Cyprus Equity Fund

Open Information Session

Webinar, 4th May 2022
Agenda

1. Welcome Remarks
2. EIF: Supporting regional markets
3. VC opportunity in Cyprus: the Cyprus Equity Fund (key points)
4. The EIF Investment Process
5. Q&A
Welcome Remarks

Constantinos Petrides,
Minister of Finance of the Republic of Cyprus
The EIF as an investor

We do not invest or lend directly. We are not a bank.

We use financial instruments to address gaps, foster sustainability, multiply resources and in doing so, improve access to finance.
The EIF is a unique investor

It offers experience, stability and transparency as a result of EIF's unique role as an EU body

**History & role**

25+ years addressing SME financing gaps through LP investments in funds and bank guarantees

**Public-private partnership**

Our shareholders**

- EIB 61%
- EC 31%
- F.I. 8%

**Own resources & AAA credit rating***

€7.37bn*

own capital base allows EIF to invest alongside investors

AAA credit rating

**Total equity commitments**

More than €28.9bn committed to 1000+ PE & VC funds

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*Total authorised capital (20% paid-in), equal to 7,370 shares with a nominal share value of EUR 1m each.

**On the basis of 6,204 shares subscribed out of the overall authorised capital.

***AAA-rated by three major rating agencies. EIF has a preferred creditor status ("Multilateral Development Bank") allowing a 0% risk weighting to assets guaranteed by EIF.
Our approach
We share risks with our partners multiplying public resources and increasing the supply of finance

**We multiply resources**
We design financial instruments that share risk with funds and, as a result multiply resources

**Increasing the overall supply of finance for small businesses**

**We target funding gaps**
We help our investors support new segments and target specific gaps at a European, national and local level

**Increasing financing options especially where markets don’t work well**

**We nurture ecosystems**
We adopt a selective approach when partnering with funds to build and develop a market that we believe can be self-sustainable in the longer term

**Increasing the number of local partners lending to and investing in small businesses**

(EIF’s investment expertise)
Our approach to ecosystem building
EIF’s involvement brings tangible results

<table>
<thead>
<tr>
<th>Activities</th>
<th>EIF outputs</th>
<th>Intermediate outcomes</th>
<th>Primary SME outcomes</th>
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<tbody>
<tr>
<td>1. Address financing gaps through risk sharing solutions</td>
<td>Create financial instruments to share risks</td>
<td>Increased investment to risky SMEs</td>
<td>Existing SMEs grow faster</td>
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<tr>
<td>2. Establish targeted investment volumes</td>
<td>Intermediaries apply to relevant programme / instrument</td>
<td>Development of local / specialist entrepreneurship ecosystem (equity)</td>
<td>Emerging SMEs develop and grow</td>
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<td>3. Develop required reporting infrastructure</td>
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<td>Financially vulnerable and underserved segments are reached</td>
<td>Improved SME resilience</td>
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<td>Improved SME long-term development</td>
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<td>Improved pace of SME innovation</td>
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<td>Spill over effects from SME activity</td>
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EIF impact measurements:
- Increase in economic output: sales & asset growth
- Increase in job creation: employment growth
- Increase in innovation: growth of intangibles share of assets

EIF: supporting regional markets

The Greek example
Building the Greek VC / PE ecosystem

An ongoing relationship with EIF

2007

JEREMIE Greece
- First JEREMIE funding agreement signed with EIF at EU level
- Comprising both debt and equity financial instruments
- On the equity side, a EUR 50m total contribution supporting 2 seed and early stage VC funds
- Focus on the ICT sector
- A total of 63 companies supported through 69 investments
- Successful exits of portfolio companies yielding returns
- Reflows already used to finance new equity initiatives (Business Angels’ co-investment fund)

The EquiFund initiative
- An ambitious equity initiative of EUR 260m (incl. EIF)
- Broader & deeper investment strategy
- Nine fund managers supported through 3 investment windows
- 129 portfolio companies already supported
- Putting Greece on the global VC map: companies get acquired by global market players and VCs, record exits in record time
- Vibrant ecosystem, creating a virtuous cycle
- Successor funds already raised

2016
The Hellenic Republic Fund of Funds

Option to include more windows already included in the Funding Agreement
Cyprus Equity Fund
(key points)
Key goals & financing sources

- The Republic of Cyprus (‘RoC’) entrusted the EIF with the implementation of the Cyprus Equity Fund (‘CEF’), the first private equity fund in the country supported by public resources.
- Funding Agreement signed in April 2022.
- The main objective of CEF is to address the identified financing gap by facilitating access to finance for innovative SMEs & start-ups active in Cyprus through the implementation of an equity instrument.
- The CEF is co-financed by resources of the Recovery & Resilience Facility of Cyprus (‘RRF’) and refloWS of the JEREMIE initiative and has a total budget of up to EUR 30m.
- In line with objectives set in the Cyprus Recovery & Resilience Plan, the initiative aspires to foster economic development and growth, enhance the competitiveness of SMEs in Cyprus, increase the availability of alternative financing sources and contribute to the enhancement/maturity of the ecosystem for equity and VC investments.
Investment Strategy

Envisages two compartments:

**Acceleration compartment**

- Provide initial financing to emerging entrepreneurs to research, assess and develop an initial concept and work closely with the teams to better understand their actual potential and dynamics

Expected to support the development of the nascent ecosystem, where business ideas first need to be fostered from the very early stages of development in order to mature to solid business projects and enterprises.

**Venture capital compartment**

- Provide follow-on financing to successful graduates from the acceleration compartment, and / or
- Direct investments to innovative companies, which have not been part of the acceleration compartment

Allows to further invest in ideas / teams of the acceleration compartment that proved their growth potential and resilience of the team in practice => better manage the inherent risk of nascent ecosystem

Allows to invest in enterprises outside the acceleration compartment => allowing for diversification of the portfolio and investments in promising seed and early stage business ideas.
Cyprus Equity Fund
Focus on pre-seed and seed phases
Investment Strategy

Additional elements

1. In principle, the substantially largest commitment is expected to be channeled towards the VC compartment.

2. Selection of the best-fitted fund manager(s) to execute the intended strategies under the two compartments will be the result of the EIF due diligence process, in accordance to its internal rules & procedures.

3. Targeted companies: primarily eligible SMEs at Seed (including pre-seed) and Start-up stages\(^1\). Investments in eligible SMEs in Later stage venture and growth stage\(^1\), which have been operating but may or may not yet be profitable, will be permitted.

4. International team members or partnerships with international funds, as well as newly set up teams are not excluded.

5. No requirement to domicile either the fund or Fund Manager in Cyprus; however, some kind of local presence, to be agreed with EIF on a case by case basis would be envisaged.

\(^1\) Definitions as per Invest Europe
The selected Fund(s) shall invest an amount equivalent to the allocated public resources under the CEF in Final Recipients that, at the time of the first investment therein by the Fund:

- have an establishment, and have their main activities (i.e. the main portion of their activities based on headcount, assets or primary focus of the company’s business activities) in Cyprus;

- OR are planning to expand their operations into Cyprus (as per business plan), whilst allowing the possibility of Funds having a geographical target broader than Cyprus.

For companies with expansion plans and early stage portfolio companies with insignificant operations, assessment shall be based on the portfolio company’s business plan at the time of the first investment.

Restricted sectors and Do No Significant Harm (DNSH) principle restrictions apply.

\footnote{Definitions as per Invest Europe}
State aid options

• As the CEF is financed with public resources of the Republic of Cyprus, the investment to the CEF is subject to State aid rules and regulations.

• The applicable State Aid regime(s) will depend on the investment strategy proposed by the selected applicant(s) and its (their) ability to source private financing (which is part of the quality assessment criteria of applicants).

• Two options:
  1. *Pari-passu structure* for the whole fund (i.e. both compartments)
  2. *De Minimis Regulation* for the acceleration compartment and *Pari-passu structure for the VC compartment*

\(^{1}\) Definitions as per Invest Europe
Cyprus Equity Fund (key points)

State aid option 1
Pari-passu structure for the whole fund

- **Diversification limit**: typically up to 15% of the total fund size in any single investee at any point in time (limit increase subject to AB approval)
- A minimum of **30% Private Investor contribution** at the Underlying Fund level on a ‘pari passu’ basis (same terms and conditions between public and Private Investors and therefore the same level of risk and rewards)
- **Pari-passu distribution cascade** for all investors
- Intervention of public and private resources always **simultaneous** (inherent in equity fund’s structure)
- In addition to micro, small or medium sized enterprises (SMEs), non-SMEs may also be targeted in suitably justified cases
- **Prohibited investments** in companies:
  - that have received illegal State Aid which has not been fully recovered
  - listed on the official list of a stock exchange or a regulated market
  - operating in restricted sectors (to be defined in the Call for EoI)
Pari-passu at fund level

Cyprus Equity Fund (key points)

- **RoC through EIF**
  - Selection
  - Fund Manager
    - Independent management
    - Manager’s contribution
  - Max 70% contribution
  - Acceleration Compartment
  - VC Compartment
    - Total fund
      - EUR XXm
    - Min 30% contribution of total fund size (XXm)
  - Private Investors
  - SMEs
  - Min 30% contribution of total fund size (XXm)
  - Total fund
    - EUR XXm
  - Private Investors
    - Min 30% contribution of total fund size (XXm)
  - SMEs
State aid option 2
De Minimis Regulation\(^2\) for the acceleration compartment, Pari-passu for the VC compartment

- **De Minimis Regulation requirements:**
  - up to *EUR 200,000 per SME over 3 consecutive fiscal years* taking into consideration all other de minimis aid that may be / have been received by the enterprise

- **Distribution cascade:**
  - Up to 100% to the EIF (acting on behalf of CEF) and Fund Manager (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital committed in the Acceleration compartment of the Fund;
  - thereafter, 50% to the EIF (acting on behalf of CEF) and 50% to the Fund Manager (Carried Interest)

- **No Private Investors**, apart from the Fund Manager’s contribution

- **Prohibited investments in companies:**
  - that have received illegal State Aid which has not been fully recovered
  - operating in sectors of the economy excluded as per Article 1 of the De Minimis Regulation
  - operating in restricted sectors (to be defined in the Call for EoI)

De Minimis & pari-passu

Cyprus Equity Fund (key points)

Fund Manager

Selection

Selection

Independent management
Manager's contribution

RoC through EIF

Max xx% contribution

VC Compartment
EUR yy m

Min 30%* yy contribution

Private Investors

Total fund (zz+yy) = EUR XXm

Acceleration Compartment
EUR zz m

Max xx% contribution

SMEs
max 200k ticket over 3 yrs

SMEs

VC Compartment

SMEs

Private Investors

Min 30%* yy contribution

Total fund (zz+yy) = EUR XXm

RoC through EIF

Selection

Fund Manager

Independent management
Manager's contribution

De Minimis & pari-passu
The EIF, in accordance with its internal rules and procedures, will launch a Call for Expression of Interest (expected *mid May*) addressed to all Financial Intermediaries concerned; typically, the deadline for applications is within 6-8 weeks.

The Call will provide detailed information on the terms and conditions for contributions under the CEF, technicalities for submission and description of the selection process.

Please note that *the Call supersedes any information given in this presentation*.

EIF will select the successful candidate(s) and enter into Commitment Agreement(s) that will further specify the terms and conditions of deployment following also legal negotiations.

Next steps
Our deployment & application processes

The processes explained step-by-step.
# Our equity investment deployment process

A selective and rigorous approach involving EIF investment, risk, compliance, legal departments

<table>
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<tr>
<th>Sourcing</th>
<th>Screening</th>
<th>Due diligence</th>
<th>Investment decision</th>
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<tbody>
<tr>
<td>Market intelligence</td>
<td>First screening through desk analysis</td>
<td>Through site visit(s) and interviews, full due diligence is conducted on:</td>
<td>EIF IC investment team</td>
</tr>
<tr>
<td>Pro-active sourcing via existing network and placement agents</td>
<td>Second screening through physical meetings</td>
<td>• strategy&lt;br&gt; • market opportunity&lt;br&gt; • team&lt;br&gt; • track record&lt;br&gt; • structure&lt;br&gt; • T&amp;Cs&lt;br&gt; • maximisation of alignment of interests</td>
<td>Risk&lt;br&gt; Compliance&lt;br&gt; Legal services&lt;br&gt; CEO office</td>
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<td>Active participation in conferences</td>
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## Outcome

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<tr>
<th>Deal pipeline</th>
<th>Decision to move to full due diligence</th>
<th>Investment recommendation</th>
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<td>Equity investment team</td>
<td>Due diligence team and risk department</td>
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## Responsibility

<table>
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<tr>
<th>Equity investment team</th>
<th>Equity investment team</th>
<th>Due diligence team and risk department</th>
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Our deployment & applications processes
How to apply
The application process in three steps

Step 1
Info point

Gain an overview of the mandate and dig deeper into the Call for Expression of Interest documentation, which includes:
- detailed product term sheets
- reporting requirements & templates
- FAQs
- and more

Step 2
Apply

Send the application with all relevant documents to the indicated email address in the Call for Expression of Interest

Step 3
Selection

Analysis of the application with all relevant documents

Expected 9 months from application to commitment agreement (depending on quality of information received)
Our commercial due diligence process

We perform a thorough review of the main aspects of the investment proposal.
Our commercial due diligence process

What is the EIF looking for?

Main considerations

Who?
Team & Track record
- Proven track record & reputation
- Team cohesion & succession
- Commitment
- Carry split
- Governance

How?
GP Strategy Focus
- Value creation & USP
- Alignment of interest
- Coherence between the Who, What and Why

Why?
Fund Parameters
- Fund model (size, pace, diversification)
- Terms & Conditions
- Legal structure

What?
Market Opportunity
- Trends
- Competition
- Demand side economics
- Deal flow & pipeline
## Investment considerations

### Investment strategy

**1.**

<table>
<thead>
<tr>
<th>What</th>
<th>Why</th>
<th>When</th>
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<tbody>
<tr>
<td>Investment focus: geography, sectors, investment stage, etc</td>
<td>Fit with the mandate requirements</td>
<td>From the 1st screening to Due Diligence</td>
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<tr>
<td>Capital deployment &amp; portfolio construction</td>
<td>Strategy consistency with team past experience</td>
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</tr>
<tr>
<td>Origination strategy</td>
<td>Ability to source investments in line with the strategy</td>
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<tr>
<td>Value creation</td>
<td>Ability to create value during the holding period</td>
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<tr>
<td>Exit strategy</td>
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Investment considerations

Market

2

What

General macro overview of the targeted country
Overview of VC industry in the targeted market
Direct competition: other funds, family offices, etc
Indirect competition

Why

Attractiveness of the market
Analysis of differentiating angles: proposal vs market

When

From the 1st screening to Due Diligence
Investment considerations

Team

3

Our commercial due diligence process

<table>
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<tr>
<th>What</th>
<th>Why</th>
<th>When</th>
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<tbody>
<tr>
<td>Team set-up: completeness &amp; complementarity</td>
<td>Assessment of team dynamics</td>
<td>From the 1st screening to Due Diligence</td>
</tr>
<tr>
<td>Background, skills &amp; experience</td>
<td>Assessment of adequacy to invest and deploy</td>
<td>One-to-one meetings during site visits</td>
</tr>
<tr>
<td>Hiring plan</td>
<td>Completeness &amp; workload analysis</td>
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<tr>
<td>Decision process</td>
<td>Incentive scheme</td>
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<tr>
<td>Alignment of interest</td>
<td>Reputation</td>
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One-to-one meetings during site visits
Investment considerations
Performance and benchmarking

| What                      | Relevance and attribution | Case study: origination, value creation & exit skills | Case study: lessons learnt | Current performance
|                          |                           |                                                   |                           | Expected performance
| Why                      | Assessment of relevance and attribution | Assessment of the performance | Benchmarking |
| When                     | From the 1st screening to Due Diligence | Reference calls with previous employers, portfolio companies |
Investment considerations
Structure, governance and budget

**What**
- Legal structure: SPVs, carried interest vehicle, etc
- Regulated vs unregulated structure
- Shareholding structure
- Decision making
- Budget

**Why**
- Compliance assessment of the structure
- Assessment of indecency of decision making
- Budget review: viability and surplus analysis

**When**
- From the 1st screening to Due Diligence
- Budget review during Due Diligence

Our commercial due diligence process
We ensure that mandate requirements and good market practices are implemented.
Specific legal framework
Requirements and guidelines

Requirements
- Mandate requirements
- Discussions during the approval process

Guidelines
- EIF guidelines for equity investments
- Good market practice for equity investments
Key terms and conditions
Investment guidelines and investors’ protection

- Geographic and sector focus
- Investment period and duration of the fund
- Concentration limit (single investment, sector, vintage, etc)
- Co-investment policy
- Cross-over investments
- Reinvestments
- Borrowing and landing rights

- Limited liability of investors
- Pari-passu treatment
- Key person / change of control
- Removal of the fund manager (for cause and without cause)

- Fund governance & team’s independence
- Dedication and exclusivity / successor funds
- Appropriate management fee / Hurdle rate
- Team commitment
Follow our stories and work on social media

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