

# EIF VC Survey 2018

Fund managers' perception of  
EIF's value added

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## Executive summary<sup>1</sup>

This study presents the second part of the results from the first *EIF VC Survey*, a survey among venture capital general partners (GPs)/management companies headquartered in the EU-28 and some additional countries (mainly Norway, Switzerland and Turkey). The surveyed population includes both companies in which the EIF has invested as well as companies in which the EIF has not (or not yet) invested.

The *EIF VC Survey* consisted of questions relating to three main areas:

- *The VC market sentiment,*
- *Market weaknesses and public intervention, as well as*
- *The value added, products and processes of the EIF.*

Following the first *EIF VC Survey Working Paper* in 2018 which analysed the first two topics mentioned above,<sup>2</sup> this EIF Working Paper summarises the findings of the third one.

Hence, the study provides detailed insights into the fund managers' perception of the value added of the EIF, including its impact on the funds' investor base, the fundraising process, the fund structure and the VC market altogether. Moreover, the study gives a detailed overview of the fund managers' assessment of the EIF's products and procedures, including a comparison with other limited partners (LPs).

### *EIF's value added*

#### *Investor base and fundraising process*

- VC managers<sup>3</sup> evaluate very positively the EIF's impact on the fundraising process and in particular the vital role of the EIF in reaching both viable and target fund sizes.
- The EIF's value added to fundraising is strongly positive across all regions, but even more so in the South and in the Nordics. Given the evidence in the first *EIF VC Survey Working Paper* that small fund sizes is a significant challenge faced by VC funds in the South, the findings indicate that the EIF's impact is greatest where it is needed the most.
- At the same time, the findings call for continuous support to CESEE countries, given that although the EIF partnership contributed to reaching viable and target fund sizes, these countries still rank behind counterparts in all other regions.
- Indeed, based on the geographical distribution of respondents, a higher proportion of funds receiving support from the EIF for the first time as well as a higher proportion of first-time teams are documented in CESEE and South countries.

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<sup>1</sup> We would like to thank the anonymous respondents to the survey. Without their support and valuable replies, this project would not have been possible. This paper benefited from comments and inputs by many EIF colleagues, for which we are very grateful; we would also like to express particular thanks to Oscar Farres. We would finally like to thank colleagues from Invest Europe and from the Trier University for their support. All errors are of the authors.

<sup>2</sup> See for details "EIF VC Survey 2018 - Fund managers' market sentiment and views on public intervention"; available at [http://www.eif.org/news\\_centre/publications/EIF\\_Working\\_Paper\\_2018\\_48.htm](http://www.eif.org/news_centre/publications/EIF_Working_Paper_2018_48.htm)

<sup>3</sup> The terms "respondents", "VC managers", "fund managers" and "VCs" are used interchangeably throughout the report.

- Surveyed fund managers also rate very highly the quality signal of the EIF and its role as a stable, long-term investor.
- They find however that the EIF partnership was less vital for connecting to a broader range of investor categories (such as insurance companies and family offices) or for attracting new categories of LPs that had not previously invested in European VC.

### *Fund and market*

- Building upon the previously presented positive effect of the EIF on the fundraising process, additional results further indicate that VC managers agree on average that due to the EIF's commitment they were able to become a sustainable investment firm through several fund generations.
- Moreover, surveyed VC managers indicated that the EIF partnership indeed helped their firms to raise a fund focusing on enterprises in a development stage underserved by the VC market.
- Fund managers in CESEE and South countries particularly value the EIF's contribution in their ability to target underserved geographical segments, as opposed to funds in DACH and France, suggesting once again that the less developed the VC ecosystem in a region, the stronger the impact of the EIF's support.
- Surveyed fund managers also evaluate positively the EIF's contribution in their ability to target underserved industry segments.

### *Fund structure*

- Surveyed fund managers agree on average that the EIF's commitment had a positive impact on their fund's structure, especially on improving governance and procedures of their fund, on implementing best-market-practice terms and conditions, and on improving investor protection clauses.
- The EIF's involvement did not, on average, contribute to an improvement of the funds' investment team composition and quality, except for first-time teams and funds that received EIF support for the first time.
- Looking at regional variations, VC managers in the South consistently rate the EIF's value added to the fund structure much more highly than the overall sample average, while the exact opposite holds true for VC managers in the UK and Ireland (yet in these countries too, respondents perceive the EIF's value added to the fund structure to be positive across almost all subcategories examined).

### *Overall effect*

- 85% of all surveyed fund managers consider the overall value added of the EIF to be "high" or "very high".
- Fund managers particularly indicate that due to the EIF's investment in their fund they were able to increase both the number of European SMEs in which they invested as well as the

amount invested per SME, a promising evidence that VC funds increase the number and level of investments in European SMEs in response to public support.

- The EIF's catalytic role for European VC is also reflected in the fact that VC managers evaluate very positively the EIF's help for future fundraisings, while they acknowledge that without the EIF's support the fund would have not been launched.
- Fund managers call for greater networking opportunities through conferences, workshops and training events that would facilitate the sharing of experience and best practice. They find the EIF's research helpful and suggest that the EIF should continue sharing its VC "market intelligence" in order to further raise awareness and help attract more LPs into the asset class.
- 91% of all surveyed fund managers state that they would work again with the EIF.
- 90% of all surveyed fund managers indicate that that they would apply or at least consider applying for EIF funding even if they would have enough capital from private investors. They point to the fact that the EIF is considered a long-term, reliable investor bringing stability to the investor base; and that the EIF's investment is considered a "quality stamp", carrying a very positive reputational signal for the fund and helping attract other LPs.

### *EIF's perceived impact on the VC market*

- Fund managers perceive very positively the role of the EIF in reducing the financing gap for companies in the market, in helping VC firms overcome insufficient private sector involvement and in encouraging other LPs in the market to invest in VC funds.
- Even more positive evaluations for the aforementioned elements come from the EIF-supported funds.
- EIF-supported funds particularly value the role of the EIF in helping to bring first-time teams into the market.
- In all respondent groups, fund managers state, on average, that the EIF's presence in their market helps to crowd-in private investors.
- Funds in South and CESEE countries in particular rate even more highly the presence of the EIF in their market and the EIF's contribution in filling the financing gap for companies, in attracting other VC investors and in bringing first-time teams to the market.

### *EIF's products and procedures*

- Fund managers find the EIF's products well-structured and reflecting current market needs. They indicate that all products were transparent to them before applying for funding.
- Fund managers rate highly the transparent nature of the EIF's communication and application process, particularly the communication of the EIF's decision regarding the outcome, whether positive or negative, of their application.
- Surveyed fund managers evaluate positively the due diligence procedures applied by the EIF to assess their proposal.

- The EIF's procedures are perceived similar to, if not better than, those of other LPs, with the exception of the length of the EIF's decision process and of the time required to prepare the application materials. Those VC managers who indicated that they would not apply for EIF funding if they would have enough capital from private investors stated that the main reason is the length (but also the complexity and restrictiveness) of the application/decision process.

### **EIF's comments and further use of the findings**

The insights gained from the *EIF VC Survey 2018* are intended to feed into the internal consultations and to directly contribute to a steady improvement of the EIF's products and processes in line with market needs.

The market feedback is overall very positive. As regards suggestions for improvements and as outlined in more detail in the paper, the EIF is taking these views very seriously into consideration.

For example, as regards the EIF's value added to the *investor base and fundraising process*, measures to attract new categories of LPs are already underway, e.g. the recently launched AMUF (Asset Management Umbrella Fund) initiative.<sup>4</sup>

The finding concerning the *fund structure* and the fact that the EIF's involvement did not, on average, contribute to an improvement of the funds' investment team composition is in line with the EIF's approach not to actively interfere in these aspects but rather to suggest improvements only where it is considered necessary, i.e. typically in the case of first-time teams and relatively underdeveloped markets.

In relation to the EIF's *overall effect*, a large majority of respondents stated that they would consider applying for EIF funding even if they would have enough capital from private investors. While the EIF understands the importance of a stable investor base in the context of the VC industry's cyclical nature, EIF's sensitivity to fundraising dynamics in the private sector is essential in order to avoid crowding-out effects in funds that have access to private sector capital even without EIF support. Moreover, in practice the EIF often avoids crowding out other LPs by reducing its commitments to funds when there is sufficient interest from private investors.

As regards the *EIF's perceived impact on the VC market*, the survey evidence, in particular the result that the EIF's presence in the market helps to crowd-in private investors, points to the catalytic role of the EIF for the European VC market rather than to a crowding-out effect. It indicates the crucial role of public support in attracting other VC investors and shows that the EIF's investment in the fund has a positive signaling effect rather than deterring LPs from committing.

Concerning the *EIF's products and procedures* and the length of the investment selection process in particular, the survey has evidenced the need for the EIF to permanently reassess its processes for identifying unnecessary red tape when interacting with its stakeholders. At the same time, the EIF recognises the need to implement a thorough due diligence process for two main reasons: first, due to the strings attached to EU-mandated resources and EU policy objectives; and second, due to the

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<sup>4</sup> See [http://www.eif.org/what\\_we\\_do/institutional-asset-management/index.htm](http://www.eif.org/what_we_do/institutional-asset-management/index.htm) for further details on the AMUF initiative.



fact that, as fund managers themselves indicated, the EIF's investment in a fund is considered a "quality stamp" that attracts other LPs.

Recent EIF initiatives can help to meet another suggestion from the survey respondents, i.e. the call for more networking and good-practice sharing opportunities: On the occasion of the "Investment Plan for Europe", the EIF-NPI Equity Platform was established as a collaborative initiative that promotes knowledge-sharing and best practices, in this case between EIF and national promotional institutions (NPIs) or banks (NPBs) across EU Member States. Moreover, the EIF organised its first VC conference in October 2017 in Berlin, which was attended, inter alia, by many GP representatives. The second EIF VC conference is planned for October 2018 in Luxembourg. The EIF will also continue to share its market intelligence through publications by the EIF's Research & Market Analysis.

The *EIF VC Survey* project complements both recent and future quantitative analyses of the economic impact of the EIF's VC operations. Furthermore, the *EIF VC survey* is going to be repeated on a regular basis in order to derive robust results and implications. As such, future waves will include additional policy implications and improvements in the EIF's processes and products, as well as a comprehensive market overview of the VC landscape including a VC market sentiment index over time.

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## 1 Introduction

Venture capital (VC) is an important source of finance for start-ups and young companies and plays an essential role in enabling growth and creating value through innovation. Thus, VC is crucial for the economy as a whole.

The European Investment Fund (EIF) is a specialist provider of risk finance to support small and medium-sized enterprises (SMEs) across Europe. By developing and offering targeted financial products to its intermediaries (such as banks, guarantee and leasing companies, micro-credit providers and private equity funds), the EIF enhances SMEs' access to finance.

The EIF is a leading institution in the European VC market, focusing on establishing a sustainable VC ecosystem in Europe in order to support innovation and entrepreneurship. The EIF concentrates on building the necessary private sector VC infrastructure to address market gaps and opportunities with the aim to further enhance the attractiveness of European VC as an alternative asset class.

The EIF works with VC funds which act as intermediaries and invest into innovative high-tech SMEs in their early and growth phases. The particular focus is on disruptive early-stage technology enterprises that typically face financing challenges but also provide outstanding investment opportunities. The EIF has built a strong expertise in setting-up, managing or advising tailored fund-of-funds, mostly with resources entrusted to the EIF by third parties such as the European Investment Bank (EIB), the European Commission, national and regional authorities.

EIF's Research & Market Analysis (RMA) supports the EIF's strategic decision-making, product development and mandate management processes through applied research, market analyses and impact assessments. In order to facilitate the EIF's activities in European VC and to provide additional benefit for market participants, RMA aims at gathering and providing relevant information that can shed more light on this important but still relatively opaque part of the SME financing market. This EIF Working Paper forms part of that exercise.

This study presents the second part of the results from the first *EIF VC Survey*, a survey among venture capital general partners (GPs)/management companies headquartered in the EU-28 and some additional countries (mainly Norway, Switzerland and Turkey). The surveyed population includes both companies in which the EIF has invested as well as companies in which the EIF has not (or not yet) invested.

The *EIF VC Survey* consisted of questions relating to three main areas:

- *The VC market sentiment,*
- *Market weaknesses and public intervention,* as well as
- *The value added, products and processes of the EIF.*

Following the first *EIF VC Survey Working Paper* in 2018 which analysed the first two topics mentioned above,<sup>5</sup> this EIF Working Paper summarises the findings of the third one.

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<sup>5</sup> See for details "EIF VC Survey 2018 - Fund managers' market sentiment and views on public intervention"; available at [http://www.eif.org/news\\_centre/publications/EIF\\_Working\\_Paper\\_2018\\_48.htm](http://www.eif.org/news_centre/publications/EIF_Working_Paper_2018_48.htm)

This study particularly aims at providing detailed insights into the fund managers' perception of the value added of the EIF, including its impact on the funds' investor base, the fundraising process, the fund structure and the VC market altogether. In this respect, the *EIF VC Survey* project forms part of the greater RMA work to assess the impact of the EIF's activities and complements the recent and ongoing quantitative analyses of the economic effects of the EIF's VC operations.<sup>6</sup> Moreover, the study provides a detailed overview of the fund managers' assessment of the EIF's products and procedures, including a comparison with other LPs.

The results of the *EIF VC Survey* are intended to feed into the internal consultations and to directly contribute to the improvement of the EIF's products and processes in line with market needs. As the *EIF VC survey* is going to be repeated on a regular basis, up-to-date information about this important market segment will be available to both the EIF and its stakeholders to support the development of a sustainable VC ecosystem in Europe – a key objective of the EIF.

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<sup>6</sup> In this context, four studies have been presented so far. See for details Vol I to IV of the series "The European venture capital landscape: an EIF perspective"; available at [http://www.eif.org/news\\_centre/research/index.htm](http://www.eif.org/news_centre/research/index.htm)

## 2 Overview of the sample

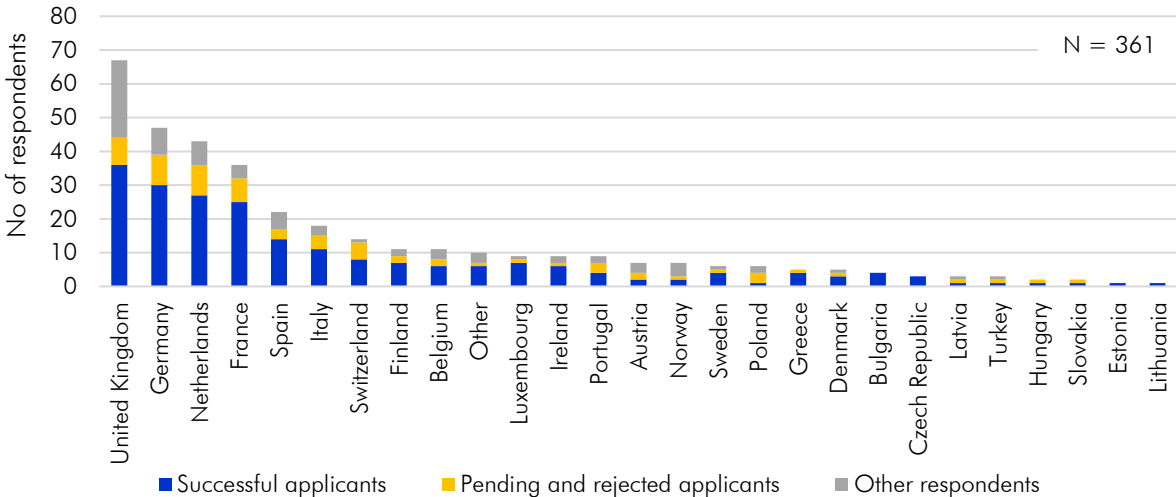
The results presented in this report are based on an online survey which was conducted between 7 November and 18 December 2017. The online questionnaire was received by 2,032 individuals (managing/investment directors, CEOs, Partners, etc.) representing 1,453 different companies headquartered in the EU-28 and some additional countries (mainly Norway, Switzerland and Turkey). Out of this group, 379 individuals from 316 different VC companies completed the survey, leading to response rates of 18.7% at individual level and 21.7% at company level.

The current report focuses on a subgroup of these 379 respondents, namely on those 361 respondents that: (1) have *successfully applied* for EIF funding, becoming EIF counterparts (N=216 respondents), (2) have applied but not (yet) received EIF funding (N=68), either because *their application was rejected or because the application process is still ongoing*, and (3) have *never applied but are familiar with the EIF’s activities* (N=77). The questions relating to the EIF’s value added to the investor base, the fundraising process, the fund structure, the fund and the market were addressed to subgroup (1) – see chapter 3. All respondents were asked to provide their perceptions regarding the EIF’s impact on the VC market – see chapter 4. Finally, the questions relating to the application process and the EIF’s products were addressed to subgroups (1) and (2) – see chapter 5.

The remainder of this chapter provides descriptive statistics on the entire sample of the 361 respondents considered in this report as well as on the three aforementioned subgroups.

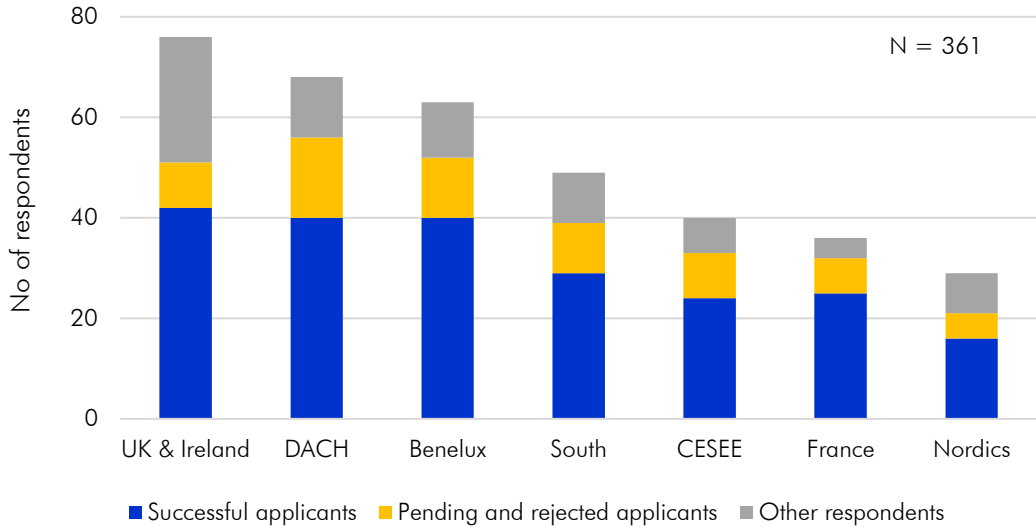
As can be seen in Figure 1, fund managers from the United Kingdom, Germany, Netherlands and France make up almost half of the sample.

Figure 1: Distribution of respondents by headquarter country



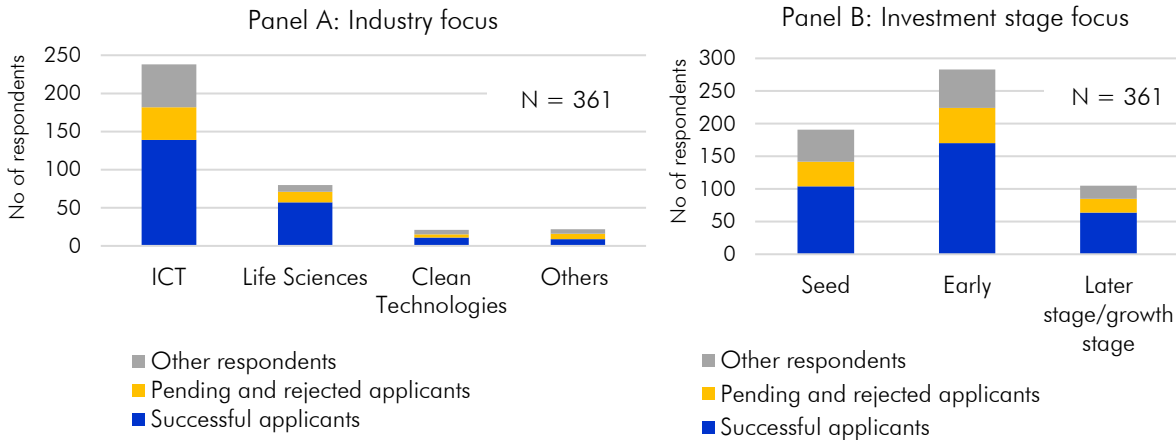
Q. In which country is your investment firm headquartered?

Figure 2: Distribution of respondents by headquarter region



Furthermore, the vast majority of surveyed fund managers indicated Information and Communications Technologies (ICT) as their most important industry of investment (see Figure 3, Panel A) and early-stage businesses as their most important stage of investment (see Panel B).

Figure 3: Distribution of respondents by industry and investment stage focus



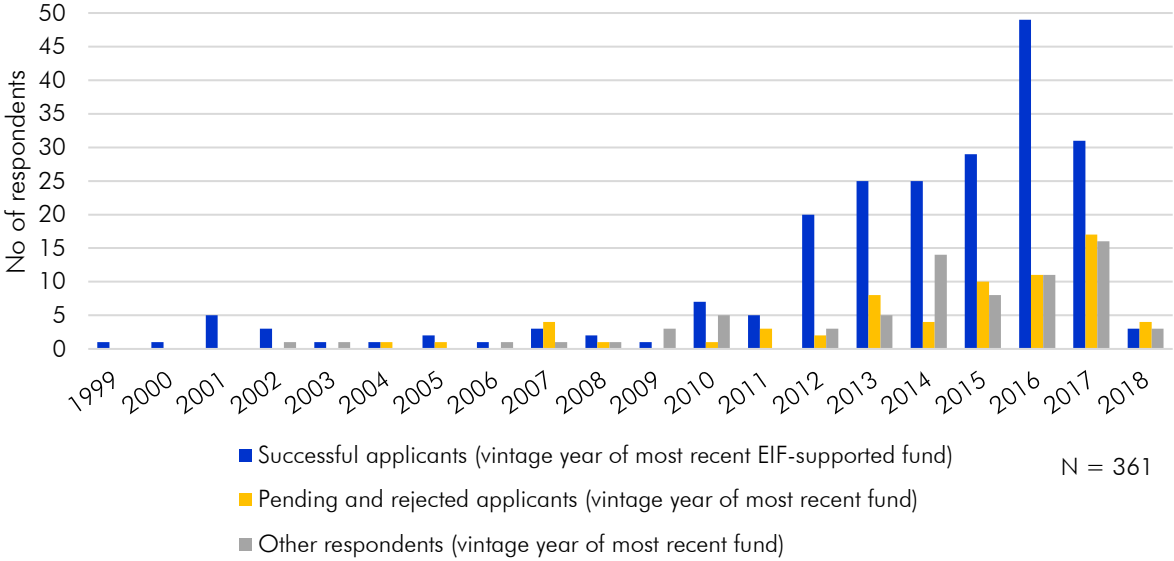
Q. Select up to three of the most important industries in which your firm invests.

Q. What is (are) the most important stage(s) in which your firm invests? (Multiple selection possible)

Note: "Others" includes both Manufacturing and Services due to the low number of responses in these two industries.

Funds that received support from the EIF show a similar vintage-year distribution to that of funds without EIF support (see Figure 4), since the majority of VC managers in both subgroups report a vintage year of their most recent fund in the last seven years.

Figure 4: Distribution of respondents by vintage year of most recent fund



Q. What is the vintage year of your firm's most recent fund supported by the EIF? / What is the vintage year of your firm's most recent fund?

By contrast, VC firms who received EIF support for at least one of their funds report that their total assets under management are close to EUR 270m on average, almost twice the average assets under management of firms that were not supported by the EIF.

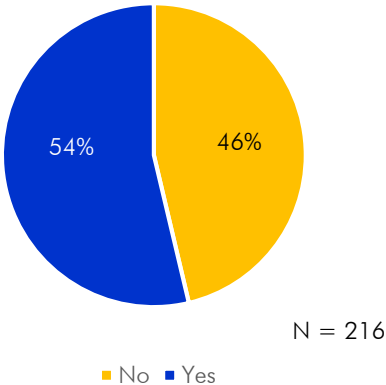
### 3 EIF's value added

VC managers whose funds received EIF support responded to a large variety of questions regarding the EIF's participation in their fund and the market in which they operate. In particular, fund managers were asked to indicate the extent of their agreement or disagreement with a number of statements relating to the EIF's impact on the investor base and the fundraising process, the fund structure, the fund and the market as well as the overall effect of the EIF's value added. This chapter analyses the findings based on the sample of EIF counterparts (N=216). Unless otherwise stated, the related Figures present the mean value for each question on a 1 to 5 scale, where 1 reflects a strong disagreement and 5 a strong agreement with the associated statement. A mean value above 3 indicates that respondents agree on average with the corresponding statement.

#### 3.1 EIF's value added to the investor base and the fundraising process

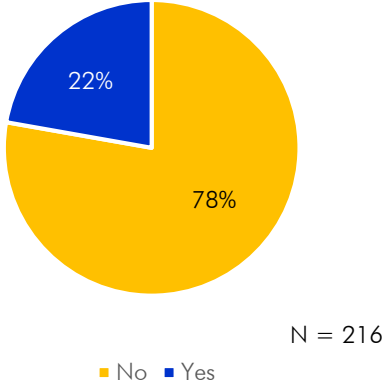
As a starting point, it is worth noting that more than half of the surveyed VCs received support from the EIF for the first time (see Figure 5), while for 1 in 5 it was the first time that their team ever raised a fund (see Figure 6). Supporting first-time teams is important as they are by their nature riskier and harder to assess than teams with a longer track record, and therefore often face difficulties in accessing finance.

Figure 5: First-time EIF support



Q. Was this the first time that one of your funds was supported by the EIF?

Figure 6: First-time teams



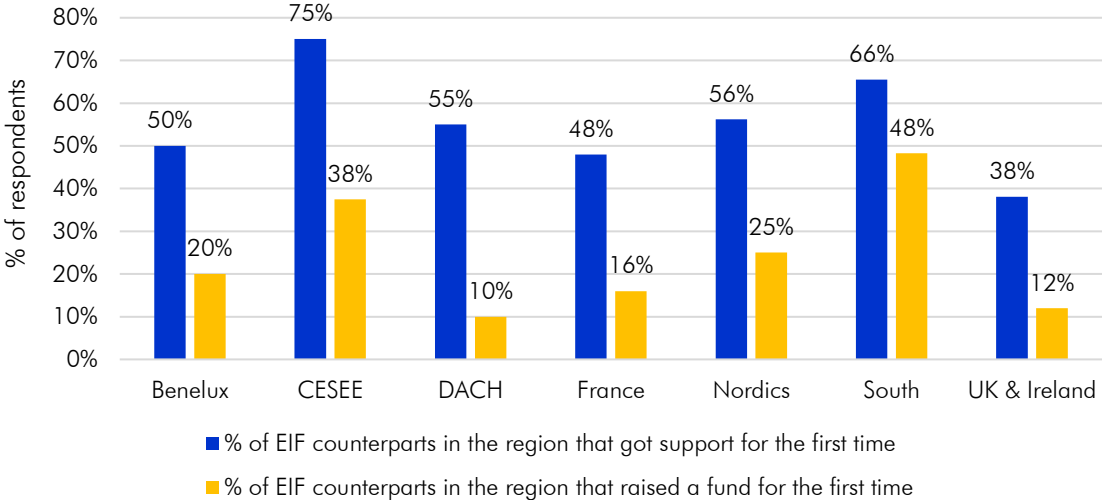
Q. Was this the first time that your team raised a fund?

Compared to the overall sample, a higher proportion of funds receiving support from the EIF for the first time as well as a higher proportion of first-time teams are documented in CESEE and South countries (see Figure 7).<sup>7</sup>

<sup>7</sup> Based on the respondents' distribution by headquarter country, country groupings are as follows: BENELUX (Belgium, Netherlands, Luxembourg), CESEE (here: Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Slovakia, Turkey, Other), DACH (Germany, Austria, Switzerland), Nordics (Denmark, Finland, Norway, Sweden), South (here: Italy, Portugal, Spain).

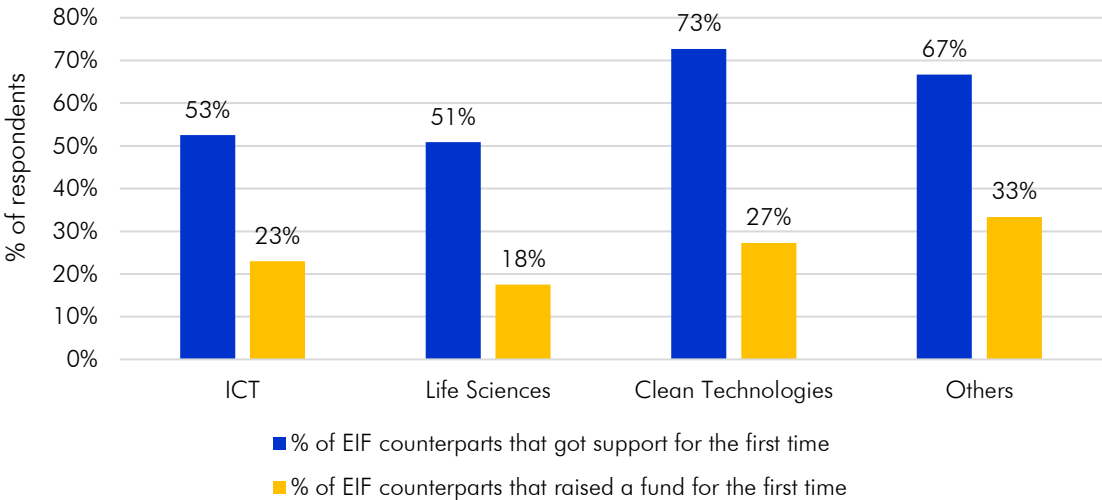


Figure 7: First-time EIF support and first-time teams – by VC firm headquarter



Compared to other industries such as ICT and Life Sciences, VC firms in Clean Technologies seem to be relatively more often supported by the EIF for the first time (see Figure 8). At the same time, relatively more first-time teams invest in industries such as Manufacturing and Services (here combined in the category “Others”).

Figure 8: First-time EIF support and first-time teams – by VC target industry

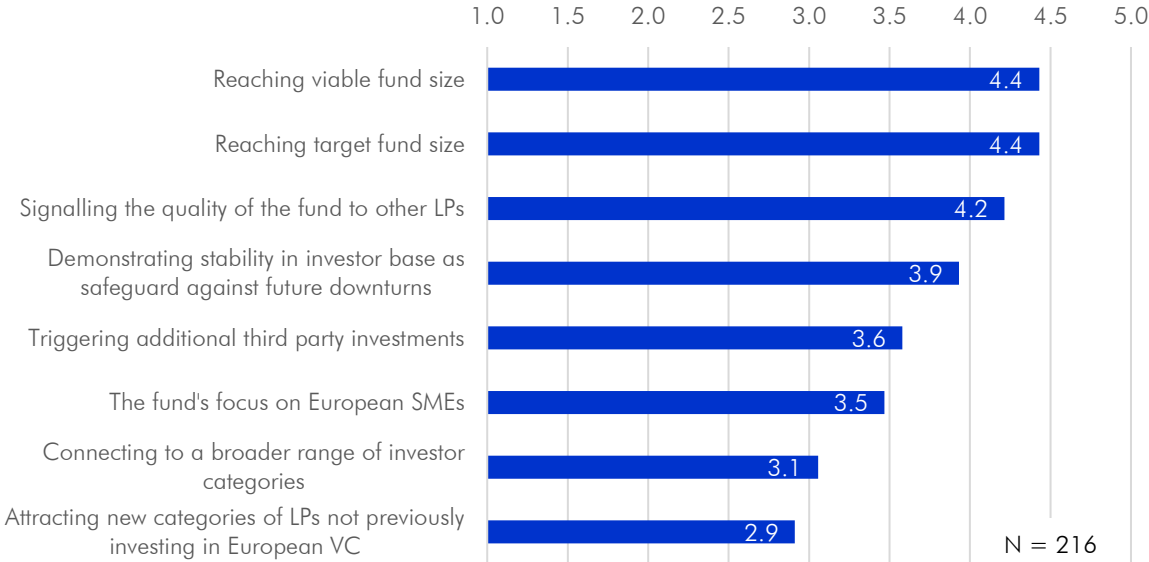


As demonstrated in Figure 9, VC managers evaluate very positively the EIF’s impact on the fundraising process, since the EIF partnership was indeed vital for reaching both viable and target fund sizes (mean value of 4.4 out of a maximum 5). This is particularly important given the evidence in Kraemer-Eis, Botsari, Gvetadze and Lang (2018, pp. 21-22) that fundraising is perceived as the second most significant challenge in VC business.

Looking at regional variations (see Figure 10), we note that the EIF’s value added to fundraising is strongly positive across all regions, but even more so in the South and in the Nordics. According to Kraemer-Eis et al. (2018), small fund sizes is the third most important challenge faced by VC funds

in the South. The findings of the survey seem to therefore indicate that the EIF’s impact is greatest where it is needed the most. Furthermore, the findings call for continuous support to CESEE countries, given that although the EIF partnership contributed to reaching viable and target fund sizes, these countries still rank behind counterparts in all other regions.

**Figure 9: EIF’s value added to investor base and fundraising process**



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

**Q. To what extent do you agree or disagree with the following statements regarding the EIF’s impact on your investor base and fundraising process?**

**The EIF partnership was vital for ... :**

With regard to the EIF’s value added to the investor base (see Figure 9 again), surveyed fund managers rate very highly the quality signal of the EIF (mean value 4.2 out of 5) and its role as a stable, long-term investor (3.9/5). These are two recurring patterns across the survey and they will be discussed again in the context of subsequent questions.

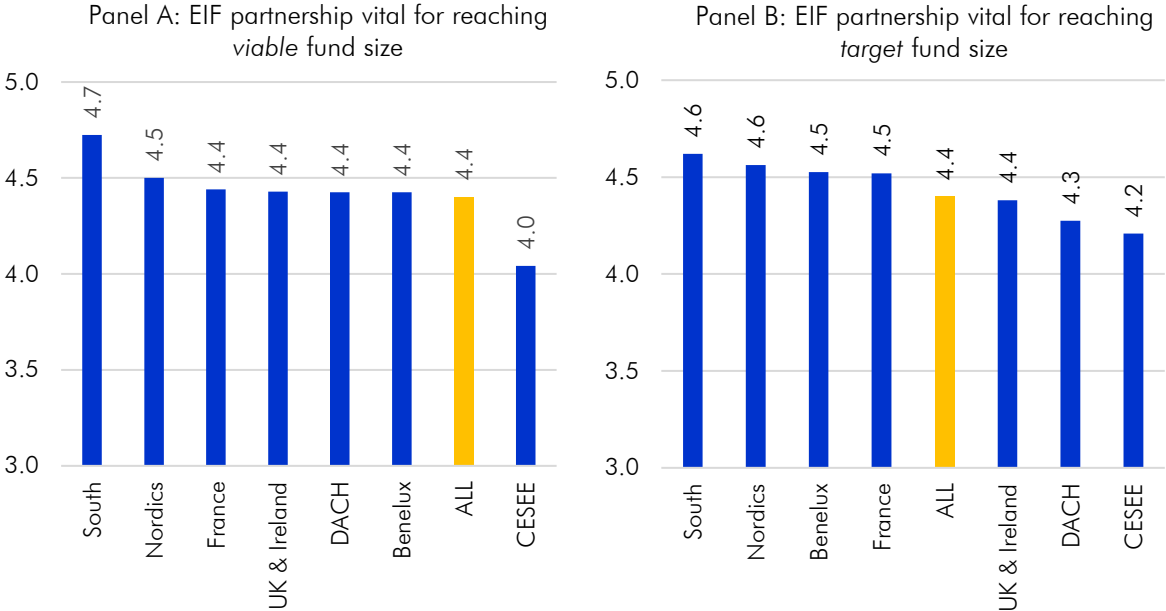
At the same time though, it appears that the EIF partnership was less vital for connecting to a broader range of investor categories – such as insurance companies and family offices (mean value 3.1 out of 5) or for attracting new categories of LPs that had not previously invested in European VC (2.9/5).

We note however that the survey was conducted before the EIF launched the Asset Management Umbrella Fund (AMUF) in December 2017. AMUF’s objective is to increase investments to SMEs from institutional sources, including insurance companies and pension funds.<sup>8</sup> Therefore in future rounds of the survey the EIF may demonstrate a much higher value added to this aspect of the VC funds’ investor base. Indeed, in regions where initiatives to attract additional investors have already

<sup>8</sup> See [http://www.eif.org/what\\_we\\_do/institutional-asset-management/index.htm](http://www.eif.org/what_we_do/institutional-asset-management/index.htm) for further details on the AMUF initiative.

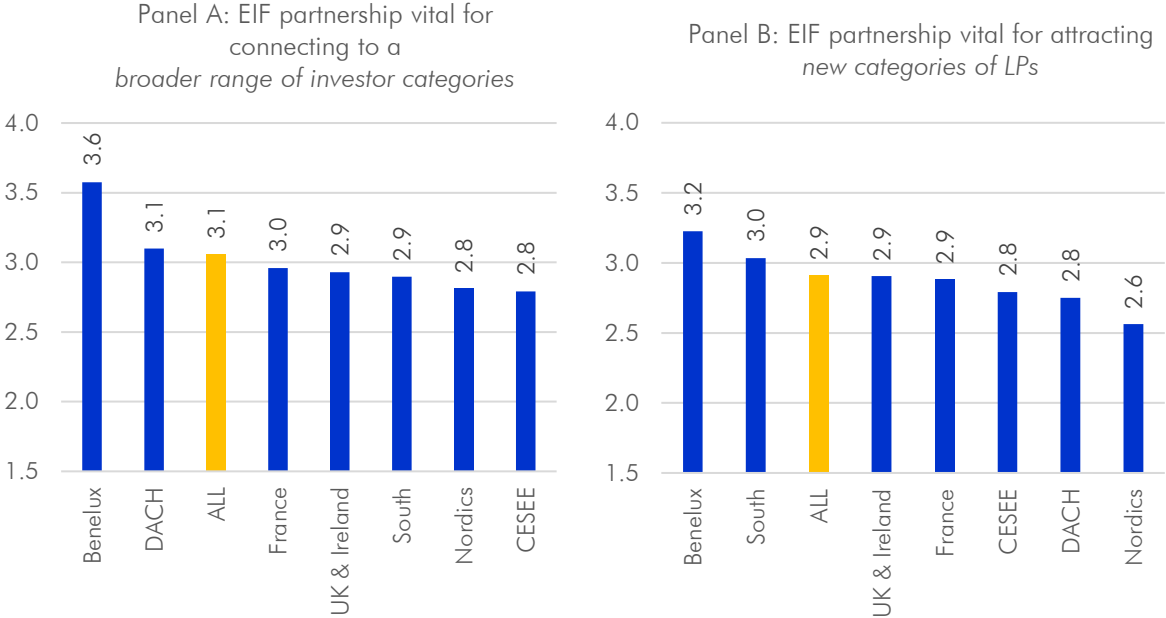
been established, such as the Dutch Venture Initiative (DVI-I & DVI-II),<sup>9</sup> the EIF’s impact on the funds’ ability to connect to a broader range of investor categories and to attract new categories of LPs that had not previously invested in European VC is the greatest, well above the sample average and in excess of the “neutrality” threshold of 3.0 out of 5 (see Figure 11).

**Figure 10: EIF partnership vital for reaching viable and target fund size – by VC firm headquarter**



Note: Figures show mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

**Figure 11: EIF partnership vital for attracting new investors – by VC firm headquarter**



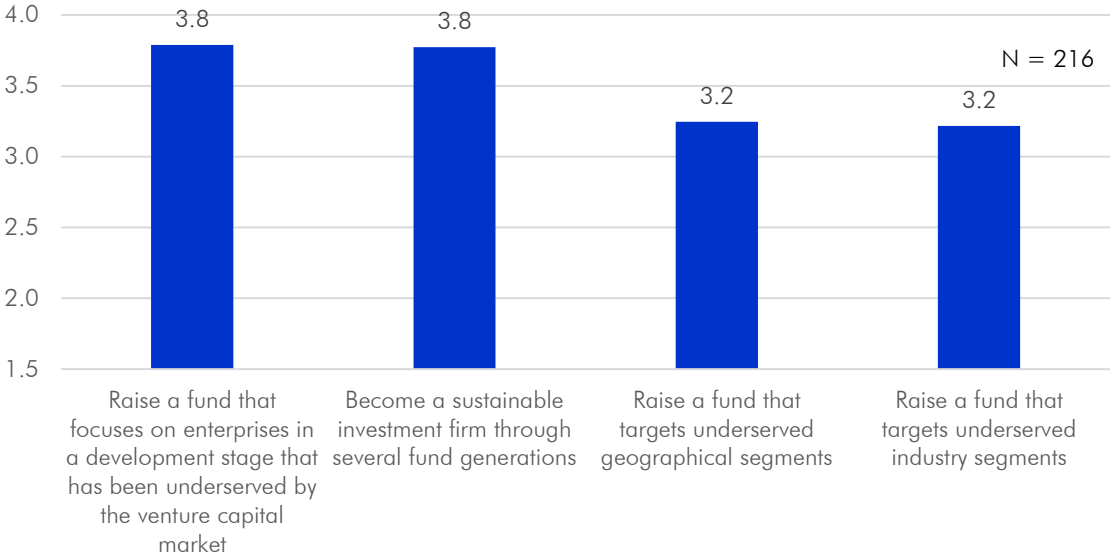
Note: Figures show mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

<sup>9</sup> See [http://www.eif.org/what\\_we\\_do/resources/dvi/index.htm](http://www.eif.org/what_we_do/resources/dvi/index.htm) for further details on the DVI initiative.

### 3.2 EIF’s value added to the fund and the market

Previous questions highlighted the positive effect of the EIF on the fundraising process. Building upon this evidence, additional results from the survey further indicate that VC managers agree on average (mean value 3.8 out of 5) that the EIF partnership indeed helped their firms to raise a fund focusing on enterprises in a development stage underserved by the venture capital market (see Figure 12). In addition, surveyed VC managers indicated that due to the EIF’s commitment they were able to become a sustainable investment firm through several fund generations.

Figure 12: EIF’s value added to fund and market



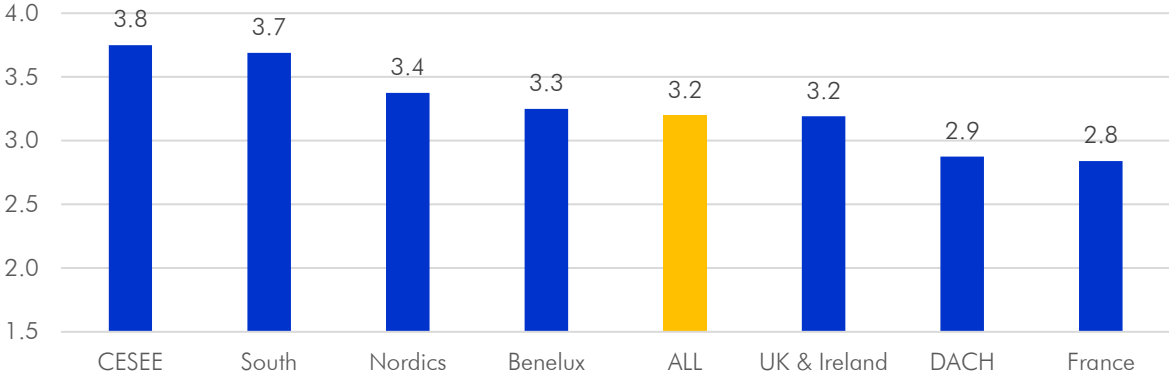
Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

**Q. Do you agree or disagree with the following statements regarding the EIF's effect on your fund and the market in which you are operating?**  
**Due to the EIF's commitment, we were able to ... :**

Turning to the EIF’s impact on the funds’ ability to target underserved geographical segments, we note that relatively more positive evaluations are documented for funds in CESEE (mean value 3.8 out of 5) and South (3.7/5) countries as opposed to funds in DACH (2.9/5) and France (2.8/5), see Figure 13. The evidence once again suggests that the less developed the VC ecosystem in a region, the stronger the impact of the EIF’s support.

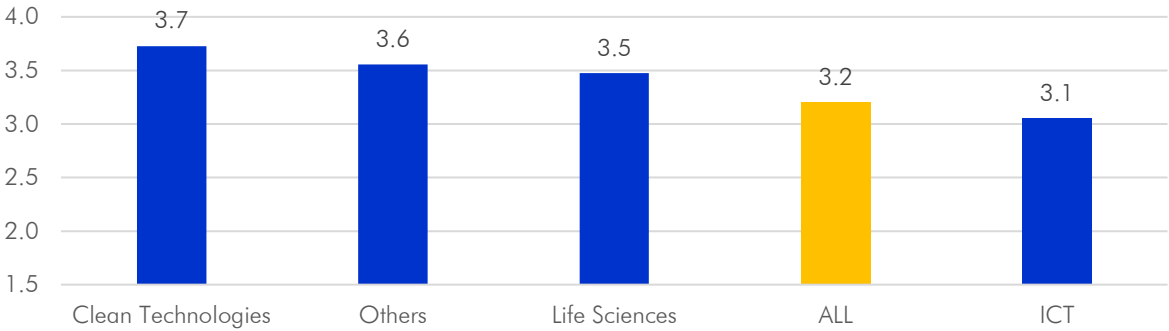
When industry focus is taken into consideration with regard to the EIF’s role in helping funds target underserved industry segments (see Figure 14), it is fund managers investing mainly in Clean Technologies (mean value 3.7 out of 5), “Others” (defined as Manufacturing and Services; 3.6/5) and Life Sciences (3.5/5) that perceive relatively more positively the EIF’s contribution to this aspect of the investment process.

**Figure 13: Due to the EIF partnership, the fund targeted underserved geographical segments – by VC firm headquarter**



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

**Figure 14: Due to the EIF partnership, the fund targeted underserved industry segments – by VC target industry**



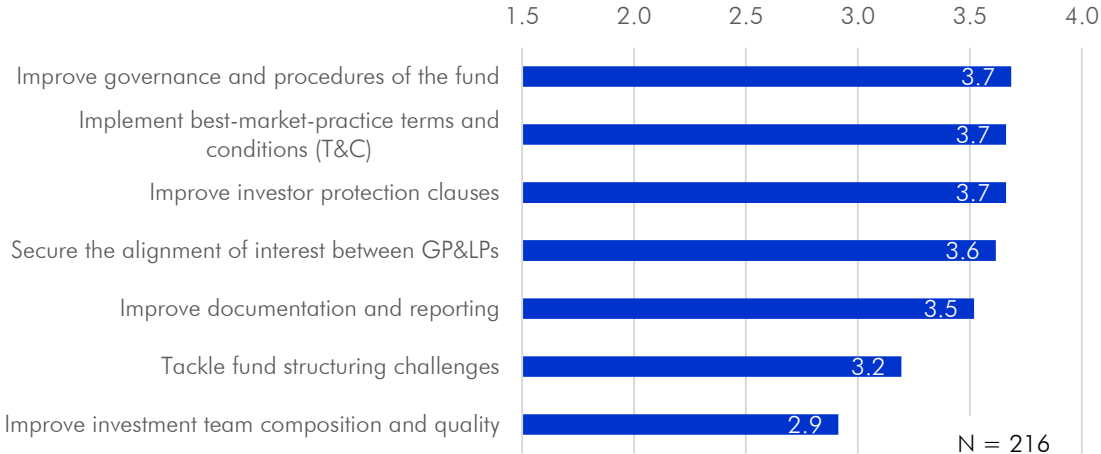
Notes:  
 Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.  
 "Others" includes both Manufacturing and Services due to the low number of responses in these two industries.

### 3.3 EIF’s value added to the funds’ structure

Surveyed fund managers agree on average that the EIF’s commitment had a positive impact on their fund’s structure (see Figure 15). They value in particular the EIF’s contribution to improving governance and procedures of their fund (mean value 3.7 out of 5), to implementing best-market-practice terms and conditions (3.7/5) and to improving investor protection clauses (3.7/5).

It is worth noting that in nearly 60% of the cases (according to the pattern of responses) the EIF was also involved in a successor fund. The majority of VC managers in this subgroup indicated that the EIF helped their firm maintain the fund’s terms and conditions previously agreed with the EIF due to its involvement in the successor fund.

**Figure 15: EIF’s value added to fund structure**



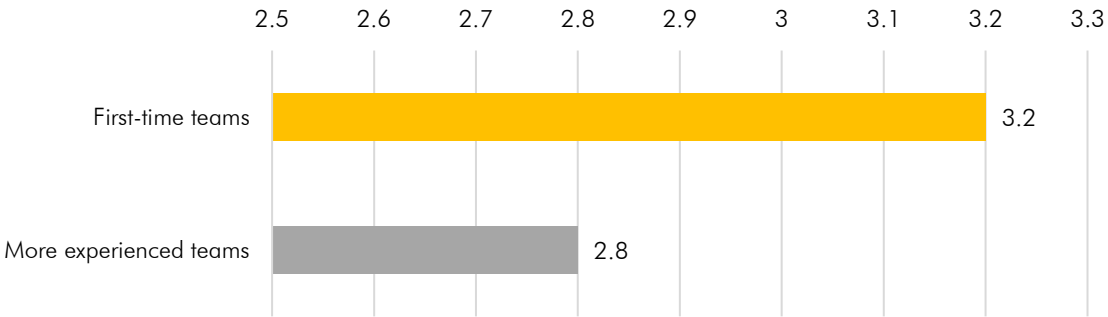
Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

**Q. Do you agree or disagree with the following statements regarding the EIF’s impact on your fund’s structure?**

**The EIF helped my firm to ... :**

Figure 15 also suggests that the EIF’s involvement did not, on average, contribute to an improvement of the funds’ investment team composition and quality (mean value 2.9 out of 5). However, when we look into the subgroup of first-time teams (see Figure 16), the impact of the EIF’s commitment is more positive compared to more experienced teams. This is in line with the EIF’s approach not to actively interfere in the team composition but rather to suggest improvements only where it is considered necessary, i.e. typically in the case of first-time teams and relatively underdeveloped markets.

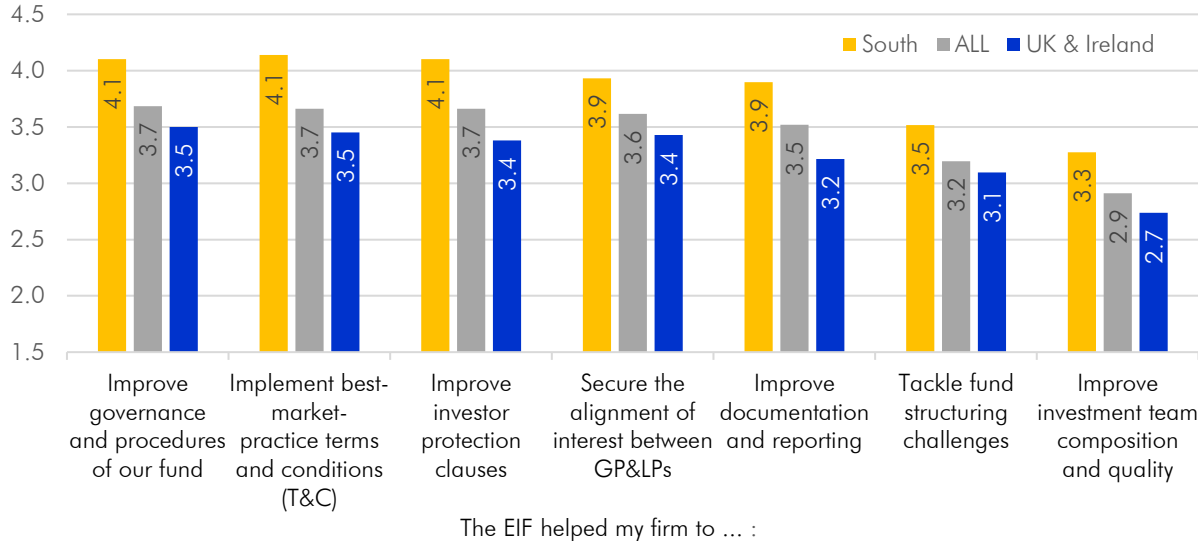
**Figure 16: EIF partnership helped improve investment team composition and quality**



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

We finally observe a specific pattern with regard to regional variations (see Figure 17), whereby VC managers in the South consistently rate the EIF’s value added to the fund structure much more highly than the overall sample average, while the exact opposite holds true for VC managers in the UK and Ireland (yet in these countries too, respondents perceive the EIF’s value added to the fund structure to be positive across almost all subcategories examined).

Figure 17: EIF’s value added to fund structure – by VC firm headquarter (selected regions)

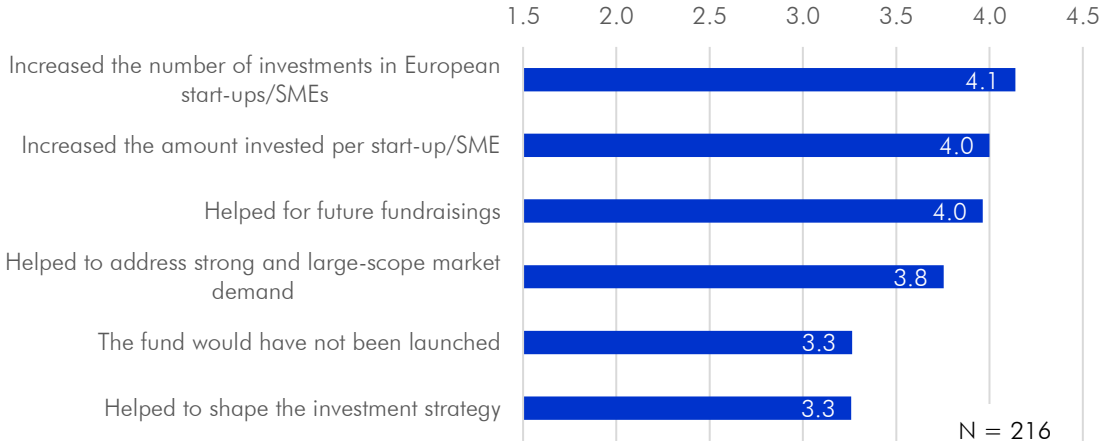


Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

3.4 EIF’s overall value added to VC funds

Surveyed VC managers were asked to evaluate the overall effect of the EIF partnership on their fund across a series of criteria, from launching the fund to fundraising and investments. As seen in Figure 18, the overall impact of the EIF’s involvement is rated very highly.

Figure 18: EIF’s overall value added to VC funds



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

Q. Do you agree or disagree with the following statements regarding the EIF’s overall effect on your fund?

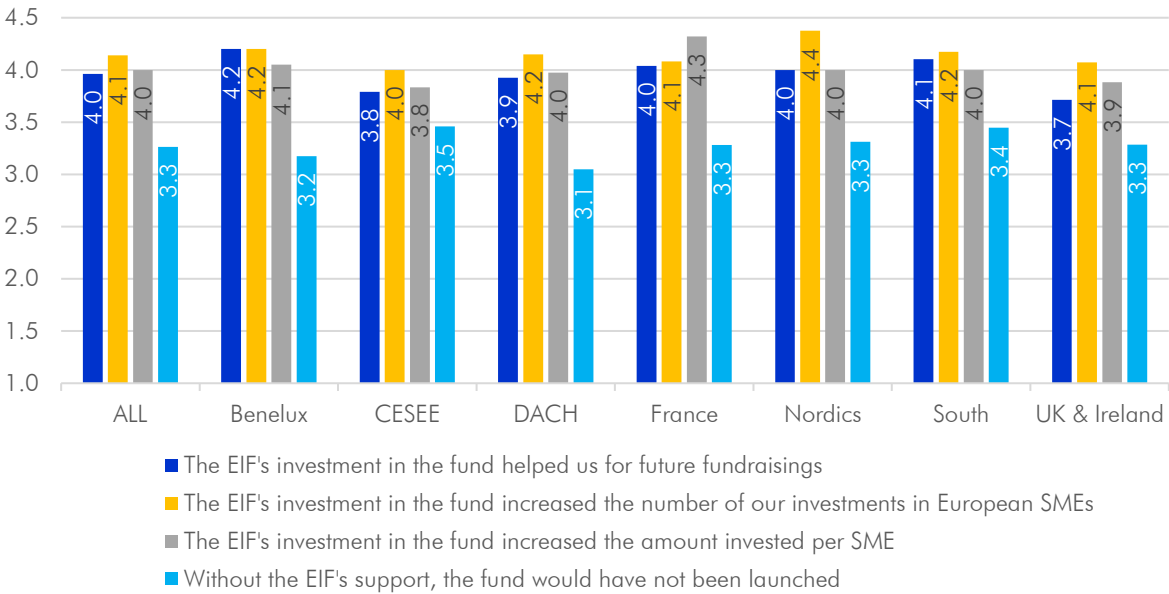
In particular, fund managers indicate that due to the EIF’s investment in their fund they were able to increase both the number of European SMEs in which they invested (mean value 4.1 out of 5) as well as the amount invested per SME (4.0/5). Kraemer-Eis and Lang (2017) report that in the period

2007–2015, the average VC-backed US company received five times higher amounts than its EU counterpart. In light of this, it is promising that the survey evidence shows that VC funds increase the number and level of investments in European SMEs in response to public support.

The significant role of the EIF in boosting the VC ecosystem in Europe is also reflected in the fact that VC managers evaluate very positively the EIF’s help for future fundraisings (mean value 4.0 out of 5). At the same time, they acknowledge to a significant extent (3.3/5) that without the EIF’s support the fund would have not been launched. These findings corroborate the evidence presented earlier (see Figure 12) whereby VC managers recognise the contribution of the EIF towards becoming a sustainable investment firm through several fund generations. The findings also point to the EIF’s catalytic role for European VC.

As seen in Figure 19, the patterns documented for the entire sample are in general consistent across regions.

**Figure 19: EIF’s overall value added to fundraising, investments and launching of the fund – by VC firm headquarter**



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

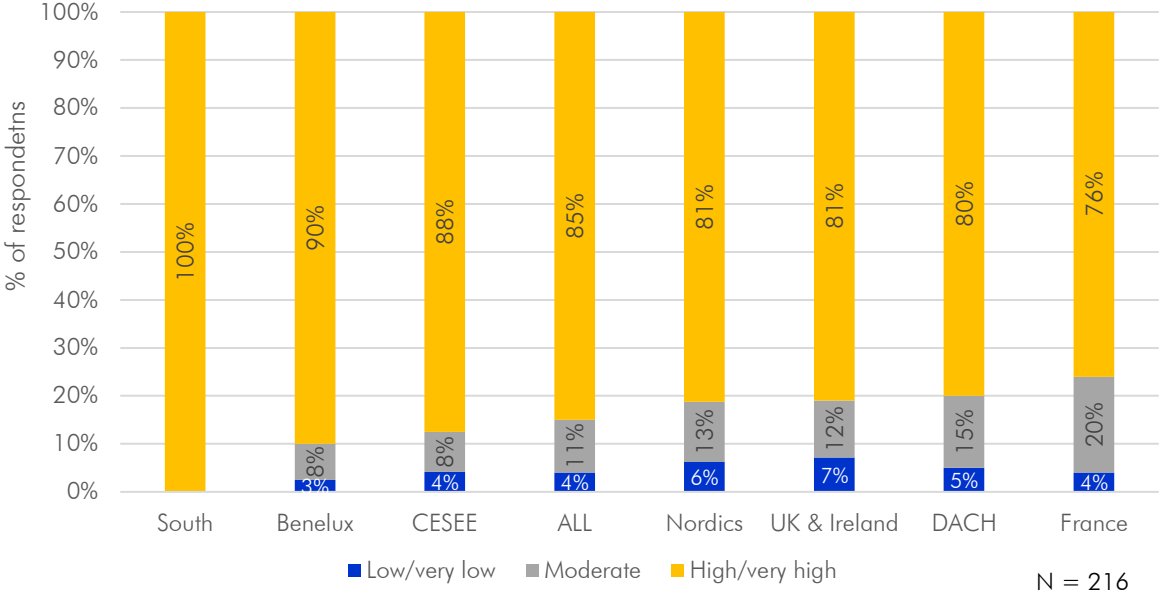
In light of the aforementioned findings, it is not surprising that 85% of all respondents consider the overall value added of the EIF to be “high” or “very high” (see Figure 20). In no region does this percentage fall below 76%, while VC managers in the South unanimously rate the EIF’s overall value added as high or very high.

Besides the VCs’ answers discussed in Chapter 3 regarding the EIF’s participation in their fund and the market in which they operate, further added values were also mentioned (optional free-text statements). According to some respondents, the EIF is considered to be a due-diligence benchmark for other investors and it is important for these investors that the EIF has already agreed to the legal documents: “If you have passed their safety check, I can trust you”. The EIF also appears to take the



lead in negotiating, advisory board and LP meetings. Another added value mentioned by the respondents was the EIF’s professionalism in assessing, validating and streamlining the fund’s strategy, structure and processes.

**Figure 20: EIF’s overall value added to the fund – by VC firm headquarter**



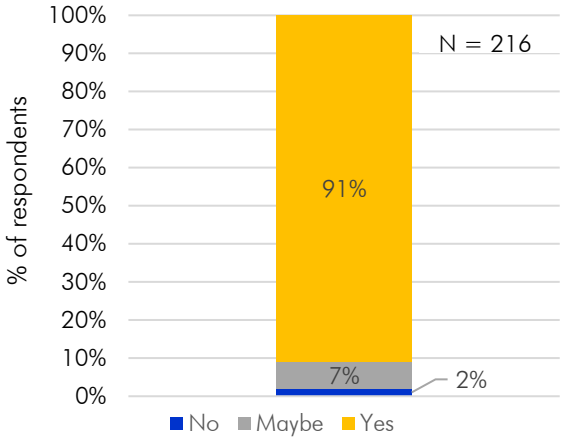
**Q. How would you assess the overall added value to your fund by the EIF?**

In a follow-up open-ended question, surveyed VCs were asked to suggest ways in which the EIF could further improve its overall value added. The application process appears too long for such a dynamic and continuously changing environment as the VC market. Speeding up the decision-making process would increase the EIF’s value added. The EIF’s requirements regarding terms, structure and conditions, which are often predefined by legal requirements and the specific policy mandates that the EIF implements, seem to be inflexible for some fund managers. According to them, this often results in conflicts of interest between general partners (GPs) and LPs. Some respondents believe that the EIF should be more flexible as regards its requirements. In addition, the EIF should continue increasing awareness about the VC market. In this respect, fund managers call for greater networking opportunities (both with other EIF-supported funds as well as with other LPs), like through conferences, workshops and training events that would facilitate the sharing of experience and best practice. Moreover, fund managers find the EIF’s research helpful and suggest that the EIF should continue sharing its VC “market intelligence” in order to further raise awareness and help attract more LPs into the asset class. Finally, some fund managers suggested that the EIF should invest more, both by increasing its share and by making more resources available.

When asked whether they would work again with the EIF, the overwhelming majority of VC managers (91%) gave an affirmative answer (see Figure 21). This finding holds true regardless of VC firm headquarter or industry focus (results not presented here for the sake of brevity).

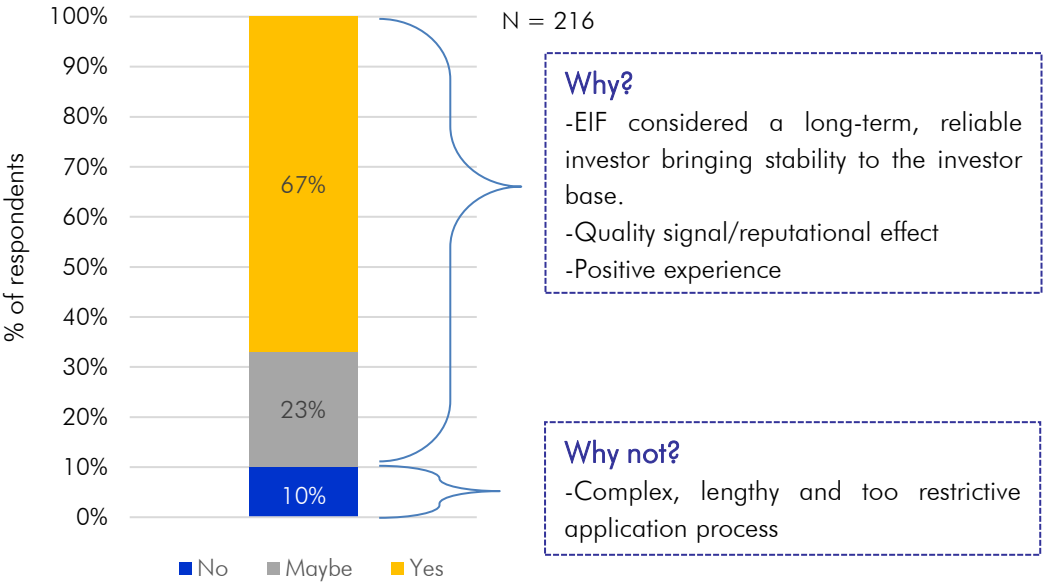
Among the respondents, 90% also indicated that they would still apply for EIF funding (67%) or at least consider applying (23%) even if they would have enough capital from private investors (see Figure 22).

**Figure 21: Work again with the EIF**



**Q. Would you work with the EIF again?**

**Figure 22: Apply to EIF despite enough capital from private investors**



**Q. Would you apply for EIF funding if you would have enough capital from private investors?**

In a follow-up open-ended question, VC managers who replied that they would apply or at least consider applying for EIF funding even if they would have enough capital from private investors were asked to indicate their incentives for doing so. Among these free-text responses, two main patterns emerged: the fact that the EIF is considered a long-term, reliable investor bringing stability to the investor base; and that the EIF’s investment is considered a “quality stamp”, carrying a very positive reputational signal for the fund and helping attract other LPs.

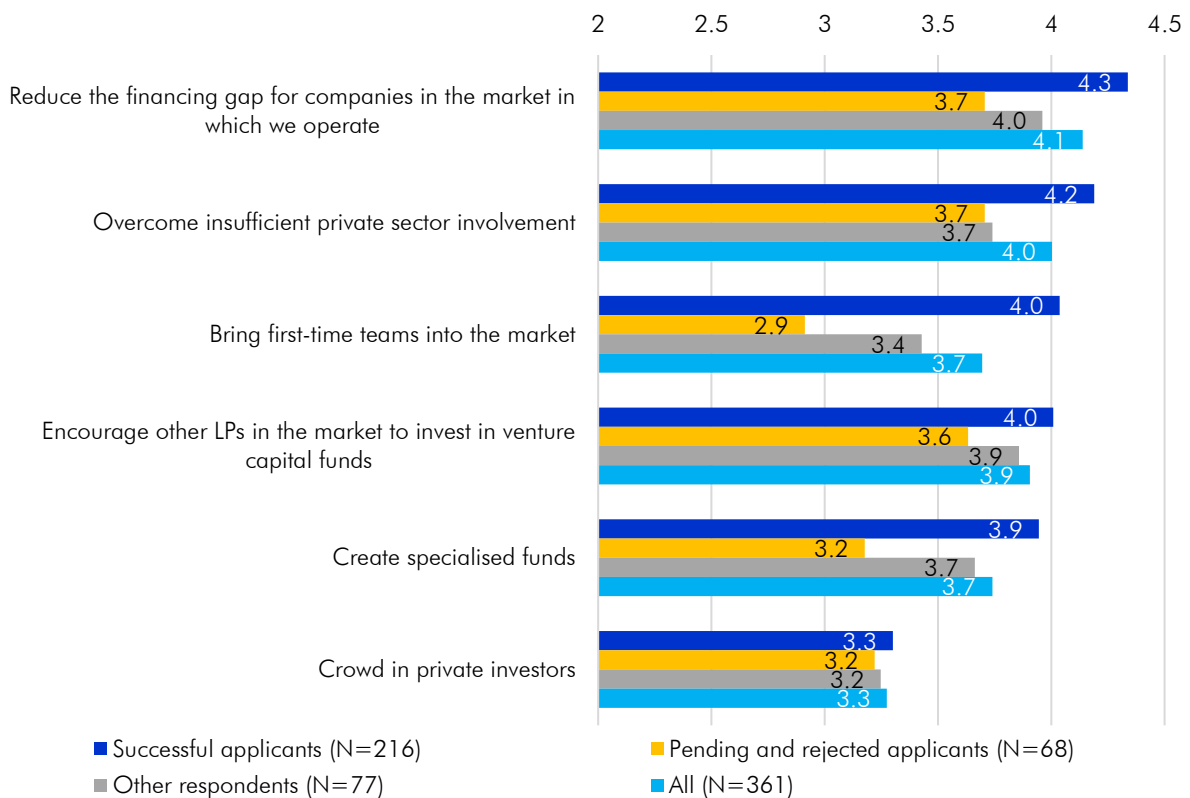
In relation to the aforementioned point, while the EIF understands the importance of a stable investor base in the context of the VC industry's cyclical nature, EIF's sensitivity to fundraising dynamics in the private sector is essential in order to avoid crowding-out effects in funds that have access to private sector capital even without EIF support. It is therefore the specific responsibility of the EIF's due diligence to select the most promising funds with financing needs, without distorting the market. Moreover, in practice the EIF often avoids crowding out other LPs by reducing its commitments to funds when there is sufficient interest from private investors. As a final note, reality is unfortunately still quite far from a situation where VC firms would have adequate funding to finance their portfolio companies' prospects: as shown in Kraemer-Eis, Botsari, Gvetadze and Lang (2018), fundraising is still perceived as one of the biggest challenges in European VC business.

## 4 EIF's perceived impact on the VC market

This chapter aims at presenting the perception of market participants regarding the EIF's impact on the VC market. Therefore, the related question was addressed to all fund managers that participated in the survey and are familiar with the EIF, i.e. those that have successfully applied for EIF funding (N=216), those that have applied to the EIF but have not (yet) received EIF support (N=68) and those that have never applied to the EIF but are familiar with its activities (N=77). Therefore, the current chapter presents the answers from 361 respondents in total and provides additional analyses by relevant subgroups on selected topics.

Before discussing the perceptions of the market participants regarding the EIF's impact, it is worth outlining the reasons why these 77 fund managers have never applied to the EIF. Interestingly, 20% of them indicated in their free-text responses that, although they have never applied to the EIF, they are already in the process of applying or are considering applying for the next fund in the near future. A few of them indicated that it is too early for them or that they are too small. The rest of them either have already secured funding (private or public) or their fund structure did not fit the requirements of the EIF.

Figure 23: EIF's impact on the VC market



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

Q. Do you agree or disagree with the following statements regarding the EIF's effect on the market in which you are operating?

The EIF's presence in our market helps to ... :

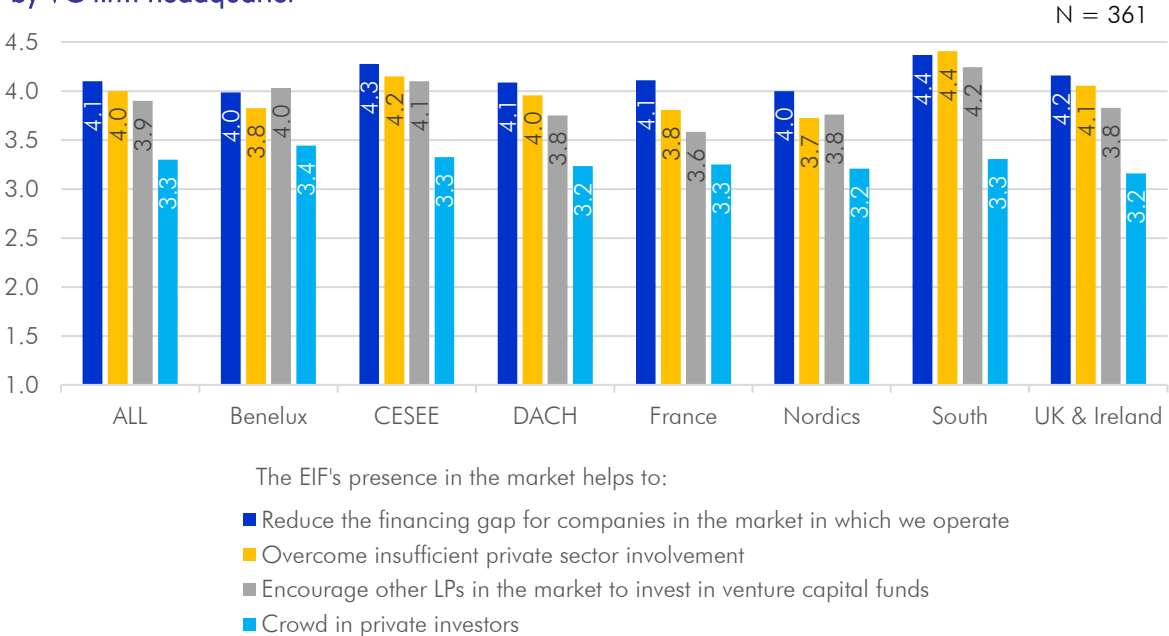
Based on the overall sample of respondents, fund managers perceive very positively the role of the EIF in reducing the financing gap in the market (mean value 4.1 out of 5), in helping VC firms overcome insufficient private sector involvement (4.0/5) and in encouraging other LPs in the market to invest in VC funds (3.9/5), see Figure 23.

We also note that compared to the overall sample, EIF counterparts systematically evaluate more positively the EIF’s contribution across all dimensions of impact on the VC market. Compared to all respondents, EIF counterparts particularly value the role of the EIF in helping to bring first-time teams into the market (mean value 4.0 out of 5).

In all respondent groups, fund managers state, on average, that the EIF’s presence in their market helps to crowd-in private investors. Therefore, the survey evidence once again clearly points to the catalytic role of the EIF for the European VC market rather than to a crowding-out effect. Together with the analysis of the previous chapter, these results further indicate the crucial role of public support in attracting other VC investors and show that the EIF’s investment in a fund has a positive signaling effect rather than deterring LPs from committing.

Focusing on whether the presence of the EIF in the market helps to fill the financing gap for companies and to attract other VC investors, detailed analyses of the responses by VC firm headquarter show that the perceived role of the EIF is highly rated across all regions, but even more so in South and CESEE countries (see Figure 24).

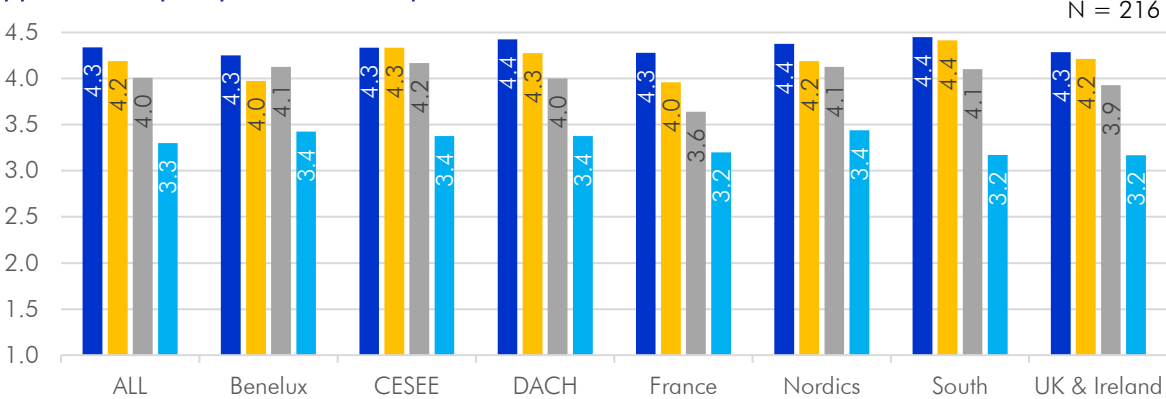
**Figure 24: EIF’s impact on filling the financing gap and attracting other VC investors, all respondents – by VC firm headquarter**



Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

The same pattern is observed within the sample of EIF counterparts (see Figure 25).

Figure 25: EIF’s impact on filling the financing gap and attracting other VC investors, successful applicants only – by VC firm headquarter



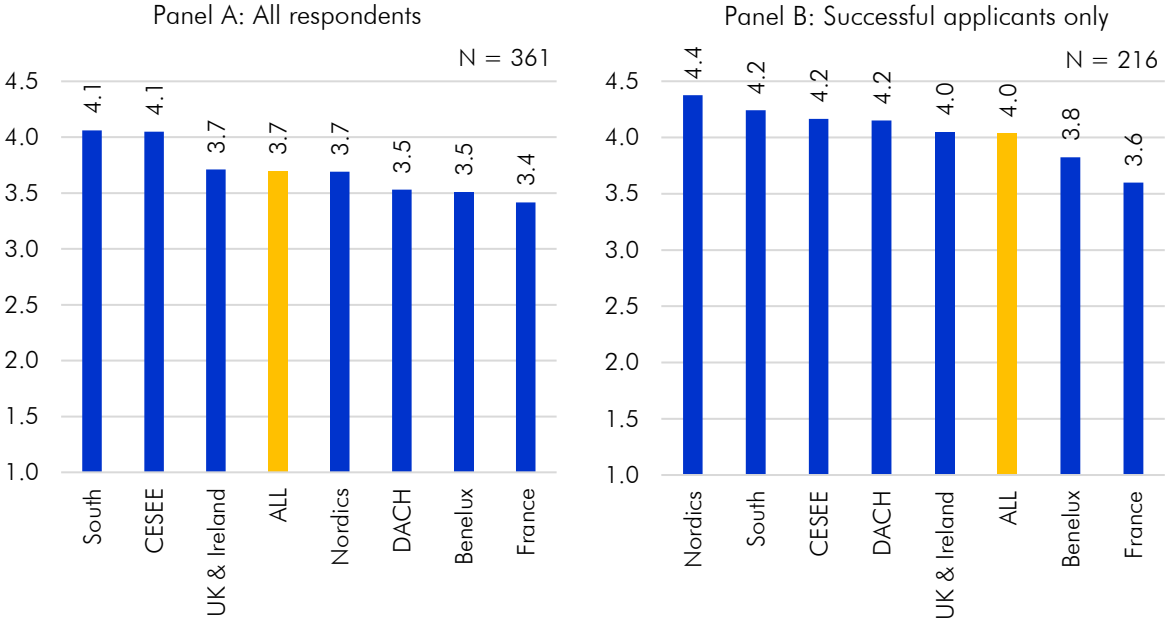
The EIF's presence in the market helps to:

- Reduce the financing gap for companies in the market in which we operate
- Overcome insufficient private sector involvement
- Encourage other LPs in the market to invest in venture capital funds
- Crowd in private investors

Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

Kraemer-Eis, Botsari, Gvetadze, Lang and Torfs (2018) report that the European VC market activity slumped dramatically during the crisis, experienced a sluggish recovery until 2013 and has considerably picked up since then. Therefore, as a final point, we look at the EIF’s contribution to this recovery by focusing on the extent to which the presence of the EIF helps to bring teams to the market, particularly first-time teams. Among all respondents (see Figure 26, Panel A), the perceived impact of the EIF is greater in South and CESEE countries. Within the sample of EIF counterparts (Panel B), the EIF’s presence in the market and its support to first-time teams is highly valued across all regions, but in particular in the Nordics, South, CESEE and DACH.

Figure 26: EIF’s presence helps to bring first-time teams into the market – by VC firm headquarter



Note: Figures show mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

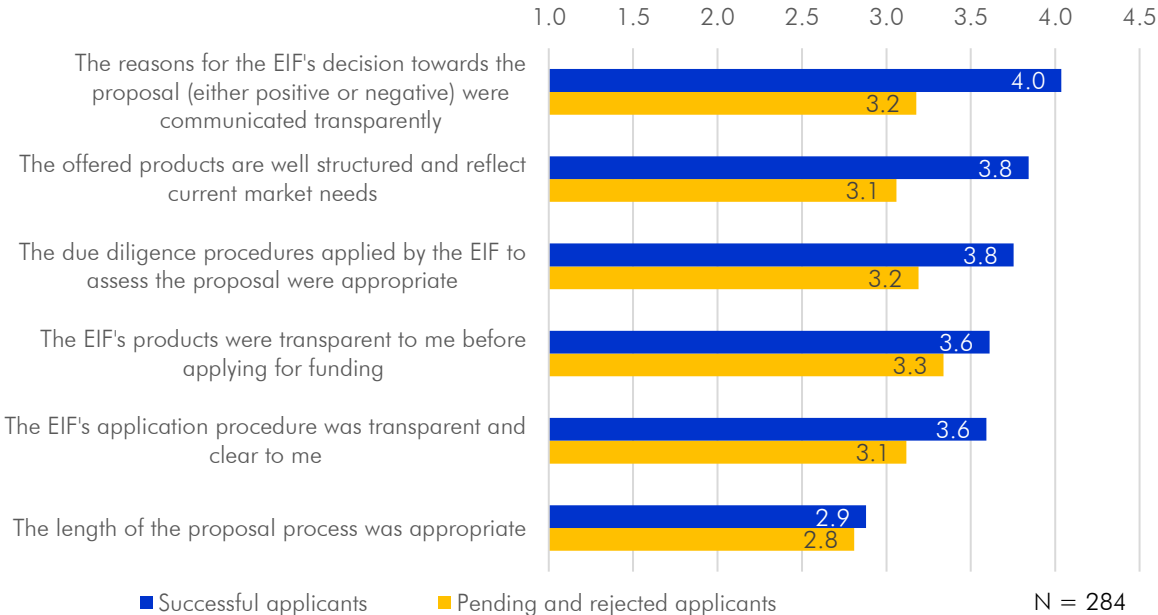
## 5 EIF’s products & procedures and comparison with other LPs

This chapter aims at providing insights into how applicants (both those that received EIF funding and those that did not) assess the application process and the products of the EIF as well as how these compare to other LPs. Therefore, the analyses that follow are based on the responses of 284 fund managers in total (216 responses from VC managers that have successfully applied for EIF funding and 68 responses from those that have applied to the EIF but have not (yet) received EIF support).

As seen in Figure 27, applicants evaluate positively the EIF’s products and most aspects of the application process. More specifically, VC managers that have successfully applied for EIF funding find the offered products well-structured and reflecting current market needs (mean value 3.8 out of 5), while they also agree that the EIF’s products were transparent to them before applying for funding (3.6/5), that the application procedure was clear and transparent (3.6/5) and that the due diligence to assess the submitted proposal was appropriate (3.8/5).

Fund managers particularly value the transparent communication of the EIF’s decision regarding the outcome, whether positive or negative, of their application (4.0/5 for successful applicants and 3.2/5 for other applicants). By contrast, fund managers find that the length of the proposal process is longer than what they would consider appropriate (2.9/5 for successful applicants and 2.8/5 for other applicants).

Figure 27: Fund managers’ evaluation of EIF’s products and procedures

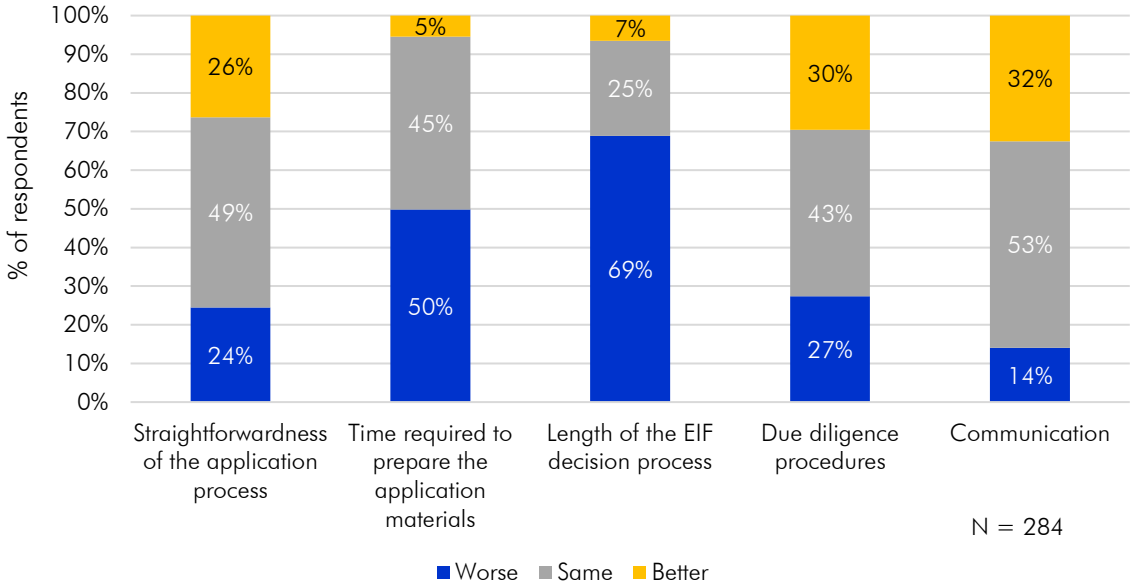


Note: Figure shows mean values. Response options 1 to 5: 1 = strongly disagree; 5 = strongly agree.

Q. Indicate to what extent you agree or disagree with the following statements regarding the EIF’s products and procedures:

The same patterns emerge when fund managers are asked to assess the EIF’s products and processes in comparison to other LPs (see Figure 28). In issues such as communication, the due diligence procedures and the straightforwardness of the application process, the EIF’s procedures are perceived similar to, if not better than, those of other LPs.

**Figure 28: EIF’s procedures in comparison to other LPs**



**Q. Comparing the products and processes of the EIF with other LPs, how would you evaluate the following aspects:**

However, 2 in 3 fund managers find the length of the EIF’s decision process worse than that of other LPs, while 1 in 2 perceive the same for the time required to prepare the application materials. In fact, going back to an earlier analysis (see Figure 22), those VC managers who replied that they would not apply for EIF funding if they would have enough capital from private investors stated that the main reason that would deter them from doing so is the length of the decision process.

The EIF takes these views very seriously into consideration. At the same time though, it needs to be recognised that the EIF largely manages EU-mandated resources, that there are strings attached to EU policy objectives and that as a result the EIF needs to be diligent in its assessment of proposals and has to apply audit-proof processes that are subject to external/EU scrutiny. Let alone, as fund managers themselves indicated in the survey, when the due diligence and subsequent investment of the EIF in a fund is considered a “quality stamp” that attracts other LPs.



## 6 Concluding remarks

The *EIF VC Survey* provides important insights into the fund managers' perception of the European VC market as well as their assessment of the EIF's value added, products and processes. In an earlier EIF Working Paper, we presented the first part of the survey results, covering fund managers' market sentiment and their views on public intervention (see Kraemer-Eis, Botsari, Gvetadze and Lang, 2018). In the present study, we gave an in-depth overview of the GPs' perception of the EIF's value added, thereby looking into the EIF's impact on the funds' investor base, the fundraising process, the fund structure and the overall VC market. In addition, we illustrated the fund managers' assessment of the EIF's products and processes.

We showed that, as a general outcome, the fund managers' perceptions of the EIF's value added, products and processes are highly positive, although there are differences by country, industry focus and fund managers' experience. Overall, the EIF's involvement in a fund is perceived to have a positive impact on its fundraising and the structuring process, but also to contribute to the fund's focus on underserved enterprise development stages as well as to the longer-term sustainability of the management firm. In particular, the EIF played a vital role in helping funds reach a viable fund size to operate. Moreover, fund managers particularly indicate that due to the EIF's investment in their fund they were able to increase both the number of European SMEs in which they invested as well as the amount invested per SME. This is a promising evidence that VC funds increase the number and level of investments in European SMEs in response to public support.

Fund managers perceive very positively the role of the EIF in helping VC firms overcome insufficient private sector involvement, in encouraging other LPs to invest in VC funds and, ultimately, in reducing the SME financing gap. The survey evidence points to the catalytic role of the EIF for the European VC market rather than to a crowding-out effect. It indicates the crucial role of public support in attracting other VC investors and shows that the EIF's investment in the fund has a positive signaling effect rather than deterring LPs from committing. In all respondent groups, the fund managers state, on average, that the EIF's presence in their market helps to crowd-in private investors. What is more, in practice the EIF often reduces its commitments to funds when there is sufficient interest from private investors. In general, the quality signal and the EIF's role as a stable long-term investor are mentioned as important reasons for turning to the EIF as an investor. While the EIF understands the importance of a stable investor base in the context of the VC industry's cyclical nature, EIF's sensitivity to fundraising dynamics in the private sector is essential in order to avoid crowding-out effects in funds that have access to private sector capital even without EIF support.

As a recurring pattern, the results of several parts of the survey indicate that the EIF's impact is greatest where it is needed the most, i.e. in regions with less developed VC ecosystems, in industry segments and enterprise development stages underserved by the VC market, as well as in the case of first-time VC fund manager teams.

With regard to the EIF's products and processes, fund managers find the EIF products well-structured and reflecting current market needs. They also indicate that all products were transparent to them before applying for funding and emphasise the highly transparent nature of the EIF's communication

and application process. The EIF's procedures are in general perceived similar to, if not better than, those of other LPs. Moreover, those fund managers whose applications were rejected or are in pending state, express, on average, a favourable view of the EIF's products and procedures as well as of its impact on the VC market.

On the downside, the EIF's involvement did not, on average, contribute to an improvement of the funds' investment team composition and quality. This can be explained by the EIF's approach not to actively interfere in these aspects. Instead, the EIF suggests improvements where it is considered necessary. This is even more important for first-time teams and in the case of relatively underdeveloped markets, as confirmed by the survey results. Fund managers also criticise the relatively long decision process and the time required to prepare the application materials. Those VC managers who indicated that they would not apply for EIF funding if they would have enough capital from private investors stated that the main reason that would deter them from doing so is the length (but also the complexity and restrictiveness) of the application/decision process. The GPs also suggest that the EIF should continue sharing its VC "market intelligence" in order to further raise awareness and help attract LPs into the asset class. Additionally, fund managers see room for improvement in the EIF's role in the European VC market when they call for greater networking opportunities that would facilitate the sharing of experience and best practice.

The EIF is taking the views of the *EIF VC Survey* very seriously into consideration. It has already reacted to one of the fund managers' key concern, namely the relatively low impact of the EIF on attracting a broader range of investors, such as insurance companies, or for attracting new categories of LPs that had not previously invested in European VC. The EIF's recent launch of the Asset Management Umbrella Fund (AMUF) initiative is expected to considerably improve the involvement of institutional investors and to offer a smart way to invest in European VC in order to ultimately boost the access to finance for European companies.

Other recent EIF initiatives can help to meet a second suggestion from the survey respondents, i.e. the call for more networking and good-practice sharing opportunities: On the occasion of the "Investment Plan for Europe", the EIF-NPI Equity Platform was established as a collaborative initiative that promotes knowledge-sharing and best practices, in this case between EIF and national promotional institutions (NPIs) or banks (NPBs) across EU Member States. Moreover, the EIF organised its first VC conference in October 2017 in Berlin, which was attended, inter alia, by many GP representatives. The second EIF VC conference is planned for October 2018 in Luxembourg. The EIF will also continue to share its market intelligence through publications by the EIF's Research & Market Analysis.

With regard to the length of the investment selection process, the survey has evidenced the need for the EIF to permanently reassess its processes for identifying unnecessary red tape when interacting with its stakeholders. However, the EIF also recognises the need to implement a thorough due diligence process for two reasons: first, due to the strings attached to EU-mandated resources and EU policy objectives which require audit-proof processes that can withstand external/EU scrutiny; and second, due to the fact that, as fund managers themselves indicated, the EIF's investment in a fund is considered a "quality stamp" that attracts other LPs.

In general, the insights gained from the *EIF VC Survey* are intended to further feed into the EIF's internal consultations and to directly contribute to a continuous improvement of the EIF's products and processes in line with market needs. Hence, the *EIF VC Survey* complements both recent and future quantitative analyses of the economic impact of the EIF's VC operations. Furthermore, as the *EIF VC Survey* is going to be repeated on a regular basis, up-to-date information about the European VC market and implications for public policy will be available to both the EIF and its stakeholders. This will contribute to the development of a sustainable VC ecosystem in Europe – a key objective of the EIF.

## ANNEX

### List of acronyms

- Benelux (countries): (countries of) Belgium, Netherlands and Luxembourg
- CEO: Chief Executive Officer
- CESEE (countries): (countries in) Central, Eastern and South-Eastern Europe
- DACH (countries): (countries of) Germany, Austria and Switzerland
- EIB: European Investment Bank
- EIF: European Investment Fund
- EU-28: the 28 EU Member States
- EUR: Euro
- GP: General Partner
- ICT: Information and Communications Technologies
- LP: Limited Partner
- m: million
- Nordics: Denmark, Finland, Norway, Sweden
- NPB: National Promotional Bank
- NPI: National Promotional Institution
- RMA: Research and Market Analysis
- SME: Small and Medium-sized Enterprise
- South: (here) Italy, Portugal, Spain
- UK: United Kingdom
- VC: Venture Capital

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## About ...

### ... the European Investment Fund

The European Investment Fund (EIF) is Europe's leading risk finance provider for small and medium-sized enterprises (SMEs) and mid-caps, with a central mission to facilitate their access to finance. As part of the European Investment Bank (EIB) Group, the EIF designs, promotes and implements equity and debt financial instruments which specifically target the needs of these market segments.

In this role, the EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment. The EIF manages resources on behalf of the EIB, the European Commission, national and regional authorities and other third parties. EIF support to enterprises is provided through a wide range of selected financial intermediaries across Europe. The EIF is a public-private partnership whose tripartite shareholding structure includes the EIB, the European Union represented by the European Commission and various public and private financial institutions from European Union Member States and Turkey. For further information, please visit [www.eif.org](http://www.eif.org).

### ... EIF's Research & Market Analysis

Research & Market Analysis (RMA) supports the EIF's strategic decision-making, product development and mandate management processes through applied research and market analyses. RMA works as internal advisor, participates in international fora and maintains liaison with many organisations and institutions.

### ... this Working Paper series

The EIF Working Papers are designed to make available to a wider readership selected topics and studies in relation to the EIF's business. The Working Papers are edited by the EIF's Research & Market Analysis and are typically authored or co-authored by EIF staff, or written in cooperation with the EIF. The Working Papers are usually available only in English and distributed in electronic form (pdf).

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