This Addendum introduces the mechanism for ESCALAR investment. It sets out additional terms and conditions for financial intermediaries wishing to apply for an ESCALAR investment under InvestEU Equity.

The following terms presented complement the relevant terms and conditions set out for InvestEU Equity, mainly the Annex II to the CEol. The other terms and conditions set out in the relevant Annex apply unless otherwise specified in this Addendum.

Non-defined terms have the meaning assigned to them in the CEol.
Important Disclaimer

This document is for information purposes only. It is an outline of the principal operational guidelines for the product described herein, which are subject to change and non-exhaustive. It is intended to provide a basis for discussions and does not constitute a recommendation, a solicitation, an offer or a binding commitment – either implicit or explicit – on the part of the European Investment Fund (the “EIF”) and/or any other person to enter into one or more transaction(s). Any finance commitment by the EIF can only be made, inter alia, after appropriate approval, conclusion of legal due diligence and finalisation of the required legal documentation. The EIF does not act as adviser to you or owe you any fiduciary duty. The EIF does not make any representations or warranties (whether explicitly or implicitly) with respect to the information contained in this document. This document and any information contained therein may not be circulated and/or reproduced in part or in full without the prior written consent of the EIF.
1. Additional Terms for an EIF ESCALAR Investment

General Terms

**Investment structure**
The EIF ESCALAR Investment may take the form outlined in the schedules to this Annex under ESCALAR Option 1 or ESCALAR Option 2.

**Fund Investment Strategy**
The ESCALAR Financial Intermediary shall undertake long term risk capital investments in the form of equity, preferred equity, Hybrid Debt-Equity Instruments, other type of mezzanine financing, but excluding entities targeting buy-out (or replacement capital) intended for asset stripping, with a focus on Scale-ups.

**Size of EIF ESCALAR Investment**
Each EIF ESCALAR Investment shall:

a) not exceed one hundred million euro (EUR 100,000,000) or the EUR equivalent in another eligible currency at the time of commitment;

b) typically not exceed 50% of the aggregate commitments made to the Fund in case of ESCALAR Option 1 or the Side Fund in case of ESCALAR Option 2.

**Target IRR for ESCALAR Shares**
The ESCALAR Shares shall target an overall internal IRR of at least 5% (including both the ESCALAR Deferred Return and the share of Distributable Investment Proceeds allocated to the ESCALAR Shares).

**Management fees and Carry**
In general, the manager of the ESCALAR Financial Intermediary shall not be entitled to charge management fees on the EIF ESCALAR Investment but shall be entitled to the carried interest pursuant to the fund’s contractual documentation.

**Minimum Investment Allocation Requirements**
The ESCALAR Financial Intermediary shall comply with the Minimum Eligible Allocation and the Minimum Target Allocation requirements.

Specific terms under ESCALAR Option 1

**Maximum Investment in a single Funding Round**
The maximum invested amount by the Fund in a single funding round of a Final Recipient shall not exceed the portfolio diversification limits established in the legal documentation of the ESCALAR Financial Intermediary, to such effect that the share of any such investment funded indirectly by the ESCALAR Shares shall not exceed EUR 50 million (or equivalent). Notwithstanding the preceding sentence, in cases in which ESCALAR Shares are being subscribed by other Third Party Benchmark Investors, in addition to the EIF ESCALAR Investment, for an amount representing 15% or more of the aggregate commitments subscribed in
ESCALAR Shares of the relevant ESCALAR Financial Intermediary, then this limitation shall not apply.

Prior to a Trigger Event, Distributable Investment Proceeds shall be distributed in accordance with the waterfall of the relevant Fund provided that the allocations between the LP Shares and the ESCALAR Shares shall be made in the following order of priority:

1. To ESCALAR Shares and LP Shares on a pro-rata to the respective drawn down amounts, until ESCALAR Net Paid-in and LP Net Paid-in are reduced to zero
2. To LP Shares until the Investor Preferred Return is paid
3. To ESCALAR Shares and LP Shares, in a pre-agreed proportion, until the ESCALAR Deferred Return is paid
4. To ESCALAR Shares and LP Shares, all remaining Distributable Investment Proceeds in a pre-agreed proportion (in favour of the LP Shares).

Following a Trigger Event, and until cured, Distributable Investment Proceeds shall be distributed in accordance with the waterfall of the relevant Fund provided that the allocations between the LP Shares and the ESCALAR Shares shall be made in the following order of priority:

1. To ESCALAR Shares until the ESCALAR Net Paid-in is reduced to zero
2. To LP Shares until the LP Net Paid-in is reduced to zero
3. To LP Shares, until the Investor Preferred Return is paid
4. To ESCALAR Shares and LP Shares, in a pre-agreed proportion, until the ESCALAR Deferred Return is paid
5. To ESCALAR Shares and LP Shares, all remaining Distributable Investment Proceeds in a pre-agreed proportion (in favour of the LP Shares).

Specific terms under ESCALAR Option 2

Maximum Invested Amount

The maximum invested amount by the Side Fund in a single funding round of a Final Recipient shall not exceed the portfolio diversification limits established in the legal documentation of the ESCALAR Financial Intermediary, to such effect that the share of any such investment funded indirectly by the ESCALAR Shares shall not exceed EUR 50 million (or equivalent). Notwithstanding the preceding sentence, in cases in which ESCALAR Shares are being subscribed by other Third Party Benchmark Investors, in addition to the EIF ESCALAR Investment, for an amount representing 15% or more of the aggregate commitments subscribed in ESCALAR Shares of the relevant ESCALAR Financial Intermediary, then this limitation shall not apply.

1 The indicative allocation mechanism described is based on the return of investors’ net paid-in amounts. However, in certain cases, where commercially agreed between EIF and the ESCALAR Financial Intermediary, the mechanism may be based on the return of investors’ total commitments.
Choose an item.

**Allocation of Distributable Investment Proceeds**

Prior to a Trigger Event, Distributable Investment Proceeds shall be distributed in the following order of priority:

1. To ESCALAR Shares and MF Side Fund Shares on a pro-rata to the respective drawn amounts, until ESCALAR Net Paid-in and MF Side Fund Shares Net Paid-in are reduced to zero,
2. To MF Side Fund Shares until the Investor Preferred Return is paid
3. To ESCALAR Shares and MF Side Fund Shares, in a pre-agreed proportion, until the ESCALAR Deferred Return is paid,
4. To ESCALAR Shares and MF Side Fund Shares, all remaining proceeds in a pre-agreed proportion (in favour of the MF Side Fund Shares).

Following a Trigger Event, and until cured, Distributable Investment Proceeds shall be distributed in the following order of priority:

1. To ESCALAR Shares until the ESCALAR Net Paid-in is reduced to zero,
2. To MF Side Fund Shares until the MF Side-Fund Shares Net Paid-In is reduced to zero,
3. To MF Side Fund Shares, until the Investor Preferred Return is paid,
4. To ESCALAR Shares and MF Side Fund Shares, in a pre-agreed proportion, until the ESCALAR Deferred Return is paid,
5. To ESCALAR Shares and MF Side Fund Shares, all remaining proceeds in a pre-agreed proportion (in favour of the MF Side Fund Shares).
2. Definitions

Whenever used in these guidelines, the following terms shall have the meanings alongside them. Any capitalised items not defined in this Annex have the meaning given to them in the Call for Expression of Interest or as the case may be Annex II thereto.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Distributable Investment Proceeds</td>
<td>Means any investment proceeds available for distribution to investors pursuant to the contractual documentation of the relevant Fund or Side Fund.</td>
</tr>
<tr>
<td>EIF ESCALAR Investment</td>
<td>Means a commitment in any form entered into by EIF under the ESCALAR Programme to invest in a Fund or Side Fund, excluding any co-investments from other resources managed or advised by EIF, if any.</td>
</tr>
</tbody>
</table>
| Eligible Secondary Investment            | means an investment other than Primary Investment, that:  
  a) with respect to IPO and post IPO investments, constitutes a purchase of the traded stock by the Financial Intermediary from other investors,  
  b) with respect to Fund-of-Funds, an acquisition of an investment in a Portfolio Fund that has been made by the Fund-of-Fund from other investors. |
| ESCALAR Deferred Return                   | Means a target IRR of at least 3% to be calculated pro rata temporis on the ESCALAR Shares Net Paid-In.                                                                                                   |
| ESCALAR Financial Intermediary           | Means the Fund in the case of ESCALAR Option 1 or Side Fund in the case of ESCALAR Option 2.                                                                                                             |
| ESCALAR Option 1                         | Means the case in which the EIF ESCALAR Investment is made to a Fund via a subscription to a different class of share or unit to the other investors in the same Fund (see Appendix 1).                      |
| ESCALAR Option 2                         | Means the case in which the EIF ESCALAR Investment is made to a Side Fund via a subscription to a different class of share or unit to the fund investing in the Side Fund (see Appendix 2).                        |
| ESCALAR Shares                           | The class of shares or units subscribed in a Fund or Side Fund under the EIF ESCALAR Investment.                                                                                                           |
| ESCALAR Shares Net Paid-in               | means at any time, the aggregate investment drawn down by the ESCALAR Financial Intermediary in respect of the ESCALAR Shares less any distributions received.                                               |
| Final Recipient                          | means an enterprise, a special purpose vehicle or another final recipient of the funding provided directly or indirectly by the ESCALAR Financial Intermediary, including joint ventures, spin-offs, spin-outs, technology transfer projects or technology rights. |
| Fund                                     | means an investment fund or a special purpose vehicle, in any form, established as a main fund in the EU or to be established therein, that is not a Side Fund and that undertakes long term risk capital investments in the form of equity, preferred equity, Hybrid Debt-Equity Instruments, |
other type of mezzanine financing, but excluding entities targeting buy-out (or replacement capital) intended for asset stripping.

<table>
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<tr>
<td>Hybrid Debt-Equity Instrument</td>
<td>means non-bank alternative financing in the form of a debt financial instrument (alone or in conjunction with an equity component or link), which, in light of its bespoke or subordination nature or of other special circumstances of the issuer, is expected to yield a return in excess of standardized senior bank financing.</td>
</tr>
<tr>
<td>Investor Preferred Return</td>
<td>means a target IRR calculated pro rata temporis on the LP Net Paid-In in case of ESCALAR Option 1, or on the MF Side Fund Shares Net Paid-in in case of ESCALAR Option 2.</td>
</tr>
<tr>
<td>LP</td>
<td>means the Limited Partners, other than those holding ESCALAR Shares.</td>
</tr>
<tr>
<td>LP Investment</td>
<td>The total amount committed by LPs under the LP Shares.</td>
</tr>
<tr>
<td>LP Net Paid-in</td>
<td>At any time, the aggregate commitment drawn down from the LP Shares (excluding the ESCALAR Shares) less any distributions received.</td>
</tr>
<tr>
<td>LP Shares</td>
<td>The interests subscribed to by the LPs, in their capacity as LPs.</td>
</tr>
<tr>
<td>MF Investment</td>
<td>The total amount committed by the Fund to a Side Fund.</td>
</tr>
<tr>
<td>MF Side Fund Shares</td>
<td>The class, or classes as the case may be, of shares in a Side Fund subscribed to by a Fund.</td>
</tr>
<tr>
<td>MF Side Fund Shares Net Paid-in</td>
<td>At any time, and in respect of the Side Fund, the aggregate commitment drawn down from the Fund (excluding from the EIF ESCALAR Investment) less any distributions received.</td>
</tr>
<tr>
<td>Minimum Eligible Allocation</td>
<td>means the minimum aggregate amount to be invested in Eligible Final Recipients by the ESCALAR Financial Intermediary, as further defined in Annex II.</td>
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<tr>
<td>Minimum Target Allocation</td>
<td>ESCALAR Financial Intermediaries shall indicate at the time of application, which of the Thematic Area(s) are captured by their investment strategy, and shall be required to commit a minimum amount into such Target Area(s) (the “Minimum Target Allocation”).</td>
</tr>
<tr>
<td></td>
<td>The Minimum Target Allocation shall be equal to at least 2 times the amount drawn down by the ESCALAR Financial Intermediary under the InvestEU Investment for the purpose of investments in Eligible Final Recipients who are Scale-ups under that Thematic Strategy (or any Target Area part of it), capped at 80% of the ESCALAR Financial Intermediary’s aggregate invested amounts.</td>
</tr>
<tr>
<td>NAV</td>
<td>The net asset value of the Fund or of the Side Fund.</td>
</tr>
<tr>
<td>Primary Investment</td>
<td>means an investment (including in the form of debt) in a Final Recipient resulting in financing flowing directly or indirectly into the Final Recipient during the duration of the investment. For avoidance of doubt it includes: (i) secondary issuances made by Final Recipients post IPO, (ii) buy outs or replacement capital not intended for asset stripping involving, directly or indirectly, flow of financing to the Final Recipient</td>
</tr>
</tbody>
</table>
(e.g. including inter alia from third-party providers during the duration of the investment).

| **Scale-up**     | means an enterprise that has already established a product or service, and has already generated revenue, but may or may not be making a profit and needs financing to grow and expand, including in order to finance increased production capacity, to finance market or product development, to provide additional working capital or to be used for a (total or partial) acquisition, with a view to further grow the business. |
| **Side Fund**    | means an investment fund, or a special purpose vehicle, in any form, established as a side fund in the EU or to be established therein, for the sole purpose of undertaking one or more long term risk capital investments alongside a fund - or as a subsidiary vehicle of a fund - in the form of equity, preferred equity, Hybrid Debt-Equity Instruments, other type of mezzanine financing, but excluding entities targeting buy-out (or replacement capital) intended for asset stripping. |
| **Trigger Event**| means the event that has occurred from the moment that the ratio of NAV to ESCALAR Shares Net paid-in drops below 1.5x. |
Appendix 1: ESCALAR Option 1 structure

**LP distributions:**
+ LP return of net paid in capital
+ Investor Preferred Return
+ Residual proceeds

**ESCALAR Distributions:**
+ ESCALAR return of net paid in capital
+ ESCALAR Deferred Return
+ Residual proceeds
Appendix 2: ESCALAR Option 2 structure

Choose an item.

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**Fund distributions:**
Pursuant to MF contractual documentation

**SF distributions:**
+ MF return of net paid capital
+ Investor Preferred Return
+ Residual proceeds

**ESCALAR Distributions:**
+ ESCALAR return of net paid capital
+ ESCALAR Deferred Return
+ Residual proceeds

### Diagram:

- **Main Fund**
  - Commitment
  - Fund Distributions***
  - Proceeds
  - Investments
  - Other investee companies

- **Side Fund ("SF")**
  - Min Commitment: 50%
  - SF Distributions**
  - SF Proceeds
  - SF Investments
  - Scale-ups

- **GP**
  - Manages
  - ESCALAR Shares
  - ESCALAR Distributions*

- **LPs**
  - Min Commitment: 50%
  - SF Distributions**
  - No management fees, set up costs here

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