



**FUND OF
FUNDS**
FUND MANAGER OF
FINANCIAL INSTRUMENTS
IN BULGARIA



EUROPEAN UNION
European Regional
Development Fund



OPERATIONAL PROGRAM
REGIONAL DEVELOPMENT
INNOVATIONS AND
COMPETITIVENESS

Financial Instrument “Mezzanine / Growth Fund” OP Innovation & Competitiveness 2014 - 2020

Executive summary for information purposes only

February 2017

Dear Partners,

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

We suggest to review the presentation in conjunction with the indicative term sheet for the “Mezzanine / Growth 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 the 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,

FMFIB Management Board

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
MGF	Mezzanine / Growth Fund
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

- With the aim to execute its mandate in a transparent and non-discriminatory way, as well as align the structures of the investment instruments with the appropriate market practices, FMFIB is in the process of conducting comprehensive consultations with the potential stakeholders with respect to the OPIC financial instruments, i.e. with potential fund managers, investors, investees, policy makers, research organizations, universities, entrepreneurs etc.

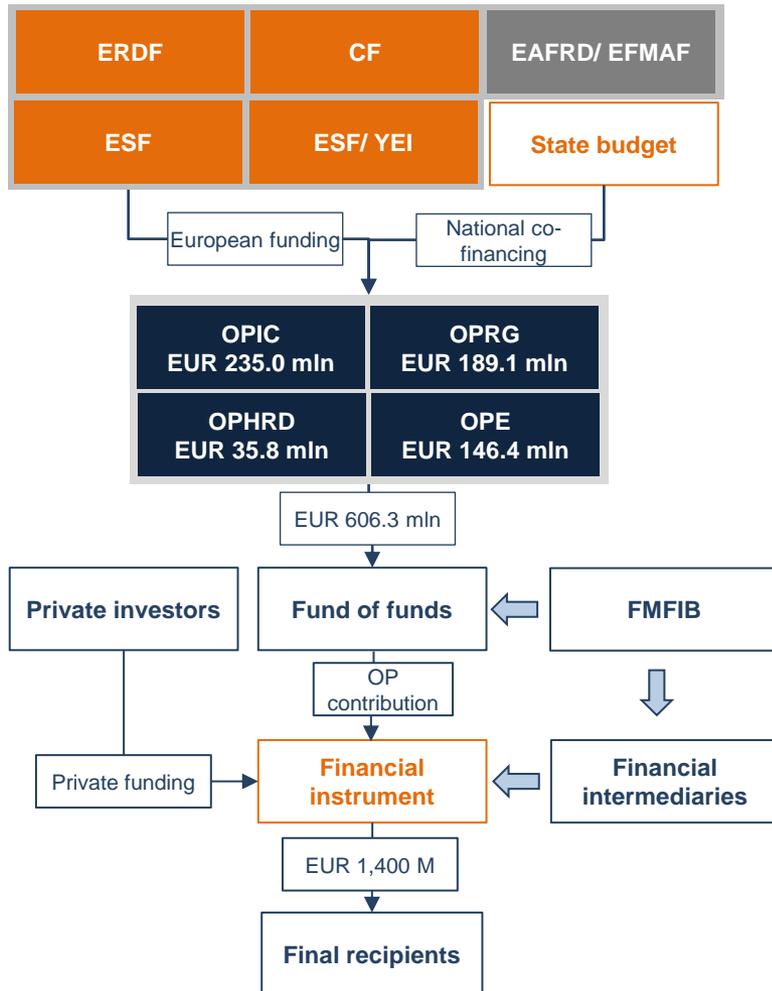
Purpose of this document

- To present a summary of the financial instrument “Mezzanine / Growth Fund” within the Operational Programme “Innovation and Competitiveness”.

- In addition, FMFIB published an indicative term sheet for the financial instrument as a basis for detailed discussions and market testing (see www.fmfib.bg).

Structure of this document

- The document presents a high level overview of:
 - FMFIB structure, capabilities and role in the process
 - Background and policy rationale of the financial instrument
 - Main features and key indicative terms & conditions of the financial instrument and prospective investment fund
 - Tentative roadmap of the overall process up to the potential first closing of the investment funds

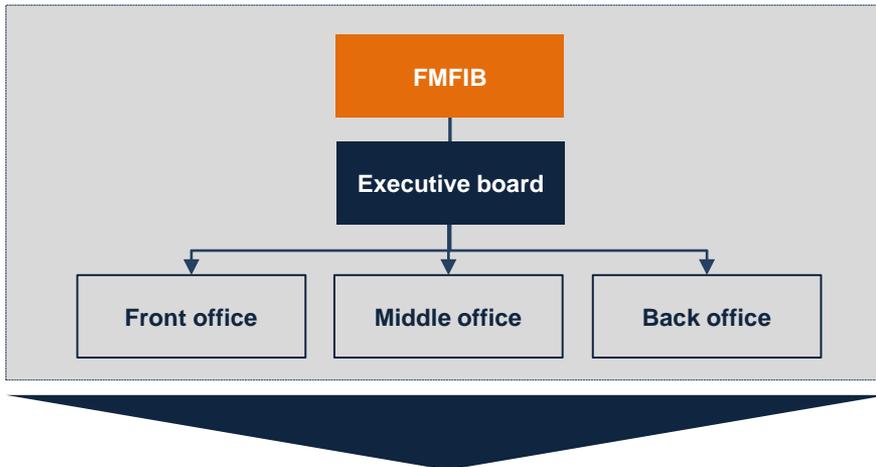


Financial instruments background

- The EU has recognised the financial instruments (FI) as an important tool towards achieving its policy objectives
- By definition, the EU FIs are designed to support final recipients via market-driven mechanisms (e.g. loans, investments etc. as opposed to grants) while mobilising 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
- Given their advantages over grants, an increasing portion of the Union budget is channelled to financial instruments

FoF rationale

- Bulgaria has taken the strategic decision to implement the FIs under its operational programmes (OP) via a national investment vehicle structured as a “Fund of funds”
- Currently, four OPs contribute funds earmarked for FIs in the FoF in the total amount of EUR 606 million
- The financial instruments are expected to mobilize support and capital from the private sector and fully leveraged FoF is expected to facilitate the investment of ~EUR 1.4 billion in the Bulgarian economy (including its own dedicated resources)
- FMFIB, has been established by the government as *the* entity managing the FoF and its sole mission is the effective implementation of the FIs in Bulgaria
- The investment of the FIs would be entrusted to intermediaries selected and monitored by FMFIB



Operational team comprised of professionals with private & public sector expertise

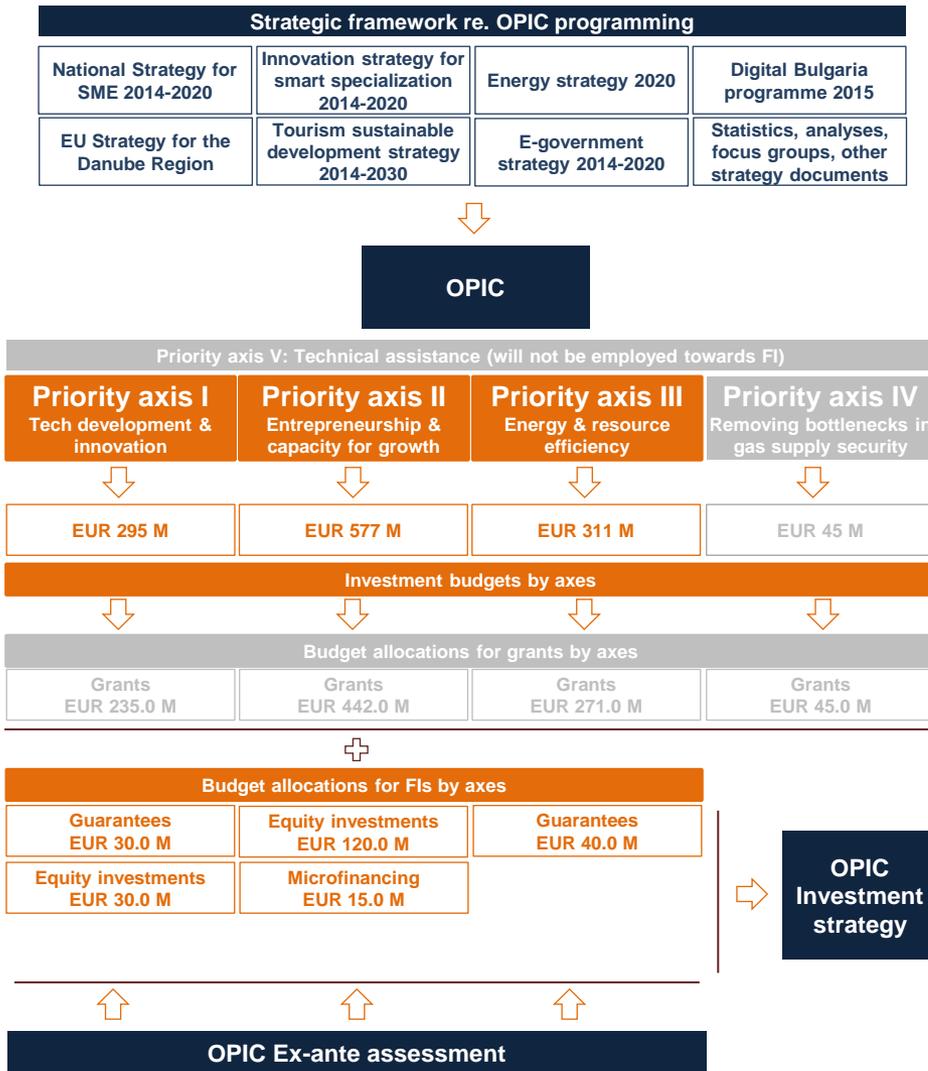
- 85+ years of combined experience in PE funding, corporate finance, investment and commercial banking
- 30+ years in structuring and implementation of financial and policy instruments related to economic, social and regional development
- Supported by seasoned professionals with risk, legal, compliance, finance and marketing background
- Previous employers encompass EBRD, Citi, KPMG, S&P Ratings, Allianz, Credit Agricole, BDB, BNP CIB, HSBC, SocGen, BNB, the European Commission, the Ministry of Finance, MA of OPRiG, MA of OPIC, MA of OPHRD, etc.
- The FMFIB team features professionals with Ph.D. and graduate degrees from INSEAD, Harvard, LSE, Cass, Pantheon Assas, Paris Dauphine, AUBG, Salford, Osnabrück, TU, etc.

FMFIB as manager of the FoF

- FMFIB was established in October 2015 and is operational since the beginning of 2016; formal accreditation to manage EU funding was received in May 2016
- The governance of the company and its *modus operandi* have been designed and set up with the advisory support of EIB, EBRD and the World Bank
- FMFIB features a two-tier governance structure encompassing Supervisory & Management boards
- The Supervisory Board consists of representatives of the OPs funding the FoF and is chaired by the Ministry of Finance
- FMFIB Management Board comprises of four seasoned professionals mobilising extensive experience in development & commercial banking, private equity and the public sector
- FMFIB has a strong investment and operational team organised in three divisions

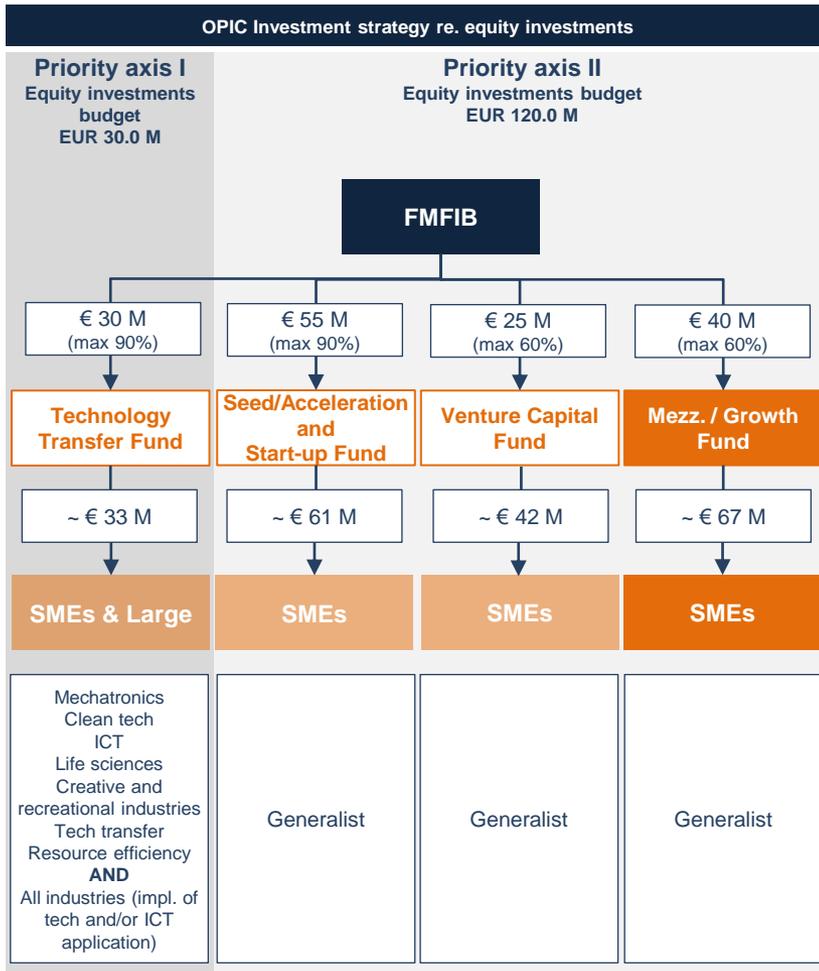
Regulatory framework

- FMFIB duly complies with a number of European Union and national regulations, notably the CPR (EC) 1303/ 2013, the Bulgarian ESI Funds Management Act and the Public Procurement Act



OPIC funding and objectives

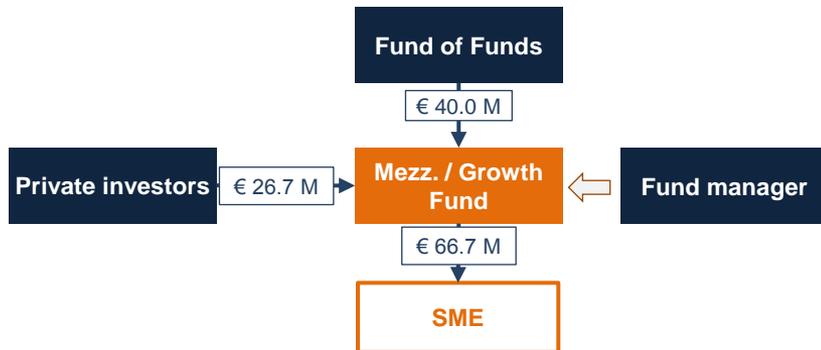
- The programme is funded by ERDF and national co-financing and has a total budget of close to EUR 1.3 billion allocated in five priority axes
- The core principles of OPIC are aligned with the strategic framework that defines the national development roadmap in a number of sectors
- As a result, the OP includes policy objectives aiming to foster economic growth that is: (1) knowledge-driven; (2) environmentally sustainable; and (3) socially inclusive
- In the backdrop of these objectives, the envisaged financial instruments should contribute towards:
 - enhancing R&D, achieving technological advancement, boosting innovation and implementation of ICT;
 - increasing the SME's competitiveness and export-related capabilities; and
 - transitioning to a low-carbon economy
- It is planned that the programme would support eligible projects and recipients through grant funding, equity & debt investment instruments and/or a combination thereof
- The practical implementation of the OP with respect to the FIs is outlined in an investment strategy, drafted by the EIB Group, outlining the blueprint of OPIC's FIs and forming the foundations that FMFIB builds upon



Note: The funding amounts provided are gross amounts including management fees.

OPIC equity & quasi equity investments

- The scope of OPIC's financial instruments has been established following a thorough assessment of the past experience and demonstrated inefficiencies of the investment market in Bulgaria
- 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 to be designed across the PE/VC/Early Stage spectrum
- FMFIB will structure and perform tender procedures for the selection of fund managers of the investment funds in line with the Investment Strategy of OPIC and adhering to an open and transparent process in accordance with market practice
- Typically, the FoF would have the role of a limited partner in the established fund structures
- It is expected that the investment funds will attract further private sector capital contributions either as limited partners at fund level and/or through co-financing mechanisms at investee level



Fund rationale

- Key policy objectives: fostering productivity and export capabilities of SMEs
- The fund will have a generalist sector strategy with sector concentration according to market practice
- The fund will pursue projects that are based in Bulgaria or where the benefits of the investments will 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

Key indicative terms & conditions

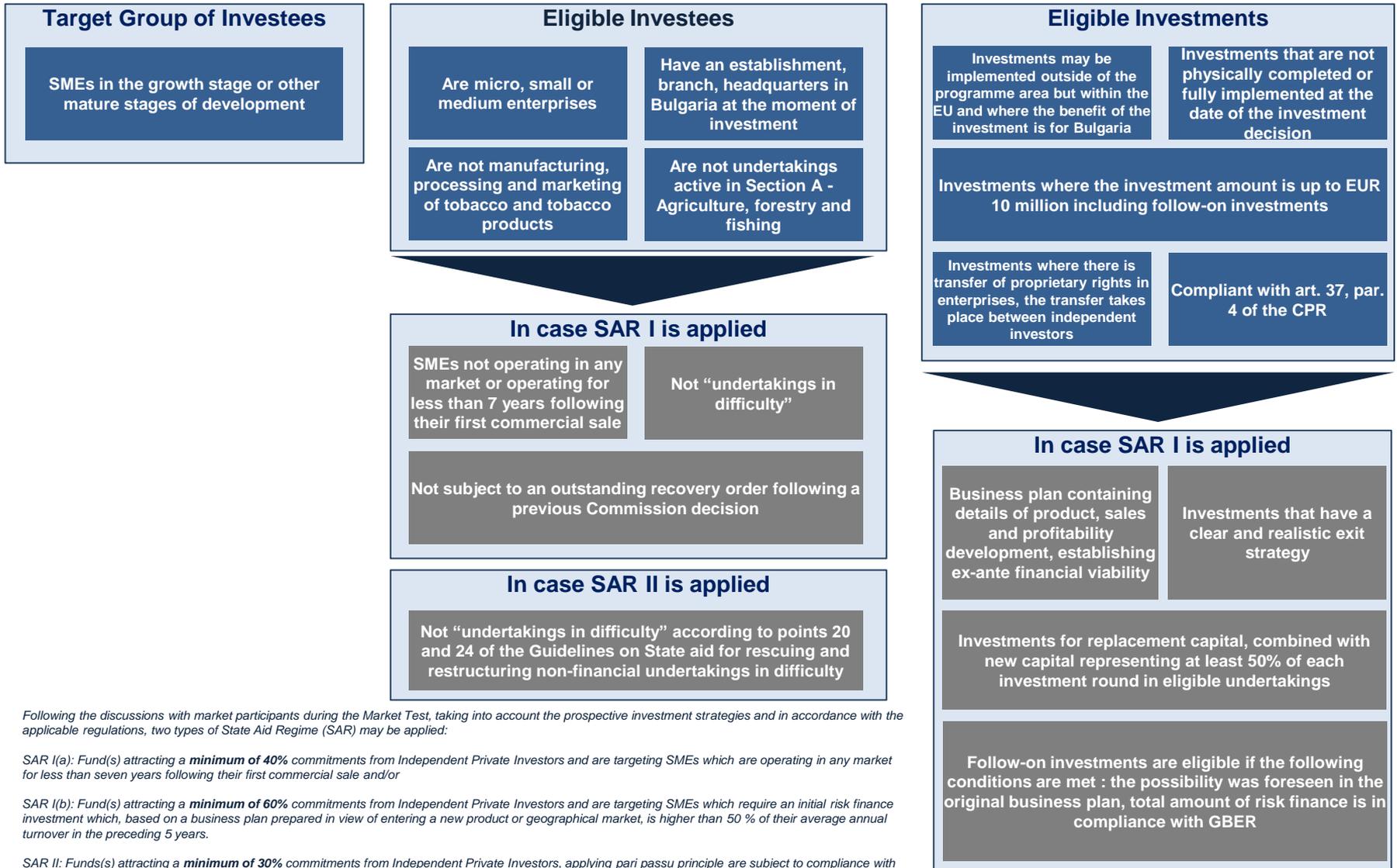
Potential fund(s) size: ~ EUR 66.7 million

FoF commitment: EUR 40 million including fees & costs

Fund life: 10+1+1 years

Investment Period: ~5 years since first closing

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

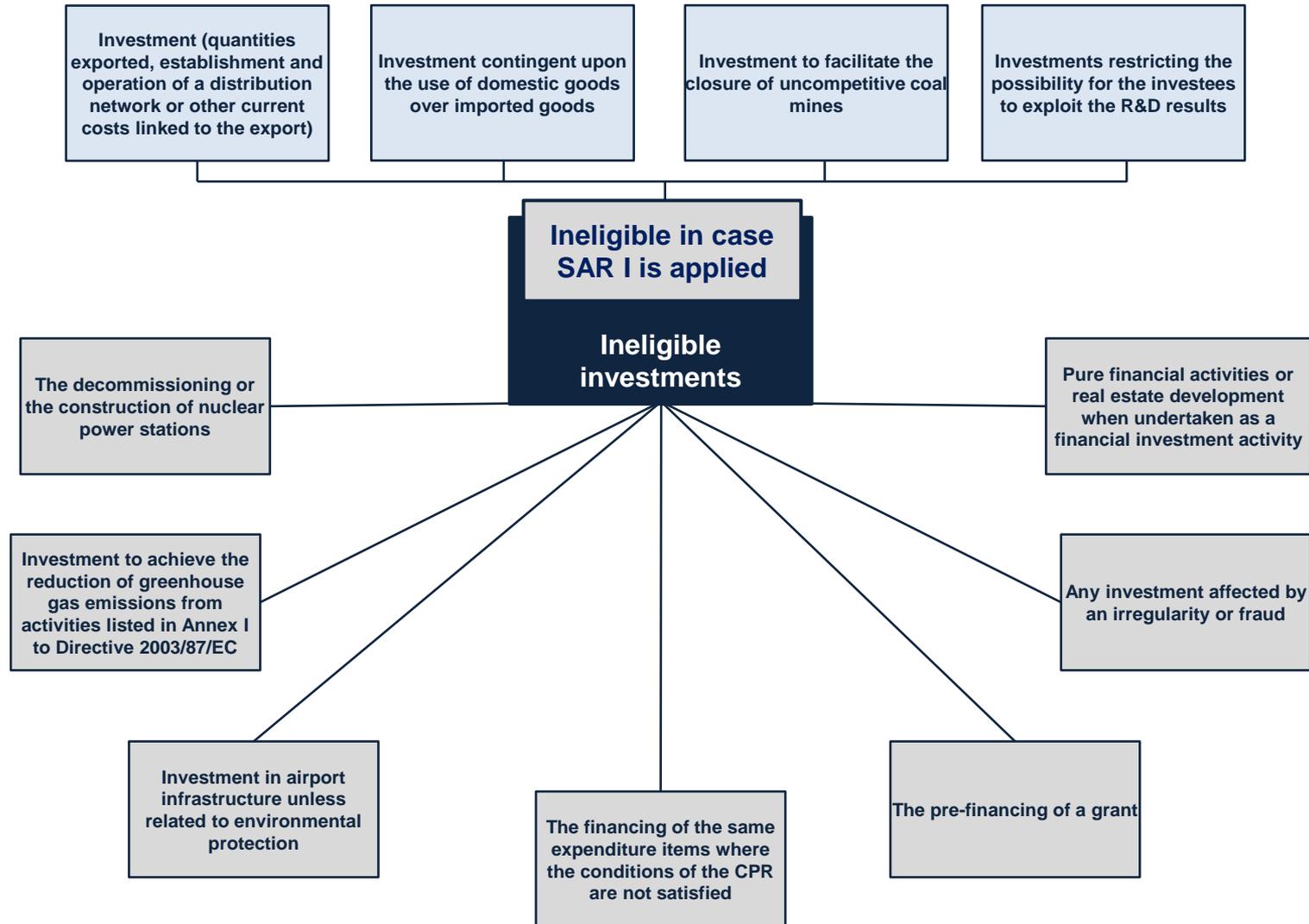


Following the discussions with market participants during the Market Test, taking into account the prospective investment strategies and in accordance with the applicable regulations, two types of State Aid Regime (SAR) may be applied:

SAR I(a): Fund(s) attracting a **minimum of 40%** commitments from Independent Private Investors and are targeting SMEs which are operating in any market for less than seven years following their first commercial sale and/or

SAR I(b): Fund(s) attracting a **minimum of 60%** commitments from Independent Private Investors and are targeting SMEs which require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50 % of their average annual turnover in the preceding 5 years.

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





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.

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.

FMFIB assumes no responsibility towards third parties in relation with any such changes, amendments as well as with respect to interpretations of either the law or other legal documents with respect to any legal forum. FMFIB shall assume no liability or responsibility for any costs, damage, losses or expenses incurred by any party arising out of use of or reliance on this Document.

Forward looking assumptions & extrapolations

This Document includes certain estimates and projections with respect to the future performance of the Bulgarian economy and the developments in the local SME segment. These reflect certain assumptions and extrapolations concerning the anticipated results, which may or may not prove to be correct and may have significant impact on the conclusions drawn herein. FMFIB does not assume any responsibility with respect to these assumptions and conclusions.

Document distribution

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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. In addition, we have used information provided by Consortium Partners for European Financing in Ex-ante assessment and strategy for effective implementation of the financial instruments under OPIC and should not be used for any other purpose without OPIC’s or Consortium Partners for European Financing prior authorization. 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.

Disclaimer

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”). The terms and concepts used in this presentation have the same meaning as in the indicative technical specification of the Financial Instrument. The information provided is considered by FMFIB as indicative and does not cause obligation to you or FMFIB. In connection with 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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