

Investment Guidelines

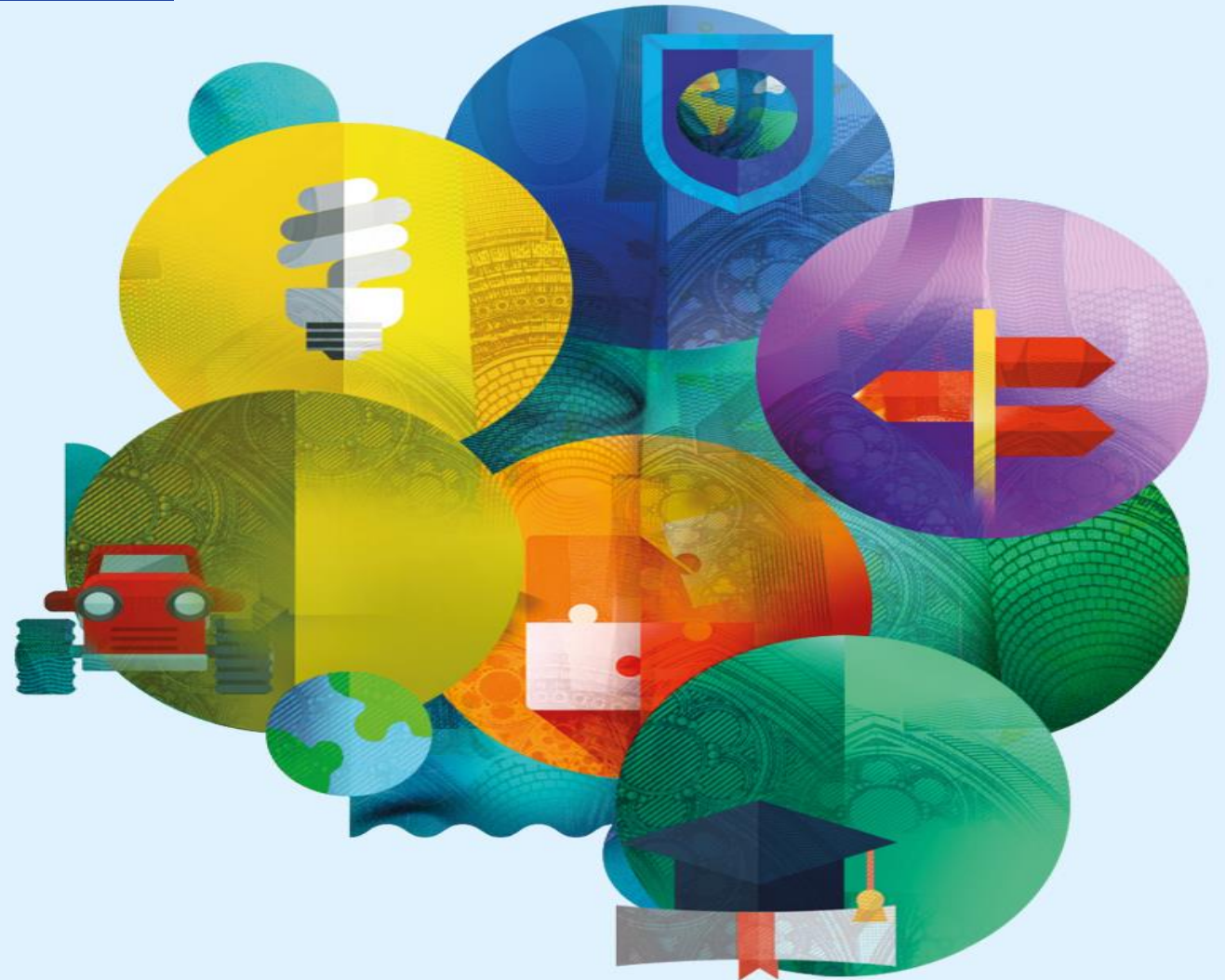
Preparing InvestEU

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- *New version of the Investment Guidelines shared on **6 June***
- **Changes** reflect:
 - *InvestEU Regulation following agreement at EP and Council level*
 - *Evolved thinking on some additional aspects, including in relation to financial products.*
- **Timing:** *final comments by potential implementing partners expected by end of August*



Horizontal provisions

- **Certain common requirements:**
 - **IPs, intermediaries and final recipients**
 - **Types of financial products**
 - **Own contribution requirements**
- **Risk computation and pricing**
- **Allocation principles**
- **Diversification**
- **MS compartment**
- **Climate and Sustainability**
- **Information to be provided**
- **Blending operations**

Policy window provisions

- **Sustainable Infrastructure**
 - **Policy areas**
 - **Features of financial products**
- **Research, Innovation and Digitisation**
 - **Policy areas**
 - **Features of financial products**
- **SME**
 - **Policy areas**
 - **Features of financial products**
- **Social Investment and skills**
 - **Policy areas**
 - **Features of financial products**



2.3 Certain common requirements for the financing and investment operations:

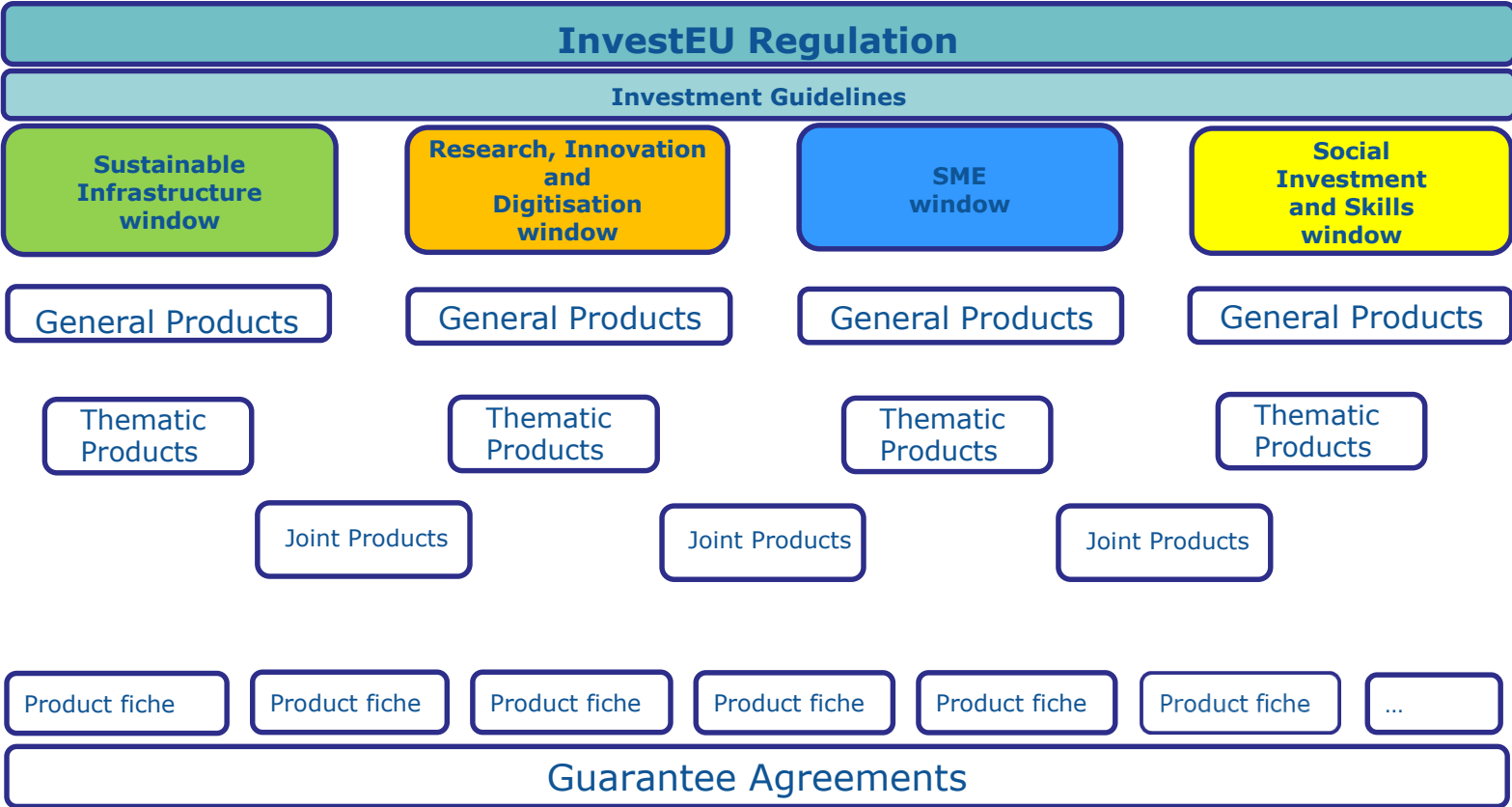
- **Implementing partners, intermediaries and final recipients**
- **Types & features of financial products**
- **Coverage of the InvestEU guarantee & own contribution requirements**



Two main changes:

- **Call for expression of interest or other means that shall respect the principles of open, transparent, proportionate and non-discriminatory procedures, and shall avoid conflict of interests;**
- **Ceilings for overall financing supported by InvestEU**

Types of financial products



[Investment Guidelines define product features that all InvestEU products have to comply with]

[General product: e.g. debt or equity product covering different policy areas under the policy windows]

[Thematic product: e.g. debt or equity product with higher risk profile and high EU policy value added that cannot be addressed by a general product]

[Joint product example: future mobility and energy demonstration under SIW and RIDW]

Features of financial products



- Financial product

Policy dimension



- Policy objectives
- Eligibility criteria

Delivery mechanism



- Form/terms of IP financing to final recipient and/or intermediary
- For intermediated finance, form/terms of intermediary to final recipient

-
- Risk/revenue sharing arrangements between the Commission and the implementing partner

EU guarantee



- COM risk sharing with the IP
- Own IP contribution



- *The **EU guarantee** may be used to **cover different tranches of risk** under different financial products or portfolios of financing and investment operations under financial products.*
- *The risk of the EU guarantee may be **pari passu** with the risk taken by the implementing partner or can cover a **junior tranche (e.g. a First Loss Piece - FLP)** or a **mezzanine tranche**.*
- *For guarantee agreements covering more than one policy window, the losses occurring under financial products could be mutualised within one or among more policy windows, taking into account the available EU guarantee as defined in the guarantee agreements.*



Debt type:

- *As a principle, for portfolios supporting **debt-type** operations under financial products, when the EU guarantee covers a First Loss Piece, the implementing partner **shall contribute at least 5 % to the First Loss Piece**, unless otherwise specified in these investment guidelines under the relevant policy window.*
- *All participation in the First Loss Piece counts towards the financial contribution of the implementing partner*
- *Mezzanine participation may count towards the financial contribution of the implementing partner, subject to conditions and calculation methodology*



Equity type:

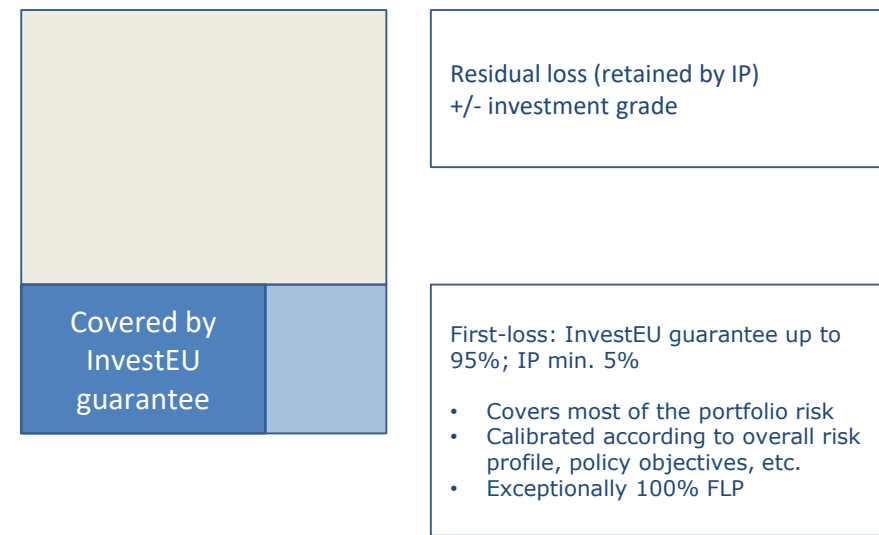
- *As a principle, for portfolios supporting **equity-type operations** under financial products, implementing partners have to invest on **a pari passu basis** (i.e. like risk, like reward) at their own risk for a share that ensures sufficient alignment of interests.*
- *The part of financing covered by the EU guarantee shall represent **up to 70%** of the overall financing provided by the IP, unless otherwise specified under the relevant policy window, and own risk financing shall represent **at least 5 %** of the overall financing provided by the IP. **In duly justified cases**, risk sharing arrangements between IPs and the EU guarantee may be **on a non pari passu basis**. Revenue sharing commensurate to the risk exposure.*
- *Pari passu participation counts towards the financial contribution of the implementing partner*



Portfolio first-loss guarantee

Possible applications (examples):

- Low to high risk debt portfolios of implementing partners, or similar
- Equity investments in duly justified cases

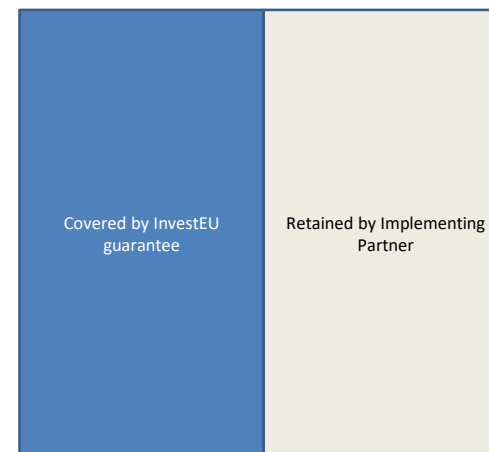




Pari passu guarantee

Possible applications
(examples):

- Partial guarantee of implementing partners loan portfolios
- Equity investments in commercially run funds
- other



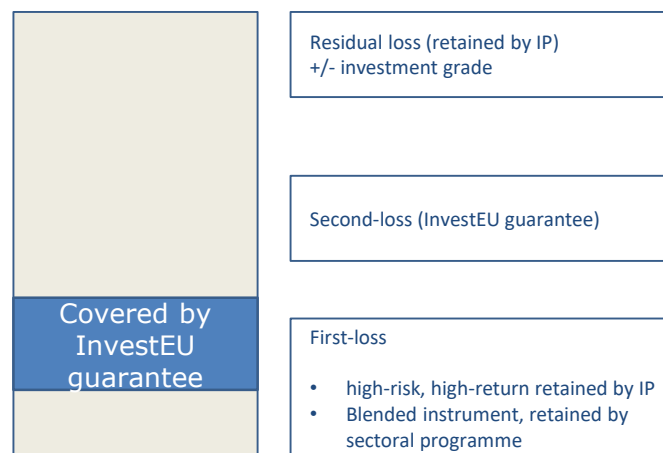
- InvestEU guarantee and IP guarantee take same exposure
- Calibrated according to overall risk profile, policy objectives, pricing, etc.



Second-loss guarantee

Possible applications
(examples):

- Hybrid debt. enhance risk-return profiles of first-loss and senior portfolio tranches





Full risk coverage¹

Possible applications on investments in challenging market environments/ policy priorities (examples):

- Thematic instruments
- Capped guarantees offered to market in non-commercial terms
Risk is shared with financial intermediaries but not with implementing partners.

Covered by InvestEU guarantee

¹ This is available in exceptional cases only, and under the condition that the Implementing Partner benefits from full risk coverage only if it is taking risk at portfolio level in another product



2.5 Allocation principles of financing and investment operations per policy window:

- *All eligible financing and investment operations **shall conform** to one or more financial products, for which detailed provisions shall be laid down in the guarantee agreement.*
- ***Sequence** of allocation for financial products:*
 - 1. Social window***
 - 2. SME window***
 - 3. RID window***
 - 4. Sustainable infrastructure window***
 - 5. Joint financial products***



2.10 Information on financing and investment operations to be provided by the implementing partners:

- *The list of minimum elements that the implementing partner shall provide to the Commission, such as:*
 - ***Name and country of establishment of final recipient/intermediary;***
 - ***Description of underlying projects/target policy area and sectors***
 - ***Timing, projects costs, leverage, etc.***
- *Further information per specific financial product shall be defined in the guarantee agreement taking into the nature of the financing and investment operations targeted by the financial product.*



- ***Features of financial products:***
 - Relationship COM – IP – market
 - Relationship COM - IP
 - Relationship IP - market (financial intermediary/final recipient)
- ***Policy prioritisation*** (2.3.2, 3.1.1, 3.2.1, 3.4.1)
- ***Streamlining across windows*** (e.g. general vs thematic)
- ***Eligibility under windows*** (alignment with Regulation - Annex II)

Features of financial products



- Financial product

Policy dimension



- Policy objectives
- Eligibility criteria

Delivery mechanism



- Form/terms of IP financing to final recipient and/or intermediary
- For intermediated finance, form/terms of intermediary financing to final recipient

- Risk/revenue sharing arrangements between the Commission and the implementing partner

EU guarantee



- COM risk sharing with the IP
- Own IP contribution



- **Policy dimension**

- Policy objectives, including expected impact (i.e. Key Performance Indicators, target amounts, etc.);
- Eligibility criteria as defined in the product fiche, e.g. targeted sectors / recipients / geography;
- Policy steer mechanisms defined in Investment Guidelines and Guarantee Agreement.

- **Delivery mechanism (financial toolkit):**

- Standardised mechanisms with customisable parameters (e.g. guarantee rate, cap rate, max participation in VC fund).

Debt

Equity

Loans and
guarantees

Capped
guarantee

Uncapped
guarantee

Hybrid

Other/
Thematic

Pari-Passu

Asymmetric

Other
SOC/PbR

Features of financial products



- Financial products to be designed through a COM-IP **collaborative and iterative process**;
- Template financial **product fiches** to be attached to the call(s) for expression of interest;
- IPs will have the opportunity to **propose financial products**;
- For each implementing partner, the financial products to be deployed will be defined in the **guarantee agreement** to be signed between them and the Commission;
- Further financial products may be designed during the life of InvestEU Fund.

InvestEU Fund – EU compartment
Financial Product Sheet
- Draft June/2019 -

Disclaimer: this is an example for a Product Sheet under the EU compartment of the InvestEU Fund.

1.	Policy Window(s)	<input type="checkbox"/> Sustainable Infrastructure window <input type="checkbox"/> Research, Innovation and Digitisation window <input type="checkbox"/> SME window <input type="checkbox"/> Social Investment and Skills window
2.	Policy Objective(s)	
3.	Product Name	
4.	Rationale, Objectives and Expected Impact	- Market failure or sub-optimal investment situation the product addresses - Market needs and identified gaps - Value added of the financing supported - Objectives pursued and main outcomes to be achieved, link to overall EU policy - Expected impact (e.g. Financial / Policy KPIs)
5.	New /existing product	<input type="checkbox"/> New product <input type="checkbox"/> Continuation of existing product
6.	Targeted Sectors	- Addressed sectors - Reference to possible excluded sectors
7.	Targeted Recipients	- Type, definition, and market size of recipient - Reference to possible excluded recipients - Reference might be added to recipients that are not target recipients, but are not excluded (for example for equity, an equity fund may invest 80% in Target Recipients, such as EU SMEs, but may be allowed to invest up to 20% outside the EU or in non-excluded recipients).
8.	Targeted Geography	<input type="checkbox"/> All EU MS <input type="checkbox"/> Selected MS (please specify) <input type="checkbox"/> Other countries (please specify)
9.	Term	Duration / implementation period of the product
9.	Type of financing	<input type="checkbox"/> Direct financing (including co-investments) of Targeted Recipients by Implementing Partners <input type="checkbox"/> Intermediated financing through Financial Intermediaries ===== <i>If the response is "intermediated financing through Financial Intermediaries", please also complete sections 10.a, 10.b and 10.c.</i>
10.a	Eligible Financial Intermediaries (if applicable)	
10.b	Financial Intermediaries' Financial Needs (if applicable)	<input type="checkbox"/> Liquidity <input type="checkbox"/> Risk protection <input type="checkbox"/> Capital strengthening / relief <input type="checkbox"/> Other (please specify)
10.c	Type of product provided by the Implementing Partner to the Financial Intermediary (if applicable)	<input type="checkbox"/> Loan (Senior / Subordinated) <input type="checkbox"/> Guarantee (capped guarantee, uncapped guarantee) <input type="checkbox"/> Counter-guarantee <input type="checkbox"/> Mezzanine Tranche

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Policy prioritisation



**Sustainable
Infrastructure
window**

**Research, Innovation
and
Digitisation
window**

**SME
window**

**Social
Investment
and Skills
window**

InvestEU Regulation & Investment Guidelines: definition of policy priorities

Definition & design of relevant financial products: template products vs IP own proposals

Product fiches (eligibility criteria/financial form)



- **Key Performance Indicators + one or more other means (e.g. target amounts, different coverage of risk, concentration limits, duly justified performance-based mechanism, milestones & targets)**
- **Close policy dialogue with implementing partners during implementation (e.g. review of the pipeline);**
- **Any other appropriate means under the Investment Guidelines**



Policy check at the level of financing and investment operation (Art.18 of the InvestEU Regulation)

Sustainable Infrastructure window



- *Policy areas aligned with the regulation, e.g. tourism, defence, offshore development for decarbonisation, sustainable cultural heritage, rehabilitation of industrial sites*
- *The target for SIW contributions to climate and environment objectives has been updated to 55%.*
- *Includes specific means for policy prioritisation (as for SISW and RID)*
- *Thematic products under SIW have been streamlined to focus on higher risk areas and to avoid repetitions/overlaps.*

Research, Innovation & Digitisation window



- *Policy areas aligned with the regulation, e.g. highlighting upscaling of innovative companies, demonstration, the rolling out of technologies to market, defence, reduction of greenhouse gas emission of energy intensive industry and of digital economy*
- *Includes specific means for policy prioritisation (as for SISW and SIW)*
- *Includes funds providing tailor-made debt financing solutions.*
- *Fine tuning of general and thematic products to align, including adding sustainable blue economy and bioeconomy in thematic.*



- *Clarifying that finance is primarily for SMEs and small midcaps*
- *Included funds providing tailor-made debt financing solutions*
- *Clarification on coverage of on-lending guarantees*
- *EU supporting only primary investments*
- *Clarified pricing principle of capped and uncapped guarantees. Capped can be provided for free while the additional risk taking under uncapped guarantees has to be priced by the implementing partner*
- *Expanded list of covered financing tools (such as debt issuance and convertible loans)*

Social Investment and Skills window



- *New language in line with Article 7 and Annex II of the regulation on areas such as health or gender equality.*
- *Language on rural areas also added.*
- *Language limited to social housing (and not affordable) in line with regulation.*
- *More examples of financial intermediaries added in section 3.4.2.1. (co-investment funds, micro-finance institutions etc.)*
- *More examples of final beneficiaries targeted included in section 3.4.2.2. (local and municipal authorities, enterprises pursuing social impact etc.)*
- *Includes specific means for policy prioritisation (as for SIW and RID)*
- *Equity: Investments by IPs in funds shall be <25% of the fund size. In case of high policy value added, up to 75% (from 50% in previous version).*



Q&A Session

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