

ANNEX 5 to the Call for Expression of Interest

Business Angel Co-Investment Funds

Justification of the Instrument

The objective of the instrument is development of venture capital industry in general and business angel financing activities in particular.

The scheme intends to address insufficient supply of equity and quasi-equity funding that impedes entrepreneurship and development of innovative, growth-oriented SMEs in Latvia, as concluded by the evaluation of gaps between supply of such instruments to, and demand for such instruments by, SMEs that was done in 2007 by the European Investment Fund as part of the JEREMIE initiative.

Implementation mechanism

European Investment Fund in its role of JEREMIE Holding Fund will act as a public investor in one or two newly created profit driven business angel co-investment funds managed on commercial basis by private professional fund management companies selected by open call for expression of interest.

Co-investment funds and fund management companies

Aforementioned new business angel co-investment funds will be created as new legal entities specifically for purpose of the scheme and will not be used for any other purposes.

The fund management companies will be selected through an open and transparent call for expression of interest based on the criteria set out in Annex 6 (criteria set "Risk capital provision to venture capital funds" approved by the EU Funds Monitoring Committee for 2007-2013 planning period on 20 June 2008).

The aforementioned criteria will be applied to test the applicant's fund management capability, suitability for the task, as well as ensure reasonable fund management cost level.

There will be an agreement between the aforementioned fund management companies and the Holding Fund, providing that the manager's remuneration is linked to performance and setting out the objectives of the fund and proposed timing of investments.

Management costs will not exceed, on a yearly average, for the duration of the fund existence, 3 % of the capital contributed, unless a higher percentage proves necessary after a competitive tender.

Best practices and regulatory supervision, if appropriate, will be applied to the management of co-investment funds, including guidelines developed by the European Private Equity and Venture Capital Association.

Co-investments

The funds created under the scheme will make investments in target SMEs along with business angels on commercial, *pari passu* terms. In each investment at least 50 % of business angel's co-investment will be required.

Target SMEs

Investment decisions will be made based on and ensuring, that a business plan shall exist for each investment, containing details of product, sales and profitability development and establishing the *ex ante* viability of the project; and a clear and realistic exit strategy shall exist for each investment.

The following restrictions will apply to investments done by the co-investment funds created under the scheme:

- 1) Investments can be made only in SMEs;
- 2) Investments must be done through equity, meaning ownership interest in an undertaking, represented by the shares issued to investors, or quasi-equity, meaning financial instruments whose return for the holder is predominantly based on the profits or losses of the underlying target undertaking and which are unsecured in the event of default.
- 3) Investment project's primary place of business must be the Republic of Latvia;
- 4) Investments can be made in projects in all sectors except:
 - a. Gambling;
 - b. Real estate;
 - c. Banking;
 - d. Insurance or financial intermediation;
 - e. The manufacture, supply or trade in arms, tobacco, alcohol;
 - f. Retail and wholesale industries;
 - g. Coal industry.
- 5) Investment shall not exceed EUR 0.5 million per target undertaking unless explicitly allowed by fund's Advisory board;
- 6) No investments can be made in enterprises in difficulties.

Term of the Scheme

The scheme will continue until 31st December 2015, which is the last date when investments from the funds can be made. The funds created within the scheme will continue to exist until all investments are exited.

Budget of the Scheme

The Holding fund envisages to provide around 7.5 million euro (5.27 million Latvian lats, at Latvian Central Bank exchange rate of 0.702804), which corresponds to around 3.75 million euro (2.64 million Latvian lats) if spread equally among two co-investment funds created under the scheme. The above amounts can be changed if justified by market conditions.