

GIF1

INVESTMENT POLICY AND IMPLEMENTATION GUIDELINES

1. INVESTMENT POLICY

Within the framework of the Competitiveness and Innovation Framework Programme (2007-2013), whose financial instruments aim to leverage support and provide complementary funding tackling situations of market failure, the European Community is funding the High Growth and Innovative SME Facility ("GIF" or the "Facility"), the objectives of which are:

- (a) to contribute to the establishment and financing of SMEs¹ and the reduction of the equity and risk capital market gap, which prevents SMEs from exploiting their growth potential, with a view to improving the European venture capital market; and
- (b) to support innovative SMEs with high growth potential, in particular those undertaking research, development and other innovation activities.

GIF is operated by the European Investment Fund ("the EIF") on behalf of the European Commission.

The Facility consists of two investment windows, GIF1 and GIF2, respectively covering:

- (a) early stage (seed and start-up) investments by investing in specialised venture capital funds such as early stage funds, funds operating regionally, funds focused on specific sectors, technologies or research and technological development and funds linked to incubators, which shall in turn provide capital to SMEs. There may also be co-investment in funds and investment vehicles promoted by business angels;
- (b) expansion stage investments by investing in specialised risk capital funds, which in turn shall provide quasi-equity or equity for innovative SMEs with high

¹ For the purpose of GIF1 and in accordance with the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) (the "Recommendation") micro-, small and medium-sized enterprises ("SMEs") are defined as enterprises which :

- employ fewer than 250 employees; and which
- have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million; and
- conform to the criterion of being an "autonomous enterprise" as defined in the Recommendation.

For the purpose of this definition, an "autonomous enterprise" shall be any enterprise which is not classified as a partner enterprise or as a linked enterprise, as defined in the Recommendation. The reference year to be considered is the last approved accounting period.

For the avoidance of doubt, any changes to the SME definition pursuant to any subsequent modification of the Recommendation shall modify *mutatis mutandis* the SME definition used with respect to any GIF1 EU Investments made after the date of such modification.

growth potential in their expansion phase avoiding buy-out or replacement capital for asset stripping.

GIF shall be complementary to the EIB Group's resources currently managed by the EIF and the own resource-based activities of the EIF by adopting an investment policy involving a higher risk profile, both as regards the relevant Intermediaries and their investment policies.

1.1. GIF1 OBJECTIVES

The aim of GIF1 is to facilitate access to finance for SMEs deemed "GIF1 Eligible Final Beneficiaries" (as defined below) which are in their early stage phase, to contribute to their establishment and financing and to help reduce the venture capital market gap that prevents them from exploiting their growth potential, with a view to improving the European venture capital market

This objective will be achieved through the making of investments by the EIF, funded by GIF1, in Intermediaries selected in accordance with the relevant criteria defined below and on the terms as set out in a Fiduciary and Management Agreement between the European Community and the EIF.

GIF1 supports innovative² SMEs with high growth potential making investments in activities such as technological development, innovation, including Eco-Innovation³, technology transfer and cross-border expansion of their business.

2. IMPLEMENTATION GUIDELINES

2.1. THE GIF1 EU INVESTMENT

Nature:	GIF1 funds equity or quasi-equity investments in Intermediaries.
Investor:	The EIF operating on behalf of the European Commission.
Signing Period:	Fund Agreements in connection with GIF1 EU Investments can be signed until 31 December 2013 or any later date as notified in writing by the European Commission to the EIF.

² For the purpose of GIF1, innovation has the meaning set out in Decision N° 1639/2006/EC of the European Parliament and of the Council (OJ L310, 9.11.2006, p.15).

³ For the purpose of GIF1, Eco-Innovation means any form of innovation aiming at significant and demonstrable progress towards the goal of sustainable development, through reducing impacts on the environment or achieving a more efficient and responsible use of natural resources, including energy, and may include new products and services, production processes, organisational or management changes creating business opportunities in connection with such aims.

Duration: GIF1 EU Investments shall typically consist of five to 12-year positions in Intermediaries. In any event, the life of investments under the GIF1 shall not exceed the 22nd November 2026. For Intermediaries with a term extending beyond this date, clearly defined, non-detrimental exit terms will be determined.

Amount: The amount⁴ committed to a single Intermediary shall require a critical mass and not exceed EUR 30 million or the equivalent of EUR 30 million in any relevant non-Euro currency.

The GIF1 EU Investment in an Intermediary shall be

- always at least 10% of total commitments to the Intermediary at the time of first commitment to the Intermediary, provided that it does not exceed the limit referred to above;
- up to 25% of the total commitments to the Intermediary, or
- up to 50% of the total commitments to the Intermediary for new Intermediaries likely to have a particularly strong catalytic role.
- An Intermediary whose investment policy targets more than 50% of investments in GIF1 Eligible Final Beneficiaries active in Eco-Innovation may benefit from a GIF1 EU Investment representing up to 50% of the fund size. However, if the investment policy targets 50% or less of investments in GIF1 Eligible Final Beneficiaries active in Eco-Innovation, then the Intermediary may receive the standard commitment (up to 25%) plus an additional pro rata adjusted commitment for such Eco-Innovation-related investment activity.
- Intermediaries with co-investment arrangements with organised, well established Business Angel Networks may receive an additional and separate commitment for co-investments into GIF1 Eligible Final Beneficiaries. Such commitment may be drawn down on a deal by deal basis, allowing the Intermediary to increase the investments into GIF1 Eligible Final Beneficiaries who have been

⁴ This amount includes equalisation fees where applicable. For the purpose of GIF1, "equalisation fees" means fees paid by investors participating in subsequent closings as an interest payment on amounts already drawn down from other participating investors.

proposed for investment by organised, well established Business Angel Networks, provided that such an increase does not result in a situation whereby the total amount sourced from GIF1 represents directly or indirectly 50% or more of the capital of each GIF1 Eligible Final Beneficiary.

Notwithstanding the foregoing, the maximum percentages of total commitment to an Intermediary applicable to a specific GIF1 EU Investment set out above will be reduced by the proportion of investments in Final Beneficiaries which are not GIF1 Eligible Final Beneficiaries foreseen in the Intermediary's investment policy.

Co-investment with other resources:

GIF1 may co-invest with the EIF's own resources, resources under the Risk Capital Mandate ("RCM") of the European Investment Bank ("the EIB") or other resources managed by the EIF.

Co-investments with Business Angel Networks ("BA Networks"):

GIF1 may co-invest with other investors in Intermediaries co-operating with BA Networks.

Such an investment will be made following satisfactory completion of the assessment by the EIF of a request by an Intermediary which has a co-investment arrangement with one or several organised, well established BA Networks.

Pari passu clause:

The GIF1 EU Investment shall rank *pari passu* (i.e. Like Risk, Like Reward) with Market Oriented Investors⁵ investing in the Intermediaries selected for GIF1 funding; the relevant Fund Agreement (including any side letters) shall reflect such key requirement.

Cornerstone role:

For new Intermediaries likely to have a particularly strong catalytic role in the development of venture capital markets for a specific technology or in a specific region, the EIF may play the role of a cornerstone investor.

⁵ For the definition of Market Oriented Investors see "Investor Base".

Closing: GIF1 shall normally invest at the first closing of an Intermediary. However, a GIF1 EU Investment is possible at a later closing if the added value of that investment is duly demonstrated. Additional GIF1 EU Investment(s) will be available at subsequent closings provided that the relevant conditions set out above are met at each closing.

2.2. THE INTERMEDIARIES

GIF1 Intermediaries: Specialised venture capital funds, such as early stage funds, funds likely to have a particularly strong catalytic role in the development of venture capital markets for a specific technology or in a specific region, multi-country funds as well as multi-purpose funds that include early stage companies in their investment programmes and vehicles set up to perform technology transfer.

Investment focus: GIF1 shall target early stage investments and will not invest in funds whose primary focus is on mid- to late stage (pre-IPO or MBO and MBI) transactions or on replacement capital.

Intermediaries shall operate in the Participating Countries⁶ and shall target in their investment policy more than 50% of investments in GIF1 Eligible Final Beneficiaries.

Purpose of financing: Investments by the Intermediaries must provide long term equity or quasi-equity capital, including, without limitation, subordinated or participating loans and convertible bonds, with a view to supporting the growth and innovation activities of GIF1 Eligible Final Beneficiaries, including Eco-Innovation and technology transfer.

⁶ "Participating Countries" means the Member States of the European Union and those Member States of the European Free Trade Agreement ("EFTA") which are members of the European Economic Area ("EEA"), accession countries and candidate countries benefiting from a relevant pre-accession strategy, countries of the Western Balkans in accordance with the relevant framework agreements and any other country as published from time to time in the Official Journal, provided that any such countries shall only be treated as a Participating Country to the extent that the Statutes of the EIF allow the EIF to operate in that country.

GIF1 Eligible Final Beneficiaries:

A GIF1 Eligible Final Beneficiary ("GIF1 Eligible Final Beneficiary") shall be defined as a Final Beneficiary which satisfies the following eligibility criteria:

- innovative SMEs with high growth potential in their establishment or early stages; and
- established and operating in a Participating Country; and
- established or operating for not more than ten (10) years.

The eligibility criteria mentioned in the previous paragraph shall be fulfilled at the time of the initial investment by the Intermediary.

Fund management team:

GIF1 targets commercially-oriented Intermediaries managed by independent management teams⁷ combining the appropriate mix of skills and experience to demonstrate the necessary capability and credibility to manage a venture capital fund or a technology transfer vehicle. The independent management teams are not required to have prior direct experience of fund management provided that they can otherwise demonstrate appropriate capabilities within the team to manage the Intermediary.

Management teams will be required to demonstrate a clear strategy to make a sufficient number of investments into Eligible Final Beneficiaries⁸, create adequate deal flow and establish appropriate exit policies. They will be expected to apply good market practice in areas such as legal structure, investment principles, reporting and valuation. Where the Intermediary is comprised of more than one legal entity, the investment criteria will be applied to the aggregate of the entities.

Fund size:

GIF1 targets Intermediaries with a sufficient target size to achieve a critical mass in the segment of the venture capital market that they address.

⁷ Independent management teams include teams operating within a corporate structure provided that the operation of the fund management business has a high degree of independence from the parent company.

⁸ GIF1 Eligible Final Beneficiary and/or a GIF2 Eligible Final Beneficiary.

Investor Base: In order to catalyse private sector investments, the majority of the capital invested in any Intermediary shall be provided by investors operating in circumstances corresponding to the market economy investor principle, irrespective of the legal nature and ownership structure of these investors, being so-called normal economic operators in market economies⁹, ("Market Oriented Investors"). When calculating the portion of capital invested in any one Intermediary by Market Oriented Investors, no account shall be taken of the capital committed or proposed to be committed to an Intermediary and funded by GIF1.

Intermediaries shall target a sufficiently broad range of investors. No single investor shall account, directly or indirectly, for more than 50% of the capital of any Intermediary.

2.3. OTHER SPECIFIC REQUIREMENTS

Reporting: Intermediaries will be required to provide reporting in accordance with the applicable provisions of the GIF Facility.

Monitoring and audit: The Intermediaries, the companies in which the Intermediaries have invested and any other entities in receipt of GIF1 funding ("Beneficiaries"), must agree to allow the European Commission's agents, the EIF and the European Court of Auditors to have access to adequate information to enable them to discharge their duties with respect to monitoring, control and auditing of the correct use of the Community funds, including the promotion and visibility requirements specified hereunder. These controls may include on-the-spot controls of the Intermediaries and of the Beneficiaries.

To that effect, the EIF and Intermediaries will include appropriate provisions in each agreement relating to the GIF1 EU Investment.

Promotion: Intermediaries shall provide an appropriate level of visibility and transparency to the support given by the European Community, undertaking to incorporate in their websites material relating to the activities falling within the scope of GIF1 a reference to the fact that their fund is supported by the European Union through

⁹ Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-Sized Enterprises (OJ C 194, 18.08.2006, p. 2).

the "Competitiveness and Innovation Framework Programme", including the European logo (twelve yellow stars on a blue background).

Visibility: Intermediaries will be required to ensure that the contracts with Eligible Final Beneficiaries include a statement that the investment "benefits from the European Union's Competitiveness and Innovation Framework Programme".

3. SELECTION PROCESS

Intermediaries shall be selected in conformity with best business and market practices in a fair manner, avoiding any conflict of interest, with the aim of working through a wide range of specialised funds or similar structures, in a wide range of countries.

On the basis of a call for expression of interest¹⁰ investment proposals will be examined by the EIF, on a continuous basis, using professional analysis and judgment, taking into account the criteria set out in the above mentioned GIF1 Investment Policy and Implementation Guidelines, and in particular the following factors:

- **Rationale for GIF1 Investment – Added Value**
 - GIF1 EU Investment addressing a market failure*
 - The extent to which GIF1 EU Investment can be expected to have a catalytic effect*
- **GIF 1 EU Investment Allocation**
 - Availability of resources under GIF*
 - Complementarity of GIF1 EU Investment with other EIF resources*
 - Aim to work through a wide range of specialised Intermediaries with a view to reach an overall balanced geographic distribution of GIF 1 EU Investments*
- **Management Team**
 - Relevant experience*
 - Composition of team, track record and balance of skills*
 - Ability to provide relevant added value*
 - Ability to provide adequate commitment for the life of the fund*
 - Screening of management team members in accordance with standard market practice and with specific attention on issues related to corrupt, fraudulent, coercive or collusive practices or criminal convictions concerning their professional conduct.*
- **Market**

¹⁰ To ensure transparency, the call for expression of interest published in the Official Journal will remain open until 31 December 2013 or any later date as a result of any subsequent prolongation, subject always however, to the availability of budgetary funds.

Identification of the target market
Size of market and potential development of it
Growth potential of SMEs in the target market

- **Deal flow**

Track record of access to deals
Quality of deals
Credibility of plans to develop deal flow

- **Investment strategy**

Fund focus
Stage focus
Sector focus (including information on Eco-Innovation, where appropriate)
Geographical focus
Number of investments
Appropriateness of the investment strategy to the market
Coherence with the purposes of GIF1
Identification of suitable and achievable exit routes for investments

- **Size of the fund**

Balance between fund size and expected deal flow
Adequacy of provision for follow on investments

- **Proposed terms**

In line with market norms, with explanations for deviations
Any performance related remuneration such as carried interest to be designed to reward overall fund performance

- **Expected returns**

Evidence that the fund is to be run on a commercial basis and that it can be expected to be financially viable

- **Investor base**

Pari passu ranking (i.e. Like Risk, Like Reward) of Market-Oriented Investors
Evidence of support from other investors especially from the private sector
Co-investment strategy and rationale
Screening and monitoring of co-investors to the extent information is made available to the EIF and in accordance with standard market practice with specific attention on issues related to fraudulent practices, money laundering and terrorist financing