



EUROPEAN UNION



**FUND OF
FUNDS**

FUND MANAGER OF
FINANCIAL INSTRUMENTS
IN BULGARIA



**ONE DIRECTION
MANY OPPORTUNITIES**

FINANCIAL INSTRUMENT VENTURE CAPITAL FUND

EXECUTIVE SUMMARY

OPIC 2014-2020

NOVEMBER 2017

FOR DISCUSSION PURPOSES ONLY

Dear Partners,

We have prepared this presentation as a summary for the financial instrument “Venture Capital Fund” within the Operational Programme Innovation and Competitiveness.

We advise you to review the presentation in conjunction with the indicative term sheet for the “Venture Capital Fund” published on our website during the market testing phase of the implementation process of the financial instrument.

These materials are put together to provide a basis for detailed discussions aimed at establishing the appropriate structure of the financial instrument.

We would appreciate any queries or suggestions you may have and look forward to discussing with you further.

Kind regards,

BGN	Bulgarian Lev – National currency of Bulgaria
CPR	Common Provisions Regulation
DA	Delegated Act
EC	European Commission
EU	European Union
ESIF	European Structural & Investment Funds
ERDF	European Regional Development Fund
FI	Financial Instrument
FoF	Fund of Funds
FMFIB	Fund Manager of Financial Instruments in Bulgaria
ICT	Information and Communication Technology
ISSS	Innovation Strategy for Smart Specialisation
VCF	Venture Capital Fund
OA	Operational agreement
OPIC	Operational Programme “Innovations and Competitiveness”
OP	Operational Program
PPA	Public Procurement Act
PE	Private Equity
R&D	Research and Development
SAR	State Aid Regime
VC	Venture Capital

Background

- FMFIB has been appointed by the Managing Authority of Operational Programme *Innovations and Competitiveness 2014-2020* (OPIC) to manage the financial instruments under the programme
- This mandate incorporates, among others, the design and set-up of four financial instruments for equity and quasi-equity investments with a total budget of EUR 150 million

Our role

- FMFIB is tasked with: (i) structuring the financial instruments as investment funds in line with the objectives of OPIC; (ii) selection of fund managers with relevant and applicable experience to manage the funds; and (iii) monitoring and supervising the fund managers and funds during the course of the fund life

Market testing

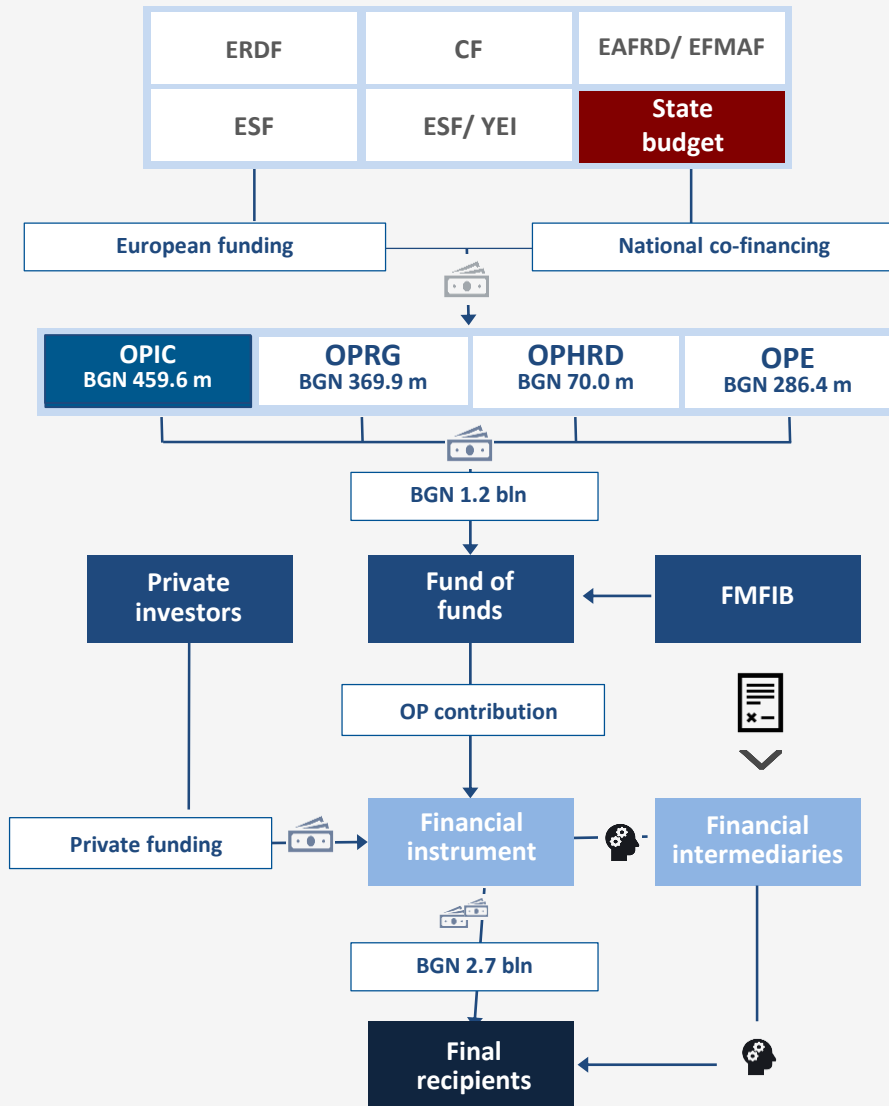
- Aiming to execute its mandate in a transparently, as well as align the structures of the instruments with the prevailing market practices, FMFIB is conducting comprehensive consultations with potential stakeholders, i.e. potential fund managers, investors, investees, policy makers, entrepreneurs etc.

Purpose of this document

- This document provides a high level overview of the financial instrument *Venture Capital Fund* within the OPIC
- In addition, FMFIB published an indicative term sheet with respect to the financial instrument as a basis for a detailed discussion (ref www.fmfib.bg).

Structure of this document

- The document encompasses brief descriptions of:
 - Structure and role of FMFIB
 - Background and policy rationale of the financial instrument
 - Main features and key indicative terms & conditions of the instrument and the prospective investment fund(s)
 - Tentative roadmap of the overall process up to first closing



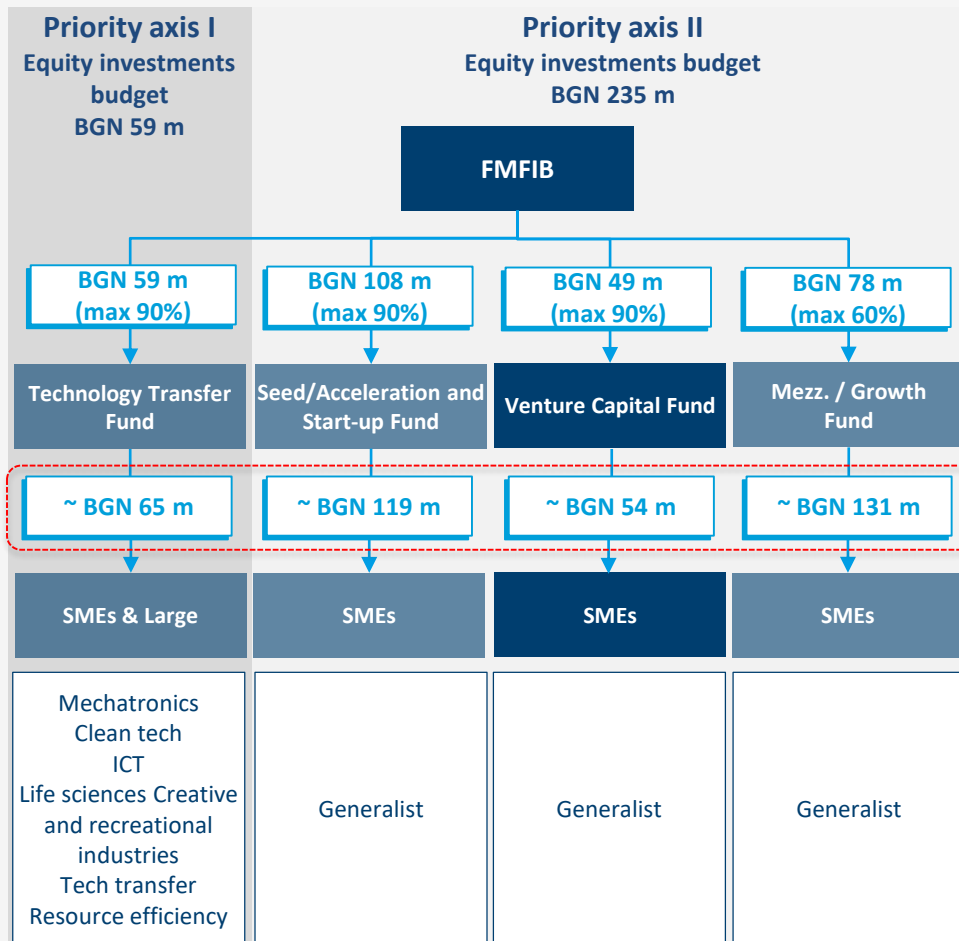
Financial Instruments

- The EU has recognised the financial instruments (FI) as an important tool towards achieving its policy objectives
- FIs are designed to support final recipients via loans, guarantees, investments etc. as opposed to grants
- They mobilise additional funds and expertise from the private sector
- FIs structure also entails revolving funds, i.e. reuse of the public funds for the same policy goals

FoF Rationale

- Bulgaria has taken the strategic decision to implement the FIs via a national investment vehicle structured as a Fund of funds (FoF)
- Currently, four OPs contribute moneys earmarked for FIs in the Fund of funds in the amount of BGN 1.2 billion
- FIs are expected to mobilise support and capital from the private sector and fully a leveraged Fund of funds is expected to facilitate the investment of ~BGN 2.7 billion in the Bulgarian economy (including its own dedicated resources)
- The investment of the FIs would be entrusted to intermediaries selected and monitored by FMFIB

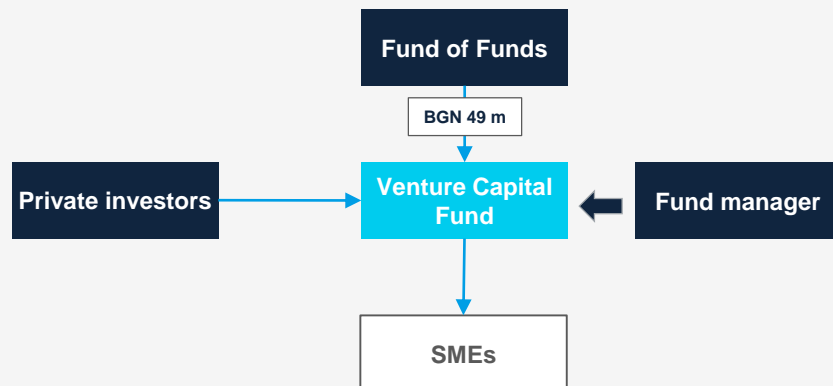
OPIC Investment strategy re. equity investments



The minimum required private co-financing (10% to 60%), respectively the target fund size depends on the applied state aid regime which would be specified in the final term sheet and would be subject to discussion during the market test.

OPIC equity & quasi equity investments

- The scope of the FIs under OPIC's has been established as a result of a formal Ex-ante assessment of the experience and demonstrated inefficiencies of the investment market in Bulgaria
- Base on its conclusions, OPIC has committed a total of EUR 150 million for investment and fund management
- The Investment Strategy of OPIC envisages the set-up of four types of investment funds across the PE/ VC /Early Stage spectrum
- FMFIB would structure and perform tender procedures for the selection of fund managers of the these funds adhering to an open and transparent process in accordance with market practice
- FoF would have the role of a limited partner in the resulting funds
- The funds would also attract private financial resources which would depend on the selected state aid regime. The currently contemplated regime provide for FMFIB participation ranging from 40% to 90% of the fund size



Fund rationale

- Key policy objectives encompass: fostering productivity and export capabilities of SMEs
- The fund would have a generalist sector strategy with a sector concentration according to market practice
- The fund will pursue Bulgaria-based projects or projects which benefits would accrue for Bulgaria
- Eligible investees include SMEs which are not companies in difficulty and do not operate in the Agriculture sector (NACE Chapter A)
- The fund will provide equity and quasi-equity financing in line with the goals defined by its policy rationale
- The FoF commitment may be provided to one or more investment funds
- The minimum required private co-financing (10% to 60%), respectively the target fund size depends on the applied state aid regime

Key indicative terms & conditions

FoF commitment: BGN 49 million including fees & costs

FoF max participation: between 40% and 90%

Fund life: 10+1+1 years

Investment Period: ~five years since first closing

Commitments from private investors / co-financing: relative to the FMFIB commitment

Risk sharing/ distr. cascade: TBD (*pari-passu* / asymmetric return)

Target group of investees and Eligible investments



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Target Group of Investees

SMEs in the early stages of development; innovative SMEs; high-tech SMEs; SMEs with high risk profile.

Eligible Investees

Are micro, small or medium enterprises	Have an establishment, branch or headquarters in Bulgaria at the moment of investment
Are not manufacturing, processing and marketing of tobacco and tobacco products	Are not undertaking active in Section A - Agriculture, forestry and fishing

Eligible Investments

Investments implemented outside of the programme area but within the EU and where the benefit of the investment is for Bulgaria	Investments that are not physically completed or fully implemented at the date of the investment decision
Investments where the investment amount is up to EUR 5 million including follow-on investments	
Investments where there is transfer of property rights in enterprises, the transfer takes place between independent investors	Compliant with art. 37, par. 4 of the CPR and art. 4, par. 1 of the DA
Investments for replacement capital, combined with new capital representing at least 50% of each investment round in eligible undertaking	

In case SAR I is applied

SMEs not operating in any market or operating for less than 7 years following their first commercial sale or require an initial risk finance investment in view of entering a new product or geographical market as further specified in the GBER	Not "undertakings in difficulty"
Not subject to an outstanding recovery order following a previous Commission decision	

In case SAR II is applied

Not "undertakings in difficulty" according to points 20 and 24 of the Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty

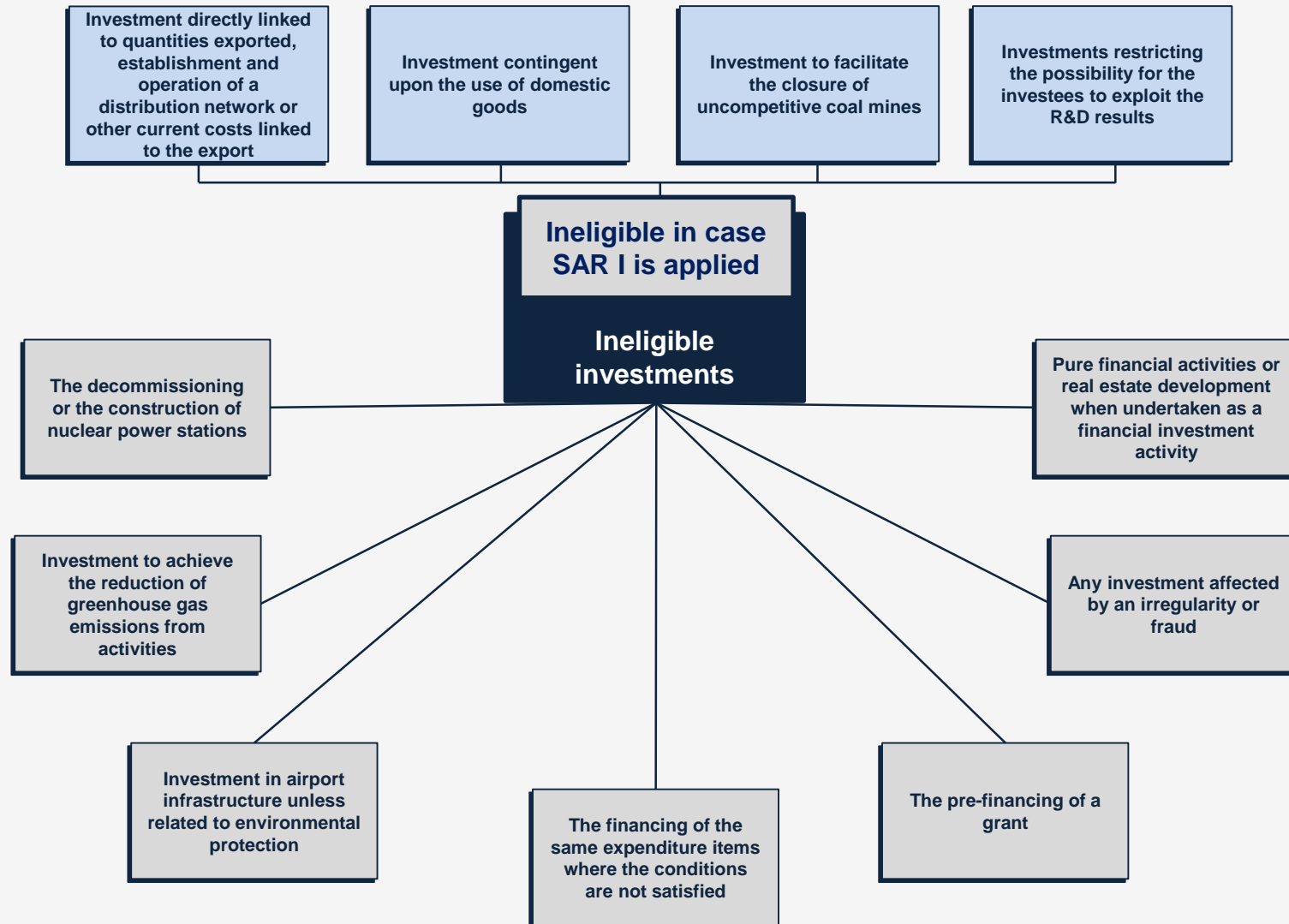
In case SAR I is applied

Business plan containing details of product, sales and profitability development, establishing ex-ante financial viability	Investments that have a clear and realistic exit strategy
Follow-on investments are eligible if the following conditions are met : the possibility was foreseen in the original business plan, total amount of risk finance and the private participation is in compliance with GBER	

Following the discussions with market participants during the Market Test, taking into account the prospective investment strategies and in accordance with the applicable regulations, two types of State Aid Regime (SAR) may be applied:

SAR I: Fund(s) attracting a between 10% - 60% commitments from Independent Private Investors and are subject to compliance with GBER and/or

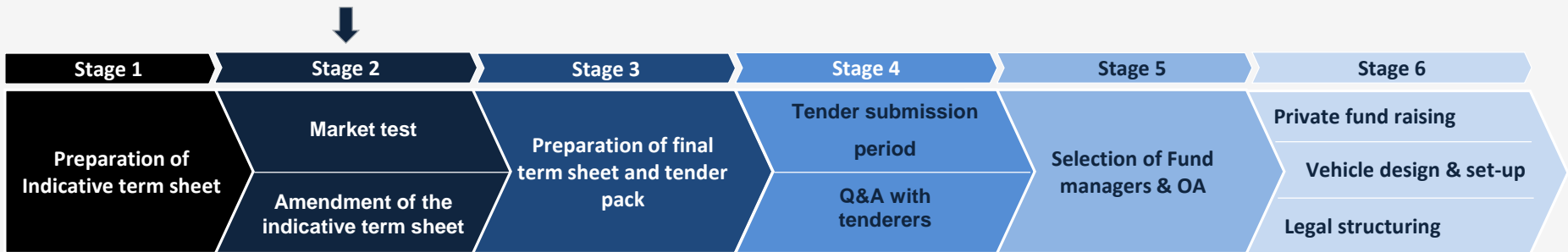
SAR II: Fund(s) attracting a minimum of 30% commitments from Independent Private Investors, applying parri passu principle and are subject to compliance with the Guidelines on State aid to promote risk finance investments (state aid free).



Selection procedure process map



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Opinion. Investment recommendation. Advice

This Investment opportunity outline (“the Document”), in whole or in part, is not to be construed as an opinion, or an investment recommendation, or a recommendation, or an advice to proceed or not with any considered transaction or other course of action.

The information provided is considered by FMFIB as indicative might be and will be subject to changes. According to the applicable regulations, the selection of financial intermediaries with respect to the implementation of the financial instruments under OPIC is subject to successful completion of a formal tender procedure and decision of FMFIB’s competent authorities.

Change in regulations

The information provided in this Document is based on a number of laws and other regulations, both national and European, effective as of the date of its preparation. Changes in the applicable regulations may render the Document, in part or in whole, obsolete or not applicable.

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Third party information

In preparing this Document, we have used information and documents provided by the Managing authority of Operational programme *Innovations and Competitiveness* as well as information available from publicly available sources.

We have not sought to establish the reliability of the above mentioned data by reference or analyses and hence we do not accept responsibility for such information.

PPA

The terms and concepts used in this presentation have the same meaning as in the indicative technical specification of the Financial Instrument.

Any information you provide will be used solely for the purposes of market consultations in the context of the requirements of the Public Procurement Act (“PPA”).

In light of the requirements of Article 44 of the PPA, FMFIB reserves the right to publish the received feedback without mentioning specific organization bringing it together with the answers from our side and occurred in this regard changes to the indicative technical specification (if applicable).



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