

Seed&Venture Capital Funds Financial Instruments,
Call for Eol No. JER-004/5

ANNEX 2 to the Call for Expression of Interest No JER-004/5

Financial Instruments Description and Selection Criteria

Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise. Unless the contrary intention appears, words in the singular include the plural and words in the plural include the singular

Section I: Seed&Venture Capital Funds Financial Instruments

Financial Instruments	Seed Fund and Venture Capital Fund.
Funds Manager	Financial Intermediary selected by EIF to manage both Seed and Venture Capital Funds. The Fund Manager will comprise a team of experienced professionals, operating according to best industry practices, complying with professional standards issued by the EVCA ¹ or other equivalent organisation. Such team will be expected to act independently. One Fund Manager (Financial Intermediary) will be selected as a result of the Call and subsequent selection process to manage both Seed and Venture Capital funds.
Indicative range of funding foreseen for the Financial Instruments (JHF contribution)	EUR 1-6 million for Seed Fund; EUR 11-16 million for Venture Capital Fund.
Investment amount into an Eligible SME	Investments into an Eligible SME by the Seed Fund cannot exceed EUR 200,000 (the total De Minimis aid granted to Eligible SME active in the road transport sector shall not exceed EUR 100 000 over any period of three fiscal years); Investment into an Eligible SME by the Venture Capital Fund cannot exceed EUR 1,500,000 during any period of twelve months.
Financial Instrument Availability (Fund duration)	Up to 10 years, with the possibility of extension for 2 years.
Funds' investment period	Initial investments in Eligible SMEs are envisaged to be made no later than 31 December 2013 (or 2015, provided that the applicability of De Minimis Regulation (in case of Seed Fund) Reg. 800/2008 (in case of Venture Capital Fund) is extended). Follow-on investments may be made throughout the duration of the Venture

¹ European Private Equity and Venture Capital Association.

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	<p>Capital Fund. No follow-ons envisaged for Seed Fund post 2015.</p> <p>The disbursements for Venture Capital Fund will follow the asymmetric disbursement schedule described below under "Schedule of disbursements". Disbursements will follow industry standard disbursement schedule for Seed Fund.</p>
Type of investments	<p>The Seed Fund and Venture Capital Fund will undertake risk capital investments, taking form of either equity or quasi-equity.</p> <p>The Seed Fund shall provide seed capital as defined in Reg. 800/2008.</p> <p>The Venture Capital Fund shall provide seed capital, start-up capital and expansion capital as defined in Reg. 800/2008.</p>
Eligible SMEs	<p>Seed Fund invests into micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36), as implemented by the Law of the Republic of Lithuania on Small and Medium-sized Business Development No VIII-935, excluding "firms in difficulty" as these are defined in the Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p. 2.), as amended, restated, supplemented and/or substituted from time to time.</p> <p>Venture Capital Fund invests into micro, small or medium-sized enterprises as defined in Annex I of Reg. 800/2008, as implemented by the Law of the Republic of Lithuania on Small and Medium-sized Business Development No VIII-935, excluding "firms in difficulty" as these are defined in the Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p. 2.), as amended, restated, supplemented and/or substituted from time to time.</p> <p>However, as stipulated by art. 1 (7) of Reg. 800/2008, an SME which has been incorporated for less than three years shall not be considered, for the purpose of the Financial Instrument, to be in difficulty with regard to that period, unless it fulfils the criteria under the relevant national law for being the subject of collective insolvency proceedings.</p> <p>Eligible SMEs must be established and operating in Lithuania.</p>
Excluded sectors and activities	<p>Investments can be made in projects in all sectors of the economy, except:</p> <ol style="list-style-type: none"> a. Excluded sectors presented in Article 1 of the <i>De Minimis</i> Regulation (for Seed Fund only); b. Sectors provided in art. 1 parts 2-6 of the Reg. 800/2008 (for Venture Capital Fund only); c. Undertakings active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000; d. Undertakings active in the primary production of agricultural products, as listed in Annex I to the Treaty on the functioning of the European Community; e. Illegal Economic Activities <ul style="list-style-type: none"> <i>Any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.</i> <i>Human cloning for reproduction purposes is considered an Illegal Economic Activity.</i> f. Tobacco and Distilled Alcoholic Beverages

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	<p><i>The production of and trade in tobacco and distilled alcoholic beverages and related products.</i></p> <p>g. Production of and Trade in Weapons and Ammunition <i>The financing of the production of and trade in weapons and ammunition of any kind.</i></p> <p>h. Casinos <i>Casinos and equivalent enterprises.</i></p> <p>i. IT Sector Restrictions <i>Research, development or technical applications relating to electronic data programs or solutions, which</i> (i) <i>aim specifically at:</i> (a) <i>supporting any activity included in the EIF Restricted Sectors referred to under e to h above;</i> (b) <i>internet gambling and online casinos; or</i> (c) <i>pornography,</i> or which (ii) <i>are intended to enable to illegally</i> (a) <i>enter into electronic data networks; or</i> (b) <i>download electronic data.</i></p> <p>j. Life Science Sector Restrictions <i>When providing support to the financing of the research, development or technical applications relating to</i> (i) <i>human cloning for research or therapeutic purposes; or</i> (ii) <i>Genetically Modified Organisms (“GMOs”),</i> EIF will require from the EIF counterpart appropriate specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or Genetically Modified Organisms. Projects of social enterprises aiming at their business development, and projects of micro and small enterprises that are start-ups are not financed, if they are financed from financial engineering instruments supported by the European Social Fund.</p>
Governing law and language	<p>The legal documentation of the Seed and Venture Capital Funds shall be the English language and shall be governed by the laws of the country of incorporation. All other Seed and Venture Capital Funds related entities, such as general partner, management company, advisor, carried interest vehicle, team members investment vehicles, etc. (non limitative list), shall also be incorporated within European Union. Any cross border element of the structure shall be highlighted and justified.</p>
State aid regime	<p>Seed and Venture Capital Funds’ investments are subject to state aid regime defined by De Minimis Regulation, implemented in Lithuania through the Seed and Venture Capital Funds State Aid Scheme approved by the Order of the Minister of Economy No 4-21 of 14 January 2011 (Official Gazette, 2011, No 7-282, EC registration number of the aid scheme – No SA.32448(2011/X). Full text can be found under the following address: http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=391002&p_query=&p_tr2=</p> <p>The Fund Manager will be contractually responsible for ensuring that investments respect the provisions of regulations.</p>
Private	<p>EIF will be the only investor in the Seed Fund and other private investors will not</p>

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Investors	<p>be attracted. EIF will provide 100 percent of the Seed Fund’s capital.</p> <p>The Private Investors’ participation in the Venture Capital Fund shall constitute, at any time, at least 30 percent of the total capital of the Venture Capital Fund.</p> <p>In this context, funding with resources, which are not State resources within the meaning of Article 107.1 of the Treaty of the Functioning of the European Union, is considered to be provided by private investors.</p> <p>In this case, the JHF will be deemed to act as a public investor.</p>
Management Costs of the Funds	<p>The management costs of the Financial Instruments shall be according to market practice and shall not exceed, on a yearly basis, 3% of the committed capital during the investment period and of the invested capital thereafter.</p> <p>For the purposes of the above, the management costs shall be deemed to include any fees, expenses and costs necessary to set up and manage the Financial Instruments.</p>
Schedule of disbursements	<p>In principle, all amounts paid by the JHF should be totally disbursed and spent, either towards investments or management costs, before the end of 2015. In order to cater for this, the Venture Capital Fund’s schedule of disbursement by the Private Investors and the JHF will be asymmetrical. As it is currently envisaged, for any expenses of the Financial Instrument, the JHF will initially contribute 100% of the amount necessary to cover said expenses, whilst the Private Investors will pay out their respective share of the drawdown amount, e. g. 30%, into an interest-bearing escrow account. The amounts in the escrow account would not be utilised until all JHF monies have been drawn down and either invested into SMEs or paid as management costs, or until the beginning of 2016. In any case, the mechanism to be eventually put in place shall ensure that the underlying economic interests of, and the risks taken by the JHF and the Private Investors, will be aligned throughout the existence of the Fund. The mechanics of the disbursements and the escrow arrangement will be set out in the Operational Agreement.</p> <p>For Seed fund, as it is expected to be fully invested by 2015, industry standard disbursement schedule is envisaged.</p>
JHF/Private Investor ranking	<p>The JHF and the Private Investors in the Venture Capital Fund will rank “pari-passu”.</p>
Funds’ due diligence before investments	<p>The Funds Manager will make investment decisions based on each investment’s business plan, which should contain product description, turnover and profitability calculations and forecasts, previous assessment of project viability, as well as each investment’s clear and real exit strategy compatible with relevant EU regulations.</p>
Distribution cascade	<p>The distributions of proceeds from a Venture Capital Fund will be made according to the schedule below:</p> <ol style="list-style-type: none"> 1. First, 100% to the Private Investors and the JHF (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital commitments; 2. 6% Hurdle Rate: Second, 100% to the Private Investors and the JHF (pro-rata to their underlying economic interest) until each investor has received sums

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	<p>equal to a 6% cumulative annual rate of return on their contributions drawn down and not yet returned;</p> <p>3. Funds Manager Catch-up: Third, 100% to the Funds Manager until the Funds Manager has received an additional amount equal to 20% of the total preferred returns distributed to the investors under paragraph 2. above; and</p> <p>4. 80/20 Split: Thereafter, 80% to the Private Investors and 20% to the Fund Manager (Carried Interest).</p> <p>The distributions of proceeds from a Seed Fund will be made according to the schedule below:</p> <p>1. First, 100% to the JHF until it has received distributions in aggregate equal to the total capital commitments;</p> <p>2. 6% Hurdle Rate: Second, 100% to the JHF until it has received sums equal to a 6% cumulative annual rate of return on its contributions drawn down and not yet returned;</p> <p>3. Fund Manager Catch-up: Third, 100% to the Fund Manager until the Fund Manager has received an additional amount equal to 20% of the total preferred returns distributed to the JHF under paragraph 2. above; and</p> <p>4. 50/50 Split: Thereafter, 50% to the JHF and 50% to the Fund Manager (Carried Interest).</p>
<p>Additional features of the Financial Intermediary</p>	<p>The Funds Manager will manage the Seed and Venture Capital Funds based on commercial principles.</p> <p>Investors' representatives shall be appointed in appropriate advisory committee structures to review inter alia funds corporate governance.</p> <p>In the management of the Seed and Venture Capital Funds, the Financial Intermediary shall apply best practices and perform control applicable to the public nature of JHF investment, inter alia considering guidelines developed by EVCA.</p>
<p>Reporting</p>	<p>The Funds Manager shall provide EIF with periodical information in a standardised form and scope, in compliance with structural funds regulations, as to be specified in the Operational Agreement.</p>
<p>Monitoring and Audit</p>	<p>The Fund Manager and the relevant SMEs (final recipients) shall agree to allow and to provide access to documents related to the Financial Instrument for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Funds Manager shall include appropriate provisions in each investment agreement with the SMEs.</p>
<p>Publicity</p>	<p>The Funds Manager, in line with applicable law and Structural Funds publicity provisions, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative known to the SMEs in Lithuania.</p>
<p>Additional Structural Fund requirements</p>	<p>This Financial Instruments are funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which have already being presented in this Annex, hereabove (e. g. Monitoring and Audit, Publicity, Reporting, etc.). It should be noted, however, that more detailed information on actions necessary to ensure compliance of operations linked to</p>

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	the Financial Instruments with all structural funds requirements (e. g. retention of documents, environmental protection, equality and non-discrimination, irregularities) will be provided to, and discussed with the selected Financial Intermediary during the contractual negotiations process.
Additional requirements	The Applicant shall refer to EIF Policies, in particular: <ul style="list-style-type: none">- Anti Fraud Policy;- Policy on Offshore Financial Centres & Governance Transparency published on the EIF website.
Transfer	In the event that the Funding Agreement is terminated (for any reason whatsoever), the EIF shall be entitled at any time to transfer all or part of its rights and obligations under the Financial Instruments to any appointed successor entity. Besides this, neither the EIF nor the Financial Intermediary shall be entitled to transfer any of its rights and obligations under the Financial Instruments without the consent of the other party. Appropriate arrangements will be put in place for these purposes.

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Part II: Selection Criteria for Seed&Venture Capital Funds Financial Instruments

1.	ELIGIBILITY CRITERIA	System of appraisal
		Yes/ No
1.1.	The Expression of Interest is submitted within the Deadline	
1.2.	The Expression of Interest is submitted both by registered mail and e-mail	
1.3.	The Expression of Interest is completed and submitted in English	
1.4.	The Expression of Interest is duly signed	
1.5.	The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided	
1.6.	Applicant's absence of conflict of interest (as per template provided in Appendix 4 to the Expression of Interest)	
1.7.	Applicant and its senior management are not in any situation of exclusion (as per template provided in Appendix 5 to the Expression of Interest)	
1.8.	Ability to communicate in Lithuanian and English	
1.9.	The Expression of Interest addresses all the items set out in the Project Description (Appendix 2 to Annex 1)	
1.10.	The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions, set out in the relevant parts of the Financial Instrument description (Part I of Annex 2)	

2.	QUALITY ASSESSMENT CRITERIA	Max. score
2.1.	Project Applicant's Management Capability	50, of which:
	2.1.1. Investment strategy, including viability of fund size.	15
	2.1.2. Experienced management team, proven ability to implement Financial Instruments.	15
	2.1.3. Ensurance of operational, financial, technical and VC competences.	10
	2.1.4. Capability of members of boards and/or committees of an investment and/or advisory nature to make professional decisions	10
2.2.	Project Applicant's Suitability for Task/Project	30, of which:
	2.2.1. Appropriate Applicant's investment processes, including dealflow generation, ability to invest, added-value strategy, post investment and exit strategy.	10
	2.2.2. Appropriate management company organization, structure, which exist or is foreseen.	5
		5
	2.2.3. Applicant's corporate governance in place.	10
	2.2.4. Applicant's legal structure and independence.	

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2.3.	Co-financing Aspects and Costs	20, of which:
	2.3.1. Favourable terms and conditions for SMEs and the JEREMIE Holding Fund, including management fee and profit share arrangements.	10
	2.3.2. Demonstration of ability to raise private sector money.	5
	2.3.3. Larger Applicant own investment in fund, and assessment of alignment of interests.	5

Applicants that will receive "0" under any of the Quality Assessment sub-criterion set out above will be excluded from the further stage of the selection process.