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TÜBİTAK



Clarification to the Call for Expression of Interest No. IPA-001/2 to select a Fund Manager that will receive resources from the European Investment Fund (EIF) acting as Trustee of the Instrument for Pre-Accession Assistance (IPA) funds under the Technology Transfer Accelerator Fund – Turkey (TTA-Turkey) Project

Reference number: Call for EoI No. IPA-001/2

The aforementioned Call stipulated that: “Requests for clarifications from Applicants shall not receive individual replies. Instead, answers to all requests for clarifications received within the relevant deadline will be published together in a Clarification Document to be posted on the website [www.eif.org](http://www.eif.org), at latest on 22 August 2014”.

In accordance with this provision, we hereby present such a clarification document.

Capitalised expressions utilised below 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. Questions may appear as they have been received without any editing from EIF; they also appear in a random order.

Question 1	One of the criteria is “The independence of the management team”: Can you please elaborate on the subject, i.e. which team can be considered as “dependent”?
Answer 1	Independence of the management team refers to the ability of the management team to undertake investment decisions by itself. “Dependent” teams, or captive teams, refer to those teams whereby the decision making power on investment decision is not within the team. Other elements of captiveness also include

	<p>misalignment within the shareholding of the management company between the management team and any parent organisation (sponsor), ability for a parent organisation (sponsor) to remove unilaterally any member of the management team, undertaking investments for strategic purposes compared to financial purposes, misalignment in terms of the financial reward between the management team and any parent organisation (sponsor).</p>
Question 2	<p>In the presentation of August 5 it is noted that a commitment from the applicant's about 1-5 % of the fund size is expected. However this is not mentioned in the Call for EoI No.IPA-001/2 application document. Do we understand that this "contribution" is not a requirement but a positive point toward selection? Can the Management contribution to the fund be considered within the third party's 2.8 Million EUR commitment?</p>
Answer 2	<p>Please refer to Part II: Selection Criteria / 1.12 of the Call for EoI No. IPA-001/2 document, where "Applicant commitment for own investment in the Fund of at least 1-5% of the total Fund size" is an eligibility criteria.</p> <p>The team's contribution can be considered within the third party's EUR 2.8 million fundraising obligation.</p>
Question 3	<p>Provided that other investors join to the Fund and an asymmetric model been set up (so that longer investment period), can €40m maximum size be enlarged?</p>
Answer 3	<p>The maximum size of the Fund can be enlarged above EUR 40 million. Note that this is can neither be considered positively nor negatively from the outset, as it has to be assessed in view of the overall proposal from the applicant, including investment strategy and team structure.</p>
Question 4	<p>In order to bring in new investors, is there a limit (duration, size, numbers, etc.) to make consecutive closes after the First Close?</p>
Answer 4	<p>The number of closings to be undertaken after first closing is to be determined by the Fund Manager following industry market practices and within the time limitations presented by the Project. For the first closing at least EUR 2.8m have to be raised from third party investors.</p>
Question 5	<p>Should there be an arm's length relationship or any prohibitions for GP to have equity stakes in the expert pool structures that is expected to be set up and to be hired by the investee companies?</p>

Answer 5	Lack of potential conflict of interest is expected in any activity undertaken by the management team and related to the Fund.
Question 6	How will the advisory services be financed that would be needed both at TTO and Company level? Which advisory services should be accounted in the fund's (or in the investment) budget and which can be accounted from €1.35m advisory program budget?
Answer 6	Advisory Services and Networking is a separate component of the Project and not relevant to the current Call for Expression of Interest.
Question 7	In case the Applicant has already up and running multiple accelerator programs with more than one incubation centers / universities, therefore has access to a robust & sustainable high quality deal flow, would this feature be considered as a positive factor?
Answer 7	Each application's strength shall be assessed in a holistic manner. The elements mentioned in the question seem to be relevant and positive, but have to be assessed within the context of the Call's requirements and more specifically with the potential conflict of interests.
Question 8	In case the Applicant has another up and running VC fund structure with very similar features & investment strategy (that has been approved by the final beneficiary of TTA, namely TUBITAK of Turkish State within 1514 Program), can the Financial Instrument (TTA Fund Turkey) be utilized under the same existing VC fund structure? Or will IPA require a brand new and separate financial entity that TTA Fund Turkey to be established under? In other words are applicants with TUBITAK's 1514 program support ( <a href="http://www.tubitak.gov.tr/sites/default/files/1514-2013-call.pdf">http://www.tubitak.gov.tr/sites/default/files/1514-2013-call.pdf</a> ) will be eligible to utilize TTA Fund Turkey within the same fund structure within 1514 program?
Answer 8	Any Fund Manager that has already secured third party capital and whose investment strategy is in line with the Call for EoI No. IPA-001/2 can be considered under this Call. This includes managers selected under TUBITAK's 1514. Note that the selection under 1514 does not constitute any advantage or disadvantage towards the application to TTA Turkey as the selection process for the latter is undertaken on an independent basis and taking all the elements of the application together, of which having secured third party capital is only one of them.
Question 9	In case an applicant with fund management formation & background

	establishes an alliance / consortium with a university based incubation center with an accelerator program, will this be considered as a positive factor? Or will it be considered as a negative factor? Reasoning for both options required.
Answer 9	In general, alliances/consortia that strengthen the application will be considered in positive light. We cannot provide a general rule given the information provided which seems to refer to a very specific example.
Question 10	Will the Fund Manager be allowed to start investing if it can only provide EUR 2.8 million from private investors and minimum 1% of the Fund from its own resources in addition to funding from IPA?
Answer 10	Under such parameters the Fund can achieve a legal closing. A legal closing of the Fund is necessary before starting investing. Preparing investments can be done at the discretion of the Fund Manager.
Question 11	Does the legal vehicle / structure need to be in place prior to our application?
Answer 11	Whilst maturity of the Project is an important criterion for the selection process, legal establishment is not necessarily required prior to application to this Call.
Question 12	Fund Manager – Independence; in addition to a dedicated Fund Manager, can GPs or Principals of an existing fund allocate some of their time to the Accelerator Fund in a Manager/Investment Committee member type of role?
Answer 12	Provided that potential conflicts of interests are properly addressed and interests are aligned, this is possible.
Question 13	Is it required to disclose details of the soft commitments of Private Investors at the application?
Answer 13	It is left to the Applicant’s discretion to disclose such information, but more tangible information increases the maturity of the Project.
Question 14	Type of Investments / Focus; are all investments required to be based on “commercialisation of research and development projects from universities?”
Answer 14	The Fund is expected to invest in, proof of concept generation projects, university spin-offs/start-ups, intellectual property assets and/or projects, and return for equity into start-ups, spin-offs, and SMEs.

Question 15	Please demonstrate Fund's distribution cascade with an example.
Answer 15	Kindly refer to <a href="http://www.evca.eu">www.evca.eu</a> or other public venture capital industry practice associations.
Question 16	Investment Period; is it possible to arrange alternative drawdown schedules for Private Investors? Can the Fund Manager call part of non-LPA third party capital post 31 December 2017?
Answer 16	Drawdown mechanisms are to be defined by the investment pace of the Fund, which in itself should adhere to the requirements of the Project's timeline. The specific mechanism shall be discussed with the selected Fund Manager during the legal negotiations as it is subject to the final structure, including size, of the Fund. In any case, alignment of interests amongst investors shall be sought.
Question 17	Are there any specific targets for exit from investments?  - Is there any expected timeline for exit from an investment? - What is the process in case no exit achieved upon closure of the fund upon 10 years? - Is there any expected RoI from the total invested portfolio?
Answer 17	There are no specific targets for exit from investments. There is no expected timeline for exit from an investment. In case only few exits are achieved upon closure of the Fund after 10 years, this would most likely mean that the Fund has been unsuccessful and imply liquidation. There is no expected RoI.
Question 18	Any penalties if the target of the fund (number of projects, invested capital, ROI etc...) cannot be met?
Answer 18	Whilst penalties, outside those that are industry standards, are not envisaged, EIF will need assurance that the objectives at Project level are to be achieved by the Fund Manager. This will be further assessed at the second screening.
Question 19	In Annex-2 Part I, management costs of the fund has been explained in the "Call for EoI". Assuming management cost of the Financial Instrument are below 2.5% per annum, these costs cannot exceed 3% of the committed capital during the investment period and 3% of the invested capital. Why 3% cap has been mentioned in this clause? Is it possible to increase committed capital during the investment period or is there an expectation that invested capital may increase thereafter?

Answer 19	A fee of 3% incorporating all Fund related costs (including the management fees) is the highest amount that the Fund Manager can charge for this Project. Committed capital remains unchanged from final closing of the Fund. Invested capital is dependent on the timing of cash realisations and write offs of the Fund.
Question 20	Can any private company with experience in technology transfer, technology commercialization, technology investments, spin-offs, project/company valuation etc. apply? Or do you expect/request private company applicant to be a current and legally established fund management company? (p.2 of Call refers to Article 159)
Answer 20	Yes. The call is open to any Fund Manager, either new or already established, with a view to set-up and manage a close-ended Fund.
Question 21	Is it acceptable that, given the applicant's proposed plan fulfils eligibility/quality criteria, the fund management company isn't established yet and will be established following the acceptance to the call of expression?
Answer 21	The Fund can be established before or after submission of application to the Call and be part of the selection process as long as the Eligibility Criteria are fulfilled.
Question 22	When do you expect/require the fund to formally start operating and when do you expect the fund manager to put in the min EUR 2.8 million amount into the fund?
Answer 22	The minimum third party capital should be legally committed at the first closing. It is expected that the Fund will start operations in Q1 2015.
Question 23	Do you have limits on the number of partners of the proposed fund manager in a given application? Can the partners be from public and private sectors?
Answer 23	The number of partners in a proposal is left to the discretion of the Applicant, but should fit to its investment strategy. The partners' background can be from the public or the private sector.
Question 24	p.12 Annex 2 Fund Manager description indicates there maybe more than one Financial Intermediary selected. Does this mean you may accept more than one application, but will still provide the maximum EIF contribution of EUR 26.3 million.

Answer 24	The selection of the Fund Manager is subject to the quality of the applications received. If sufficient quality applications are received, EIF, at its discretion, can short-list more than one Fund Manager. For TTA Turkey, only one Fund Manager will be supported.
Question 25	What is the expected timeline for the declaration of the results for the application?
Answer 25	As soon as the legal documentation of the Fund is signed with the selected Fund Manager, the results of the selection procedure shall be made available. This is envisaged to happen in Q1 2015.
Question 26	Is an Advisory Committee a requirement?  We note that the Management Section of the EOI says of the Advisory Committee “ if such is to be created”  The above is envisaged to be completely separate to the investee advisors/pool of experts resource, which is a requirement?
Answer 26	The most appropriate corporate governance and structure are left to the discretion of the Applicant. Usually, the Fund’s set-up contains an Advisory Board. Any other advisory structures to support the investment activity of the Fund, if any, are to be proposed by the Applicant.
Question 27	We assume that both of the above are separate from any committee of Investors in the Financial Instrument (EIF + 3rd Party Investors)?
Answer 27	The most appropriate corporate governance and structure are to be decided by the Applicant. See as well answer 26.
Question 28	In Terms & Conditions section of the EOI, what does “Indicative investment requested from IPA” mean. Is this EUR 26.3 million, or some other type of investment? If it refers to a sum up to EUR 26.3 million, does it mean that the balance of the instrument would be allocated to another product?
Answer 28	Investment requested from IPA can be maximum EUR 26.3 million and shall constitute part of the aggregate funds that the Fund Manager is expected to raise. As such, IPA contribution shall be a coherent and integral part of the Fund’s investment strategy. If by “another product”, investments other than the type of investments defined in the Call are meant, the answer to the second question is no.

Question 29	In Market section, the term “technology provider” is used. Is this to mean the provider of technology to investees of the fund, or to sources of dealflow, or both?
Answer 29	The description of the relevant technology providers (Research institutes, universities, companies,...) in the Market section of Appendix 2 to ANNEX 1 – Project Description covers all providers of technology in the market, not only confined to the two types of actors in the question.
Question 30	<p>In <b>section 3. Description of the activities expected from the selected Financial Intermediary</b></p> <p>It states that “The Financial Instrument shall be set up either as an independent legal entity governed by agreements between the co-financing partners or shareholders or as a separate block of finance within a Financial Intermediary.”</p> <p>So the Financial Instrument could be on the balance sheet of an entity owned or partly owned by the Manager and controlled by the Manager?</p>
Answer 30	Whilst this could be the case, we would recommend that the Fund is structured in the standard way being undertaken in the industry. If a separate block of finance is sought, special consideration will need to be taken for the independence element of the proposal.
Question 31	If say a UK/Lux/Dutch structure is employed, it is possible that Turkish 3rd Party investors would wish to invest only in a Turkish entity due to capital control issues. Is it possible that 3rd party domestic investors could invest in a parallel vehicle which operates in lockstep with the e.g. UK/Lux/Dutch vehicle?
Answer 31	Applicants should obtain legal counsel for these questions. From the perspective of this Call, the relevant regulations must be complied with and investors should be treated in a <i>pari passu</i> (like risk, like reward) way, where possible. It must be ensured that all structures act coherently together and shareholder protection works across the different structures.
Question 32	<p>On Page 3 of the “Call for EoI No. IPA-001/2” – Section 3, it is stated that “The selected Financial Intermediary will have to implement the Financial Instrument. The Financial Instrument shall be set up either as an independent legal entity governed by agreements between the co-financing partners or shareholders or as a separate block of finance within a Financial Intermediary.”</p> <p>The statement "... as a separate block of finance within a Financial Intermediary" needs further clarification. Would a separate dedicated account</p>



	(such as an "escrow" account) within the financial intermediary qualify for the financial transactions of the proposed structure?
Answer 32	Whilst this could be the case, we would recommend that the Fund is structured in the standard way being undertaken in the industry. If a separate block of finance is sought, special consideration will need to be taken for the independence element of the proposal.
Question 33	<p>On Page 17 of the "Call for EoI No. IPA-001/2", the distributions of proceeds from the Fund are scheduled as;</p> <p>"1. First, 100% to the Private Investors and the EIF (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital commitments.</p> <p>2. A Hurdle Rate (to be proposed by the Fund Manager): Second, 100% to the Private Investors and the EIF (pro-rata to their underlying economic interest) until each investor has received sums equal to a Hurdle Rate cumulative annual rate of return on their 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 25% of the total preferred returns distributed to the investors under paragraphs above; and</p> <p>4. 80/20 Split: Thereafter, 80% to the Private Investors and EIF (pro-rata to their underlying economic interest) and 20% to the Fund Manager (Carried Interest)."</p> <p>Can the suitor propose alternative compensation schemes other than the 80/20 scheme stated above, in order to enhance the "alignment of interest" hence the motivation of "the team"?</p>
Answer 33	It is left to the Applicant's discretion to suggest alternative schemes.
Question 34	In case potential investors lay down certain conditions/ preferences, in relation to their own contribution, such as the sectors of the projects to be invested in, stages of the projects (proof of concept, start up,..), region, etc., can the Fund Manager make appropriate arrangements on agreement basis, without compromising the predefined criteria and limitations of the fund?
Answer 34	Limitations by other investors need to be understood within the investment strategy of the Fund.