewables more generally, various suggestions were out forward regarding innovative / higher risk opportunities to improve returns:
    - Areas that offer genuine additionality to the core investment focus, e.g., hybrid solar and wind platforms or off-shore wind that are currently not being tested in India;
    - Emerging areas like clean transport, which represent a new asset class that combines the large ticket size characteristic of traditional infrastructure with venture capital like returns and ecosystem risk.
- Instead of calling it 'green growth fund', which could be interpreted in a restrictive way, an alternative could be to brand the Fund as a 'carbon footprint reduction fund' which would enable the Fund Manager to target

widely around a tangible central focus. This could include city gas distribution, inland waterways etc. as they increase carbon efficiency / reduce footprint. The fund could also cover social infrastructure such as healthcare and education.

- Investors like consistency in investment thesis and the proposed allocations span a very wide spectrum. It would be difficult for a single investment team of 4-6 people to manage such a broad portfolio. Over time, there could be synergies with managing further funds.
- The Fund should retain flexibility to change allocations based on market conditions. It is critical that the Fund be kept commercial and the Fund Manager is brought on-board at an early stage.

Section 3: Fund establishment and structure

- The answer on domicile and off-shore may change over the next 1-2 years and the GoI tax treaties. It would be best to engage with the selected Fund Manager on this.
- It is recommended not to have complex structures as the funds are increasing choosing simple structures to avoid tax issues in future

Section 4: Investment strategy

- The mix of majority and minority stakes sounds complex and may create conflicts of interest. The Fund should only do both if it has a clear rationale for it. On the minority stakes, it's important to be clear on who the Fund is willing to give control to (Indian sponsors/other Funds/platforms).
- Regarding the NIIF comment on 'take out' and project stage: Today Funds who typically target 14% IRR are competing with Investment Trust (InvIT) pricing at 10-12% IRR, which creates a mismatch. The recent InvIT issue was large but was still oversubscribed, and the structure has a clear tax advantage. So it's difficult for a Fund to compete with them in traditional renewables.
- If this Fund will be yield focussed, it needs to be realistic about how it will achieve the comparatively high returns it is seeking. One option could be to look at 'last mile' financing, which is more complicated and could get to the target 14% IRR.
- On operating assets it is important to recognise that in 90% of the cases the Fund will be buying from distressed developers. The opportunity exists but it's limited, so the Fund can't focus exclusively on this. To obtain 14%-16% IRR it will need to move up the risk spectrum and look at last mile financing (for the projects in final stage of completion) and greenfield. Greenfield risk in renewables is much less than in transport etc.

Section 5: Role of anchor investments

- The government can make some very specific changes, such as addressing equity termination risk in Power Purchase Agreements with the states. This is a serious hindrance to securitisation.

Section 6: Risk mitigation

- State governments play an important role in energy projects and many DISCOMS are still in poor financial health despite recent reforms. It would be helpful if NIIF could leverage its non-financial capital towards a shared services model to help the Fund liaise with state governments.

London, 21st June 2017

Part (A) Summary of comments made by the National Investment and Infrastructure Fund (NIIF) and the Department for International Development (DFID):

- NIIF is Category 2 Alternative Investment Fund (AIF). The UK India Fund will be an INR fund within this structure as the underlying user charges are in INR. India continues to experience significant revenue growth and tariff increases, which counter currency depreciation. This means that:
    - The current intention is not to set USD hurdle rates. International LPs will have to assess project and currency risks in their investment decisions; and
    - The INR value of UK government's £120m contribution will change depending on the exchange rate.
- Whilst there is a strong interest in mobilising international investment through the City of London, there will be no exclusions based on the geography of investors.
- The two sponsor governments are looking for the GP to commit capital and raise funds, including channelling contributions from any existing global funds. As a result the high-level selection criteria for the GP shall include (a) previous track record, (b) 'skin in the game' and (c) ability to raise capital.
- NIIF recognises that it will need to think through how it will ensure alignment of interest across the AIF structure, including in situations where:
    - (a) the UK India Fund will be taking significant majority stakes in SPVs/developers – NIIF welcomes input from the GP community on control majorities, and
    - (b) NIIF sub-funds could end up competing against each other for assets – The size and sector of investments will be used to filter opportunities. NIIF is very clear that the Master-fund will focus on very large transactions only and invest in a maximum of 7-10 investment platforms. It will explicitly rule out investments in areas where the sub-funds are active (e.g., the Master-fund will not invest in renewables).
- NIIF recognises the need for world-class governance and the importance for the UK India Fund to be independent from government control:
    - This has been central to the development of its governance framework from the outset and the arrangements are currently being reviewed by Stanford University to ensure they meet the highest international standards; and
    - The Government of India sees it's $3bn investment into the NIIF as a catalyst to mobilise significant new international capital for investment in Indian infrastructure on a commercial basis. It understands that

international investors will be concerned about interference and has taken specific steps to mitigate this concern. For example, there is no GoI representative on the NIIF Investment Committee and the Board will also be investors led.

- The base case is for purely commercial investment from the two anchor investments, but the need for enhancements/subordination may be considered, if put forward by GPs.
- It does not appear practical to divide the c.£500m fund into smaller funds.

Part (B) Summary of market comments in response to the questionnaire

Section 1: The value proposition

- GPs who had also attended the Delhi event welcomed the clearer articulation of the value proposition at the London event.
- Attendees generally urged for the GP to be appointed quickly, so they can start the process of engaging international investors.

Section 2: Sectoral focus

- The sub-sectors outlined in the Blueprint are very broad. There is a need to recognise that the GP team for a £500m fund may be unable to cover the full breadth of these. It would be helpful if the anchor investors were able to assign some weightings to their preferences.
- Achieving high teen INR levels and stable yields through a portfolio with a c.70% renewables exposure is very challenging. One of the participants remarked that renewables are typically yielding 8-9% INR currently and this is likely to get more difficult over the next 5 years. Hence the GP should be given a mandate that enables them to assess deal-flow that can meet investor expectations.
- One possible route could be to set this up as socially responsible fund with a remit to invest in newer areas (i.e., other than solar and wind) that are currently under-funded. However, one contrary view cautioned against trying to do too much too quickly, adding that investors may be comfortable with a fund focussed on new areas of sustainability in more mature markets like Germany, Scandinavia etc. but would be unlikely to have appetite for such a high risk proposition in an emerging market like India.

Section 3: Fund establishment and structure

Responses to attendee questions relating to this section have been set out in Section A above

Section 4: Investment strategy

Responses to attendee questions relating to this section have been set out in Section A above

Section 5: Role of anchor investments

Responses to attendee questions relating to this section have been set out in Section A above

Section 6: Risk mitigation

- International investors will have three key concerns:
  - Currency risk: The rupee has depreciated c.3% over the last 20 odd years and there have been fairly volatile swings of as much as 15-20% over this period. This makes currency hedging very challenging to achieve.
    - Hedging may not the appropriate solution to the FX risk issue in India. From an investor perspective, larger investors and sovereign Wealth Funds, such as GIC and ADIA, diversify the currency risk as they invest across a number of asset classes (listed mutual funds, private equity, infra etc.) and manage a basket of currencies. This means they can cross-hedge currency exposure across their portfolio. The Canadian pension funds are similar in this regard and this is exceptional; typical UK pension funds may not have the economies of scale to implement this approach and hence their desire for emerging market infra exposure is constrained. Similarly, international corporates also don't hedge their rupee exposure in India.

  - Regulatory and tax risk: Assurance from GoI that the 'rules of the game' will not change over the 10-12 Fund period. Recent negative precedents such as Vodafone continue to cause concerns for international investors; and
  - Regulatory risks on Repatriation.
- Investors may compare the risk profile of this investment opportunity with the rest of the world. A couple of aspects could be
  - Most long term institutional investors are risk averse and see infra as a diversification strategy away from private equity, and
  - They are particularly conservative about renewables, as this hasn't yielded the anticipated returns in Western Europe and hence there is scepticism about the possibility of doing so in emerging markets.

  As a result raising a single country renewables fund is likely to be very challenging and an enhancement may be required, such as a FX product, such as the MIGA and EBRD guarantee product recently used in Turkey. Further, to address the scepticism around returns, the two anchor investors could deploy the £240m as soon as possible to create track record and 'demonstration effect' to draw in international investors perhaps at a later close.