Empowering Equity II

Investing in female representation
Empowering Equity II

Masterclass: Power up your pitch to the EIF

With Ghislain Terrier, Cindy Daniel, Miruna-Cristina Gala, Priscilla Schnepper & Vanessa Crea
The EIF’s Venture Capital, Private Equity & Private Debt activity

1. The EIF: who we are
2. Deep dive on EIF’s activity in Venture Capital, Private Equity & Private Debt
3. Case studies
4. The floor is yours
The EIF: Who we are
We make it easier for SMEs and mid caps to access finance

2m small businesses financed
14m jobs supported

Supporting EU goals of growth, innovation, inclusion & sustainability

*SMEs, small Mid-caps and Mid-caps. As at 31/12/2022.
Our major mandators

We help our mandators increase the availability of loans and equity financing to small businesses

**European Investment Bank**
Investor seeking to nurture entrepreneurship ecosystems

**European Commission**
Policy objective to support SME growth, innovation, culture, social inclusion

**Local authorities & NPIs**
Policy objective to tackle local SME financing gaps

**Other external investors**
Investors seeking the return potential of Europe's entrepreneurs

<table>
<thead>
<tr>
<th>Mandate Resources</th>
<th>Mandates</th>
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<tbody>
<tr>
<td><strong>€16.8bn</strong> mandate resources</td>
<td>13 Mandates</td>
</tr>
<tr>
<td><strong>€62.3bn</strong> mandate resources</td>
<td>47 Mandates</td>
</tr>
<tr>
<td><strong>€46.0bn</strong> mandate resources</td>
<td>112 Mandates</td>
</tr>
<tr>
<td><strong>€1.5bn</strong> mandate resources</td>
<td>7 Mandates</td>
</tr>
</tbody>
</table>

Notes: Mandate level data based on contributions committed by the mandator as reflected in the funding agreement since inception. Data excludes securitisation transactions with the EIB, EIF own resources and reflows. Debt instruments include guarantees, inclusive finance and some private credit fund investments. Equity includes tech transfer, venture capital, business angels, lower mid-market and hybrid debt equity and some private credit investments. Multi product refers to mandates with both equity and debt products. * External resources including private investors.

Source: MM reporting, data as at 31/12/2022.
Our Public Policy Goals

In our continued commitment to supporting SMEs across Europe and beyond, we are aligned with InvestEU and the Paris Agreement.

### Competitiveness & Growth
- Business growth and expansion
- Internationalisation and value chains
- Territorial development
- Financial ecosystem building

### Innovation
- Life sciences and health
- Disruptive technologies
- Digital transformation
- New products, services, business models development and commercialisation

### Social Impact, Skills & Human Capital
- Inclusion, diversity and well-being
- Impact and social innovation
- Skills and education
- Culture and creativity

### Sustainability & Green Transformation
- Sustainable infrastructure, industries, products and services
- Renewable energy and energy efficiency
- Sustainable transport
- Sustainable food and environmental services

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Climate Action and Environmental Sustainability (CA&ES)

Economic and Social Cohesion
### Our fund investment solutions

We make catalytic investments crowding in private investors and increasing long term sustainability

<table>
<thead>
<tr>
<th>Risk sharing mechanism</th>
<th>Venture capital</th>
<th>Lower mid-market &amp; hybrid debt equity</th>
<th>Private credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in funds often sending a positive signalling effect to private investors</td>
<td>Investment in funds often sending a positive signalling effect to private investors</td>
<td>Crowding in additional investors via cornerstone investments in direct lending funds</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit for small businesses</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Funding for Europe’s most disruptive founders in ICT, life sciences and social impact</td>
<td>Funding to unlock the growth potential and boost internationalization of SMEs and small mid-caps</td>
<td>Bespoke debt packages, speedy deployment and flexible approach</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net commitments</th>
<th>€19.3bn</th>
<th>€13.5bn</th>
<th>€6.8bn</th>
</tr>
</thead>
</table>

*Notes: Transaction level data based on net commitments (signatures), excludes selective debt. Source: SPA reporting, data as at 31/12/2022.*
# Building the European equity ecosystem

## The aim:

Building the ecosystem and diversifying investor base

## The role:

<table>
<thead>
<tr>
<th>Market developer</th>
<th>Market catalyst</th>
<th>Market access</th>
</tr>
</thead>
<tbody>
<tr>
<td>New teams, markets, segments</td>
<td>Funds with unrealized track records</td>
<td>Funds with proven track-records</td>
</tr>
</tbody>
</table>

## Investing in:

<table>
<thead>
<tr>
<th>Higher risk funds</th>
<th>Institutional grade funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>New teams, markets, segments</td>
<td></td>
</tr>
<tr>
<td>Funds with unrealized track records</td>
<td></td>
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<tr>
<td>Funds with proven track-records</td>
<td></td>
</tr>
</tbody>
</table>

## Benefits:

<table>
<thead>
<tr>
<th>Investments in untapped opportunities</th>
<th>First mover in emerging markets and sectors</th>
<th>Structuring input and best practice</th>
<th>Providing a quality seal</th>
<th>Long-standing relationships with managers</th>
<th>Extensive deal visibility</th>
<th>Enviable access to oversubscribed funds</th>
</tr>
</thead>
</table>
EIF’s Venture Capital activity
Innovation & technology investments

Our team

Disruptive technology
David Dana

Digital economy
Oscar Farres

Life sciences
Sandra Ferri

Climate & environmental impact
Adelaide Cracco

Social impact
Cyril Gouiffes

Infrastructure
Ghislain Terrier (ad interim)
Innovation & technology investments

Our activity over the years
Innovation & technology investments

We provide sizeable access to first time and emerging teams

Transactions committed in 2022
In our team

38% women

62% men

In our portfolio of funds

Sampling EIF funds signed between 2018 and 2022 we see the following data:

• 12% female representation in management teams
• 13% female representation in investment committees
• 28% female representation in senior professionals

What’s next?

We continue to monitor the evolution of these three criteria

In 2023, 40% of our investments will comply with one or more of those criteria
EIF’s Private Equity activity
Scale & experience in European private equity
Double digit aggregate commitments

- 20+ years investing in the target market
- €16bn aggregated commitments* in the target market
- €1.8bn run rate annual commitments** in the target market
- 31 investment professionals***
- 500+ active portfolio funds*
- 350+ fund managers*
- 210+ deals screened yearly**

*Since inception in 1994 **Yearly average over the last 3 years ***As at 30/09/2023
Market overview – past 18 months

2022 saw a decline in the amount of private equity funds raised of c. 12%, following a record 2021. H1 2023 follows the same trend as 2022.

Increased GP supply
- Fast paced deployment caught by surprise
- GPs returning to market in hostile environment
- Mega-funds capturing allocations

Limited LP demand
- Many LPs overallocated
- Denominator effect is real
- Lack of clarity regarding valuations evolution and economic outlook
- Fear of catching a falling knife

Volatile macro environment
- persistent inflation
- higher interest rates
- Geopolitical uncertainty and tension
- Volatile public markets valuation
- Price expectations (buyers-sellers) gap not yet adapted.

*Flows of money moving into alternative investment have slowed down this year, with the data showing how investor interest has moderated for a sector that was expected to double in size in the period 2021-2026.*

*Financial Times, 29/Aug/23*

*Fundraising has been more challenging in the last 12 months than any time in the last 15 years. (...) Volatility, geopolitics and interest rates: all have shaken markets in the past year*

*Head of Strategy at a large PE FoF, Aug/23*
Fund Managers are adapting to new *status quo*

Uncertainty leads Fund Managers to adjusting their fundraising and investment strategies.

- **Increased focus on DPI** (Distributions over Paid In Capital) as key selling proposition in fundraising
  - The slow exit pace contributes to drying up the liquidity

- **Increasing focus on climate targets and relevant ESG policies** (diversity, digital, others), fosters emergence of climate/decarbonisation funds
  - Long-term growth drivers and systemic trends will be behind sustainability themes in the future.

- **Curated timing of fundraising start with target LPs (existing and new)**
  - Fundraising discussions are taking the longest since the beginning of the financial crisis
Building & supporting the market
Strong support to emerging and first time teams

Building the ecosystem
- Higher risk investments in unproven opportunities
- First mover in emerging markets and sectors
- Structuring input and best practice
- Providing a quality seal

Assessing a wide range of teams

Promoting gender diversity
- 13% of the PE teams supported by EIF in 2022 were compliant with one of the InvestEU gender criteria.
- As of 30 September 2023 YTD, this number has increased to 20%.
- During the last 18 months, all PE teams backed by EIF and compliant with gender criteria were emerging/first time team.

Deals assessed between 2016 and 2020

- Established team: 30%
- Emerging teams: 53%
- First time teams: 17%
EIF’s Private Credit activity
Private credit funds market
An attractive alternative asset class for investors

Debt capital markets / Bank financing
- Investment Grade Bonds
- Private Placements
- HY Bonds
- Bank Loans, Syndications

Senior Private credit

Alternative private capital
- Private Equity
- Venture Capital
- Hybrid Debt-equity

Potential return
Low → High

Investment risk
Low → High

Alternative and complementary source of medium to long-term financing for growth and development plans.
Tailor-made credit solutions, provided on a timely basis.
A seasoned and diversified investment team
Specialised in credit investments

Covering Europe and in addition to Regional centres of expertise

Francesco Battazzi
Head of Private Credit

60+
Years of dedicated (private) credit analysis across the team

7
Dedicated Private Credit investment professionals

2
women

5
nations

100+
Credit support staff across risk, tax, compliance, legal & operations
## EIF’s positioning in the Private Credit funds’ market

Valuable catalytic role for smaller fund managers targeting financing to SMEs and mid-cap companies

<table>
<thead>
<tr>
<th>Target company size</th>
<th>Fund manager type</th>
<th>Market features</th>
</tr>
</thead>
</table>
| Mid-Large Caps      | Medium to Large          | - Investors-crowded market, established managers undergoing industry consolidation (top-10 ~ 50% AuM)  
|                     | Pan-European Funds       | - Tend to mostly target more developed EU countries (UK, France, Germany).       |
| SMEs                | Smaller local /          | - Mostly first-time or emerging fund managers, underserved by traditional lenders  
|                     | Pan-European Fund Managers| - Mostly sponsorless bilateral tailor-made financing solutions, more likely targeting also underserved EU countries            
|                     |                          | - Unappealing to large investors (small fund size, non-mainstream strategies)     |
|                     |                          | - Typical mitigants: downside protection and more conservative capital structures / lower leverage ratios. |

Value added in the context of the evolution on the market

Source: Prequin Data.

- EBITDA $25-75m

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The EIF’s Private Debt Activity
EIF’s track-record in European Senior Private Credit

Composition of the EIF’s private credit portfolio

- **€2.9bn**: Signed amount
- **75+**: Funds invested
- **>3,000**: Invested companies
- **0.45%***: Average annualised loss provisioning rate

* Calculations based on active Diversified funds as of December 2022; Indicative Moody’s equivalent 1-year EL rating of Ba1

** Type of managers is defined by the number of funds with similar strategy managed by the managers/ Established: more than 3 funds, Emerging: between 1 and 3 and New: first fund.

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The EIF’s presence in senior credit funds in Europe**

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Type of Managers**

- Established: 31%
- Emerging: 41%
- First-time: 28%

Type of Strategies

- Senior loan: 42%
- Unitranche: 42%
- Asset-based: 16%
Private debt

What about diversity?

One out of three private debt GPs, mostly first time and emerging, meet one of the InvestEU gender criteria

Private debt fund analysed and approved under Invest EU mandate having...

- One third of female partners ~ 7%
- At least 40% of female representation in the investment committee ~ 10%
- At least 40% of female representation in the senior investment team ~ 23%
... at portfolio company level
Results from EIF Private Debt Survey 2021 - ESG considerations

Do you have PD Funds that focus their investment strategies on investments into companies that have…

- ... a female CEO?  7% Yes 93% No
- ... female representation in the management team of at least 40%? 12% Yes 88% No
- ... at least a female founder? 6% Yes 94% No
- ... at least 50% female ownership? 6% Yes 94% No

Very few funds consider gender diversity in the ownership structure and in the management team of their portfolio companies (e.g., CEOs, shareholders, or founders).

Investment & selection process overview
The EIF’s investment process
Structured & rigorous process

1. Understand the fund concept
   Based on preliminary questionnaire/pitch book/PPM.

2. Assess investment readiness
   Physical meeting (typically in Luxembourg); chance to articulate investment opportunity and understand EIF.

3. Stress testing & verification
   EIF team conducts a physical due diligence visit (usually 2 days) to assess all aspects of the proposal and meet the investment team in person.

4. Legal negotiation
   After final approval, legal negotiation;
   Aim is to align the terms and conditions to best market practice.

First Screening  Second Screening  Due Diligence  Legal negotiation/Signature

Be timely with your engagement: the EIF process for first-time teams can take up to ~12 months
We’re looking for coherent links

The elements of your proposal must support one another and align with your strategy

Team & track record

• Proven track record & reputation
• Team cohesion & succession
• Commitment
• Carry split
• Governance
• Fundraising traction

Investment Strategy

The DNA of your proposal

Fund parameters

• Geographical focus
• Thematic focus (Target Areas and Horizontal Priorities)
• Fund model
• Terms & Conditions
• Legal structure

Market opportunity

• Trends
• Market needs
• Competition
• Demand side economics
• Deal flow & pipeline
Selection process deep dive
Strategy
The DNA of your proposal

What is it?
Your investment thesis, specifically how will you add value to founders, help them grow and generate a return.

We will never ask you to change the investment strategy of your fund. We consider it the back bone of your fund.

How do we assess it?

We will assess and stress test your thesis.

We will also use your investment strategy to build our own assumptions and compare them with your proposal.

Quick tip

CONVICTION

Own your investment thesis – tell us what you want to do and not what you think we want to hear.

You will be questioned repeatedly on it by investors. But don’t be fooled into wavering – stay 100% true to your thesis.
Strategy
In detail

- Stage focus
- Sector focus
- Geographical targets
- Portfolio construction
- Deal flow and pipeline
- Value creation strategy
- Credit assessment
- Exit strategy
- Impact measurement if applicable
- ESG and Climate Action
ESG – at the core of the EIF’s process

Environmental, Social & Governance

Diversity and inclusion

Climate change integration

Policies and governance structure

Ownership (and stewardship)

Reporting to LPs

Pre-investment screen

Compliance with ESG principles

Additional SFDR questions

Climate strategy, dedicated team, climate scenario analysis, emission targets

Additional PA questions

ESG policies, exclusion of sectors, climate risks, training, remuneration of team

Engagement with portfolio companies, monitoring of ESG indicators, incidences

ESG screening & DD of investments

Diversity & inclusion policy, gender targets

Awareness of EIF ESG principles and availability of the resources

Disclosure of polices, incidences and other ESG info

Deep dive: EIF’s Investment Triangle
Market opportunity
Right place? Right time?

What is it?
How will your fund fit into the existing market and suit current trends?
Who are the competitors in the target market segment?
How will you ensure sufficient deal flow?

How do we assess it?
We will be looking for a thorough assessment of your market opportunity in your investment proposal & we will also stress test your assumptions during meetings.
We will be looking at EIF’s existing footprint in the relevant market.
If you are proposing to enter a newer sector or geography relative to EIF’s standard investment reach, we will count on you to enhance our understanding.

Quick tip
EXPERTISE
When presenting your market opportunity, we expect to be convinced that YOU are the reference experts of the field you’re investing in.
The composition of your team will need to **evidently reflect your strategy** but also show a **clear alignment of interest** in terms of expectations and planning.

**What is it?**

The lifeblood of your fund

**How do we assess it?**

We will be not only looking at how well your team is aligned to your strategy – but also testing your team **cohesiveness** in meetings, reference calls, studying your organigramme & more.

**Quick tip**

**COHESION**

From alignment of expertise to your strategy, to individuals expectations & incentive schemes – we will need to be confident that the whole team is telling the same story and you have what you need to be a well-oiled machine.
## Team

### In detail

- **Background completeness and complementarity**
- **Network**
- **Reputation**
- **Diversity & inclusion policy**
- **Stability / Turnover (beyond 1st fund)**

<table>
<thead>
<tr>
<th>Workload Analysis (beyond 1st fund)</th>
<th>Succession Issues</th>
<th>Incentive scheme analysis</th>
<th>Alignment of Interest</th>
<th>Independency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td>Investment decision process</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ownership of the management company</td>
</tr>
</tbody>
</table>
The capabilities and experience of your composite team show a clear and dependable track record. We will be looking for comprehensive evidence of your track record – via documentation, T/R tool, reference calls, previous Q-reports & more.

Importantly, we will check references to verify the validity of your track record – be transparent!

When showcasing your track record the key is to show how relevant and aligned this track record is to your strategy.

And be transparent! Don’t hide your failures…

Quick tip

**RELEVANCE**

- Relevance
- Current performance assessment
- Benchmarking
- Final expected performance assessment
- Reference calls (previous employers, portfolio companies)
Track record
Components assessed

Relevance
Current performance assessment
Benchmarking
Final expected performance assessment
Reference calls previous employers, portfolio companies
## Fund parameters

The nuts and bolts of your fund

### What is it?

How will you structure your fund to *generate returns and minimize failures*.

What are your *operating costs* and how will you *cover them*?

### How do we assess it?

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BUDGET</td>
</tr>
<tr>
<td>2</td>
<td>PORTFOLIO MODEL</td>
</tr>
</tbody>
</table>

### Quick tip

**Unicorns vs Dragons**

- Do plan for failures, it’s part of the VC model
- Pull the plug early on the losers, double down on the winners
- Carry should make you rich, not the management fees
# Budget

## In EUR

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund I</td>
<td>331.0</td>
<td>165.0</td>
<td>95.0</td>
<td>76.5</td>
<td>35.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Fund II</td>
<td>1,075.0</td>
<td>1,075.0</td>
<td>1,075.0</td>
<td>900.0</td>
<td>700.0</td>
<td>500.0</td>
<td>400.0</td>
<td>400.0</td>
<td>400.0</td>
</tr>
</tbody>
</table>

| Revenues | 1,406.0 | 1,240.0 | 1,170.0 | 1,151.5 | 935.0 | 700.0 | 500.0 | 400.0 | 400.0 | 400.0 |

## Expenses

<table>
<thead>
<tr>
<th>Personnel (employees)</th>
<th>688</th>
<th>730</th>
<th>730</th>
<th>730</th>
<th>730</th>
<th>664</th>
<th>444</th>
<th>324</th>
<th>324</th>
<th>190</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration costs (rent, office, accounting, travels)</td>
<td>108</td>
<td>108</td>
<td>108</td>
<td>108</td>
<td>108</td>
<td>84</td>
<td>72</td>
<td>64</td>
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<tr>
<td>External experts</td>
<td>24</td>
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<td>24</td>
<td>24</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Marketing &amp; events</td>
<td>36</td>
<td>36</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Other</td>
<td>50</td>
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<td>6</td>
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<td>6</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Renumeration Reserve (including inflation)</td>
<td>-</td>
<td>30</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>32</td>
<td>22</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

Total expenses | 906 | 934 | 926 | 926 | 926 | 854 | 608 | 454 | 428 | 292 |

## Net Profit before taxes

| 500 | 306 | 244 | 226 | 9   | (154) | (108) | (54) | (28) | 108 |

## Taxes

| 150 | 92  | 73  | 68  | 3   | -     | -     | -    | -    | 32  |

## Net Profit after taxes

| 350 | 214 | 171 | 158 | 6   | 108   | (108) | (54) | (28) | 76  |
Downside risk management & protective clauses

How the EIF protects against risk events

Alignment of interest

- GP Commitment
- Carry

Conflict of interest management

- Exclusivity Clause
- Fee Off-set
- Cross-Over Investments
- Clear segregation of GP and LP roles
- Transparency Obligations

Protective clauses

- Removal Clauses
- Key-Man Clauses
- Defaulting LP Clauses

Deep dive: EIF’s Investment Triangle
Tips for teams
New teams: do’s and don’ts (1)

The EIF process for first-time teams can take up to ~12 -18 months

Tip 1
Start with your founding team

Tip 2
Understand the market

Tip 3
Define your strategy

Tip 4
Establish your fund parameters
New teams: do’s and don’ts (2)

Tip 5
Beware of the marketing drill

Tip 6
You think it will be long – it’ll be even longer

Tip 7
Know your investors

Tip 8
It’s ok to start small
Now you graduated from 1st time to emerging: it’s a journey

Tip 1
Take responsibility for your performance

Tip 2
Be adaptable to market shifts

Tip 3
Take a smart approach to portfolio management

Tip 4
Keep an open mind
Masterclass: Typical legal obligations for an EIF deal

With Raluca Deaconu & Gizem Taser
Agenda

1. EIF legal framework
2. An overview of standard terms
1 EIF legal framework
## EIF – a key player in the European VC / PE ecosystem

<table>
<thead>
<tr>
<th>Invested</th>
<th>Invested in</th>
<th>Portfolio of</th>
<th>As market developer</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ 4bn</td>
<td>120 funds in 2022</td>
<td>1,000+ active funds</td>
<td>30 years</td>
</tr>
<tr>
<td>in 2022 alone</td>
<td></td>
<td></td>
<td>as market developer</td>
</tr>
</tbody>
</table>

EIF is a key cornerstone investor for a significant % of the market and plays an important catalytic effect in channelling additional financial resources into the European economy.

A geographically diverse portfolio spanning across the entire European Union, from first time teams to established, over subscribed managers.

Covering a broad spectrum of the market (from BA, TT funds, VC funds, LMM funds, infrastructure funds, debt funds, to FoFs and secondaries funds), across multiple sectors and verticals.

EIF promotes best market practices by negotiating terms and conditions that ensure compliance with important ESG principles and providing the intermediaries with guidance based on its market expertise.
EIF’s mandators (EIB, EU Commission, NPIs, pension funds, etc.) rely on EIF to manage and invest their funds mainly for policy reasons. EIF is a fund of funds so it invests in subsequent funds as institutional investor.

Funds: blind pools of monies provided by investors, managed by a manager, for investment in accordance with a defined investment policy.

Funds invest EIF’s and other investors’ committed funds in portfolio companies. No direct link between EIF and the target companies.
Legal Framework Interplay

How does the legal framework come into play in the EIF negotiations?

1. Reference documents
   - Mandates
   - EIF Guidelines for Equity Investments
   - EIF Good Market Practice
   - RfA (inc. Compliance and Risk opinions)
   - Board minutes

2. Fund’s documentation
   - LPA
   - Side letter
   - Subscription documents
   - Legal & tax opinions

3. Management of legal risk
   - Internal approval processes
EIF’s Good Market Practices

**Fund management**
- Fund governance
- Independence
- Exclusivity

**Risk mitigation and conflicts of interest**
- Duration
- Risk diversification
- Borrowing and Lending by Funds
- Cross-over investments

**Investor protection**
- Removal and Key-man protection
- Alignment of interests and *pari-passu*
- Reinvestments

**Economic terms & others**
- Management fee, carried interest, equalization fees and fee offset
- Defaulting investors
- Co-investments
- Reporting
# Overview of a fund’s legal documentation

<table>
<thead>
<tr>
<th>Limited Partnership Agreement</th>
<th>Side letter</th>
<th>Subscription agreement</th>
<th>L&amp;TO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short definition</strong></td>
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<tr>
<td>Contents all the terms that govern the Fund and those agreed with the limited partners</td>
<td>Agreed between individual LPs and the GP addressing terms that supplement or modify the LPA</td>
<td>Formal agreement between the fund and the LPs to buy shares of the fund</td>
<td>Letter addressed to LPs expressing conclusions on the capacity and authority of certain parties or the validity and enforceability of certain fund’s documents</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td></td>
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</tbody>
</table>
| In some case cases the LPA is complemented by the fund’s by-laws and the information contained in the private placement memorandum, if any. For issues that EIF normally seeks to address in the LP, see previous slides | Side letters often grant special rights and privileges to important investors or to those subject to government regulation, and are also useful tools to accommodate last-minute requests from prospective limited partners. Most favored nations provisions (MFN) permits the election of certain benefits negotiated by, and granted to, other limited partners via side letter. | The subscription agreement contains the condition precedents of the transaction and all provisions related to the LP’s investment limits (in amount and time). Reps & warranties US law considerations (when applicable) | • Capacity opinions: cover aspects of capacity and authority of the parties involved in the fund’s legal documentation.  
• Enforceability opinions cover aspects relating to the legality, validity and enforceability of the relevant transaction documents under applicable law(s).  
• Tax opinions: covers certain tax considerations (tax treatment of the fund, the capital subscription, dividends…). |
An overview of standard terms
(1) Main characteristics

- Long-term commitment (10+ yrs)
- Illiquid investment (closed-end)
- Manager discretion on investment decisions
- LPs limited involvement: Advisory Committee
- Investment focus (SMEs, mid-caps, geographical allocation)
(2) Investor protection rights

Key persons
- time dedication criteria (substantial business time)
- curing mechanisms
- consequences of key person event
  permitted absences: maternity leave

Exclusivity
- restrictions on setting up new funds during investment period
- no overlap between investment periods
(2) Investor protection rights

Change of control
- change of ownership/econ. rights in the Manager
- ties into Cause event if not approved

Conflict
Restrictions on investments:
- between related parties
- cross-overs (e.g. funds managed by the same group)
(2) Investor protection rights

GP Removal

**With cause/fault**
- Includes:
  - breach of law or fund documents
  - uncured Key Person event
  - Change of Control
  - fraud, gross negligence, criminal conduct
  - loss of license, insolvency etc.
  - qualified majority (e.g. 50%)
  - no compensation & no entitlement to carried interest

**Without cause/no fault**
- no specific reason or justification necessary
- typically higher qualified majority (e.g. 66/75%)
- compensation (e.g. 6-12 months management fee)
- vesting schemes: entitlement to a share of the carried interest
(3) Fund Economics

(a) Team commitment, management fee and expenses

### Team commitment
- Skin in the game
- e.g. 2% of total commitments
- Treated like LPs

### Management fee
- Paid by LPs to the GP
- Investment period/post investment period
- EIF caps
- Fee off-set

### Expenses
- Third party expenses (establishment expenses and ongoing costs)
- Fund cost reduces carried interest return – common interest to keep costs down
## (3) Fund economics

(b) The waterfall (EU – whole-fund)

<table>
<thead>
<tr>
<th></th>
<th>Return of capital</th>
<th>Preferred return/hurdle</th>
<th>GP Catch-up</th>
<th>Carried Interest and remaining distributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LPs to receive 100% of distributions until they have received back capital contribution/commitments</td>
<td>All distributions are paid to LPs until a hurdle rate/preferred return is reached (multiple v. %)</td>
<td>All distributions are paid to the GP until it is caught up to 20% of all profits</td>
<td>20% of remaining fund distributions are paid to GP (carried interest) and 80% to LPs</td>
</tr>
</tbody>
</table>

100% to LPs \[\rightarrow\] 100% to LPs \[\rightarrow\] GP \[\rightarrow\] LPs and GP

Security for overpayment of carry: escrow arrangements & clawback mechanisms
Other EU and national initiatives

With Daniela Stefanova, Agnieszka Wozdyr & Amparo San Jose
GESIP - gender smart investing in Europe

- GESIP will be a collection of bi-lateral agreements with NPIs (National Promotional Institutions), united under one programme with shared objectives.

- GESIP will apply InvestEU gender criteria and will span across a wide range of fund strategies and thematics, with gender criteria applied horizontally.

- Main benefits of GESIP:
  - Increasing EIF’s impact on the VC/PE ecosystem toward greater gender diversity.
  - Encouraging the application of first-time teams with female leadership and/or participation.
  - Raising awareness of the gender gap in the VC/PE market (through policy signals and events).
  - Collecting reporting of gender diversity KPIs at portfolio company level (for impact analysis).

- GESIP contributes to gender diversity in VC/PE industry by:
  - Strengthening joint activities between EIF and member states on promoting gender diversity in VC/PE.
  - Adding capital available in Europe for gender diverse teams in VC/PE.
  - Additional capacity building for fund managers and NPIs, focused on gender diversity.

Note: Gender balance data based on study by European Women in VC (2022). EIF VC Survey 2022/82 also confirmed similar statistics – 14.7% average female partners across Europe.
Gender diversity in VC in Europe: The gender gap in decision-making positions varies across regions

Gender diversity of investment team – by region

- **GESIP first movers**
  - Germany
  - Netherlands

N.B. Not only local teams. EU teams investing in the GESIP participating country, too.

Q: “How many partners (all types) are there in your firm?”
Q: “How many female partners (all types) are there in your firm?”

Snapshot of EU initiatives

Companies and entrepreneurs
- WomenTech EU
- Women Leadership Programme
- WeGate Platform
- Directive on gender balance on corporate boards

Finance providers
- InvestEU equity target
- European Network of gender-conscious investors
- Mapping of debt financing products for women entrepreneurs
- Training for financial institutions

Broader Ecosystem
- Women and girls in ESTEAM
- EU Prize for Women Innovators
- Innovation gender & diversity index
- Directive on pay transparency
- Directive on gender balance on corporate boards
Gender smart financing: three pillars

**INVEST**
- Improve access to finance through InvestEU financial products
- Target for equity products: 25% of funds supported by InvestEU should be female led or gender diverse

**NUTURE**
- Develop the pipeline of quality projects led by women
- Build capacity among existing fund and asset managers, increase the presence of women, mentoring, networking

**STIMULATE CHANGE**
- Raise awareness and make the funding gap visible
- Promote diversity and investing with gender lens e.g. voluntary charters, collecting and publishing data
The programmes

- **Women2Invest**: help women with STEAM studies join the early-stage funding industry.

- **RaisingVCstars a proramme**: Female interns and analysts in Venture Capital, up to 3 years of experience in VC.

- **Becoming a VC partner**: Female Associates or Principals with 3-10 years of experience in VC.

- **WIN Business Angel Academy**:
  - **BEGINNER’S COURSE**: Training Programme for junior female business angels (0-5 investments)
  - **EXPERT’S COURSE**: The ADVANCED Training Programme for senior female business angels (6+ investments)

- **Studies & Knowledge**: EIT/EIB

- **Events**: INNOVEIT @ SLUSH 2024 and micro-events

*The European Institute of Innovation and Technology (EIT) was created in 2008 as part of Horizon Europe* to strengthen Europe’s ability to innovate. EIT is organized in 8 communities: Climate-KIC, Digital, Food, Health, InnoEnergy, Manufacturing, Raw Materials and Urban Mobility.
The 2023 cohort

Candidates:

• +70 women of 25 different nationalities (EU and countries associated to Horizon Europe).

• Mostly graduating or recent graduates from degree/master/PHD. Degrees include: biology/biotech, chemistry/chemical engineering, computer sciences, engineering (diverse fields), sustainability, medicine and business.

• 25% are PhD holders in STEAM areas

• Professional experience: academic/Research, entrepreneurial, corporate (open innovation, transformation mainly), finance/investment.

Funds:

• Currently open to new funds, corporate venture funds or investment units beyond those continuing from 2022.
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