

## THE PAN-EUROPEAN VC FUND(S)-OF-FUNDS PROGRAMME

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This document provides some information on the terms of the Pan-European VC Fund(s)-of-Funds Programme and its related documentation. This document is not, and should not be construed as, a binding document. It does not provide a detailed description of any party's rights and obligations under the Pan-European VC Fund(s)-of-Funds Programme documentation and should not be used to construe any of the terms set out thereunder. This document is qualified in its entirety by the terms and conditions contained in the relevant Pan-European VC Fund(s)-of-Funds Programme documentation. This document does not constitute an offer of any nature whatsoever and does not create any binding obligations on EIF to enter into a contract with any third party in relation to the Pan-European VC Fund(s)-of-Funds Programme or otherwise.

### -FREQUENTLY ASKED QUESTIONS-

Published on 21 December 2016

In accordance with the provisions of the [Call for Expression of Interest](#) (the "Call") published on EIF's website on 8 November 2016 to select Fund-of-Funds Promoter(s) under the Pan-European VC Fund(s)-of-Funds Programme, you will find here below a list of the most commonly asked questions.

Unless defined otherwise in this FAQ, all capitalized expressions used in this document shall have the meaning attributed to them in the above-mentioned Call for Expression of Interest.

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## 1. What is the aim of the Pan-European VC Fund(s)-of-Funds Programme?

The Pan-European Venture Capital Fund(s)-of-Funds Programme (the 'Programme') aims to address Europe's equity gap, the fragmentation of the VC market and to attract additional private funding from institutional investors into the EU venture capital asset class.

The Programme is sponsored by the European Union (EU) and forms part of the [Investment Plan for Europe](#), the [Capital Markets Union Action Plan](#), [Digital Single Market strategy](#), the [Single Market Strategy](#) and [Open Innovation strand of Horizon 2020](#).

Under the Programme EIF is looking to invest, using resources of the Horizon 2020 InnovFin Equity facility, EFSI Equity Instrument, COSME Equity Facility for Growth and EIF's own resources, in private-sector led, market-driven Pan-European VC Fund(s)-of-funds (the "Fund(s)-of-Funds").

The interested Fund-of-Funds Promoters are invited to apply to the Call by 31 January 2017 at the latest.

## 2. What's the role of EIF and EC in the Programme?

European Commission, possibly with assistance of independent experts, will pre-select applications received by EIF under the Programme by scoring them against 'policy fit' criteria set out in the call.

EIF is entrusted by the European Commission to administer the Call process, assess the pre-selected applications for the "expected performance" pursuant to its investment process, rank and select investment proposals, allocate the available Programme funding among the selected proposals, conduct the contractual negotiations with selected Fund-of-Funds Promoters and invest in qualifying Fund(s)-of-Funds. EIF will play the role of a Limited Partner (LP) in each Fund-of-Funds in which it invests.

## 3. Is the Programme a one-off investment programme into venture capital fund-of-funds by EIF or will you allocate capital again in the future?

**Is the structure of the Pan-European VC Fund(s)-of-Funds closed ended or evergreen (have an infinite life)?**

The Programme is closed-ended, where EIF targets to deploy investments in qualifying Fund(s)-of-Funds for the aggregate amount of EUR 300 million. Additional funding (to those already made available from EFSI and Horizon 2020) is expected to be available from the COSME Equity Facility for Growth, and in such a case the total target size of the Programme could be increased to EUR 400 million.

The structure of the Pan-European VC Fund(s)-of-Funds also is closed ended, with a finite life.

**4. Will EIF create a new financial vehicle under the Programme?**

Under the Programme EIF does not create any vehicle. Under the Programme EIF seeks to invest in one or more Pan-European VC Fund-of-Funds. The Call is addressed and restricted to interested Fund-of-Funds Promoters that wish to establish and manage or advise a Fund-of-Funds to be financed under the Programme. The Fund-of-Funds Promoter could have already established the vehicle at the time of application, or plan to do so in the future. The indicative requirements for the Fund-of-Funds under the Programme are set out in the Schedule I of the Call.

**5. How many Pan-European VC Funds-of-Funds can be financed under the Programme?**

Under the Programme, EIF targets investments in one or more Pan-European VC Funds-of-Funds, depending inter alia on the number of quality applications and the proposed Funds-of-Funds sizes. Any single commitment may be made up to 25% of a Fund-of-Funds' total commitments up to EUR 300 million.

**6. What's the difference between the Pan-European VC Fund(s)-of-Funds Programme and InnovFin Fund-of-Funds product?**

The Programme targets sizable fund(s)-of-funds with at least EUR 500 million of commitments, a pan-European investment strategy and clear goals for attracting substantial private investment of at least 50% of its aggregate commitments. Under the Programme EIF can commit to a single Fund-of-Funds up to EUR 300 million and not more than 25% of a Fund-of-Funds' total commitments. The Call is close-ended with deadline for applications of 31 January 2017.

In contrast to the Programme, under 'InnovFin Fund-of-Funds' EIF targets smaller scale venture capital funds-of-funds with potentially a narrower (regional) geographical reach. The maximum investment to a fund-of-funds under InnovFin Fund-of-Funds is limited to EUR 50 million but the minimum private capital investment is 30% of total fund-of-funds commitments. InnovFin Fund-of-Funds is focused on early stage however EIF may combine other resources under its management to effectively target balanced strategies. It is open to cooperate with fund-of-funds covering EU and Horizon 2020 Associated Countries. Further information about InnovFin Fund-of-Funds can be found [here](#). InnovFin Fund-of-Funds is a part of InnovFin Equity, which is deployed as part of the EFSI Equity Instrument, for which the respective call for expression of interest is published [here](#).

**7. Can a Fund-of-Funds Promoter submit an application for the Pan-European VC Fund(s)-of-Funds Programme and InnovFin Funds-of-Funds?**

As noted in the response to question 6, the scope, scale and requirements of the respective calls for expression of interest differ. The fund-of-funds promoters must decide themselves

which product is most suitable for their investment proposal. In the case where EIF receives applications to both calls for expression of interest with respect to the same fund-of-funds proposal it will proceed in assessing the application made under the Programme first. As a general rule, EIF may proceed with the other application only upon withdrawal of the application by the fund-of-fund sponsor from the Programme or, as case may be, upon rejection of the application from the Programme. In the case the application under the Programme was selected and funded EIF will not proceed with the other application. Without prejudice to the above, EIF may consider applications from the Fund-of-Funds Promoter(s) under the Programme and other EIF's equity initiatives if they relate to separate investment proposals.

## **8. How can a fund-of funds be selected under the Programme?**

A fund-of-funds proposal may be selected under the Programme provided that:

- a) It complies with criteria as described in the Call.
- b) The Fund-of-Funds Promoter completes and submits to EIF its "Expression of Interest" with accompanying documentation according to the provisions of the Call by 31 January 2017.
- c) The investment proposal is selected and funded by EIF following the procedure outlined in the Call.
- d) The formal approval of EIF by its governing bodies and the contractual negotiations are satisfactorily completed.

Any requests for pre-screening of proposals or submitting any documents in the Call Period without the Expression of Interest being duly signed will not be considered. In the Call Period EIF does not provide any advice or guidance in preparing the applications to the Programme other than by this FAQ.

## **9. Are Fund-of-Funds Promoters established outside EU eligible applicants under the Pan-European VC Fund(s)-of-Funds Programme?**

While a Fund-of-Funds vehicle shall be established in the EU, the Fund-of-Funds Promoters are required to have, or be prepared to establish, a substantial presence in the EU, which will at least include to have, or be prepared to establish, in the EU an office of the Fund-of-Funds' manager that is an active investment office which is staffed with senior investment professionals at least one of whom is a member of the Fund-of-Funds Promoters' investment committee (or similar decision-making body) responsible for making the investment decisions for the Fund-of-Funds.

## **10. How long will the selection process take? When does EIF expect to complete its first investments in the Fund-of-Funds?**

Depending on number of received applications to the Programme, EIF expects to complete the selection process within a few months. This would include the EC preselection and EIF assessment process ending with EIF approval of the selected investment proposals. Thereafter the time to close individual transactions with selected Funds-of-Funds would depend on the pace of negotiations with the respective Fund-of-Funds Promoters on the Programme Investment's documentation and the fundraising progress of the Funds-of-Funds.

First Programme Investments are expected to be made as from the 3<sup>rd</sup> quarter of 2017.

**11. Will the possible (i.e. not yet formally notified) withdrawal of the United Kingdom from the European Union impact the selection of Fund-of-Fund managers established in the United Kingdom?**

The United Kingdom is currently a Member State of the EU. Applications from Fund-of-Fund managers established in that country will be assessed in the same way as any application coming from any other Member State, without prejudice to possible orientations by the Council.

**12. Should the United Kingdom leave the European Union during the implementation period of the Programme, how will it impact operations of selected Fund-of-Funds?**

Currently it is a standard legal feature in contracts concluded by the EIF with Financial Intermediaries that a defined percentage of final recipients (here "Target Investees") are considered as eligible if established or operating in a Member State of the Union at the time of the first investment by the financial intermediary. Should a Member State leave the European Union during the implementation period of a selected Fund-of-Funds, such a rule could apply unless the negotiated withdrawal arrangements provide another solution. In any case, appropriate guidance will be provided to the affected interested parties in due time.

**13. Will fund promoters from countries with less developed venture capital markets who want to start their first fund-of-funds be considered under the Call?**

The Call is addressed to any Fund-of-Funds Promoters including parties that wish to set up new fund-of-funds. The applications will be assessed pursuant to the policy fit criteria and expected performance criteria in accordance with the Call. In particular the applicants that would focus on EU Member states with lower ratio of private equity investment to GDP than EU average will score higher on the policy fit criterion set out under the section 5(1)(c) of the Call.

**14. Are National Promotional Banks (NPBs) investing their own resources at their own risk considered for the Pan-European VC Fund(s)-of-Funds Programme?**

According to Schedule I of the Call, NPBs investing own resources for their own risk and on commercial terms, fall into the category of Independent Private Investors. However, NPBs' potential commitments are not taken into account for the crowding-in of private fundraising policy fit criterion set out under the section 5.1 (a) of the Call. As the Programme is addressed to private sector led Fund(s)-of-Funds' Promoters EIF, EIB and NPBs may not apply to become the Funds-of-Funds Promoters.

**15. Can amounts exceeding the Minimum Allocation be invested outside EU?**

To be considered under the Call at least 50% of the aggregate investable amounts of Investee Funds of the Fund-of-Funds must be invested in EU Target Investees, which are established or operating in the EU. The remainder may be invested in other type investees, e.g. outside of EU Member States. However, the higher the percentage of investable amounts in EU Target Investees enshrined in the Funds-of-Funds documentation the higher the score of the policy fit criterion set out in the section 5.1 (e) of the Call and the higher the chance for selection under the Programme.

**16. Why is there a range from 7.5% to 25% for the amount that EIF would commit to the proposed Fund-of-Funds as opposed to a single percentage of say 25%?**

There is not a one fit all investment ticket to be made by EIF under the Programme. Depending, inter alia, on the Fund-of-Funds' size, quality of the investment proposal, investment strategy and the Fund-of-Funds fundraising situation EIF may commit between 7.5% to 25% of the actual Fund-of-Funds' size.

**17. Does EIF have a preference on legal structure/domicile for the Fund-of -Funds?**

A Fund-of-Funds vehicle must be established in a EU Member State and be (or preparing to be prior to any commitment by EIF) AIFMD compliant. As part of its assessment and due diligence process, EIF will evaluate the legal structure of the Funds-of-Funds in line with the principles of the OECD Action Plan on Base Erosion and Profit Shifting (BEPS) and EU Anti-Tax Avoidance Package (ATAP).

**18. Will EIF consider offering terms to private investors similar to those offered to Canadian investors in the Canadian VC Fund-of-Funds vehicles, where the government money is subordinated?**

Given the flexibility offered under the Programme enabling the Fund-of-Funds Promoters to build commercially viable strategies, no subordination or asymmetric return sharing will be provided. Investments made by EIF under the Programme into selected Fund(s)-of-Funds will be at least on a pari-passu basis with other investors in the Fund(s)-of-Funds concerned. This requirement must apply, in turn, to the Fund(s)-of-Funds investments into underlying Investee Funds.



**19. Can investments cover small and mid-cap buyouts as well as growth stage companies?  
Can majority stakes as well as minorities be considered?**

To be considered under the Call at least 50% of the aggregate investable amounts of Investee Funds of the Fund-of-Funds must be invested in EU Target Investees, which also includes companies in Expansion and Growth phase (See Call, Schedule I, for full definition). This would include both minority and majority Investments into EU Target Investees which would preferably be combined with growth capital rather than pure recapitalisations. Buyouts for the purpose of asset stripping are excluded from the allowed investment strategy.

Without prejudice to the above, at least 30% of all aggregate investable amounts of Investee Funds in the Fund-of-Funds portfolio shall be invested in Early Stage Target Investees.

**20. How much can the Fund-of-Funds invest into secondaries?**

**Will EIF view negatively an investment strategy which includes a component of secondary investments? Does EIF envisage placing any limits on secondary allocations?**

Given the objectives of the Programme of attracting new capital to the European VC market, EIF will expect the Fund(s)-of-Funds to invest predominantly in the primary market. However, the secondary purchases of the stakes in Investee Funds are not forbidden, provided that they are limited in volume and made on an opportunistic basis.

**21. Will you consider an investment strategy which includes co-investments alongside the GPs?  
Does EIF envisage placing any limits on such co-investments?**

The Fund(s)-of-Funds as part of their strategies may co-invest, however only alongside their Investee Funds. However, the Fund-of-Funds Sponsors are expected to describe the co-investment strategy as part of their application.

As a guiding rule, the co-investments may include sidecar commitments to vehicles created and managed by GPs provided that a co-investment ratio of the Funds-of-Funds at the level of the investee company does not exceed 50% and the remainder is made up for by the principal fund (in which the Fund(s)-of-Funds is invested) and other co-investors, if any. Selected co-investments with GPs on an exclusivity basis without participation of the GP's principal fund in such co-investments are not permitted.

**22. Is investment in a larger number of EU Member States based on ultimate expected exposure of the underlying portfolio companies or on the geographic location of the venture capital funds themselves?**

The desired geographical reach of the Fund(s)-of-Funds set out in the section 5.1(b) of the Call as well as the Minimum Allocation set out in the section 5.1(e) of the Call is based on the EU Target Investees not the domiciliation of the Investee Funds.

**23. How many Investee Funds are envisaged in the Fund-of-Funds? What is the optimal VC fund size to invest in?**

**Will you be judging applicants on the size of the funds in which they have invested in the past or on the size of funds they will be targeting? What is the sweet spot regarding amount invested in one fund?**

There is no pre-conceived minimum amount that EIF will require to be invested in a single underlying Investee Fund. The target size of the selected Fund(s)-of-Funds of at least EUR 500 million shall enable bigger investments in underlying Investee Funds and at the same time ensure sufficient diversification. We would expect that a Fund-of-Funds of such size would be able to fund approximately 15-25 Investee Funds. Fund-of-Funds Promoters shall describe and rationalise in their applications their model portfolio reflecting the economics of the Fund-of-Funds proposal.

**24. Will it be possible to obtain a score of “Medium” if the target investment strategy targets to invest less than 30% of the Aggregate Investable Amounts in the countries specified in section 5.1.c) of the call?**

In such case EC will grant the score “Low” for that criterion. If the other scores for the remaining policy fit criteria compensate for that lower score it is not excluded that the overall Policy Fit score of the application may be assessed as higher than “Low” (i.e. at least “Medium”).

**25. Do you expect to be able to assign the score of “Medium” or higher to a fund- of-funds offering a targeted size below EUR 500m?**

In such case EC will grant the score “Low” for that criterion. If the other scores for the remaining policy fit criteria compensate for that lower score it is not excluded that the overall Policy Fit score of the application may be assessed as higher than “Low” (i.e. at least “Medium”).

For an avoidance of doubt, in order to rank at least “Medium” for this criterion the target Fund-of-Fund size must be at least EUR 500 million. However, EIF may enter into a commitment for the actual Fund-of-Fund size lower than the target Fund-of-Funds’ size, in anticipation of the additional closing. In such case EIF will make a hard commitment of up to 25% of the actual Fund-of-Funds size achieved in EIF’s closing, the remaining portion will be conditional on the Fund-of-Funds reaching its target size within a predetermined period of time, typically 12 months from the closing in which EIF has participated under the Programme.

**26. Would you consider dividing a potential commitment to several funds-of-funds entities by the same fund-of-funds manager in order to achieve a combined venture fund-of-funds size of EUR 500m or above, while respecting the overall geographic restrictions of the Call?**

In the context of the Programme the Fund-of-Funds Promoters may be assessed with respect to only one Fund-of-Funds investment proposal.

**27. Do revenue making companies meet criteria of Early Stage?**

Early Stage refers to the first development phase of an enterprise and the mere occurrence of revenues by a portfolio company (for example as a result of recently launching its product or service on the market, potentially in a testing phase but in any case with no real traction of significant sales growth) does not in itself preclude the portfolio company from qualifying as an Early Stage Target Investee. When revenue generation is an issue to consider, additional factors to take into account are the absolute level of main product sales, which if indicative of large scale or mass market commercialization (often turning the company to EBITDA positive), would evidence that a company is in a later-stage/expansion rather than early stage. Early Stage typically correlates with (pre-)seed and “series A” financing, although in certain sectors later financing rounds may also happen during the Early Stage of a company’s life (e.g. especially in life sciences). It is also notable that, especially with digital/internet businesses, the early presence of cross-border operations is becoming more frequent. Therefore the simple presence of multi-location offices and service/product provision does not mean that a business would still not be classified as Early Stage.

**28. Will the manager be responsible for costs involved in establishing the investment vehicle?**

The types of costs expected to be incurred by a Fund-of-Funds Promoter and other costs to be charged by the Fund-of-Funds shall be described in the application. EIF will assess the management fee and costs proposals in line with prevailing market practice and economics of the Fund-of-Funds.

**29. Would a narrative explanation of incentives covering all compensation, contribution to the GP commitment, carry split and ownership stakes for each individual, without providing specific figures for each senior professional, be acceptable?**

EIF will seek to make an opinion on the Fund(s)-of-Funds team cohesion and stability. The application may provide the narrative description of the pertinent fund-of-funds team compensation details. However, as part of its due diligence, EIF reserves the right to request additional clarifications or supplementary information it deems appropriate to assess the investment proposal, which would normally include a full discussion of team compensation down to an individual level – including any ancillary income outside the Fund-of Funds.

30. Is there any non-financial ancillary reporting required here on metrics like sector concentration, fund raising support given to small managers, overall growth of VC space in EU, etc.?

Apart from the periodic operational and financial reporting to EIF, the Fund-of-Funds Promoters will be asked to collaborate with EIF to provide from time to time any reasonable other information that may be required on the level of the Investee Funds or EU Target Investees to be able to assess e.g.: the growth rate of the portfolio companies (in terms of revenues or headcount), sectors or certain aspects of commercial activities they undertake (in terms of innovation, sustainability), etc.