

## **INDICATIVE TERM SHEET Venture Capital Fund**

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## Definitions and Abbreviations

<b>BGN</b>	Bulgarian Lev
<b>CPR</b>	<i>Common Provisions Regulation</i> , i.e. Regulation (EU) No 1303/2013 of the European parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006; OJ L 347/320, 20.12.2013
<b>DA</b>	<i>Delegated Act</i> , i.e. Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund; OJ L 138, 13.5.2014
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>ESIF/ESI Funds</b>	European Structural and Investment Funds
<b>Eligibility period</b>	Up to 31 December 2023
<b>ERDF Regulation</b>	Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006; OJ L 347, 20.12.2013
<b>Ex-ante assessment</b>	The Ex-ante assessment for support through financial instruments as per OPIC For more details see the Ex-ante assessment for the financial instruments of OPIC: <a href="http://www.opcompetitiveness.bg/module3.php?menu_id=348">http://www.opcompetitiveness.bg/module3.php?menu_id=348;</a> <a href="http://www.opcompetitiveness.bg/module0.php?menu_id=397">http://www.opcompetitiveness.bg/module0.php?menu_id=397.</a>
<b>IP</b>	Investment Priority
<b>GBER</b>	<i>General Block Exemption Regulation</i> , i.e. Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty; OJ L 187, 26.6.2014
<b>Financial Instrument</b>	Venture Capital Fund
<b>FMFIB</b>	Fund Manager of Financial Instruments in Bulgaria EAD
<b>FoF</b>	The Fund of Funds
<b>Funding Agreement</b>	The Funding Agreement signed between FMFIB and the Managing Authority of OPIC
<b>Market Test</b>	The process of preliminary discussions with market participants and evaluation of the market environment for the implementation of the Financial Instrument.

<b>OP</b>	Operational Programme
<b>OPIC</b>	Operational Programme <i>Innovation and Competitiveness</i> 2014-2020
<b>Follow-on investment</b>	Means additional investment in a company subsequent to one or more previous investment rounds
<b>Pari passu</b>	The implementation of the <i>pari-passu</i> principle entails <i>like risk, like reward</i> as further specified in section 2.1.1 of the Guidelines on State aid to promote risk finance investments <sup>1</sup>
<b>Programme area</b>	In the context of OPIC, the territory of the Republic of Bulgaria
<b>Independent Private Investors</b>	<p>As per art. 2, par. 72 of the GBER and item 52, (xvii) of the Guidelines on State aid to promote risk finance investments <b><i>independent private investor</i></b> means a private investor who is not a shareholder of the eligible undertaking in which it invests, including business angels and financial institutions, irrespective of their ownership, to the extent that they bear the full risk in respect of their investment.</p> <p>Upon the creation of a new company, private investors, including the founders, are considered to be independent from that company</p>
<b>Irregularity</b>	Any breach of EU law, or of national law relating to its application, resulting from an act or omission by an economic operator involved in the implementation of the European Structural and Investment Funds, which has, or would have, the effect of prejudicing the budget of the European Union by charging an unjustified item of expenditure to the budget of the Union
<b>Small and Medium Sized Enterprise (SME)</b>	A micro, small or medium sized enterprise as defined in Commission Recommendation 2003/361/EC <sup>2</sup> and in the Annex 1 of the GBER as amended from time to time concerning the definition of micro, small and medium-sized enterprises

<sup>1</sup> OJ C 19, 22.1.2014

<sup>2</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36)

## Purpose of this document. Disclaimer

The document provided herein (“the Term Sheet”, “the Document”) is prepared for information purposes only for conducting a market consultation with respect to *Financial Instrument Venture Capital Fund* (“the Financial instrument”, “the FI”, “Venture Capital Fund”, “the Fund”), financed by *Operational Programme Innovation and Competitiveness* (“OPIC”, “the OP”, “the Programme”).

The Document summarises the key indicative parameters of the Financial Instrument and may, and will be subject to changes, amendments, and clarifications, including, inter alia, as a result of the conducted market consultation. The final contents of the Document shall be subject to subsequent due approval by the respective authorities of *Fund Manager of Financial Instruments in Bulgaria EAD* (“FMFIB”).

This Document does not constitute a public call with a binding proposal, nor a proposal to enter into a business transaction on the part of the FMFIB or the Ministry of Economy, nor does it contain any recommendation to any party to proceed with, or to refrain from, to carry out certain investment intentions, or any other course of action. In that regard, the FMFIB is not liable, nor does warrant any obligations, financial or otherwise, to any party, including also any third parties, with respect to the information contained in this Document. Commitments may be undertaken by the FMFIB only upon the successful completion of a procedure for the selection of a financial intermediary and the closing of an Operational Agreement (“OA”, “Operational Agreement”).

The Document, in its entirety or in separate parts hereof, may not be used, disseminated, or quoted without the express written approval of the FMFIB.

## Introduction

The Financial Instrument is implemented in accordance with Priority Axis 2 OF OPIC, Investment Priority 2.1 Access to finance for supporting entrepreneurship. It is focused on achieving a positive effect on the sustainability of the newly created enterprises and improving the survival rate of SMEs.

According to the Programme, a considerable part of the newly created enterprises are not able to continue their activity during the first five years of their establishment due to lack of access to adequate financial resources and structure to support their growth. As a result, developing appropriate instruments to support of the growing enterprises through the so called “valley of death curve” is required to reach a success of the new product to commercialise it and to achieve a successful business.

In light of the above, the Ex-ante assessment developed for the implementation of the financial instruments under OPIC has demonstrated the need for the set-up of a Venture Capital Fund to support, *inter alia*<sup>3</sup>, innovative<sup>4</sup> companies, including start-ups, with respect<sup>5</sup> to their expansion and high-quality projects in need of financing.

In order to address the identified market failures or suboptimal investment situations through the implementation of financial instruments, the OPIC has appointed FMFIB as the manager of the Fund of Funds (“FoF”), where the scope of this mandate has been defined in the Funding Agreement signed between both parties in accordance with the CPR and the Management of Resources from the European Structural and Investment Funds Act.

Thus, FMFIB manages certain funds provided by OPIC and is performing various tasks, including but not limited to:

- Identification, evaluation and selection of Financial Intermediaries to sign OAs with FMFIB for the implementation of Financial Instruments which includes *inter alia*:
  - preparation of indicative term sheets;
  - conducting market consultations;
  - design and carrying out of a selection process for Financial Intermediaries;
- Negotiations, signing and amendment the Operational Agreements, as needed;
- Monitoring;
- Risk management, operational; and financial reporting.

The selection process should be conducted in an open, transparent, proportional and non-discriminatory manner in accordance with applicable law and regulations

<sup>3</sup> Please refer below to clause *Eligible investees* for an exhaustive description

<sup>4</sup> Without prejudice with respect to requirements of FMFIB on eligibility presented herein, an innovative firm is “one that has implemented an innovation during the period under review”, whereas an innovation “is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations” (ref. Oslo Manual, Guidelines for Collecting and Interpreting Innovation Data, 3rd Edition, OECD, Eurostat, 2005)

<sup>5</sup> Please refer to clauses *Eligible/ Ineligible investments* and *Excluded sectors* for a detailed outline of envisaged the eligible costs

## Terms and Conditions of the Operational agreement

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**The Fund(s) or Financial Instrument** The Fund(s) will be established in line with the Investment Strategy defined in the Funding Agreement and legal acts governing the operations of the FMFIB including but not limited to EU and national legislation on ESIF, state aid and public procurement rules, relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud as specified in the respective sections of this Term Sheet.

The Fund(s) shall be established as a closed-ended investment vehicle(s).

The structure may consist of a General Partner/ Investment Manager / Fund Manager, Investment Advisor and its related entities, as well as limited partners / investors/ Independent Private Investors.

Following the discussions with market participants and the analysis of the current market environment during the Market Test, one or more investment funds may be established in accordance with the terms and conditions specified herein as well as the laws of the country of incorporation of the Fund(s), including *inter alia* the laws transposing EU legislation for the requirements to and the supervision of the investment funds.

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) structured in compliance with GBER and attracting commitments from independent private investors within the following minimum thresholds:

**SAR I(a):** 10% of the risk finance provided to the eligible undertakings prior to their first commercial sale on any market and/or

**SAR I(b):** 40% for investments in eligible undertakings operating in any market for less than seven years following their first commercial sale and/or

**SAR I(c):** 60% for investments in eligible undertakings 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.

As described above in SAR I(a), SAR I(b) and SAR I(c), it is expected that the Fund(s) may target eligible undertakings in all of the development stages above as investment opportunities offering the respective risk/return profile.

In such cases, the minimum commitments required from independent private investors should represent at least the weighted average of minimum commitments at the Fund level required calculated on the volume of individual investments in the underlying portfolio.

However, the Fund manager shall comply with the Fund(s) objectives and the target group of investees as specified in this term sheet.

The Fund manager shall monitor the portfolio and shall procure that the private participation at the level of the fund and the portfolio companies is at all times in compliance with art. 21, par. 10 and 11 of GBER.

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**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).

In both cases (SAR I and SAR II), the minimum private participation may be committed at the level of the Fund and/or through a co-investment model where the Fund co-invests with the independent private investors at the level of the Investees.

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<b>Fund(s) Objectives</b>	<p>To invest in a diversified portfolio of enterprises focused on supporting SMEs in particular:</p> <ul style="list-style-type: none"> <li>▪ in their early-stage of development and/or;</li> <li>▪ which are experiencing gap in access to follow-on financing after being supported in early-stages and/or</li> <li>▪ to achieve commercialisation, strengthen high-growth prospects, innovate, and expand and/or</li> <li>▪ are active in the field of high technologies and/or</li> <li>▪ are having difficulties finding additional capital to support their growth, as they are considered too risky.</li> </ul>
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<b>Types of Investments</b>	<p>The Investments of the Fund(s) can be made in the form of equity or quasi-equity.</p>
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<b>Target Group of Investees</b>	<ul style="list-style-type: none"> <li>▪ SMEs in the early stages of development;</li> <li>▪ Innovative SMEs;</li> <li>▪ High-tech SMEs;</li> <li>▪ SMEs with high risk profile.</li> </ul>
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<b>Eligible Investees</b>	<p>Enterprises which at the time of the initial investment are not listed on the official list of a stock exchange, except for alternative trading platforms<sup>6 7</sup> and:</p> <ul style="list-style-type: none"> <li>▪ are micro, small or medium enterprises (SMEs);</li> <li>▪ have an establishment and/or branch and/or headquarters in the Republic of Bulgaria at the moment of investment and meet at least one of the following alternative criteria:           <ul style="list-style-type: none"> <li>– at least 50% of the revenue of the SME is accounted in Bulgaria; or</li> <li>– at least 50% of SME's assets (tangible or intangible) are permanently based or are otherwise registered in Bulgaria; or</li> <li>– a substantial majority of its business value creating professional staff (including, without limitation, engineers, technical staff, academics and senior operations executives involved in the business strategy and/or product or service development) is located in Bulgaria or has substantial product or service development operations in Bulgaria.</li> </ul> </li> <li>▪ are not manufacturing, processing and marketing of tobacco and tobacco products;</li> </ul>
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<sup>6</sup> Exception for listed companies as stipulated in art.2 (76) of GBER

<sup>7</sup> *alternative trading platform* means a multilateral trading facility as defined in Article 4 (1) (15) of Directive 2004/39/EC (30) where the majority of the financial instruments admitted to trading are issued by SMEs (ref. (i) Guidelines on State aid to promote risk finance investments 2014/C 19/04, Communication from the Commission and (ii) art.21 (5) GBER)

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- are not undertakings active in Section A - Agriculture, forestry and fishing as listed in NACE Rev. 2

***In case SAR I is applied:***

- are SMEs which (a) have not been operating in any market or (b) are operating in any market for less than 7 years following their first commercial sale or (b) 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<sup>8</sup>;
- are not “undertakings in difficulty” according to Article 2, par. 18 of Regulation EU No 651/2014;
- are not subject to an outstanding recovery order following a previous EC decision declaring an aid illegal and incompatible with the internal market, with the exception of aid schemes to make good the damage caused by certain natural disasters;

***In case SAR II is applied:***

- are 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 (OJ C 249, 31.7.2014)

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**Investment Areas/  
Sectors**

The Fund may complete investments in all sectors of the economy.

All else being equal (including the quality of investments i.e. taking into account their economic viability and without prejudice of the principles of transparent and justified on objective grounds selection in compliance with the requirements of Article 6 paragraph 1 of DA), the Fund manager shall seek for an opportunity to focus on investments in sectors<sup>9</sup> within the scope of National strategy for promoting SMEs in Bulgaria 2014-2020.

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**Eligible/  
Ineligible  
Investments**

***Eligible Investments***

- Investments that may be implemented outside of the programme area but within the European Union and where the benefit of the investment is for Bulgaria, subject to meeting all conditions and thresholds as per art. 70 of the CPR;
- Investments that are not physically completed or fully implemented at the date of the investment decision as per art. 37, par. 5 of the CPR
- Investments where the investment amount is up to EUR 5 million, including follow-on investments;
- Investments where there is transfer of proprietary rights in enterprises and the transfer takes place between independent investors;
- Compliant with art. 37, par. 4 of the CPR;
- Compliant with art. 4, par. 1 of the DA

In case SAR I is applied:

- Investments are based on a viable business plan, containing details of product, sales and profitability development, establishing ex-ante financial viability;
- Investments that have a clear and viable exit strategy;
- follow-on investments are eligible in cases where the following conditions have been met:

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<sup>8</sup> Subject to the private participation rates as per art. 21, par. 10 and 11 of the GBER  
<sup>9</sup> As specified in Annex I to this Term sheet

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- the possibility of follow-on investments was foreseen in the original business plan;
  - total amount of risk finance is compliant with Art.21, par. 9 of the GBER;
  - the undertaking receiving follow-on investments has not become linked (as per the meaning of Article 3(3) of Annex I of the GBER) with another undertaking other than the financial intermediary or the independent private investor providing risk finance, unless the new entity fulfils the conditions of the SME definition;
  - the follow-on investment is made with private investors participating in the follow-on financial round in accordance with art. 21, par.10 of the GBER.

#### **Requirements towards replacement capital**

- replacement capital may be provided only if it is combined with new capital representing at least 50 % of each investment round into the eligible undertaking.

#### ***Ineligible Investments***

The Fund(s) shall not invest, complete investments or otherwise support the following activities:

- As per art. 3, par. 3 (a), (b) and (e) of the ERDF Regulation:
  - the decommissioning or the construction of nuclear power stations;
  - investing to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC;
  - investing in airport infrastructure unless related to environmental protection or accompanied by investment necessary to mitigate or reduce its negative environmental impact.
- the financing of the same expenditure items where the conditions as per art. 37, par. 7, 8 and 9 of the CPR are not satisfied;
- the pre-financing of a grant;
- any investment affected by an irregularity or fraud;
- pure financial activities or real estate development when undertaken as a financial investment activity;

In case SAR I is applied:

- investment directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current costs linked to the export activity;
- investments contingent upon the use of domestic over imported goods or which are subject to the obligation for the investees to use nationally produced goods or national services;
- investment to facilitate the closure of uncompetitive coal mines, as covered by Council Decision No 2010/787;
- investments restricting the possibility for the investees to exploit the research, development and innovation results in other Member States.

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#### **Excluded sectors**

In addition to the restrictions set out in sections Eligible Investees and Eligible Investments/ Ineligible Investments the Fund manager(s) should note the following excluded sectors:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Any business relating to pornography or prostitution;

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- In the event that any of the following activities form a substantial part of the final recipient's primary operations or those of the project:
    - production and trade of Weapons and munitions;
    - production and trade of hard liquor; or
    - gambling, casinos and equivalent enterprises.
  - Research, development or technical applications relating to electronic data programs or solutions, which aim specifically at supporting:
    - any activity referred to above;
    - internet gambling and online casinos; or
    - pornography,
    - are intended to enable to illegally enter into electronic data networks; or
    - download electronic data.
  - research, development or technical applications relating to
    - human cloning for research or therapeutic purposes; or
    - genetically Modified Organisms ("GMOs")

In case of doubt regarding the a.m. case, the advice of the Advisory Board shall be sought.

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**State Aid regime**

The applicable State Aid regimes are:

- In cases where the independent private participation is at least 10% to 60% of the Total Fund Commitments depending on the development stages of the investees under Art. 21, par. 10 and 11 of the GBER are subject to state aid scheme under Article 21 of the GBER (SAR I) – in such cases asymmetric return profiles can be considered, or
- In cases where the independent private participation is no less than 30% of the Total Fund Commitments and pari passu principle is applied – subject to state aid free measure as per Section 2.1 of the Guidelines on State Aid to promote risk finance investments.

The elements of the State Aid regimes are incorporated in this term sheet.

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**Domiciliation / Legal form / Governing law**

The domiciliation, legal form, documentation and governing law of the Fund(s), the Fund Manager(s) and related vehicles will be proposed and established by the Fund Manager(s) in the European Union (unless otherwise agreed with FMFIB) and will be acceptable to FMFIB.

The Fund(s), the Fund Manager(s) and any other entities involved in the implementation of the Financial Instrument shall not be established, and shall not maintain business relations with, or invest in or through, entities incorporated in territories whose jurisdictions do not cooperate with the European Union in relation to the application of the internationally agreed tax standard and shall transpose such requirements in their agreements with Investees.

The legal documentation of the Fund(s) may be in English language or bilingual and the English version may be prevailing.

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**Currency**

The currency of the Fund(s) may be EUR

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**Fund Size and Fund Closings**

The size of the Fund(s) will depend on the proposed terms and the investment strategy of the Fund Manager(s) and will comprise of the aggregate commitments from its Investors.

The target fund size and minimum size of the First Closing will be determined following discussions with market participants at the Market Test.

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Typically, the investment capital may be raised in stages (Fund Closings) where one or more Investors will unconditionally commit capital to the Fund(s).

Unless otherwise agreed, the Investment Period of the Fund will start from the date of First Closing of the Fund(s) and FMFIB will participate in the First Closing of the Fund(s). After the Final Closing, no commitments will be accepted by the Fund(s). The date of the Final Closing will be agreed with the Fund Manager(s).

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**Indicative  
FMFIB  
Maximum  
Commitment**

FMFIB maximum commitment provided by the financial instrument will be a total of ~BGN 47.2 million including Management Fee of the Fund Manager(s).

The commitment of FMFIB will be conditional upon the Fund(s) achieving the conditions precedent to closing the Fund(s) that will be outlined in the operational agreements and the Final Term Sheet.

The FMFIB commitment may be at each closing of the Fund. It will be determined in accordance with the applicable State Aid Regime and may be between 40% and 90% of the Total Fund Commitments in particular:

- **In case of SAR I:** FMFIB may commit between 40% and 90% of Total Fund Commitments to Fund(s) investing in enterprises that are SMEs outlined in art. 21, par. 5, (a), (b) and (c) and within the thresholds of art. 21, par. 10 (a), (b) and (c) and par. 11 of the GBER.
  - **In case of SAR II:** FMFIB may commit no more than 70% of Total Fund Commitments to Fund(s) investing in eligible SMEs within the Funds' objectives.
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**Minimum  
Commitments  
of the  
Independent  
Private  
Investors**

The Fund(s) will receive commitments of:

- **In case of SAR I:** between 10% and at least 60 % of Total Fund Commitments to Fund(s) in compliance with art. 21, par. 10 and 11 of the GBER
- or
- **In case of SAR II:** no less than 30% of Total Fund Commitments in eligible SMEs within the Funds' objectives.

The expected aggregate commitment to the Fund(s) to be attracted from Independent Private Investors shall be indicated in the Selection Process.

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**Commitment  
of the Fund  
Manager(s)**

The Fund Manager(s) is expected to make a meaningful financial commitment to the Fund in order to enhance the alignment of interest between the Fund Manager(s) and the investors in the Fund.

The Fund Manager(s) will include a proposal in relation to the level of financial commitment to the Fund(s) during the Selection Process.

The commitment of the Fund Manager(s) will be considered as a commitment from an Independent Private Investor.

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**Portfolio  
diversification**

The Fund(s) may not invest more than BGN 9.8million in one Investee including follow-on investments. Further diversification limits may be specified in the Final Term Sheet.

During the operation of the Fund(s) these limits may be reviewed and waived with the prior approval of the Advisory Committee provided that such amounts shall not exceed the amount set out in art. 21, par. 9 of the GBER (**in case of SAR I**).

**In case of SAR I** the Fund manager(s) shall ensure an appropriate risk diversification policy aimed at achieving economic viability and efficient scale in terms of size and territorial scope of the relevant portfolio of investments.

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<b>Fund Term</b>	<p>The Fund(s) will have an initial fixed term of 10 years starting from the date of First Closing.</p> <p>With the approval of Investors, the Fund(s) may be terminated before the end of the Fund Term or the Fund Term may be extended with the approval of Investors by two consecutive one-year periods to provide for the orderly realisation of the investments.</p>
<b>Investment Period</b>	<p>The Investment Period will run from the date of First Closing and will end at the earlier of:</p> <ul style="list-style-type: none"> <li>▪ the end of the fifth anniversary of the date of First Closing;</li> <li>▪ 31 December 2023;</li> <li>▪ the trigger of Investor protection clauses, such as Key-person clause etc.</li> </ul> <p>If the capital commitments of the Fund(s) have not been fully drawn down during the Investment Period, the Investment Period may at the request of the Fund Manager, be extended by up to one year, subject to consent by the Investors and provided that the requested period of extension is before 31 December 2023.</p>
<b>Fund drawdowns</b>	<p>Fund Commitments will be drawn down proportionately on as needed basis to make investments or to provide funds to satisfy the Management Fee of the Fund Manager(s). Investors will typically receive a minimum of 10 business days' prior written notice to disburse the commitments to the Fund.</p> <p>The FMFIB Commitment should be disbursed to Investees and for payment of Management Fee in full before the end of the Eligibility Period unless the options stipulated in Article 42, par 2 and par 3 of the CPR are applied.</p>
<b>Ranking of FMFIB and the Independent Private Investors</b>	<p>The ranking of FMFIB and the Independent Private Investors in the distribution cascade of the Fund(s) will be "pari-passu".</p> <p>Options for asymmetric return profiles i.e. potential for upside incentive and/or downside protection for Independent Private Investors can also be considered <b>in case of SAR I</b> and will be determined following the discussions with market participants at the Market Test.</p>
<b>Distribution Cascade</b>	<p>Typical distribution <i>pari-passu</i> cascade of the Fund(s) is as follows:</p> <p>After payment of the Management Fee of the Fund(s), any distributions which are made, will be completed as follows:</p> <ul style="list-style-type: none"> <li>▪ <b>First</b>, 100% to the Investors until the Investors (pro rata to the amount of their respective commitments) have received distributions equal to their aggregate capital contributions;</li> <li>▪ <b>Second</b>, 100% to the Investors (pro rata to the amount of their respective commitments) until they have received the Hurdle Rate;</li> <li>▪ <b>Third</b>, 100% to the Fund Manager until it has received an amount equal to 25% of the Hurdle Rate ("Catch-up"), if any;</li> <li>▪ <b>Fourth</b>, distribution to the Investors (pro rata to the amount of their respective Fund Commitments) and the Fund Manager ("Carried Interest").</li> </ul> <p><b>Hurdle Rate</b></p> <p>the cumulative annual rate of preferred return to the Investors calculated on the drawn-down contributions that are not yet returned. The rate will be determined in accordance with market practice and the requirements of the Financial Instrument following the discussions with the market participants at the Market Test.</p> <p><b>Carried Interest</b></p>

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the split of profits between the Investors and the Fund Manager(s) in the proceeds of the Fund(s) after the amounts in paragraphs (i), (ii), and (iii) above have been satisfied. The percentage split between i.e. rate of Carried Interest to be received by the Fund Manager(s) in the Fund(s) will be proposed by the Fund Manager(s) during the selection process.

***“Asymmetric” distribution***

The Distribution Cascade may be amended following discussions with market participants at the Market Test. The Cascade might feature asymmetric sharing of returns or risks if SAR I is applied.

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**Management Fee**

The Fund Manager(s) shall be entitled to Management Fee which shall be proposed by the Fund Manager(s) during the selection process and outlined in the agreements in accordance with the provisions of the DA.

For bodies implementing the financial instruments in accordance with Article 37(7) of the CPR, management costs and fees which can be declared as eligible expenditure pursuant to Article 42(1)(d) of the CPR shall not exceed the thresholds as follows:

***Base fee during the Investment period***

- 2,5 % p.a. for the first 24 months after the signature of the OA<sup>10</sup>,
- 1 % per annum thereafter<sup>11</sup>,

of FMFIB commitment, calculated *pro-rata temporis* from the date of signature of the OA until the end of the eligibility period, or if applicable, the repayment of the all disbursed amounts to FMFIB, or the date of winding up of the Financial instrument, whichever is earlier;

***Performance fee during the Investment period***

2,5 % p.a.<sup>12</sup> of the moneys disbursed from the commitment of FMFIB and paid to final recipients in the form of equity (including re-invested amounts if applicable), which have yet to be paid back to FMFIB, calculated *pro rata temporis* from the date of payment to the final recipient until repayment to FMFIB, the end of the recovery procedure in the case of write-offs or the end of the eligibility period, whichever is earlier

***Management fee threshold over the eligibility period***

The aggregate amount of management costs and fees over the eligibility period shall not exceed 20 %<sup>13</sup> of the total amount of moneys disbursed from the commitment of FMFIB.

***Transcending thresholds***

The thresholds presented above may be exceeded by a Fund manager which has been selected through a competitive tender in accordance with the applicable rules and the competitive tender proved the need for higher management costs and fees<sup>14</sup>.

***Fee after the Investment period***

Up to 1.5 % p.a. of the moneys disbursed from the commitment of FMFIB and paid to final recipients in the form of equity (including re-invested amounts if applicable), which have yet to be paid back to FMFIB, calculated *pro rata temporis* from the end of the eligibility period until repayment of the investment, the end of the recovery procedure in the case of defaults or the end of the sixth year after the end of the eligibility period, whichever is earlier.

The Management Fee shall include any fees, expenses and costs necessary to set up and manage the Fund(s).

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<sup>10</sup> Ref. DA, Art.13 (2), (a) (i)

<sup>11</sup> Ref. DA, Art.13 (2), (a) (i)

<sup>12</sup> Ref. DA, Art.13 (2), (b) (i)

<sup>13</sup> Ref. DA, Art.13 (3) (b)

<sup>14</sup> Ref. DA, Art.13 (6)

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**Indicative management costs and expenses included in the Management fee**

- **Management costs of Fund Manager(s)** related to the operation of the Fund Manager(s), including but not limited to: salaries and remuneration of the investment professionals, office expenses; Fund Manager costs related to the investment business of the Fund(s); costs related to legal, specialised and third-party services etc.;
- **Fund expenses** incurred in relation to the administration and business of the Fund(s) Including its own annual audit and valuation fees, bank charges, legal fees and expenses, reasonable out-of-pocket expenses of the Advisory Committee or Investors' Meetings, the costs of printing and circulating reports and notices, and costs reasonably and properly incurred and directly related to the purchase, holding or sale of Investees etc.;
- **Fund establishment costs** including third party fees and expenses in connection with the organization and formation of the Fund(s).

**Fee offsets**

The management fee shall be reduced with any fees and other payments received by or paid to the Fund manager for conducting tasks for which it is or has been remunerated from the investors in the Fund. Such amounts may encompass but shall not be limited to director fees, advisory fees, transaction fees, deal closing fees, syndication fees, abort fees, nominee directors' fees, investment banking or finder's fees.

Notwithstanding the foregoing, any monitoring fees paid to the Fund manager by co-investors shall not be offset up until this amount reaches the level of the Management fee in percentage.

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**Fund  
Manager(s)**

The Fund Manager(s) selected by FMFIB will comprise of a team and/or an institution with dedicated investment professionals with experience and relevant skillset applicable to the management of the Fund(s) and the Fund(s) objectives.

The Fund Manager(s) will manage the Fund(s) based on commercial principles and will operate according to best market practices and in compliance with professional standards issued by Invest Europe or Institutional Limited Partners Association or other recognised industry bodies, acceptable to FMFIB.

The Fund Manager(s) will be selected as a result of a Selection Process and shall act independently and on behalf of the Investors of the Fund(s).

The Fund Manager(s) shall ensure that **it** complies with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud; and shall: (i) procure that **the Fund** and **the Investees** are not involved in money laundering or tax evasion schemes, fraudulent, coercive, collusive or corrupt practices or other criminal or terrorist activities, and (ii) confirm the integrity of the Independent Private Investors, each prospective Investee and the respective individuals associated with them.

The Fund Manager(s) shall fulfil the responsibilities and the requirements provided in art. 6 and art. 7, par. 1 of the DA.

**In case SAR I** is applied the Fund Manager(s) shall ensure compliance with conditions outlined in art. 21, par. 13-15 of the GBER.

The Fund Manager(s) will provide an Investment Proposal in order to demonstrate its capacity to be selected for consideration for managing the Fund(s). The Investment Proposal will cover the following areas:

- Market Opportunity

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- Investment Strategy and Processes
  - Fund Management Team and Track Record
  - Fund Raising
  - Fund Structure and Terms

For the avoidance of any doubt, during the Selection Process FMFIB will apply the award criteria specified in art. 7, par. 2 of DA.

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**Corporate  
Governance  
of the Fund(s)**

A typical Fund corporate governance structure provides for:

***Advisory Committee***

The Fund(s) will have an Advisory Committee comprising of the most significant Investors in the Fund(s) that are independent of the Fund Manager(s) and are willing to appoint a member to the Advisory Committee. Indicative functions of the Advisory Committee will include – (i) providing overall guidance to the Fund Manager; (ii) reviewing the activities and governance of the Fund; (iii) reviewing and resolving conflicts of interest; (iv) carrying out such other duties that are required and/or specified in the agreements.

The Advisory Committee will not take part in management decisions.

FMFIB will be entitled for so long as it is an investor to nominate at least one representative to the Advisory Committee. Such nominee(s) may only be removed or replaced at the written request of FMFIB.

***Investor Meetings***

The Fund(s) will hold annual meetings offering investors the opportunity to review and discuss the Fund's investment activities.

The final structure of the Corporate Governance of the Fund(s) will be determined during the Market Test.

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**Investor  
protection  
clauses**

The Operational agreements of the Fund(s) will include investor protection and Fund Manager removal clauses according to market practice, including but not limited to:

- Key-person event clause;
- Clause for termination/suspension of the investment period;
- Clause for removal with/without cause of the Fund Manager;

The investor protection clauses will be in principle triggered by relevant events and will take effect following a vote of the members of the Advisory Committee or Investors in the Fund(s).

The investor protection clauses will be implemented according to market practices following discussion with the market participants at the Market Test.

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**Reporting**

As a general rule, reporting shall be made in a complete and comprehensive manner and will be made periodically according to Invest Europe Guidelines. For avoidance of doubt it should be noted that additional reporting requirements shall be implemented such as monthly updates, etc. in accordance with the applicable regulations or law, including ESIF and state aid rules, as amended from time to time. Investors shall receive at minimum the following documents within the reporting deadlines set forth below:

- Quarterly reports including unaudited financial statements for the Fund, a statement of such Investor's capital account and a report on the Fund's portfolio investments: 45 days after the end of each quarter;
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- Annual audited financial statements for the Fund, which shall include a calculation of the carried interest entitlement: 90 days after the end of the relevant annual accounting period;

All financial statements will be prepared in accordance with IFRS (International Financial Reporting Standards) or other accounting principles acceptable to FMFIB and consistently applied.

**Audit** The Fund Manager(s) shall agree on behalf of the Fund(s) through the operational agreement to keep all the supporting documents required to ensure an adequate audit trail in accordance with art. 9 and art. 25 of the DA, to provide access to their premises and to their documents related to the Financial Instruments and to be subject to regular monitoring, control and auditing from: FMFIB, European Court of Auditors, European Commission, OLAF (European Anti-fraud Office), the Managing Authority of OPIC, and other EU and national authorities entitled to assess the use of EU Structural and Investment Funds and Financial Instruments to the level of the Fund Investees. The Fund Manager shall arrange similar provisions in each investment agreements with the Investees.

The Fund Manager shall be responsible for keeping documents in order to be made available to the European Commission, the European Court of Auditors and other EU and national authorities upon request within the time limits of art. 140 of the CPR.

In the case the measure is implemented in accordance with SAR I detailed records with the information and supporting documentation necessary to establish that all the conditions laid down in the GBER are fulfilled shall be kept for 10 years from the last aid was granted in accordance with the scheme as per art. 12 of the GBER.

**Conflicts of Interest** The Fund(s) will enter into all transactions on an arm's length basis.  
 The Fund Manager(s) shall immediately refer and fully disclose to the Advisory Committee any activities which could create an opportunity for actual or potential conflicts of interest to arise and shall seek the advice of the Advisory Committee as to the course of action to be taken.

**Irregularity Management** The Fund Manager(s) shall ensure prevention of Irregularities and take any other necessary actions in compliance with the procedures to be included in the Operational Agreement.

**PR/ Communication** The Fund Manager(s) shall procure that the Fund(s) and the Investees comply with the applicable EU and national regulations as well as with OPIC requirements (as amended from time to time) with respect to publicity, information and public communications including as specified in Annex XII to the CPR.

**OPIC Indicators** The Fund Manager(s) is/are expected to achieve the Financial Instrument's contribution to the following result indicator in line with the OPIC:

- Number of enterprises receiving financial support other than grants;
- Private investment matching public support to enterprises (non-grants).

## **Annex I Sectors within scope of National strategy for promoting SMEs in Bulgaria 2014-2020**

### **High-technology and Medium-high-technology manufacturing industries<sup>15</sup>**

- Manufacture of chemicals and chemical products (C20)
- Manufacture of basic pharmaceutical products and pharmaceutical preparations (C21)
- Manufacture of computer, electronic and optical products (C26)
- Manufacture of electrical equipment (C27);
- Manufacture of machinery and equipment n.e.c. (C28);
- Manufacture of motor vehicles, trailers and semi-trailers (C29);
- Manufacture of other transport equipment (C30)

### **Knowledge-intensive services**

- Publishing activities (J58);
- Motion picture, video and television programme production, sound recording and music publishing activities (J59);
- Programming and broadcasting activities (J 60);
- Telecommunications (J 61);
- •Computer programming, consultancy and related activities (J 62);
- •Information service activities (J 63);
- Scientific research and development (M72)

### **Low-technology and Medium-low-technology manufacturing industries**

- Manufacture of food products (C 10);
- Manufacture of beverages (C 11);
- Manufacture of textiles (C 13);
- Manufacture of wearing apparel (C 14);
- Manufacture of leather and related products (C 15);
- Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials (C 16);
- Manufacture of paper and paper products (C 17);
- Printing and reproduction of recorded media (C 18);
- Manufacture of coke and refined petroleum products (C 19);
- Manufacture of rubber and plastic products (C 22);
- Manufacture of other non-metallic mineral products (C 23);
- Manufacture of basic metals (C 24);
- Manufacture of fabricated metal products, except machinery and equipment (C 25)
- Manufacture of furniture (C 31);
- Other manufacturing (C 32)
- Repair and installation of machinery and equipment (C 33)

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<sup>15</sup> NACE Rev. 2.2