EUROPEAN
INVESTMENT
FUND

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EIF Corporate Operational Plan 2019-2021

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Executive summary

The EIF's Corporate Operational Plan (COP) presents the strategy and sets the targets for the next three years with orientations for 2019 and preliminary indications for 2020 and 2021. This COP will be characterised by the prolongation of EFSI 2 until 2020 and the start of the next Multi-Annual Financial Framework (MFF).All projections (volumes, financial, risk…) assume that the European economic growth is set to continue, albeit at a moderate pace.

The high growth required by the delivery of EFSI 1 since 2015 has led EIF to consume more capital than planned at the time of the 2014 capital increase. As a result, a number of capital consumption measures were taken to mitigate the impact of this growth on the consumption of own funds, to make EIF's business model more sustainable and to push the need for the next capital increase after 2020. These capital optimisation measures (freezing of discretionary portfolio, higher degree of selectivity for the use of EIF's own funds, reduction of dividends and no further allocations to sub-investment grade securitisation) were put in place with rapid and positive effects, resulting in a stabilisation of the situation, particularly for the RAC ratio, which is now expected to remain in AAA territory until 2021. Further capital optimisation measures (secondary sales, credit protection) might be put in place, if needed.

The strong market demand should drive an increase in signature volumes for the period 2018 to 2021 to about EUR 10bn per year (see table 1), placing them slightly above the EUR 9-9.1bn initial projections. This increase will be achieved through new resources coming mainly from the deployment of additional regional mandates, the new EFSI 2 resources (top up of existing mandates and development of new products) and the acceleration of the fundraising from the "4th Pillar" initiative (Asset Management Umbrella Fund or AMUF).

Over the period of this COP, the implementation of EFSI 2 will be one of the key objectives and it will prepare the EIF for the challenges of the next programming period 2021-27 under the next MFF. As part of the EIB Group, the EIF will remain a key partner for the implementation of the next MFF via InvestEU. EIF will continue to collaborate with the European Commission on key EU initiatives in line with the Capital Markets Union action plan.

EIF's economic capital should underpin the EIF's activity sufficiently at least until 2021. However, statutory limits for equity and the evolution of capital adequacy ratios (such as the RAC ratio) will approach the "warning zone" under the EIF's risk appetite framework in 2020. To allow EIF to continue to fulfil the important role it has played in the area of SME financing, a capital increase needs to be envisaged in 2021[1].

EIF will continue to operate under strict cost control to maintain a 55%-60% cost/income ratio, and based on current assumptions, an annual net income is expected to be in the range of EUR 110m-120m.

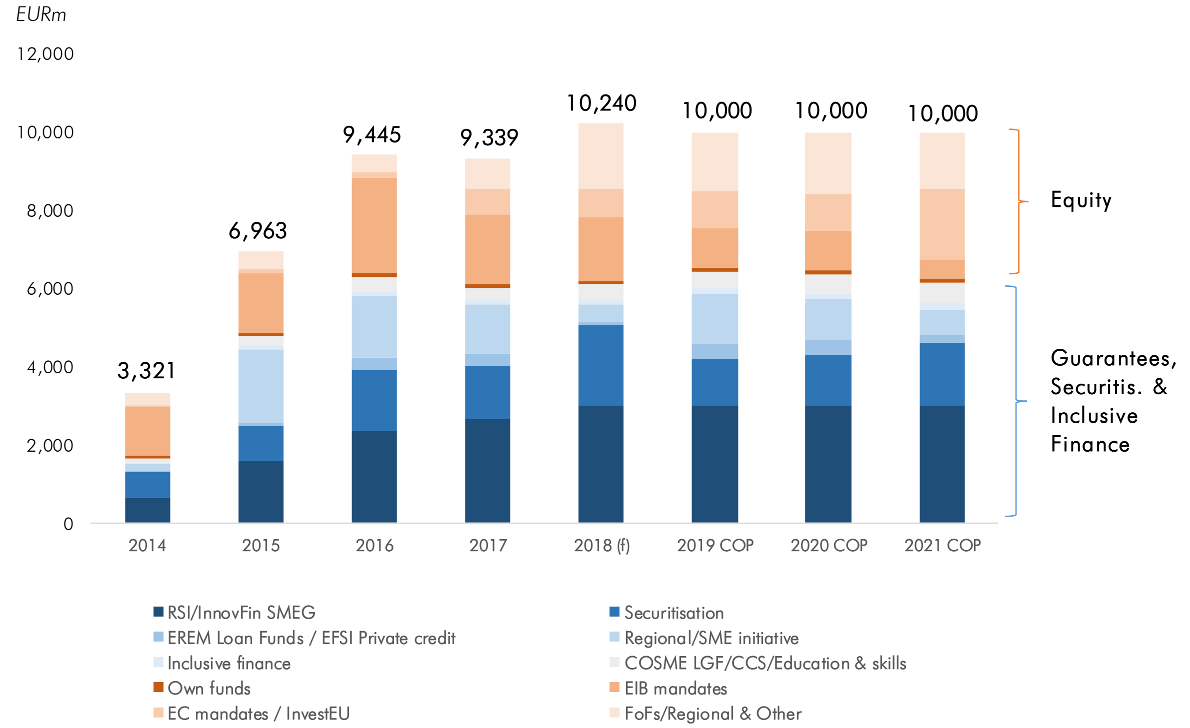
The EIF will conduct its current and projected activities within an EIF sustainability framework, to be developed in line with the sustainability objectives set by the EIB's Board of Directors.

[1] Such timing is consistent with the assumptions of the previous capital increase that was intended to provide the necessary capital for the period 2014-2020.

Table 1: Consolidated volumes

EUR m	COP 2018 COP	YE expected 2018	COP 2019-2021 2019 COP	2020 COP	2021 COP
Equity	3,895	4,135	3,570	3,630	3,860
Guarantees, Securitis. & Inclusive Finance	5,105	6,105	6,430	6,370	6,140
Total committed	9,000	10,240	10,000	10,000	10,000
Total number of transactions	358	400	392	393	395
Total leveraged volumes	30,400	46,400	44,600	44,700	45,000

Chart 1: Volumes evolution[2]



[2] Darker colours indicate the intensity of capital consumption.

1 EIF key strategic objectives

The COP 2019-2021 focuses on some specific key areas and strategic objectives, including:

- *Delivery on the Investment Plan for Europe*

EIF will be deploying the second phase of the European Fund for Strategic Investments (EFSI 2) through top-ups of existing EC/EFSI programmes, the introduction of new products/pilots in preparation of InvestEU (combination of EARDF/EFSI, debt funds) and the continuation of equity products targeting early to later stage companies and the growth equity finance end of the market (scale up financing). The overall internal target of mobilised investment for the EFSI SME Window (SMEW) has been increased to EUR 157.5bn for the whole COP period.

- *Collaboration with EC on Policy Objectives*

EIF, as part of EIB Group, will continue to collaborate with the EC on key EU initiatives to prepare the ground for InvestEU, to further diversify its efforts and its geographic reach and to deliver on policy objectives under the existing EU initiatives in which it is involved. EIF and the EC will jointly assess the possibility to extend EIF's activity to new sectors, such as digitalisation, bio-economy and energy efficiency sectors, in consultation with EIB, in order to increase activity in important policy and social impact areas. This will allow EIF to both diversify its interventions and to contribute further to EU policy objectives.

- *Further developing EIF's impact culture*

EIF's overarching approach in providing risk finance across Europe is to catalyse and crowd-in private sector money for the benefit of SMEs – in all activities and especially in the private equity area. EIF attaches great importance to the real impact of the support on the market and, in particular, on final beneficiaries, the SMEs. In the context of further developing EIF's "impact culture", EIF continues to strengthen its specific research activity to assess ex-post the additionality and impact of its activities. Furthermore, this regular analysis will be rolled out to all of EIF's business areas.

- *Cooperation with EIF shareholders and National Promotional Institutions*

EIF will maintain its strong level of cooperation with shareholders and intensify its relationship with NPIs, leveraging on the platforms launched for private equity and securitisation activities and exploring new opportunities, such as debt funds. This should translate into an increased number of transactions with NPIs, as well as continued exchanges on best market practice and the discussion of concrete mandate opportunities with shareholders and NPIs generally.

- *Accelerate the development of the "4th pillar" initiative*

EIF will continue to focus on the development of the "4th Pillar" initiative, via AMUF and sovereign wealth fund, with a EUR 2bn fundraising target over the next 2-3 years. This will crowd in private capital into the EU's SME sector while providing external private sector investors with an investment vehicle to access European fund managers of institutionally investable quality.

- *Implementation of capital optimisation measures and a sustainable operating model*

EIF will strengthen its resolution to make good use of its sustainable resource base and continue to implement the capital optimisation measures designed to (1) maintain its AAA rating and (2) assure its self-sustainability until end-2020. Additional measures (such as secondary sale or credit protection) could be activated, as needed. EIF targets a long-term Return on Equity (RoE) in the range of 4.0%-6.0% on average and a cost/income ratio in the range of 55%-60%.

2 Business planning

2.1 MFF 2021-2027 and the InvestEU Programme

The next Multi-annual Financial Framework, also known as the EU budget, will run from 2021 to 2027. The EC has put forward several MFF-related regulations relevant for the EIF: InvestEU Programme, CPR (Common Provisions Regulation), NDICI (Neighbourhood, Development and International Cooperation Instrument), as well as IPA III (Instrument for Pre-Accession Assistance). EIF, together with the EIB, is proactively contributing to enhance the MFF legislative framework, particularly focusing on the InvestEU regulation.

InvestEU brings together under one programme the multitude of EU financial instruments currently available, building upon the model of EFSI. It consists of an EU budget guarantee of EUR 38bn, matched by an additional EUR 9.5bn from implementing financial institutions, aiming to leverage some EUR 650bn in investments (multiplier 13.7). EC expects EIB Group to deploy at least 75% (EUR 28.5bn), via 4 policy windows: (i) Sustainable Infrastructure; (ii) Research, Innovation and Digitisation (; (iii) Social Investments and Skills (; and (iv) SMEs. The EC proposal reserves the remainder of the guarantee (up to 25%) for other implementing partners, namely NPBIs and other IFIs.

At the time of production of the COP document, the discussions between EIBG and the EC were still ongoing on many aspects of the EC proposal, including on EIBG suggestions on how to improve the governance and deployment modalities of the EC guarantee. EIBG value proposition inside EU crosscuts the four policy windows with several flagships: Loan Flagship, Guarantee Flagship and Equity Flagship. In addition, a Grant to Loan/Equity Flagship is proposed to support EC's proposal in relation to the European Innovation Council.

It remains to be seen what the outcome of the EIBG inputs in the legislative process in the Council-Parliament-Commission trialogue will be. Hence, the above figures should be taken as first preliminary assumptions only.

2.2 Equity investments

2.2.1 Equity strategy

Private equity and Venture Capital are considered essential sources of finance for enterprises at all stages, spanning from start-ups to young and high growth companies. External equity finance is not to be seen as a substitute for bank lending, but as significant contribution for innovation, productivity gains, internationalization and thus overall development of the entrepreneurial tissue.

The European capital market is very heterogeneous and is still lagging behind global key markets such as the U.S. and Israel, and it is rapidly losing ground vis-a-vis the Asian markets.

Europe is suffering from a lack of VC funding capacity across the entire spectrum of company development stages and industry sectors with a particular financing gap identified for (a) seed and (b) scale up finance. Overall, despite economies being comparable in size, the breadth and width of Europe's VC market lags behind the U.S. Even if differences between European sub-markets prevail, European SMEs have a more difficult access to equity in their home market than their U.S. or Asian peers, especially when reaching a size of activity where they can claim category leadership in their respective industry.

In this context, EIF pursues an equity strategy that is based on an ecosystem-building approach to address significant part of the funding chain, seeking to act as a catalyst for private sector capital. More generally, EIF interfaces its intervention logic to promote market dynamics in such a way as to lead the European risk capital market to long-term self-sustainability and to the largest possible independence from public sector support.

In pursuing its value added strategy, EIF relies on various funding sources that show a diversified mix of risk/return profiles and policy objectives. Today, EIF's funding sources predominantly rely on three pillars: EIB, EC and member states/NPIs. These three historic sources of funds have recently been complemented by an investment platform (AMUF – "4th Pillar" initiative) through which EIF seeks to attract institutional private sector capital to the European risk capital market.

From EIF's own perspective, both the current funding base and fee income appear adequate for EIF to play its role as a powerful market catalyst. However, growing capital and resources constraints of its traditional resource providers, notably the EIB and the EC, suggest that, in the medium term, EIF is likely to face challenges for being funded at a level sufficient to sustain its value added role in the market.

During the current COP period, strategic priorities of the EIF reflect the policy objectives of the EC. In the current market environment, showing an increased private sector interest for the asset class of Venture Capital and Private Equity, EIF's focus will be on:

- Catalyse and facilitate the consolidation and expansion of private sector commitment to PE and VC through targeted and suitably scaled funds that represent the backbone of the European risk capital market;
- Promote investments into the late stage VC space to narrow the gap with the U.S. and to allow European SMEs accessing capital from within Europe to fund their globalisation efforts;
- Support the growth of a focused PE and VC industry backing investments into sectors of strategic importance, such as security and disruptive technologies, circular economy, blue economy, sustainable agriculture;
- Develop investment products for social and environmental impact, including social entrepreneurship funds, , social and environmental impact funds;
- Design investment products connecting grants to equity and quasi-equity to support the commercialisation of research results and intellectual property.

In particular, the following initiatives are envisaged for the next COP period:

- Optimisation of RCR funding by increasing the resources of Fund-of-Funds (FoFs) structures on national and regional level. EUR 1.2bn of RCR commitments expected per annum, include EUR 200m for FoFs structures. This ceiling[3] could be reviewed once EIB capital replacement is achieved and taking into account the level of annual reflows.
- Launch of new FoFs for both national and cross-regional equity activities, including the top-up of BIF, Central Europe FoFs, DVI III.
- The Silk Road Fund mandate (CECIF) will be fully implemented during 2020 or earlier, and the pursuit of collaborative programmes with new geographies (e.g. Japan) in cooperation with the EC will also be targeted.
- Implementation of the new EFSI 2 SMEW including the development of new equity products, e.g. scale up finance under ESCALAR.
- Diversifying funding sources by expanding to institutional investors' resources. This involves the strengthening of AMUF product offering including the launch of the 4th AMUF compartment focusing on European Secondaries (see section 2.4).
- Assisting the EC, in cooperation with the EIB[4], with the design and structuring and possibly deployment of equity support in the framework of the EIC pilot Accelerator (making direct investments - through blended finance (grants & equity) - into high-risk, market-creating

[3] To be agreed with EIB.
[4] EIB Advisory Services have been asked by EC (DGRTD) to carry out a market assessment.

innovations requiring patient capital). This H2020 initiative should pave the way to a more sizeable fully-fledged programme under the next MFF.

- Continuation of leveraging EFSI through co-investment with NPIs (total commitments of EUR 268m during the COP period under signed contracts and EUR 200m of new signatures are included in the InvestEU line of table 3), in order to maximise the overall policy impact across the full portfolio of instruments.
- Contribution of various ESIF mandates, including the development of concepts for smart recycling of funds (reflows from ESIF, e.g. JEREMIE Bulgaria).
- Continuation of the European Business Angels compartments (EAF) in co-operation with local partners with expected volumes of approximately EUR 50m p.a. (Austria, Denmark, Finland, Germany, Ireland, Italy and Spain plus a Pan-EU programme).

2.2.2 Equity activity

On the basis of the strategy outlined above, Table 3 presents EIF forecasted commitment volumes, as well as the related leverage effect for the years 2019 to 2021. Overall, equity investments are expected to grow steadily, although a limited downturn is expected in 2019, given the uncertainties for RCR availability and the end of the programme for Pan-EU FoFs.

Table 3: Equity/Hybrid Debt - Equity commitments

	COP	YE expected	COP 2019-2021		
EUR m	2018 COP	2018	2019 COP	2020 COP	2021 COP
LMM	1,902	2,055	1,924	1,960	2,072
ITI	1,600	1,732	1,571	1,670	1,789
FoF (Pan EU)	393	348	75		
Total committed	**3,895**	**4,135**	**3,570**	**3,630**	**3,860**
By resource:					
Own funds	63	84	101	93	106
EC Mandates	559	754	953	969	
InvestEU (EIB/EC/NPIs)					1,800
EIB Mandates	1,762	1,621	1,008	1,000	500
Loan Funds (Selective)	*105*	*57*			
RCR/RCR-EFSI/MCIF (Co-investments)*	*816*	*1,005*	*1,008*	*1,000*	*500*
EIB SLA	*841*	*559*			
Regional Mandates	668	844	465	384	360
EAF (Business Angels)	77	75	50	53	53
NPI	183	117	151	71	47
FoF (Pan EU/Regional)	393	348	75		
Silk Road	100	85	100	65	
AMUF	90	207	668	995	995
TOTAL EQUITY	**3,895**	**4,135**	**3,570**	**3,630**	**3,860**
Total leveraged volumes	**12,500**	**19,600**	**16,400**	**16,700**	**18,000**

** Total RCR including InvestEU and FoFs earmarked capped to EUR 1.2bn per year for 2019-2021.*

2.3 Guarantees, securitisation and inclusive finance (GS&M)

2.3.1 GS&M strategy

The main products in the GS&M spectrum, such as securitisation, guarantees, debt funds, regional mandates and inclusive finance are analysed below.

2.3.1.1 Securitisation

Securitisation is one of EIF's area of expertise, attending strong market demand for reasons of capital relief and contributing to EIB EFSI volumes. EIF will continue strengthening the cooperation with the NPIs as partners in securitisation transactions through the ENSI initiative. Following the Funding Circle and Auto Hellas' securitisation success stories, EIF anticipates renewed interest in securitisation by non-bank lenders and fintech platforms, as an effective means to leverage their funding sources and scale up their SME lending.

EIF is expected to continue analysing and structuring on behalf of the EIB non-SME ABS transactions through the existing ABS SLA for a total amount of EUR 1bn p.a. over the COP period.

2.3.1.2 Uncapped and capped Guarantees

Strong and persistent market demand for EIF portfolio guarantee products will lead to increased volumes for the COP period (above EUR 6bn p.a.). EIF will face challenges in managing the strong demand for its products, but EFSI 2 will provide breathing space until 2020.

In detail, the following activities have been considered during the COP period:

- The InnovFin SMEG mandate, a solid, standardised and scaled-up product, continues to meet strong interest. EIF plans to sign EUR 3bn of volumes p.a. until 2020, mainly under EFSI 2. Depending on the availability of InvestEU, uncapped guarantees similar to the InnovFin guarantee product shall continue to be offered from 2021 onwards.
- COSME LGF, a first-loss-piece portfolio guarantee attracts strong demand. Benefiting from EFSI 2 resources, the product will be fully deployed by 2020 (with approximately EUR 400m p.a.). Similar to InnovFin SMEG, after 2020, the volumes available for capped guarantee products will depend on the proposed resources and their availability.

2.3.1.3 Debt Funds

New products under EFSI 2 are in preparation to support this segment of the market, given that the EIB mandate EREM will not anymore provide any budget for Loan Funds activities. The EFSI Private Credit Facility for SMEs includes a cash investment product (funded product) and an investor guarantee product (unfunded product) and is planned to generate a total volume of EUR 1bn for the whole COP period.

2.3.1.4 Regional mandates

Regional mandates and increases of SME Initiative programmes are expected to represent a significant share of the activity in 2019/2020. Approximately EUR 1.8bn is expected to be dedicated during the COP period to SME Initiative programmes covering Spain, Finland, Italy and other countries. New mandates covering the agricultural sector under a EUR 100m EFSI platform are also planned to be rolled out to new countries after the first signatures in 2018.

2.3.1.5 Inclusive Finance

EIF is already successfully deploying the guarantee window of the EaSI programme, focusing on microfinance and social entrepreneurship. Two new mandates under EaSI - capacity building and funded products - are included in the COP period for a total commitment of EUR 215m.

2.3.2 GS&M activity

Given the above considerations, Table 4, presents EIF's GS&M commitments and the related leverage effect.

Table 4: Guarantee/Inclusive Finance commitments

	COP	YE expected	COP 2019-2021		
EUR m	2018 COP	2018	2019 COP	2020 COP	2021 COP
Securitisation (EIF OR/EIB/IIW ABS)	1,200	2,072	1,200	1,300	1,600
InnovFin SMEG	2,500	3,000	3,000	3,000	
Uncapped guarantee product					3,000
COSME LGF	340	375	380	400	
Capped guarantee product					420
Education & skills/Creative & Cultur. Sect.	65	31	53	100	100
Regional Mandates & SME initiative	555	460	1,317	1,030	622
Debt Funds	350		370	400	230
EREM Loan Funds		68			
Inclusive Finance (EaSI/CBSI)	95	99	110	140	168
TOTAL GS&M	5,105	6,105	6,430	6,370	6,140
EIB ABS SLA	1,000	1,812	1,000	1,000	1,000
Total leveraged volumes	17,900	26,800	28,200	28,000	27,000

2.4 Fundraising from Institutional Investors ("4th Pillar" initiative)

The AMUF initiative provides private sector institutional investors with an investment vehicle to access European fund managers of institutionally investable quality in various sectors and market segments. EIF seeks to provide a conduit for accessing these markets for players that typically would otherwise not invest in this space, or cannot do so because of size limitations on both sides of the spectrum (e.g. too small or too large PE funds).

Against this background, EIF's offering to the external third-party investors is mainly directed towards:

- Non-European Sovereign Wealth Funds with very sizable assets under management;
- Large non-European institutional investors who lack the knowledge and market expertise to access the European market directly;
- Small to mid-size European institutions (predominantly insurance companies and pension funds) who cannot or do not want to afford an expensive infrastructure to access this asset class directly;
- Banks, Corporates and other investment institutions;
- Selected large scale European and non-European family offices.

In accessing these funding sources, EIF is able to crowd in private sector funding in segments where there is a genuine private sector interest and redirect public policy's resources to market segments and geographies that, representing sub-optimal investment structures, require additional market guidance and support for seeding and developing a sustainable market ecosystem.

Additionally, EIF and EIB are jointly exploring a distinct, but related capital-raising activity, named the Secondary Sales Programme. Under the proposed Pilot Transaction (called "Lomond Project"), a new vehicle ("Managed Fund") will be established which will raise funds from investor(s) for carrying out the following investment strategies through the Managed Fund: (i) acquisition from EIF of part of the interests that EIF holds in private equity and venture capital funds funded from the RCR mandate and EIF own resources ("Asset Portfolio") and (ii) a new investment into AMUF and/or other direct primary fund investments. EIF will act as an advisor in the Managed Fund and, as such, the transaction is not expected to materially impact the day-to-day management of these funds or the relationship with fund managers.

Subject to the final approval of EIB and EIF governing bodies, this transaction is expected to be concluded in the next months. Secondary sales will be carried out as part of an agreed framework that, as relevant, caters for EIB Group capital optimisation measures, while reflecting the needs of both the EIB and the EIF, notably in terms of the sustainability of their business activities.

Appendix 1: Glossary of Terms

ABS	Asset-Backed Securities
AMUF	Asset Management Umbrella Fund
BIF	Baltic Innovation Fund
CBSI	Cooperative Banks and Smaller Institutions Instrument
CCS	Cultural and Creative Sectors
CECIF	China EU Co-Investment Fund
COP	Corporate Operational Plan
COSME	Competitiveness for SMEs
CPR	Common Provision Regulation
DVI	Dutch Venture Initiative
EAF	European Angel Funds
EARDF	European Agricultural Rural Development Fund
EaSI	European Union Programme for Employment and Social Innovation
EFSI	European Fund for Strategic Investments
EIBG	EIB Group
EIC-A	European Innovation Council - Accelerator
ENSI	EIF-NPI Securitisation Initiative
EREM	EIB Group Risk Enhancement Mandate
ESCALAR	European Scale-up Action for Risk capital
ESIF	EU Structural and Investment Fund
EU	European Union
FIs	Financial Intermediaries
FoF	Fund of Funds
GS&M	Guarantees, Securitisation & Microfinance– EIF Service
IFE	InnovFin Equity
IIW	Infrastructure and Innovation Window
IPA	Instrument for Pre-Accession Assistance
ITI	Investment Technology and Innovation
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LGF	Loan Guarantee Facility
LMM	Lower Mid-Market
MCIF	Mezzanine Co-Investment Facility
MFF	Multi-Annual Financial Framework

NDICI	Neighbourhood, Development and International Cooperation Instrument
NPI	National Promotional Institution
PE	Private Equity
P&L	Profit and Loss
RAC	Risk Adjusted Capital
RCR	Risk Capital Resources
ROE	Return On average Equity
RSI	Risk Sharing Instrument
SLA	Service Level Agreement
SME	Small and Medium-sized Enterprise
SMEW	SME Window
SMEG	SME Guarantee Facility
STS	Simple, Transparent and Standardised
VC	Venture Capital
YE	Year End