

INNOVFIN EQUITY

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-FREQUENTLY ASKED QUESTIONS-

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You will find here below a list of the most commonly asked questions with respect to InnovFin Equity. Please read through these FAQs before contacting EIF.

InnovFin Equity is deployed as part of the [Single EU Equity Instrument](#) and as part of the [EFSI Equity Instrument](#), for which respective Calls for Expression of Interest are published on EIF's website ("the Calls").

If your question is not answered below and you believe it would be a good addition to the FAQ list, please send your suggestions by [email](#).

Unless defined otherwise in this FAQ, all capitalized expressions used in this document shall have the meaning attributed to them in the above-mentioned Calls.

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1. What is the aim of the InnovFin Equity?

InnovFin Equity forms part of [InnovFin – EU Finance for Innovators](#), a joint initiative launched by the European Investment Bank Group in cooperation with the European Commission under [Horizon 2020](#). It aims to facilitate and accelerate access to finance for innovative businesses and other innovative entities in Europe.

InnovFin Equity provides equity finance, in particular in the form of seed and venture capital, through selected financial intermediaries to early-stage research and innovation driven enterprises. Potential intermediaries include investment funds, venture capital funds or vehicles that provide co-investment facilities for Business Angels or co-operate with Business Angels. The equity support will be channeled through intermediaries who target technological, non-technological, organisational or social innovations.

The instrument comprises the whole spectrum of early stage investing and includes the following products: [InnovFin Technology Transfer \("InnovFin TT"\)](#), [InnovFin Business Angels \("InnovFin BA"\)](#), [InnovFin Venture Capital \("InnovFin VC"\)](#) and [InnovFin Fund-of-Funds \("InnovFin FoF"\)](#). [Here](#) you can find further information on InnovFin Equity. Applications are assessed by the EIF investment team on a first-come first assessed basis and welcomed until the 30/09/2020.

2. What kind of financial support does EIF offer under InnovFin Equity?

Via InnovFin Equity, EIF will primarily invest in private equity, venture capital funds, technology transfer intermediaries, business angel funds, fund-of-funds, social intermediaries or social sector intermediaries, special purpose vehicles and co-investment funds or schemes investing predominantly in early phase of development of an enterprise including Proof of Concept Stage, (Pre-) Seed-Stage, Start-up Stage, operating in innovative sectors covered by Horizon 2020.

3. Which companies does InnovFin Equity support?

Via its selected funds, InnovFin Equity supports spin-offs, spin-out, start-up, other early stage companies, which play a crucial role in promoting innovation and the creation of growth and employment but which face difficulties in accessing finance. Via its selected funds, EIF provides risk capital financing to enterprises allowing them to set up and/or reach their next development stage. Potential target companies must be established or operating in at least one of the Horizon 2020 Associated [Countries](#) and shall not be active in any of the EIF restricted sectors.

4. How does InnovFin Equity work?

Through InnovFin Equity, EIF invests in selected funds that provide funding to enterprises in their early stage. The maximum size of each investment in an eligible financial intermediary is limited to EUR 50m (or equivalent in a foreign currency), and shall not usually represent more than 25% of the total commitments in the financial intermediary fund at any closing.

However, EIF may invest more than 25%, but no more than 50% of the total commitments, in the fund only if the fund is a Business Angels Fund, a Technology Transfer Fund or the following conditions are met:

- an EIF investment is made at any closing other than the final closing, and
- a policy fit of an EIF's investment in a fund is high as per EIF's assessment.

Under the co-investment model, InnovFin BA may invest more than 50% of the co-investment fund's total commitments provided that the co-investment rate with other investors in each transaction will

not exceed 50% on a deal-by-deal basis. As an exception the fund may take up to 100% of follow-on rounds.

5. What's the minimum amount the fund manager has to commit to invest in Early-Stage enterprises?

Depending on a fund's strategy, the fund manager will agree upon with EIF what portion of the fund's investable amounts will be invested in Early Stage enterprises established or operating in one or more EU Member States or [Horizon 2020 Associated Countries](#). Such proportion however cannot be lower than the minimum allocation, which is at least the lower of (i) 2 times of the aggregate amounts drawn down from EIF under the fund's documentation for the purpose of investments and (ii) two-thirds of the total amount drawn down by the fund from its investors.

Amounts exceeding the agreed upon allocation may be invested in companies: a) in expansion or growth stage or b) located or operating in other geographies than EU or Horizon 2020 Associated Countries, provided that such investments are not made in Non-Cooperating Jurisdictions as defined in the InnovFin Investment Guidelines of the Call(s).

For avoidance of doubt, the term 'operating' shall mean that the enterprise either has staff, research and development, sales, marketing or any other type of business operations in a Participating Country. Mere having a legal address in a country shall not be considered as *operating* in that country.

6. Can a fund investing in portfolio companies at different stages of development apply for InnovFin Equity?

Funds pursuing balanced (multi-stage) strategies may still be eligible under InnovFin Equity. In this case EIF may combine InnovFin Equity with other investment resources under its management. Based on the investment strategy presented by the fund, EIF will propose the appropriate mix of resources to be used.

7. Do revenue making companies meet criteria of Early Stage?

Early Stage refers to the first development phase of an enterprise and mere incurring revenues by a portfolio company as a result of launching its product on the market does not preclude by itself from qualifying the company as being in Early Stage. The factors to take into account are the level of main product sales, which if indicative of stable and large scale or mass market commercialization often turning the company to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) positive, would evidence that a company is in expansion rather than early stage. Early Stage typically correlates with seed and "series A" financing, although in certain sectors "series B" financing may also happen during the Early Stage of a company lifecycle (e.g. life sciences).

8. Who can apply for funding under InnovFin Equity?

To be considered for funding under InnovFin Equity, fund managers must apply to the Call(s) and comply with certain criteria, such as:

- Focus the fund's investment strategy on areas covered by the Societal Challenges and Industrial Leadership of Horizon 2020 (e.g. life sciences, ICT, clean energy technology) or otherwise promoting technological, non-technological, organisational or social innovation.
- Be established or operating in EU28 or [H2020 Associated Countries](#).

- Commit to invest at least twice the InnovFin Equity investment size or two thirds of the amounts drawn down from its investors into enterprises in the early stage, established or operating in one or more EU Member States or Associated Countries.
- Be able to fundraise at least 30% of its total commitments from private investors at the time of EIF's closing.
- Not to be excluded based on the criteria defined in the InnovFin Investment Guidelines of the Call.

Further terms and conditions can be found in the Call. EIF will select intermediaries after the full assessment and due diligence process.

Enterprises cannot apply to the Call(s) since InnovFin Equity is offered as an indirect product and EIF does not invest into companies directly. However, enterprises will ultimately be the investees of the financial intermediaries (funds) in which EIF invests. The decision-making process of these funds is based on commercial criteria and the list of funds in which EIF has invested under InnovFin Equity is available on EIF's [website](#) and Access 2 EU Finance [website](#).

9. How can a fund become a Financial Intermediary under InnovFin Equity?

A fund proposal may be selected under InnovFin Equity provided that:

- It complies with criteria as described in the Call.
- The fund manager completes and submits to EIF its "Expression of Interest" with accompanying documentation according to the provisions of the Call by 30 September 2020.
- The investment proposal is selected and funded by the EIF following the procedure outlined in the Call.
- The EIF formal approval by its governing bodies and the contractual negotiations are satisfactorily completed.

EIF shall normally commit at the first closing of the fund, i.e. the first time that investors commit to making their investment in the fund. However, a commitment is possible at a subsequent closing if the added value is duly demonstrated by the EIF or if the first closing did not occur at terms acceptable to the EIF.

10. What are the InnovFin Equity eligible countries?

InnovFin Equity is open to funds located or operating in the EU Member States or countries associated with Horizon 2020 including Iceland, Norway, Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Israel, Moldova, Ukraine, Tunisia, Armenia, Georgia, Faroe Islands and Switzerland. It may include other associated countries having entered into relevant agreements with the European Union. For up-to-date information please consult the Horizon 2020 Portal available [here](#).

For the avoidance of doubt, the term *operating* in InnovFin eligible countries means:

- in the context of a fund manager: that it has an active investment office in that country staffed with investment professionals
- in the context of the fund: that the investment guidelines foresee investments in one or more of the InnovFin eligible countries.

Establishment of the fund (vehicle) in jurisdictions outside EU is not forbidden and will be considered on case by case basis based on EIF's professional assessment of the investment proposal and any guidance in this matters received from the European Commission. Additional conditions may apply.

11. Could you clarify what do you mean by the fund's "closing"?

Once legal negotiations between EIF and the fund are finalized, EIF can commit to this fund, subject to certain conditions being met (i.e. minimum fund size being reached). Upon a conditional commitment (sometimes referred to as "dry closing"), no disbursement can be made to the fund. Once all conditions are met (sometimes referred to as "wet closing", the financial intermediary can start making investments.

12. When exactly should we apply for EIF funding? Should the application be sent before or after "closing"?

A fund may apply any time during fundraising process or before the fundraising phase has been finalized. It's only after having reached the minimum target size of the fund that EIF may commit to the fund.

13. What are the requirements as for the investors' base?

At least 30% of the fund's total commitments as at the time of the closing, in which EIF participates, must come from private investors (including previous closings which happened before EIF's investment).

No single investor shall account, directly or indirectly, for more than 50% of the total commitments to a fund, except in the case of an investment in a co-investment fund or scheme, where such participation of a single investor may account, directly or indirectly, for up to 100% of the total commitments, provided that where such co-investment fund or scheme participates with other investors in any investment in an ultimate investee company, the co-investment percentage of such co investment fund or scheme in any such company does not exceed 50% (excluding follow-on investments).

14. Can you please specify what track record experience is required? We are first time team but acquired experience in the past as entrepreneurs who made some previous investments.

When assessing a track record, the longer the period covered and the more relevant data in terms of stage and sector that supports a new fund strategy, the better. EIF will typically look into the whole career and professional experience of the fund managers. In this regard it is up to an individual to provide EIF with the information that they consider relevant and to provide details on past experience which may not be directly relevant to the proposed strategy. If any information is considered to be missing and EIF is interested in the proposal then the investment team may always ask for additional information. All other things being equal, an early stage venture proposal from managers showing experience of investing in early stage venture capital over the past 10 years will be assessed more positively than a track record of investment which ran for the same time but back decades ago and since has shown no investment activity.

In the venture sphere in recent years, EIF has made several commitments to teams which are considered to be 'first-time' or 'emerging'. It is however unlikely that EIF could consider an investment in a team which has no investment experience at all. EIF has invested in teams led by entrepreneurs and former company executives where they personally invested in order to start their business but this is usually also supported by ancillary investments, typically from business angels/non-institutional investment programmes, prior to seeking capital from EIF in the context of institutional fundraising.

15. Are there any criteria regarding the nature or the level of management fees that the fund should comply with?

The remuneration of the fund manager shall be transparent to the fund's investors. Management fees shall be at a level that covers operational and management costs in a sustainable way without disturbing the alignment of interests aimed for. Then level of management fees shall allow for the execution of the fund's strategy.

16. Are funds with a broad geographical focus favored over single country-focused funds?

As long as the fund sponsor applying for InnovFin Equity would invest at least two times the InnovFin Equity investment into enterprises in the early stage, established or operating in one of the Horizon 2020 Associated Countries, it is considered as eligible. However, there are other criteria that, if applicable, will contribute to a higher policy fit of the application with InnovFin equity funding, which relate to:

- Fund focus on Associated Countries with lower ratio of private equity investment to GDP than EU average (list available [here](#));
- The fund's focus on more than one (or in the case of Fund-of-Funds, three) Associated Countries, or to invest less than 75% of the invested amounts in any single country;
- The fund targets to support internationalization of at least 50% of its portfolio companies.

17. Is there a desired target fund size?

There is no pre-conceived minimum amount that EIF will require to be raised by a single Fund. The minimum/target/ maximum fund size must however be appropriate given the fund's economics and relevant in the context of the envisaged strategy of the fund.

18. Can InnovFin Equity invest in open-end funds?

InnovFin Equity only invests in close-end funds with a specific duration which can vary from 15 years (for business angels funds and venture capital funds) to 20 years (for technology transfer funds). Fund-of-funds 'life shall not exceed 20 years, however terms might reflect market practice.

19. How does the selection process of Financial Intermediaries look like?

The EIF assesses applications on a continuous basis, using professional analysis and judgment, taking into account the terms set out in the relevant Investment Guidelines included in the Call(s), based on the assessment criteria in relation to the policy fit with InnovFin Equity and the expected performance of the fund following these general steps:

- Screening;
- Due Diligence;
- Assessment and approval in accordance with EIF's internal assessment and decision making rules;
- Negotiation and signature.

In addition, 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.

From the day of the application, normally it takes on average from 6 to 12 months to complete an investment in the fund. However, the time to close individual transactions with selected funds would

depend on the pace of negotiations with the respective fund managers on the investment's documentation and the fundraising progress of the fund.

20. What kind of cooperation should be put in place between financial intermediaries and Technology Transfer offices, research organisations, Universities and higher education institutes (HEIs) performing research, and Technology transfer specialists?

We may seek e.g. letters of intent (LoIs), memorandum of understandings (MoUs), preferential access agreements with the universities / TTOs / research institutes for assessing the fund manager's existing relationship with such organisations and their deal sourcing capabilities from them. The affiliation and cooperation of a fund vis à vis the above mentioned organisations shall be assessed on a case by case basis.

21. What do you mean by Technology Readiness Levels ("TRL") with regards of InnovFin Technology Transfer (TT)?

In the context of technology transfer, TRL refer to a measurement system used to assess the maturity level of a particular technology. InnovFin TT targets investments into technology transfer funds operating in proof of concept (TRL 3-6), pre-seed stages and seed stages (TRL 7-8). This excludes the territory of 'basic research' which is covered by [Horizon 2020 grant funding programmes](#). The scale description of the TRL levels can be found [here](#).

22. Will you consider an investment strategy which includes co-investments alongside business angels and does the EIF envisage placing any limits on such co-investments?

Under InnovFin Equity, and more specifically under [InnovFin Business Angels](#) (InnovFin BA), EIF may provide equity investments into co-investment funds aiming at co-investing with business angels on a systematic basis. Under the co-investment model, InnovFin BA may invest more than 50% of the co-investment fund's total commitments provided that the co-investment rate with other investors in each transaction will not exceed 50% on a deal-by-deal basis. As an exception the fund may take up to 100% of follow-on rounds.

23. Under InnovFin Fund-of-Funds, what are the requirements at the underlying investee funds level?

The funds in which the fund-of-funds seek to invest should adhere to certain requirements as follows:

- Shall focus their investment strategy on areas covered by the Societal Challenges and Industrial Leadership of Horizon 2020.
- Should focus their strategies on early stage or multi-stage with significant early stage allocation.
- Managers must be established or operating in one of the Associated Countries.
- Must have sound governance structure and processes that allow for an effective management of conflicts of interest, and for investment and divestment decisions to be made in accordance with market practice and the fund's legal documentation.
- Activities should not breach ethical principles or contravene EIF restricted sectors.

Additional terms and conditions can be found in the Call.

24. What's the difference between InnovFin Fund-of-Funds product under InnovFin Equity and the Pan-European VC Fund(s)-of-Funds 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.

Unlike the InnovFin Fund-of-Funds, the [Pan-European VC Fund\(s\)-of-Funds 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 for Pan-European VC Fund(s)-of-Funds Programme closed on 31 January 2017.

25. Where to find a list of financial intermediaries under InnovFin Equity?

You can find the list of financial intermediaries in:

- European Commission website Access to finance: <http://europa.eu/youreurope/business/funding-grants/access-to-finance/>
- EIF website: http://www.eif.org/what_we_do/equity/single_eu_equity_instrument/innovfin-equity/index.htm