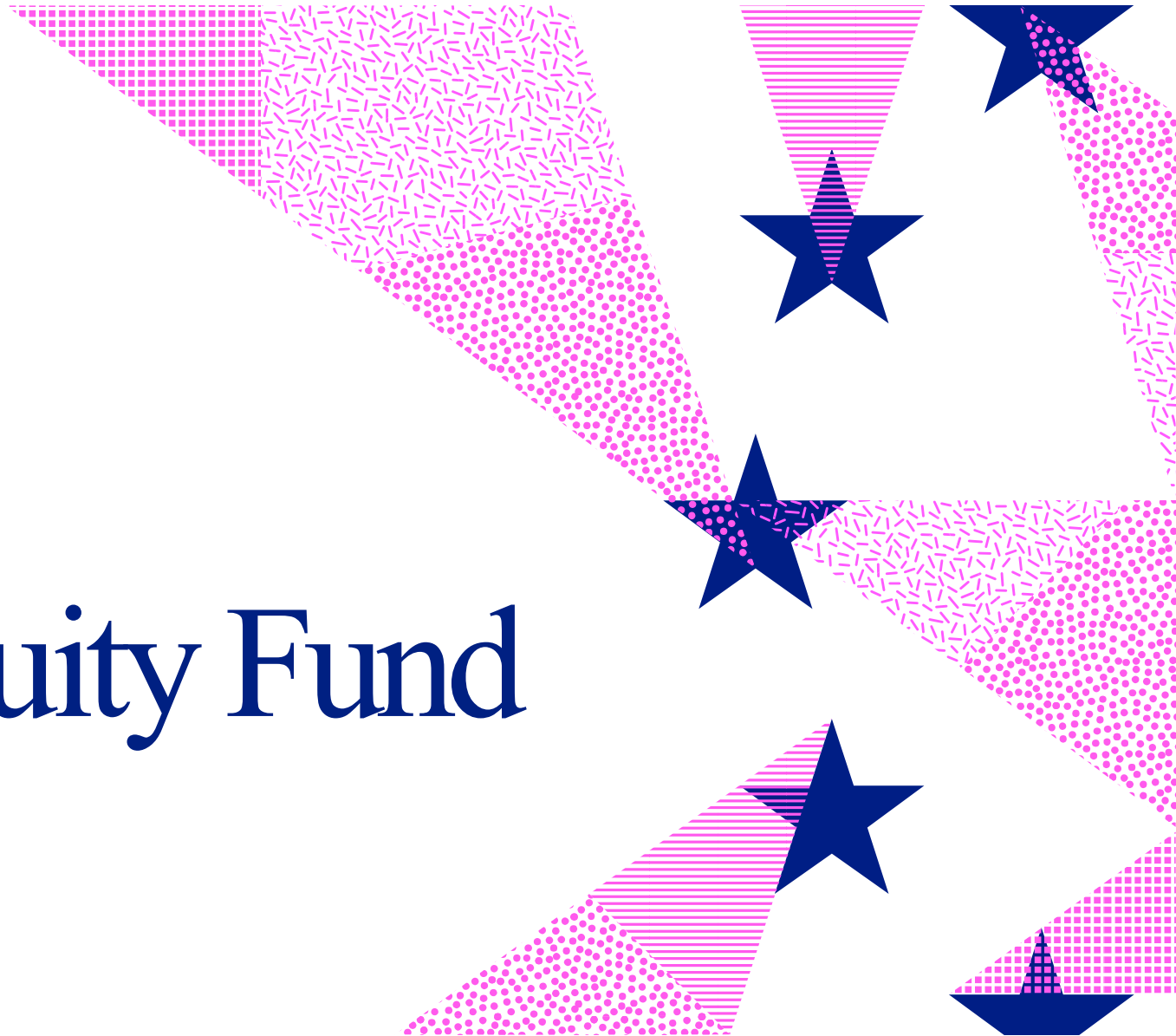




Cyprus Equity Fund

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



Public-private partnership



■ EIB 61% ■ EC 31% ■ F.I. 8%

Own resources & AAA credit rating***



Total equity commitments



*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

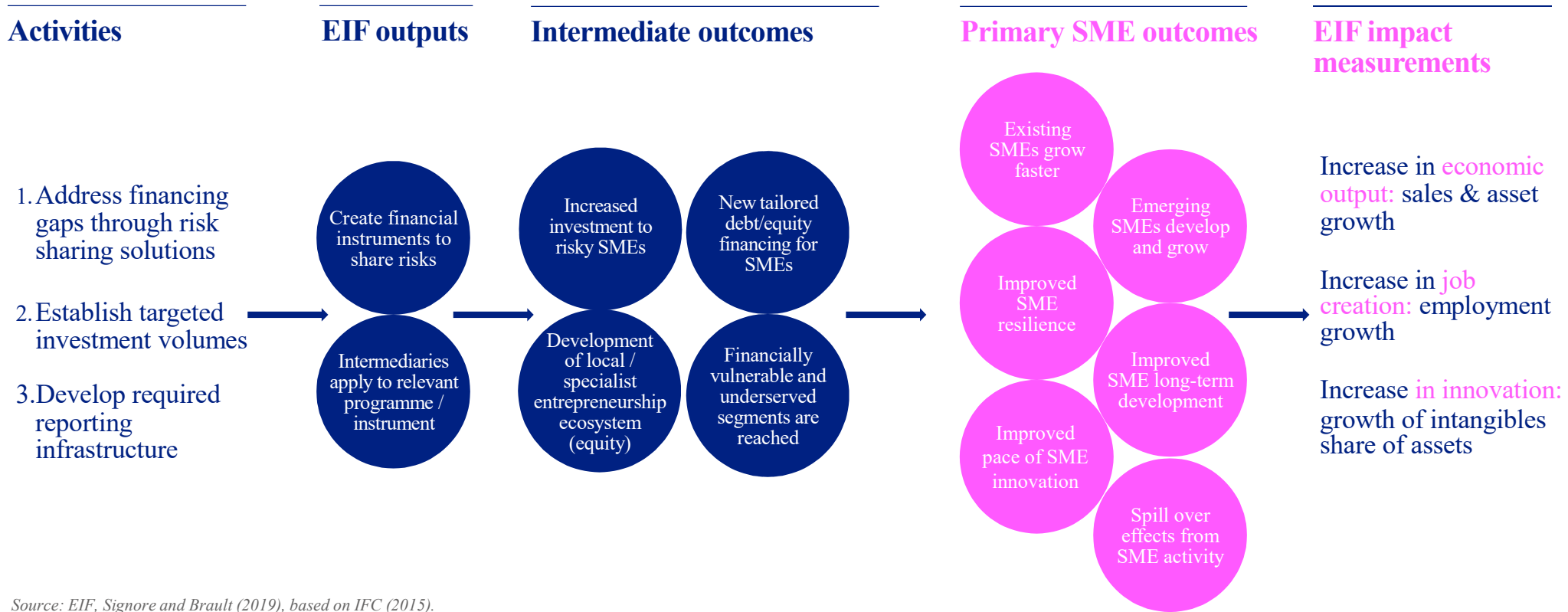
We nurture ecosystems

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

Our approach to ecosystem building

EIF's involvement brings tangible results



Source: EIF, Signore and Brault (2019), based on IFC (2015).

EIF:

*supporting
regional
markets*

The Greek example

Building the Greek VC / PE ecosystem

An ongoing relationship with EIF

2007

JEREMIE Greece

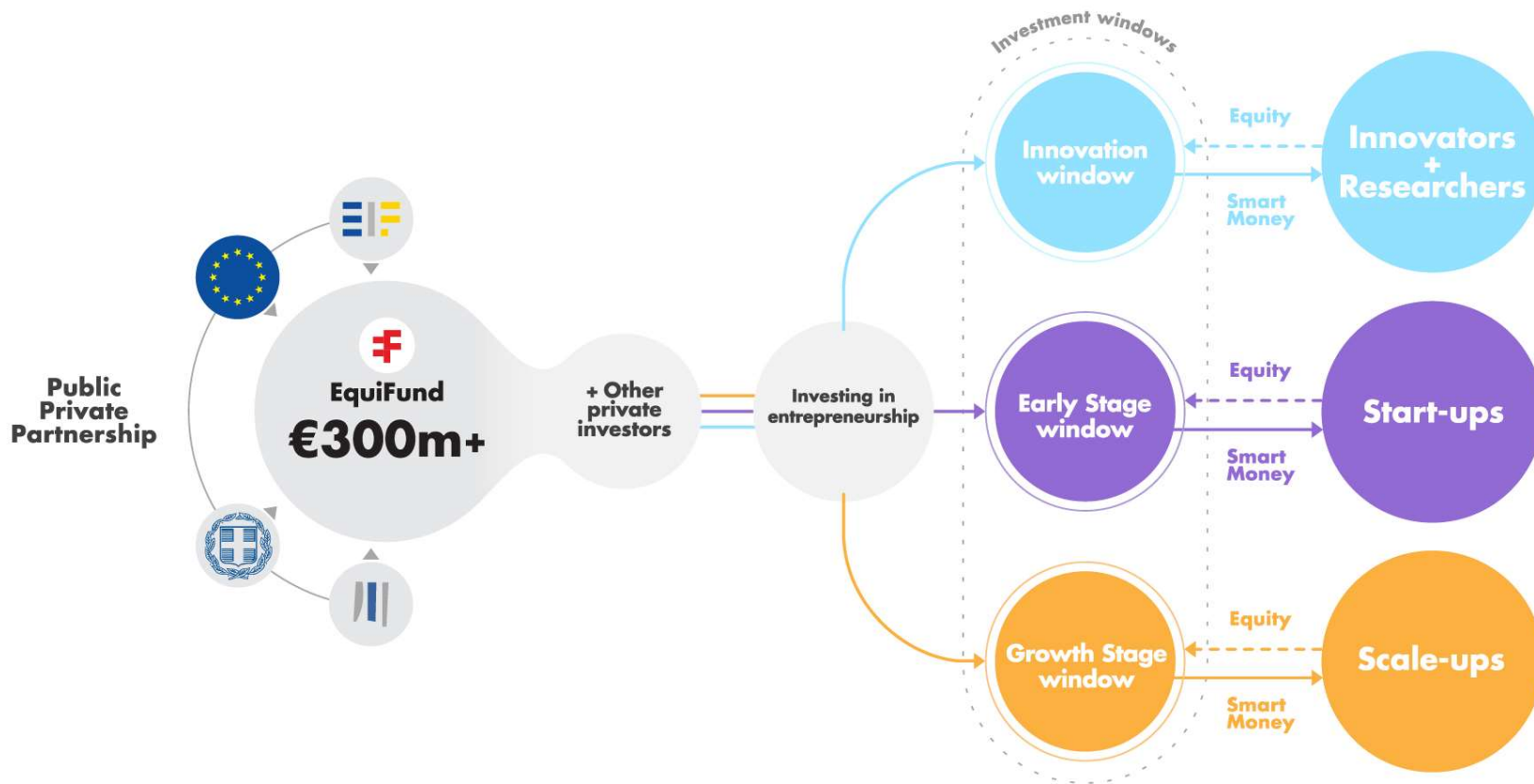
- First JEREMIE funding agreement signed with EIF at EU level
- Comprising both debt and equity financial instruments
- On the equity side, a EUR 50m total contribution supporting 2 seed and early stage VC funds
- Focus on the ICT sector
- A total of 63 companies supported through 69 investments
- Successful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

2016

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

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*

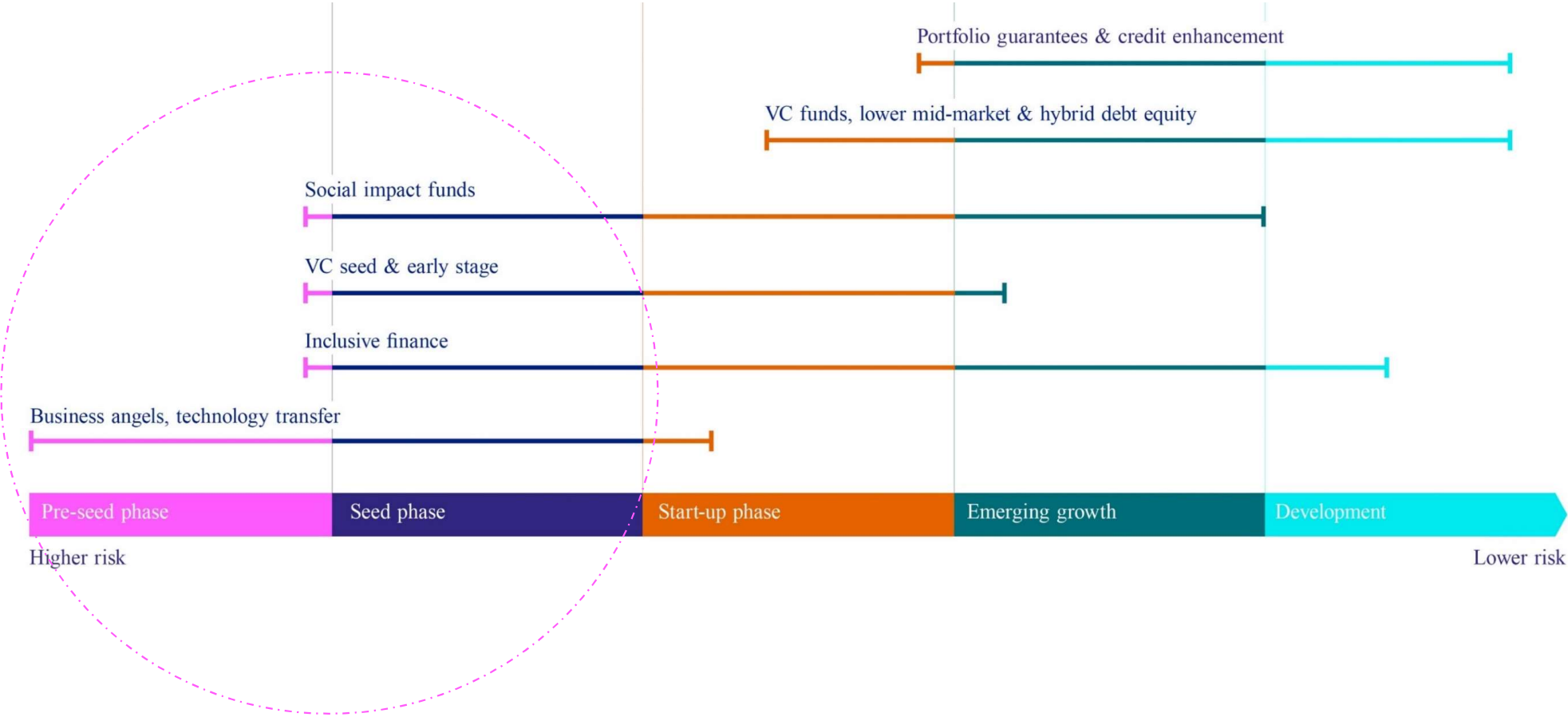


Allows to further invest in ideas / teams of the acceleration compartment that proved their growth potential and resilience of the team in practice => better manage the inherent risk of nascent ecosystem

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 stages¹. Investments in eligible SMEs in Later stage venture and growth stage¹, 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

Investment Strategy

Eligibility criteria

- 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

¹ 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

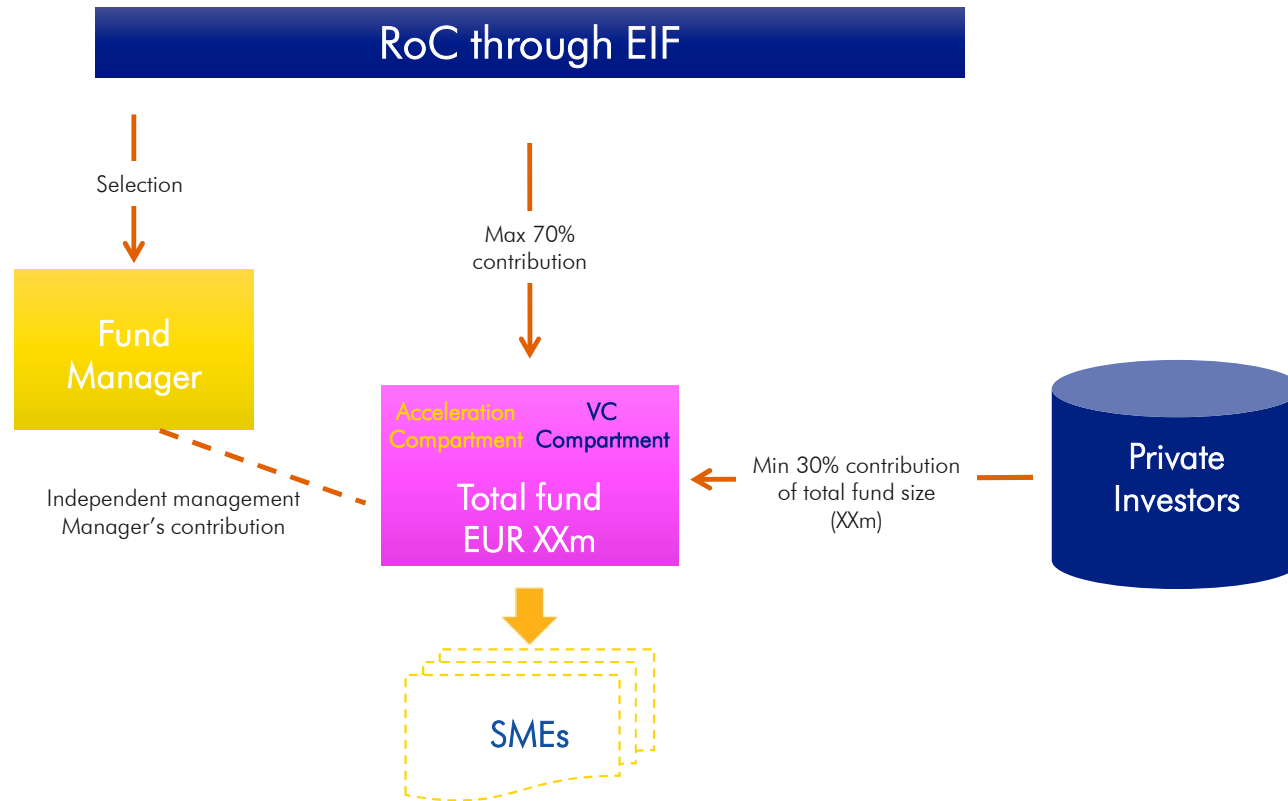
¹ Definitions as per Invest Europe

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



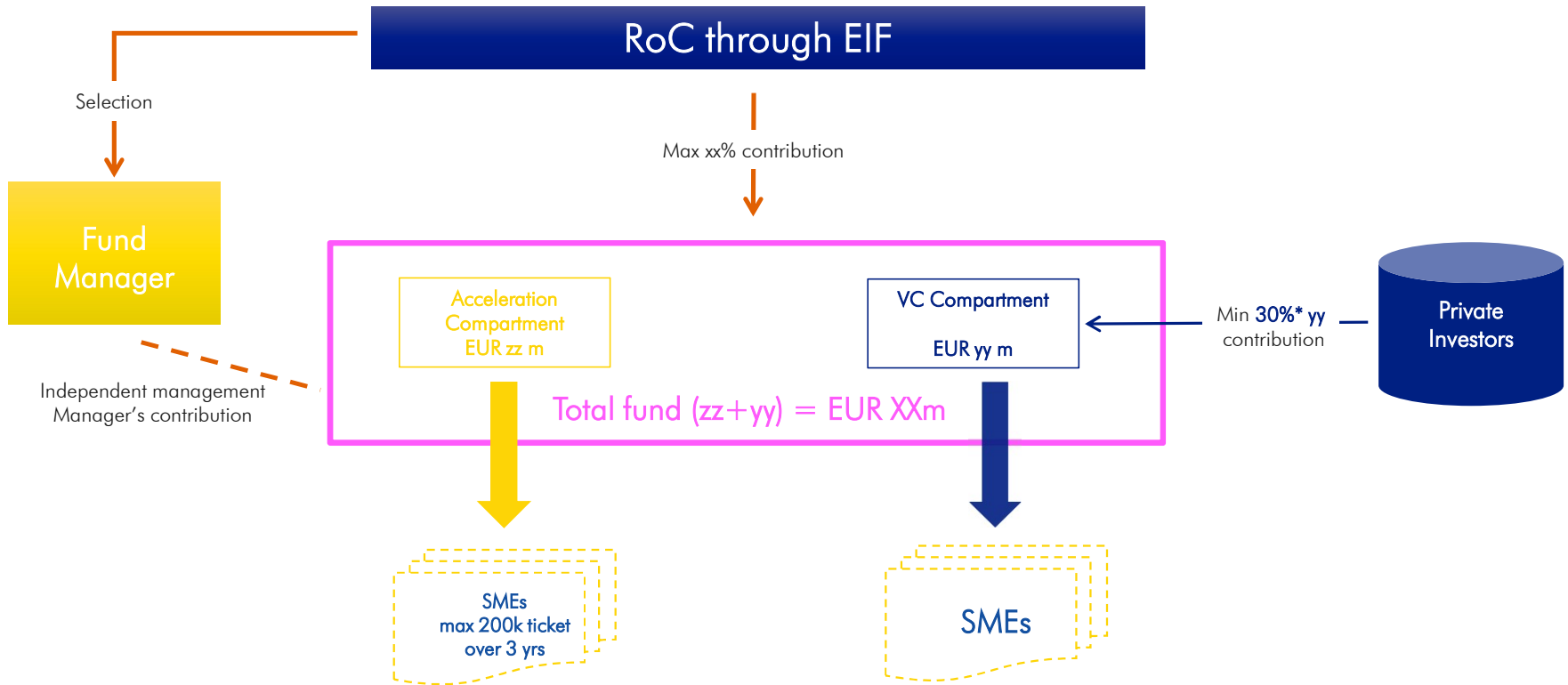
State aid option 2

De Minimis Regulation² 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)

² Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid Text with EEA relevance, [EUR-Lex - 32013R1407 - EN - EUR-Lex \(europa.eu\)](#)

De Minimis & pari-passu



Next steps

- 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

*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

1

2

3

4

Sourcing

Market intelligence
Pro-active sourcing via existing network and placement agents
Active participation in conferences

Screening

First screening through desk analysis
Second screening through physical meetings

Due diligence

Through site visit(s) and interviews, full due diligence is conducted on:

- strategy
- market opportunity
- team
- track record
- structure
- T&Cs
- maximisation of alignment of interests

Investment decision

EIF IC investment team
Risk
Compliance
Legal services
CEO office

Outcome

Deal pipeline

Decision to move to full due diligence

Investment recommendation

Responsibility

Equity investment team

Equity investment team

Due diligence team and risk department

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)

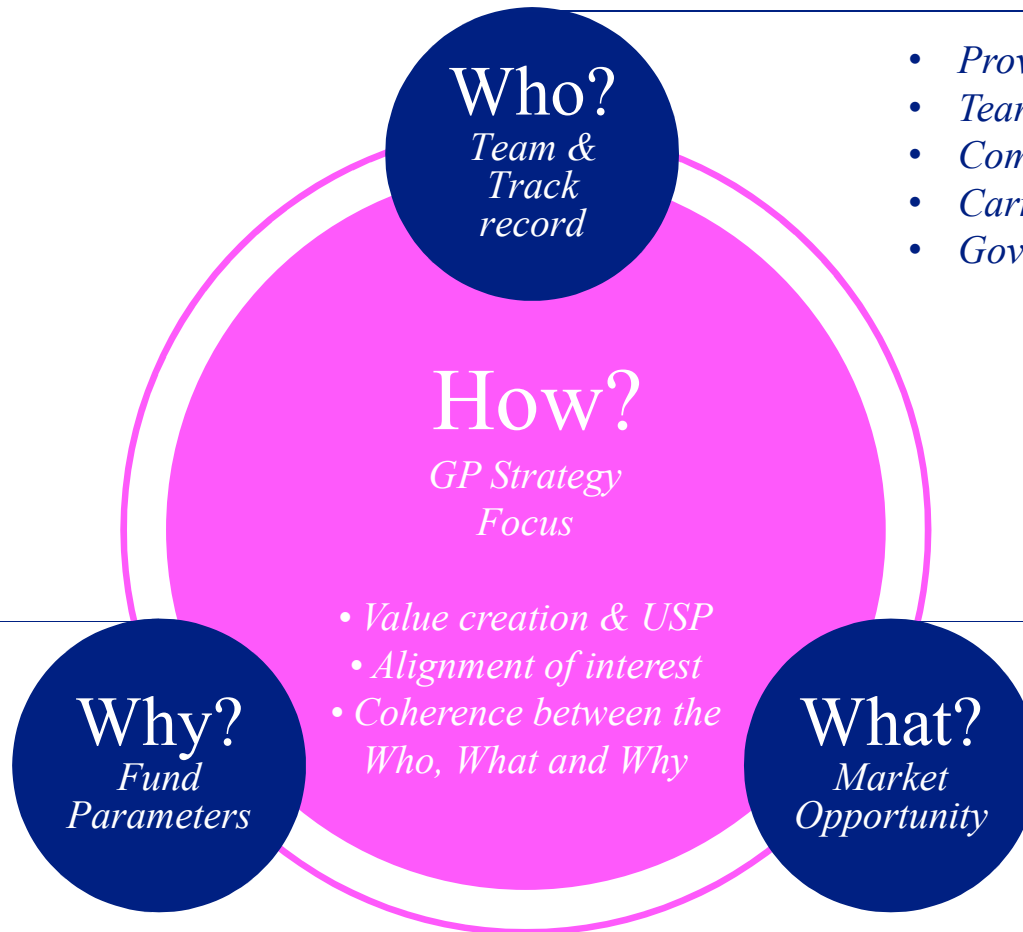
*Our
commercial
due
diligence
process*

*We perform a thorough
review of the main aspects
of the investment proposal.*

What is the EIF looking for?

Main considerations

- *Fund model (size, pace, diversification)*
- *Terms & Conditions*
- *Legal structure*



- *Proven track record & reputation*
- *Team cohesion & succession*
- *Commitment*
- *Carry split*
- *Governance*

- *Value creation & USP*
- *Alignment of interest*
- *Coherence between the Who, What and Why*

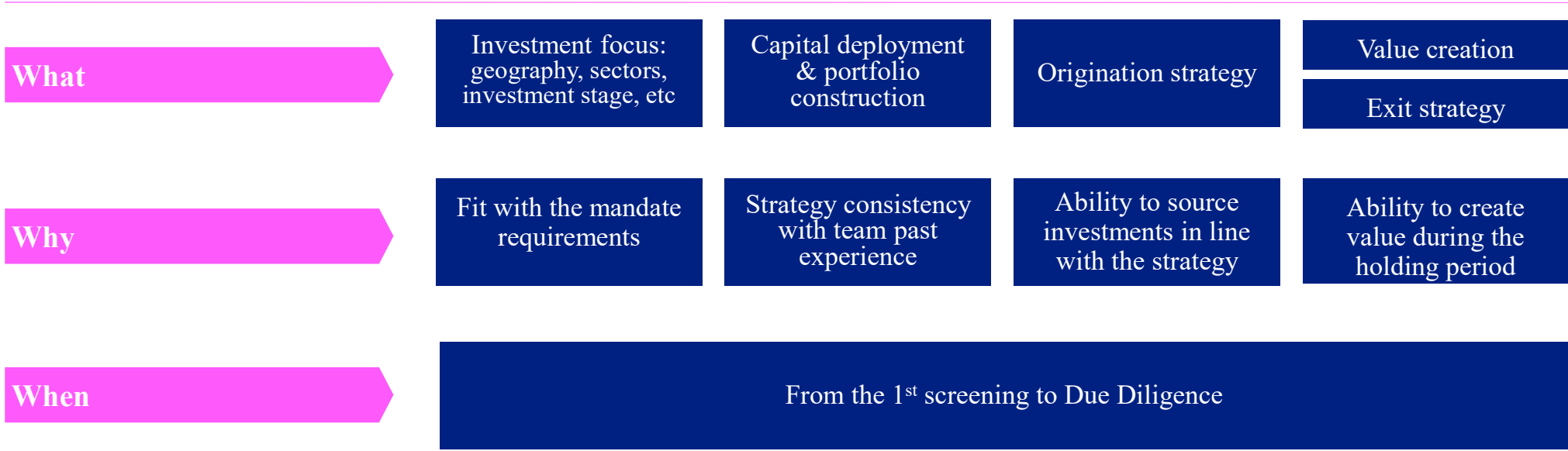
- *Trends*
- *Competition*
- *Demand side economics*
- *Deal flow & pipeline*

Our commercial due diligence process

Investment considerations

Investment strategy

1



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

Differentiation

Why

Attractiveness of the
market

Analysis of
differentiating angles:
proposal vs market

When

From the 1st screening to Due Diligence

Investment considerations

Team

3

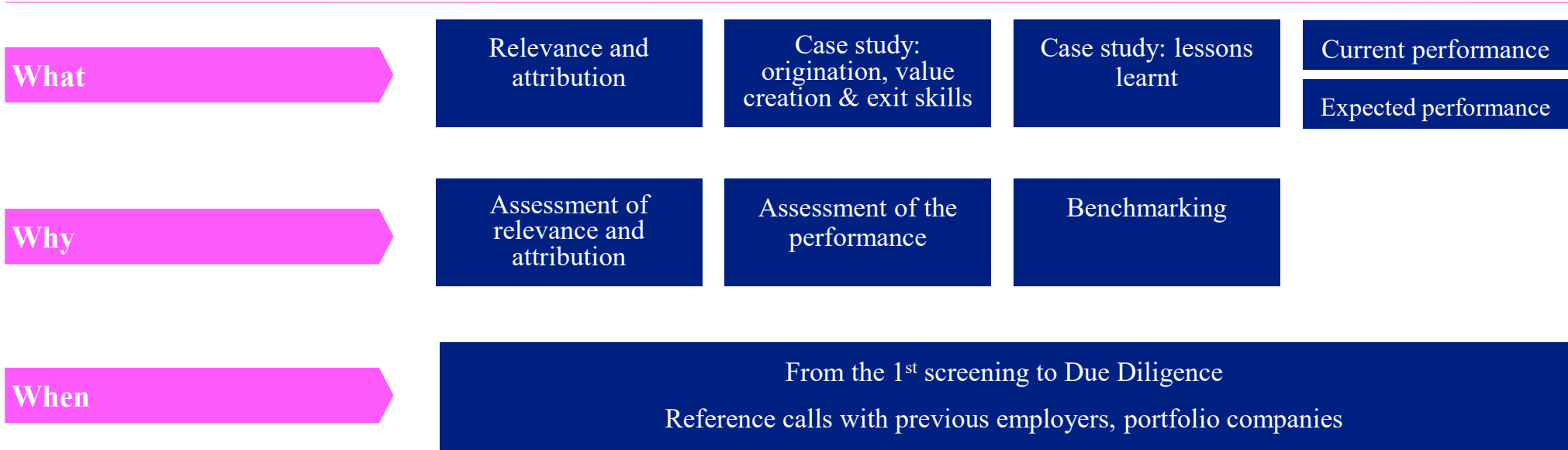
What	Team set-up: completeness & complementarity	Background, skills & experience	Hiring plan Deal team structure	Decision process Alignment of interest
Why	Assessment of team dynamics	Assessment of adequacy to invest and deploy	Completeness & workload analysis	Incentive scheme Reputation
When	From the 1 st screening to Due Diligence One-to-one meetings during site visits			

Our commercial due diligence process

Investment considerations

Performance and benchmarking

4



Our commercial due diligence process

Investment considerations

Structure, governance and budget

5

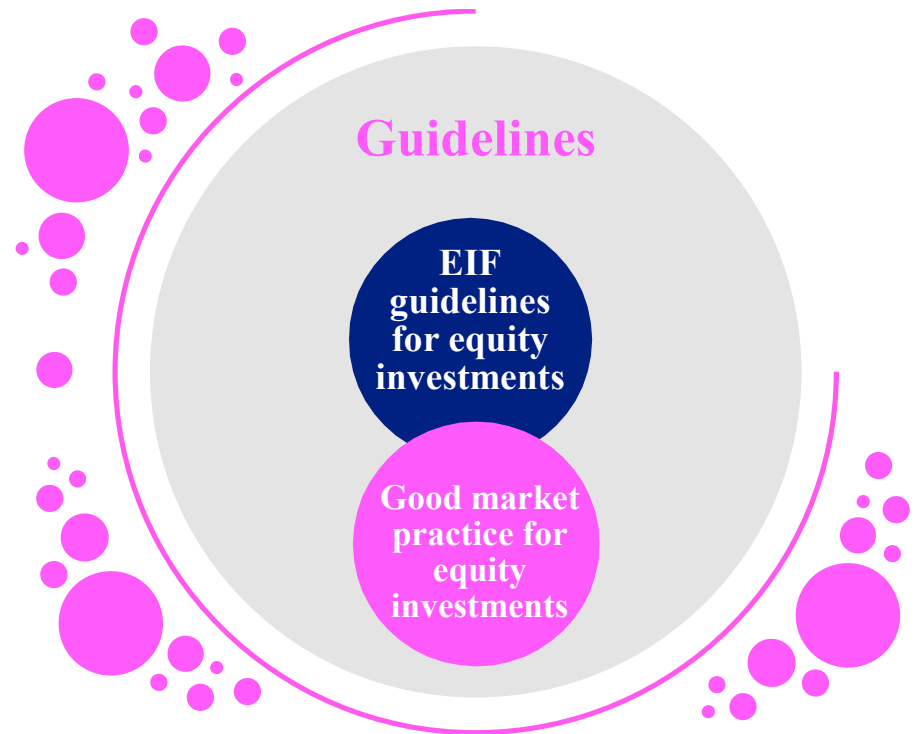
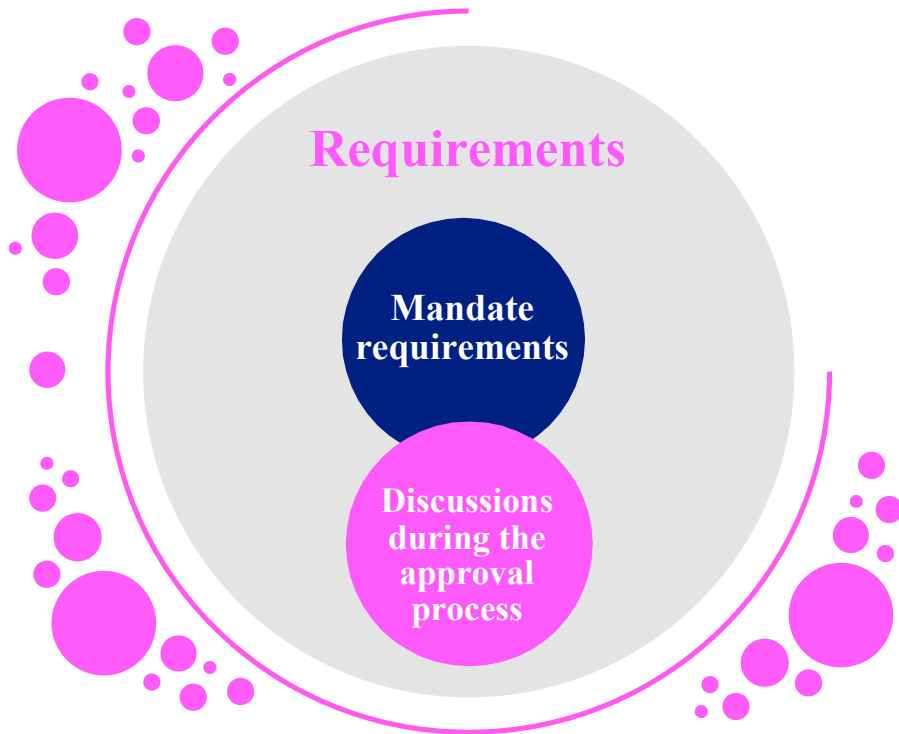
What	Legal structure: SPVs, carried interest vehicle, etc	Regulated vs unregulated structure	Shareholding structure	Decision making Budget
Why	Compliance assessment of the structure	Assessment of indecenty of decision making	Budget review: viability and surplus analysis	
When	From the 1 st screening to Due Diligence Budget review during Due Dilligence			

Legal negotiation

We ensure that mandate requirements and good market practices are implemented.

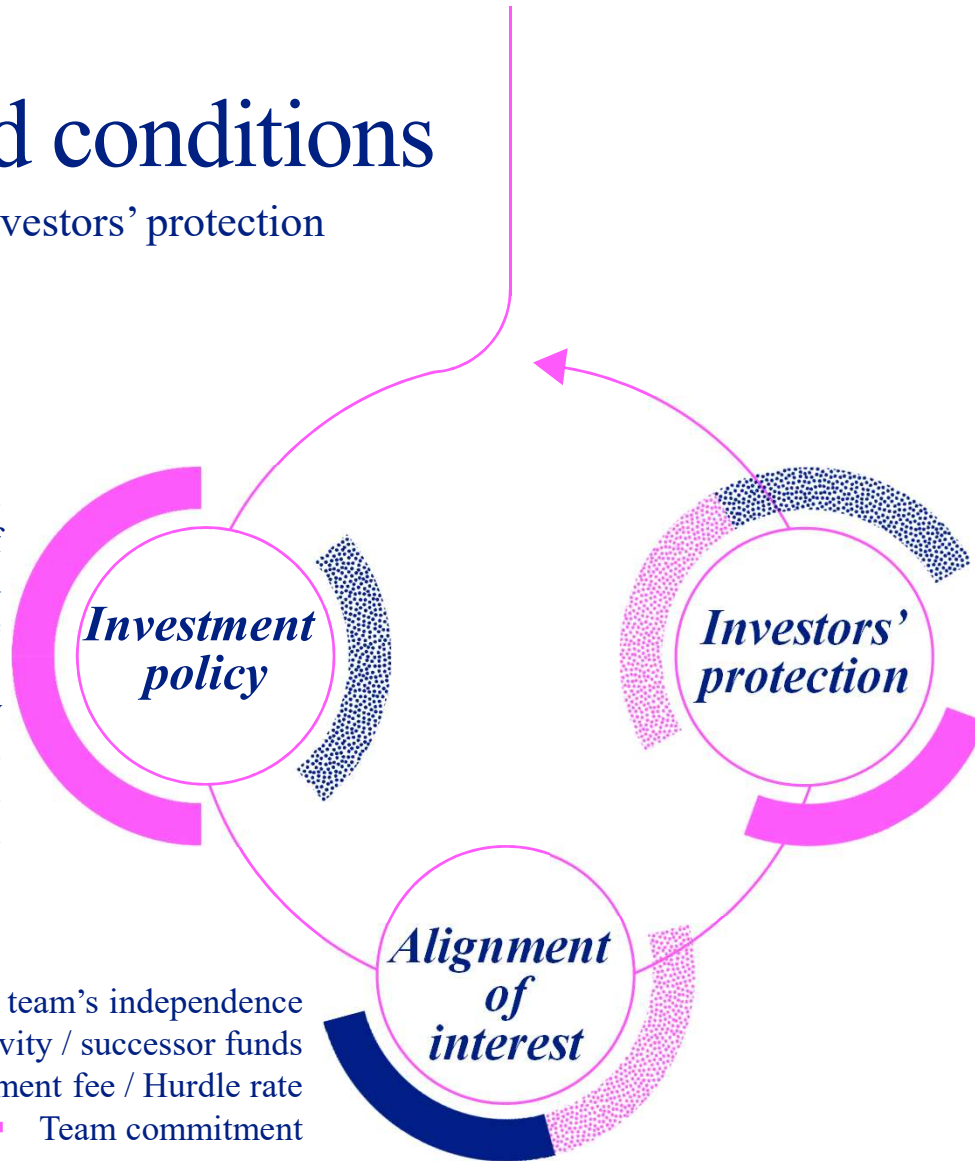
Specific legal framework

Requirements and guidelines



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

- Fund governance & team's independence
- Dedication and exclusivity / successor funds
- Appropriate management fee / Hurdle rate
 - Team commitment

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

Follow our stories and work on social media



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