

Request for Proposals – UK Social and Affordable Housing

Responses to clarification questions – 24 February 2022

1. The guidance document specifies that Separate Managed Accounts are not acceptable to Cardano and Big Society Capital. Would a solution encompassing pooled funds under one strategy umbrella be acceptable?

This would depend on the exact structure of the proposal. A fund with income coming from different sub-sectors would be acceptable. From Big Society Capital's perspective, the important point is that there is intermediation in the structure, i.e. that investment decisions are being made by the fund manager, with all the necessary financial and impact controls in place as opposed to a structure where the investors would be making direct investment decisions.

2. How many managers are participating in this RfP?

The webinar is an indicator of the level of interest we are seeing for this RfP. 80 people signed up to the webinar from 38 organisations and there were 73 participants attending the webinar. We have received positive indication of interest from 30 market warming calls and discussions we had since the end of last year. We know from Big Society Capital's experience in launching an RfP in 2020 that RFPs are a successful tool for generating interest and streamlining applications. In 2020, Big Society Capital received 19 applications to its Housing RfP.

3. If a manager does not yet have track record in a dedicated social housing strategy, but already has exposure to it through other existing funds, how will Cardano and Big Society Capital be assessing it?

This is something we expect to be seeing from managers. The [Due Diligence Questionnaire](#) (DDQ) Appendix A provides the format to fill in on track record. When filling it in, please make it clear which vehicle and strategy the experience is from and highlight the top 5 most relevant experiences for the submitted strategy. You can use your investor pitch deck to provide more background on these experiences such as who was making the investment decisions, the governance of the strategy and the impact it was delivering using the Impact Management Project framework (Who, what, how much, contribution, risk), to help us get a sense of the additionality of the impact that social housing strategy was looking to deliver. We will also be looking at the continuity of team working in that fund, its expertise and any lessons learned from managing those assets.

4. What percentage of the fund needs to be focused on Social and Affordable Housing?

We said in the [Submission Guidance document](#) that non-residential real estate will not be considered as part of this RFP unless it is a mixed fund and/or investment opportunity that has a meaningful component of social and affordable housing. We do not have previous experience with mixed real estate funds, and as such do not have a precedent or a set expectation/threshold on a minimum amount of social and affordable housing assets we want to be seeing from mixed funds. As an indicator, meaningful would mean to us that at least 20% of assets are additional social and affordable housing (not section 106).

5. What percentage of the fund needs to be in the UK?

Cardano is generally agnostic on geography, but for this RFP we are looking for a significant focus on investments in the UK because our pension clients are looking for a place-based impact. Big Society Capital invests to grow social impact investment in the UK and for this RFP we will be prioritising strategies in the UK. However, we have some ability to tolerate some non-UK investments from international funds, but it would be small and by exception only.

6. On Big Society Capital's eligibility criteria, if the investment is going to a for profit "housing association" does this meet the BSC requirements?

From Big Society Capital's perspective, we appreciate that our direct capital will be going into a fund structure and so won't be reaching a specific entity and can invest on a mixed basis. But to meet our eligibility criteria, there would need to be 1) a social sector organisation in the structure that benefits from the fund and 2) a match multiple of the capital reaching or enabling the social sector organisation in achieving its mission. So, a pure for-profit structure would not meet Big Society Capital's eligibility requirements, but this is unique to Big Society Capital and would not be the case for Cardano.

7. How important is long term income? Would strategies that depend significantly on capital rather than income return and with a short tenure (<5 years) be considered?

From Cardano's perspective, we are ultimately looking for long term resilient income cash flow from this RFP, within the stated duration (ideally sub-12 years) . We won't be looking for short term capital appreciation exposure.

From Big Society Capital's perspective, we are looking at Core, Core Plus and Value-Added strategies, less at Opportunity ones. We look at strategies that generate both income and capital appreciation. But one of our main goals for this RFP is to co-invest in proposals that have the ability to attract capital from institutional investors, so we will be prioritising strategies that are designed with this aim in mind.

8. How many managers do we expect to take through to Stage 2?

We do not have a threshold and are flexible. This will depend on the quality of proposals we see.

9. Does the fund need to own the assets or can it invest in asset owners?

Big Society Capital invests in pooled funds and fund managers. As a wholesale investor, we cannot invest directly into a specific scheme or project. For more information on our investment requirements, please [visit our website](#).

10. Do you have requirements for the investor presentation to be submitted together with the DDQ in the RFP?

The [DDQ](#) will contain most of the information we need for Stage 1 screening. The investor presentation is there to give us more background on your proposal. We encourage you to submit your standard investor presentation. You may want to include elements that you feel are not covered in the DDQ but would support your proposal against our assessment criteria set out on slide 17 of the [Submission Guidance document](#). There is no length requirement, but we do not feel it needs to go over 30 slides.

11. DDQ question 2.1.2 – Could you please clarify what “private ownership” means?

This question is about the ownership of the fund manager structure. Private ownership refers here to the firm being privately owned by individuals or private organisations (i.e. not publicly traded). Not for profit third sector organisations are treated as private owners.

12. DDQ Section 3.3 – questions 3.3.8 - 3.3.12: Could you please clarify what “asset” refers to in this context?

These are the assets in which the fund / investment structure directly invests in and holds. It could be physical assets (properties) or financial assets (equity investments, loans). Please add a comment in column E if you feel this needs to be clarified. Question 3.3.14 (cell K144) refers to the underlying physical assets (properties).

13. DDQ Questions 3.3.14: Could you please clarify what “regulated” (cell E144) refers to in this context?

The question is asking whether the property assets are leased to tenants or managed under a tenure regulated by the Regulator of Social Housing.

14. Would you consider a submission looking for a top-up investment alongside other investors into this existing strategy?

This will depend on the structure (e.g. we would consider an open-ended strategy, that has already been launched). For Big Society Capital, there would also need to be credible rationale that our investment would be additive.

15. Do you have deployment preferences between old and new stock?

We are looking for strategies that will increase the overall supply of social and affordable housing stock, either by moving existing stocks into social and affordable tenures or by building new housing.