Financial Instrument	Venture Capital Fund
Envisaged state aid regime	Envisaged to be Article 21 of General Block Exemption Regulation[1] (GBER) or state-aid free (in case of pari-passu distribution cascade). In case of GBER regime the Venture Capital Fund's investments will be subject to the state aid regime implemented in Estonia through the state aid scheme published shortly on KredEx website (www.kredex.ee). The main elements of the state aid scheme are incorporated in this term sheet.
Investment focus	Fund investment strategy shall be focussed on innovative high-growth early stage companies
Investment range	Fund may start investing early in the seed stage of the company development and have the potential to follow on in next rounds. However, it could also participate directly in A-rounds, provided appropriate opportunities occur. Up to 15% of the total fund size in any single investee (fund Advisory Board approval needed in case the limit needs to be exceeded)[2].
Eligible investees	The investment shall support the following: a) Establishment of new enterprises; b) Early stage-capital (seed capital and start-up capital); c) Expansion capital; d) Capital for the strengthening of the general activities of an enterprise;

[1] COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty

[2] Regulatory ceiling is EUR 15m per investee. GBER-based funds may co-invest together with other GBER-based funds up to the maximum cumulated limit of EUR 15m per investee

	e) Realisation of new projects; f) Penetration of new markets or new developments by existing enterprises. The investment may cover: (1) investment in tangible assets or intangible assets, (2) working capital within the limits of applicable state aid rules and with a view to stimulating the private sector as a supplier of funding to enterprises, and (3) include the costs of transfer of proprietary rights in enterprises provided that such transfers take place between independent investors. The investment shall be newly originated (not a refinancing). The investments shall be expected to be financially viable. Non-pari-passu Distribution cascade[3]; 1. shall target enterprises that at the time of the initial investment round are unlisted micro, small or medium sized enterprises (SMEs)[4] and fulfil at least one of the following criteria: (a) they have not been operating in any market; (b) they have been operating in any market for less than 7 years following their first commercial sale; (c) they require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding 5 years. 2. may also provide follow-on investments made in enterprises, including after the 7-year period mentioned in 1(b) above, if the following cumulative conditions are fulfilled: (a) the maximum amount of risk finance as per GBER (EUR 15m) is not exceeded in aggregate; (b) the possibility of follow-on investments was foreseen in the original business plan;

[3] See Distribution cascade section for more information

[4] As defined, as applicable, in the Commission Recommendation 2003/361/EC of 6 May 2003, and in the Annex 1 of Commission Regulation (EU) No 651/2014 of 17 June 2014, as amended from time to time concerning the definition of micro, small and medium-sized enterprises

	(c) the enterprise receiving follow-on investments has not become linked, within the meaning of Article 3 of Annex I of GBER, with another undertaking other than the financial intermediary or the independent private investor providing risk finance under the measure, unless the new entity fulfils the conditions of the SME definition within the meaning of Annex I of GBER Pari-passu Distribution cascade[5]; Shall target micro, small or medium sized enterprises (SMEs)
Replacement capital	The fund can provide replacement capital only if the latter is combined with new capital representing at least 50% of each investment round into the enterprise.
Private investor contribution	Minimum 30% private financing at the fund level. 1) Non-pari-passu Distribution cascade[6]; Additionally, the fund manager will be contractually required to constantly monitor the portfolio to ensure that the combined private participation at the fund and the portfolio companies level at all times represent at least the weighted average based on the volume of the individual investments in the underlying portfolio and resulting from the application of the minimum participation rates to such investments, as given in the next points: a) enterprises prior to their first commercial sale on any market, at the time of concerned initial or follow-on investment, require minimum 10% private participation, thus the fund may be the only investor (private participation is achieved through the private investors in the fund); b) enterprises that, at the time of concerned initial or follow-on investment, have operated in any market for less than 7 years following their first commercial sale, require minimum 40% private participation, thus the fund shall need to syndicate with private investors on enterprises level, unless the weighted average

[5] Idem

[6] See Distribution cascade section for more information

	participation rate in already existing portfolio, as mentioned above, doesn't already cover the shortfall; c) enterprises that, at the time of concerned initial or follow-on investment, have operated in any market for 7 years or more following their first commercial sale, require minimum 60% private participation, thus the fund shall need to syndicate with private investors on enterprises level, unless the weighted average participation rate in already existing portfolio, as mentioned above, doesn't already cover the shortfall. 2) Pari-passu Distribution cascade[7]; No further private investor requirement.
Investment period	No longer than 5 years from the first closing of the fund[8]
Follow-on investments	Provided that the following conditions are met: (1) the closing of the fund has taken place before 31 December 2017, and (2) at least 55% of the commitments are invested in SMEs or paid out as management fees by 31 December 2023, up to 20% of the commitments can be allocated for follow-ons after 31 December 2023. The period through which follow-on investments can be made cannot exceed four years after 31 December 2023.[9] If the above follow-on capacity would not allow fully executing the fund investment strategy, further solutions may be analysed.
Type of financing	Equity and / or quasi-equity

[7] Idem
[8] In no case initial investments can be made after the end of 31 December 2023
[9] Article 42(3) of EC Regulation 1303/2013

Fund duration	10 +1 +1 years (with extensions being subject to an investor or Advisory Board approval)
Fund manager's commitment	At least 2% of fund size, to be decided as an alignment tool between investors and the manager, to be assessed against fund operational economics and broader financial position of the manager's team
Management fee basis	Typically paid on the committed capital during the investment period and on the invested capital (acquisition cost of the active portfolio of the fund reduced by the acquisition cost of the fund's investments that have been sold, written-off or written-down) thereafter. Alternatively fixed-fee for the post investment period could be considered. The period through which the management fee is paid after 31 December 2023 cannot exceed six years. Selection of funds through this Call for Expression of Interest constitutes a selection through a competitive tender for the purposes of Article 13(6) of EC Regulation 480/2014. As a result, the management fee caps referred to in Article 13(2) and (3) of said regulation do not apply if the outcome of the Call for Expression of Interest proves the need for higher management fees and costs.
Management fee and cost cap	Management costs and fees to be paid after 31 December 2023 shall not exceed 1.5 % per annum of the invested capital, calculated pro rata temporis from 31 December 2023 until repayment of the investment, the end of the recovery procedure in the case of defaults or 31 December 2029, whichever is earlier.
Distribution cascade	The Venture Capital Fund may benefit from state aid - non-pari-passu incentives for private investors in form of capping the net return on EstFund investment at 6% p.a., for the benefit of private investors. In such cases, the incentives would be provided by the FoF only, whilst the EIF co-investment will not (i) be subordinate to any private investors; (ii) contribute to providing any preferential treatment to private investors or (iii) receive any extra return from the FoF investment. The return on EIF's co-investment would remain neutral to this arrangement. A pari-passu distribution cascade for all investors is also not excluded.

	The non-pari-passu versus pari-passu structure has some implications on other fund parameters, including as highlighted in this termsheet. The fund manager is invited to highlight it's preference in the proposal, and the choice between the two options, depending on the specific transaction and the need for creating incentives for private investors, will be finalized by end of the selection process, to be specified in the Operational Agreement. In case of equal proposals, pari-passu is always preferred as long as it doesn't hamper successful private fundraising.
Compliance	Clear procedures for KYC/AML and integrity checks on the sourced private investors and management of conflicts of interest shall be implemented by the fund manager in line with requirements of national legislation.
Prohibited types of investees and activities	Investments in following types of investees and activities shall not be supported: (a) the decommissioning or the construction of nuclear power stations; (b) investment to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC; (c) the manufacturing, processing and marketing of tobacco and tobacco products; (d) undertakings in difficulty, as defined under Union State aid rules; (e) investment in airport infrastructure unless related to environmental protection or accompanied by investment necessary to mitigate or reduce its negative environmental impact; (f) Investments that are to be supported shall not be physically completed or fully implemented at the date of the investment agreement signature; (g) The investment shall not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance; (h) The share of an investment that is dedicated to the purchase of land cannot exceed 10% of the principal amount; (i) The investment shall not be used to pre-finance a grant; (j) The investment shall not be affected by an irregularity or a fraud;

	(k) Refinancing and/or restructuring of existing loans and leases are not eligible; (l) The investment shall not refinance or restructure an existing loan; (m) The investment shall not finance ineligible expenditure; (n) The investment shall not finance expenditure items that receive support from another ESIF or EU instrument, or support from the same ESIF instrument under another operational programme. The eligible investees shall not have a substantial focus on one or more Restricted Sectors. Such Restricted Sectors are as set out in the "Guidelines on the EIF Restricted Sectors" published on the EIF website. **Additional not supported activities in case of non-pari-passu Distribution cascade:** *aid to export-related activities towards third countries or Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current costs linked to the export activity;* *aid contingent upon the use of domestic over imported goods;* *aid granted in the sector of processing and marketing of agricultural products, in the following cases: (i) where the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the undertakings concerned; or (ii) where the aid is conditional on being partly or entirely passed on to primary producers;* *aid to facilitate the closure of uncompetitive coal mines, as covered by Council Decision No 2010/787;* undertaking which is subject to an outstanding recovery order following a previous Commission decision declaring an aid illegal and incompatible with the internal market;
Place of business of SMEs	Fund shall only invest into enterprises that have an establishment or branch in Estonia, except up to 100% of private financing raised at fund level can be invested outside Estonia but within European Union, but capped at 50% of the fund size. The resulting investments by the invested enterprises that have an establishment or branch in Estonia should

	be primarily located in Estonia.
Publicity	Fund manager will have to carry out adequate publicity activities and ensure visibility of ESIF financing in line with ESIF requirements, to be specified in the Operational Agreement
Private Investors	Private Investors shall be deemed to be any investors which (i) are economically and structurally independent from the fund manager, and from any entities and/or individuals connected thereto, (ii) are economically and structurally independent from the eligible beneficiaries where an Investment is made, and from any entities and/or individuals connected thereto, and (iii) in the reasonable determination of the Fund Manager, are normal economic operators (i.e. investors operating in circumstances corresponding to the market economy investor principle in a free market economy, irrespective of the legal nature and ownership structure of such operators, to the extent that they bear the full risk in respect of their investment). Upon the creation of a new company, private investors, including the founders, are considered to be independent from that company.
Reporting	The fund manager shall provide EIF with periodical information in a standardised form and scope as per Invest Europe (formerly known as EVCA) guidelines for reporting, in compliance with ESIF regulations, as to be specified in the Operational Agreement. It is important to note that ESIF and state aid reporting rules will require fund managers to provide new data points (such as a split between base and performance management fees and the split between private and public nature of investors) which typically are not being tracked and a higher granularity of data (such as but not limited to Level 2 NACE and NUTS codes and country fiscal numbers). Furthermore, the fund manager should report any additional data that may derive from future changes to the ESIF regulations.
Monitoring and Audit	The fund manager and the investee companies shall agree to keep records as required under ESIF rules and to allow and to provide access to documents related to the Financial Instrument for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF, Managing Authority and any other authorised bodies duly empowered by

	applicable law to carry out audit and/or control activities. To that effect, the fund manager shall include appropriate provisions in each investment agreement
Fund's due diligence before investments	The fund manager will make investment decisions based on each investment's business plan, which should contain product description, turnover and profitability calculations and forecasts, previous assessment of project viability, as well as each investment's clear and real exit strategy.
Additional features of the Financial Intermediary	The fund manager will manage the fund based on commercial principles. Investors' representatives shall be appointed in appropriate advisory committee structures to review inter alia fund corporate governance. In the management of the fund, the fund manager shall apply best practices, inter alia considering guidelines developed by Invest Europe and ILPA, and shall perform controls as required by the public nature of FoF investment.
Fund Manager	Financial Intermediary selected by EIF to manage the Financial Instrument. The fund manager must be independent and must be in a position to take the management and investment decisions independently, in particular without the influence of investors, sponsors or any other third party which is not integrated in the structure. The fund manager will typically comprise a team of experienced professionals, acting with the diligence of a professional manager and in good faith, operating according to best industry practices, complying with professional standards issued by the Invest Europe, ILPA or other equivalent organisation. Preferred fund managers shall have a strong network and partnership with international players.

Additional requirements	When selecting a financial intermediary, the selection panel shall satisfy itself that this intermediary fulfils the requirements of Art. 7 of Delegated Regulation 480/2014[10]. The fund manager shall ensure compliance with applicable law, including rules covering the ESIF and relevant national law and regulations, state aid, money laundering, the fight against terrorism and tax fraud. The fund manager, may, in line with its internal rules and procedures and particularly in the cases where fraudulent behaviour is suspected, be required to perform monitoring checks at the level of the investee companies. The fund shall not be established and shall not maintain business relations with entities incorporated in territories, whose jurisdictions do not cooperate with European Union in relation to the application of the internationally agreed tax standards and shall transpose such requirements in its contracts with final beneficiaries. The fund shall comply with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud to which they may be subject. Funds (and sub-intermediaries) shall not be incorporated in territories whose jurisdictions does not co-operate with the EU in relation to the application of internationally agreed tax standards. Each applying Financial Intermediary may inquire about the status of a particular jurisdiction with EIF.

[10] Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council

	The fund manager shall refer to EIF Policies, in particular: - Anti-Fraud Policy; - EIF restricted sectors; - Policy on Offshore Financial Centres & Governance Transparency; published on the EIF website. The fund will be required to return amounts invested which become affected by irregularities. For irregularities affecting amounts invested by the fund into target SMEs, the fund will be required to apply all applicable contractual and legal measures with due diligence for the purpose of recovering the relevant amounts.