

Clarification on the Call for Expressions of Interest No. JER-004/5
to select Financial Intermediaries that will receive resources from the European Investment
Fund acting through the JEREMIE Holding Fund for Lithuania to implement the following
Financial Instruments:

Seed& Venture Capital Funds Financial Instruments

Reference number: Call for EoI No. JER-004/5

The Deadline for the submission of Expressions of Interest is the 16th of March, 2011.

The aforementioned call stipulated that: “Requests for clarifications from Applicants shall not receive individual replies. Instead, answers to all requests for clarifications received within the relevant deadline will be published together in a clarification document to be posted on the website www.eif.org”.

In accordance with this provision, we hereby present such a clarification document complemented with frequently asked questions.

Capitalised expressions utilised below shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise. Questions may appear as they have been received without any editing from EIF; they also appear in a random order.

Question 1 What is the maximum investment limit into an SME from VC fund?
(Q1)

EIF Answer: EUR 1,500,000 per company during any period of 12 months.

Q2 Are there any preferences regarding the number of companies to be invested in from Seed fund?

EIF Answer: There are no set requirements; it is expected to be a result of proposed investment strategy meeting market reality. Please note that investments by the Seed Fund cannot exceed EUR 200,000 per SME (the total De Minimis aid granted to Eligible SME active in the road transport sector shall not exceed EUR 100,000 over any period of three fiscal years).

Q3 Can the fund co-invest with the existing venture capital funds established under the JEREMIE?

EIF Answer: On the basis of Reg. 800/2008, risk capital funds financed by the JHF may not invest into a single SME in the same period of 12 months, if the sum of the investments by the funds should exceed the threshold of EUR 1,500,000. This means that there may be joint investments, but the cumulative amount restriction applies to the sum of all such investments in SME.

- Q4 Can the fund invest into the companies which received EU grants?
 EIF Answer: Yes, these Funds can invest in SMEs that have previously received EU funding, but certain limitations apply. Whenever a SME benefits from grant assistance delivered through aid schemes or through any other type of operation financed under an operational programme and from investments provided by financial engineering instruments, Article 54(5) of the Regulation (EC) No 1083/2006 as well as the State aid rules regarding the cumulation of aid must be respected. In line with State aid guidelines, cumulation of different measures of assistance is possible, as long as they concern different identifiable eligible costs.
- Q5 Can the VC Fund invest into an investee company from Seed Fund portfolio if the company seeks further growth capital?
 EIF Answer: Yes, VC fund can invest into the same company as additional investment for further development, but buyout by VC fund of the company funded by the Seed fund is not allowed. There has to be a clear mechanism, proposed by the applicant, on how to deal with the potential conflict of interests.
- Q6 If an in-house investment fund would be ready to deliver the required private capital for the VC Fund, would it be an advantage? Should more potential investors be named for transparency reasons?
 EIF Answer: Fund raising capabilities are a distinct advantage, items like ultimate beneficiaries and potential conflicts of interest will be assessed.
- Q7 How much money EIF expects to come from Applicants themselves?
 EIF Answer: It is expected that Fund Manager will commit its own money to VC Fund in order to align interests of the Fund Manager with the investors. No commitment is required in Seed Fund.
 The appropriateness of commitment % will be assessed during the due diligence process, but it is expected to comply with market standard and sufficient to ensure alignment of interest between investors and the team.
- Q8 Are there any formal requirements for industry focus?
 EIF Answer: No. Apart from few industry restrictions mentioned in the call it is up to Fund Manager to select industries to invest according to commercial logic.
- Q9 What is the restriction on production of agricultural products?
 EIF Answer: Investments can not be made in undertakings active in the primary production of agricultural products, listed in Annex I to the Treaty on the functioning of the European Community.
- Q10 How local the team should be?
 EIF Answer: Team is expected to have strong presence in the local market as the early stage, relatively large number and small size of deals to be expected under the Funds will mean need for lots of local hands-on work and strong networks with local business community.
- Q11 The Call for Expression of Interest No. JER 004/5 describes the application process (and documents to be provided) for a legal entity. How does a management team who has not constituted a joint legal entity yet apply? Do

all members of the team sign one application form? Do the members of the team sign separate/individual application forms? The same question applies for the other required documents (Declaration of Absence of Conflict of Interest, Statement Regarding Situations of Exclusion – 1, Statement Regarding Situations of Exclusion – 2: Declaration of Compliance with Community and National Rules and Policies)?

EIF Answer: In case of a management team that has not been constituted, the group of professionals shall be treated as a consortium, with one legal entity or person acting as coordinating entity. Mention shall be made that a new legal entity is intended to be established. Only the coordinating entity shall fill in the Expression of Interest, while the above-mentioned declarations and statements shall be filled in by all participating entities or persons.

Q12 What should be described under pipeline in the Application?

EIF Answer: The rationale for including a pipeline description is to see what access and knowledge Applicant has to the market and to illustrate the investment strategy. Ideally pipeline log should be provided, without company names but description of deal, size, stage, industry, etc.

Q13 Are captive structures excluded?

EIF Answer: Captive structures are not excluded, but will be thoroughly assessed case by case primarily focusing on proposed

- 1) solutions towards potential conflict of interest – how it is ensured that Fund Manager will focus on the maximum benefit for the Fund but not for the controlling entity (entity management team is captive to);
- 2) solutions ensuring independence of dedicated Fund management team to make investment/divestment and other related decisions.

Q14 Can the Fund Manager or a Fund be registered in different country than Lithuania?

EIF Answer: No set expectation on the place of registration of the Fund Manager/Funds, as long as compliance with the EIF's Policy on Offshore Financial Centres & Governance Transparency is ensured. But investments – only in SMEs established and operating in Lithuania.

Q15 Who shall bear fund establishment costs (the Applicant or the Fund itself)?

EIF Answer: Establishment costs are included in the 3% p.a. cost cap. The cost cap comprises the management fee and all additional Fund costs and will be calculated as an annual average over the Fund life time.

Q16 Is it allowed to have the same Investment Committee for both funds?

EIF Answer: Up to an Applicant to propose a decision-making structure.

Q17 Is Investment Committee expected to act independently when making investing or divesting decisions?

- EIF Answer: Yes. EIF is not participating in individual investment or divestment decisions. Nevertheless, EIF may scrutinize the team's decisions and discuss in detail the business cases. EIF will ask for an advisory board, in which EIF requires a representation.
- Q18 Can one Fund Manager manage both funds or shall there be separate legal entities?
- EIF Answer: One Fund Manager will manage both Funds with two agreements signed separately for each Fund. Funds themselves are expected to be set up as separate legal entities.
- Q19 What should be the size of each Fund?
- EIF Answer: Applicants should propose the size of each Fund, considering the viability of the proposed sizes in respect to their investment strategies.
- Q20 Please specify if "Cooperation and/or competition with relevant partners in the market" refers to target companies or Fund Managers?
- EIF Answer: Other Fund Managers and relevant partners.
- Q21 What is meant by "Market segments" – does this refer to VC investment or industry segments of targeted companies?
- EIF Answer: Both. Applicant is expected to describe in detail parameters of deals/companies it envisages targeting.
- Q22 Can Fund Manager be responsible for other funds?
- EIF Answer: Fund Manager can manage several funds. Impact from this will be evaluated on a case by case basis, taking into account potential conflict of interests and time allocation of the manager.
- Q23 Is Applicant's involvement in investment banking operations an advantage or a disadvantage?
- EIF Answer: Experience, if relevant, would be an advantage, core team having other commitments and conflicts of interest, if any, would be a disadvantage.
- Q24 Do 3% p.a. cap on management costs is expected to cover all fees and expenditures related to operating the Funds?
- EIF Answer: Limitation set in the Art. 43 of the Regulation 1828/2006 refers to the total management costs (management fee and all additional fund costs, like legal, broken deal costs etc) of the Fund. The proposals should detail expected costs and how they would be covered.
- Q25 Do at initial stage Applicants need to list and prove their private investors' list/the fund raising capacity?

EIF Answer: Any existing information and indications on potential private investors needs to be provided in the proposal even if no hard commitments. No private capital is required under Seed Fund.

Q26 What is the disbursement structure for the 3% fund management fee (payment periods, fractions, etc.)?

EIF Answer: Normally management fee is disbursed in quarterly upfront payments.

Q27 Is it cost-based payment (based on compliance, audit and other expenses), or a fixed amount issued to the Fund Manager and used solely under his competence?

EIF Answer: Management fee is fixed contractual payment, other management costs will be paid on cost-basis. EIF will check the cost structure of the management company and reflect this structure in the legal documentation.

Q28 What kind of expenses reporting structure is required for fund management fee?

EIF Answer: Management fee payments do not require expenses reporting, other costs have to be proven by expense reporting.

Q29 Is the number of investments reflected in the fund management fee?

EIF Answer: Management fee is typically paid on committed capital during the investment period and of the invested capital thereafter.

Q30 Is the employee incentive structure budget included in the fund management fee?

EIF Answer: Employees' incentives being paid from the Fund Manager accounts can be covered by management fee. Moreover, the carry distribution amongst the team members is the main part of the incentive structure.

Q31 To what depth has the shareholder structure of the Applicant to be disclosed? Is there a requirement to disclose percentage stakes of the individual shareholders?

EIF Answer: Yes, the shareholder structure should be disclosed to level of final beneficiaries – individual persons.