EUROPEAN
INVESTMENT
FUND

December 2019

EIF Corporate Operational Plan 2020-2022

| Public

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Executive summary

The EIF's Corporate Operational Plan ("COP") presents the strategy, and sets out the targets, for the next three years, with orientations for 2020 and preliminary indications for 2021 and 2022.

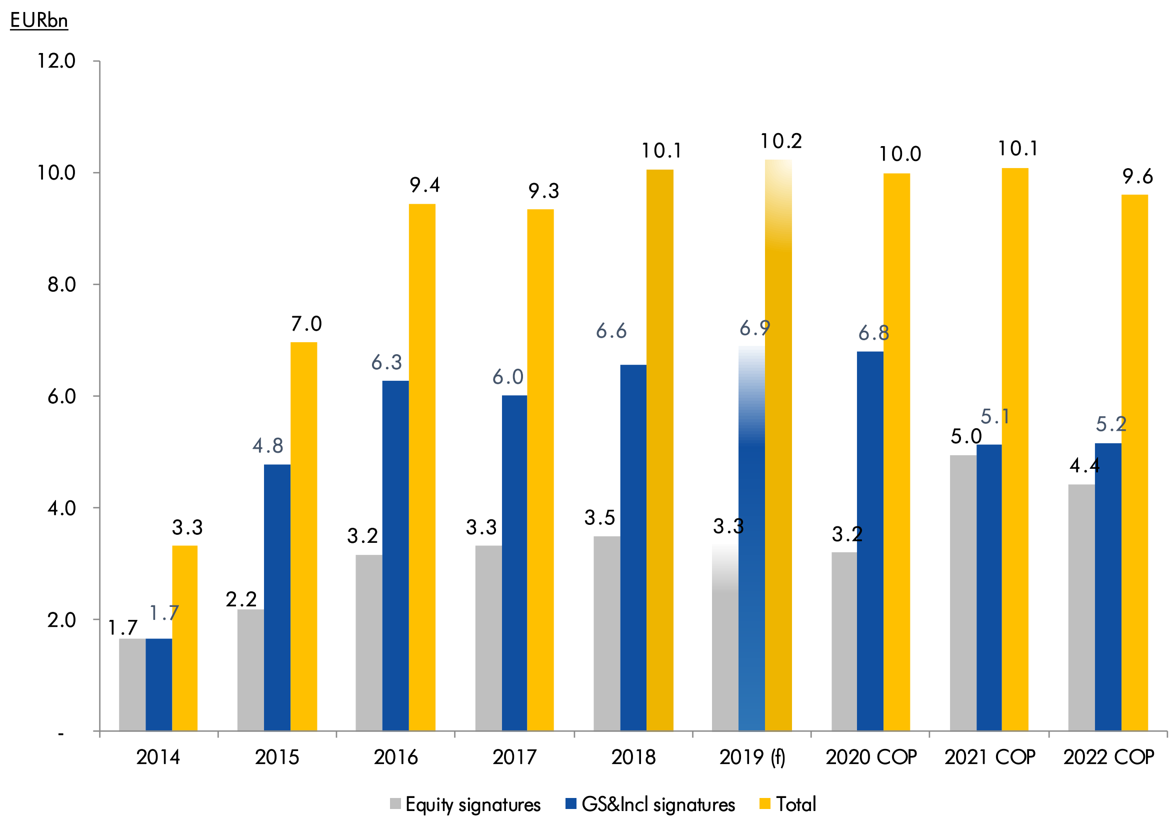
Over the COP period, the implementation of EFSI 2 will be delivered, and the preparation of EIF's involvement in the Multi-annual Financial Framework (MFF) 2021-27 will be one of the key objectives. As part of the EIB Group, the EIF will remain a key partner for the implementation of the next MFF via InvestEU but with uncertainty on the size and structure of the different products.

In 2018, EIF activity stabilised at a level of about EUR 10bn, and this will continue in a range between EUR 9.5bn and EUR 10bn (see table 1). The level of projected signatures after 2020 is based on the current assumptions on EIF's participation in InvestEU (as described in section 2.1), implementation of Option 3 of the Group Equity Strategy, in particular the deployment of Climate and Infrastructure funds, and continuation of the existing mandates. The current allocation of the EUR 10bn between equity and guarantee should be temporarily impacted in 2021 and 2022 by the additional volume coming from the Option 3 and some specific initiative (such as ESCALAR) which will boost the equity volume. The guarantee activity will on the contrary suffer from the expected delay in the launch of new regional mandates under the future Invest EU MS Compartment, which is not planned to be ready for implementation before 2022. Finally, EIF expects an acceleration in fundraising for the "4th Pillar" initiative, namely Asset Management Umbrella Fund 2 (AMUF 2), specific managed accounts and the Sustainable Development Umbrella Fund (SDUF). The latter will be one of the initiatives implementing SDGs principles that will be gradually applied to all EIF products. EIF plans to step-up its contribution to the Group ambition to Climate Action and environmental sustainability by targeting at least 10% of its activity in climate and environment already in 2020.

Table 1: Consolidated volumes

	COP 2020-2022			
EUR m	2019 Forecast	2020 COP	2021 COP	2022 COP
Equity	3,344	3,240	4,950	4,430
Guarantees, Sec & IF	6,886	6,760	5,150	5,170
Total committed	10,230	10,000	10,100	9,600

Chart 1: Volumes evolution



1 EIF key strategic objectives and challenges

The COP 2020-2022 focuses on some specific key areas and strategic objectives, including:

- *Collaboration with EC on InvestEU and Policy Objectives*

EIF, as part of EIB Group, will intensify its discussion with the EC and EIB to have InvestEU in place for Q1 2021. In addition, EIF will further amplify its efforts to deliver on policy objectives under the existing EU initiatives in which it is involved in order to prepare the ground for InvestEU. EIF and the EC will jointly assess the possibility to further expand EIF's activity to new sectors, such as digitalisation, bio-economy, energy efficiency sectors, climate, circular economy, or security, etc.

- *Cooperation with EIF shareholders and National Promotional Institutions*

EIF will maintain its strong level of cooperation with shareholders and intensify its relationship with NPIs, leveraging on the platforms launched for private equity and securitisation activities and exploring new opportunities of cooperation, such as on debt funds. This should translate into an increased number of transactions with NPIs, as well as continued exchanges on best market practice and the discussion of concrete mandate opportunities with shareholders and NPIs generally.

- *Climate action*

EIF will contribute to EIB Groups' climate objectives and align its activities with the goals of the Paris Agreement[1] by end of 2020. In addition, EIF ambitions to target at least 10% of its activity in climate and environment from 2020 with its existing mandates and to increase significantly this target with InvestEU and the climate funds from 2021 onwards. New innovative products[2] already launched and specific equity and debt products with high multiplier effect, supporting the delivery of climate action and environmental sustainability, will be designed during the next programming period.

- *Implementation of SDGs*

EIF will implement the different SDGs principles gradually throughout all its activity. EIF gives great importance to the real impact of the support on the market and, in particular, on final beneficiaries, the SMEs. EIF will assess ex ante, monitor and report the achievement of its different activities against the SDG objectives, developing specific products (such as an incentive mechanism linked to the SDG achievement for its financial intermediaries) and an initiative (Sustainable Development Umbrella Fund - SDUF) to promote SDGs in the market in which EIF operates.

- *Accelerate the development of the "4th pillar" initiative*

EIF will continue to focus on the development of the "4th Pillar" initiative, via AMUF/SDUF or dedicated structures for larger investors (e.g. sovereign wealth funds), with a EUR 4bn fundraising target for 2020-2022. This will crowd-in private capital into the EU's SME sector while providing external private sector investors with an investment vehicle to access European fund managers of institutionally investable quality.

- *Group alignment*

EIF will work closely with EIB to foster Group alignment in the deployment of the various activities (equity strategy, climate…), in the risk management area in the context of the guidelines of the Group Risk Management Charter and in the implementation of the agreed EIBG IT strategy.

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1 Agreement within the United Nations Framework on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation and finance. It targets a temperature increase of less than 2 degrees Celsius by 2030.

2 E.g. SET III the first ever sustainability VC fund with incentive mechanism linked to the achievement of predefined environmental impact goals, signed in December 2018.

- *Implementation of capital optimisation measures and a sustainable operating model*

EIF will strengthen its resolution to make good use of its available resource base and continue to implement the capital optimisation measures designed to (1) maintain its AAA rating and (2) assure its financial self-sustainability until 2022. EIF targets a long-term Return on Equity (RoE) in the range of 5.0%-6.0% on average and a cost/income ratio in the range of 55%-60%.

2 Business planning[3]

2.1 MFF 2021-2027 and the InvestEU Programme

The next Multi-annual Financial Framework, also known as the "EU budget", will run from 2021 to 2027. The most relevant element for the EIF is InvestEU, for which the regulation was passed earlier in the year.

InvestEU brings together under one programme the multitude of EU financial instruments targeting access to finance that are currently available, building upon the model of EFSI. It consists of an EU budget guarantee of EUR 38bn, matched by an additional EUR 9.5bn from implementing financial institutions, aiming to leverage some EUR 650bn in investments (multiplier 13.7). EC expects EIB Group to deploy at least 75% (EUR 28.5bn) via four policy windows: (i) Sustainable InfrastructureEUR ; (ii) Research, Innovation and Digitisation EUR ; (iii) Social Investments and Skills EUR ; and (iv) SMEsEUR . The EC proposal reserves the remainder of the guarantee (up to 25%) for other implementing partners, namely NPBIs and other IFIs.

At the time of drafting this COP document, the discussions between EIBG and the EC as to the Investment Guidelines are still on-going. Such guidelines will underpin the nature of the intervention by the EC. Discussions are also on-going as to the shaping of several critical components of InvestEU, in particular in the area of risk management, sustainability proofing and climate tracking.

EUR EUR EUR The next months will be critical for EIF to fine-tune its business projections, as EIF, EIB and EC will negotiate the various products to be deployed under InvestEU, including the allocation of the guarantee capacity and the risk-sharing arrangements. Hence, the above figures should be taken as first preliminary assumptions only both on the amount and the timing of implementation.

2.2 Equity investments

2.2.1 Equity strategy

Private Equity (PE) and Venture Capital (VC) are considered essential sources of finance for enterprises at all stages, spanning from start-ups to young and high growth companies. External equity finance is not to be seen as a substitute for bank lending, but as significant contribution for innovation, productivity gains, internationalisation and thus overall development of the entrepreneurial ecosystem.

Europe is suffering from a lack of VC funding capacity across the entire spectrum of company development stages and industry sectors with a particular financing gap identified for (a) seed and (b) scale up finance. Overall, despite these two economies being comparable in size, the breadth and width of Europe’s VC market still lags behind the U.S., which leads over the EU by a factor of 8-10 in terms of both investment volumes, as well as number of companies supported. Even if differences between European sub-markets prevail, European SMEs have a more difficult access to equity in their home market than their U.S. or Asian peers, especially when reaching a size of activity where they can claim category leadership in their respective industry.

[3] Figure for 21-22 are only indicative figures for information given all the uncertainties around InvestEU.

In this context, EIF pursues an equity strategy that is based on an ecosystem-building approach to address significant part of the funding chain, seeking to act as a catalyst for private sector capital. More generally, EIF promotes market dynamics in such a way as to lead the European risk capital market to long-term self-sustainability and to the largest possible independence from public sector support.

In pursuing its value added strategy, EIF relies on various funding sources that show a diversified mix of risk/return profiles and policy objectives. Historically, EIF's funding sources predominantly relied on three pillars: EIB, EC and member states/NPIs. These three historic sources of funds are now complemented by an investment platform (AMUF – "4th Pillar" initiative) and other private investor initiatives through which EIF manages institutional private sector capital dedicated to the European risk capital market.

Due to growing capital and resources constraints of its traditional funding providers, notably the EIB and the EC, EIF is facing challenges to ensure the sufficient allocation of resources to support its added value role in the market. The 4th pillar funding activity under AMUF is playing an important complementary role on market segments where the private sector needs to step up.

EIF is able to channel additional private sector capital into the market, maintaining its role as a reference investor also for established fund managers expanding into new market segment, while preserving policy funding for areas where it is most needed. However, the main funding gaps for EIF are in areas that require increased risk absorption capacity of funding notably (i) in markets with reduced risk capital activity which need a boost to close the gap with the core markets and (ii) the funding of next generation management teams, in particular of the European VC ecosystem in order to deliver a competitive funding environment for technology companies in Europe.

During the current COP period, strategic priorities of EIF reflect the policy objectives of the EC. In the current market environment, in order to promote an increased private sector interest for the asset class of VC and PE, EIF's focus will lie on:

- Catalysing and facilitating the consolidation and expansion of private sector commitment to PE and VC through targeted and suitably scaled funds that represent the backbone of the European risk capital market;
- Promoting investments into the late stage VC and lower PE mid-market to allow European SMEs accessing capital from within Europe to fund their globalisation efforts;
- Supporting growth of a focused PE and VC industry backing investments into sectors of strategic importance, such as security and disruptive technologies, circular economy, blue economy, sustainable agriculture and emerging economies;
- Taking a leading role in Climate Change financing and promoting access to capital for companies acting in that space;
- Developing investment products across the full spectrum of social and environmental impact funds;

In particular, the following initiatives are envisaged for the next COP period:

- Optimisation of limited RCR funding also by increasing the resources of Fund-of-Funds (FoF) structures on national and regional level that are designed in a way to foster cross-border investment activity and an integration of the European risk capital market. EUR 1.2bn of RCR utilisation is expected in 2020, which includes EUR 280m for FoFs structures supporting such objectives in 2020;
- Implementation of the Group's Equity Strategy Option 3 from 2021 onwards, leading to an increase in volume of potentially up to EUR 800m (through EIB, InvestEU or third party mandates) to catalyse investment in Climate and Infrastructure funds helping the Group to achieve its new ambitions in climate.

- Increased focus on catalysing private sector;
- The Silk Road Fund mandate (CECIF) will be fully implemented during 2020 or earlier, and the extension of the cooperation is under discussion but uncertain;
- Implementation of the new EFSI 2 SMEW including the development of new equity products, e.g. scale up finance under ESCALAR (EUR 300m in 2020/21);
- Support VC/PE activity in under-served sectors: agro-tech, circular economy, defence industries, cybersecurity, artificial intelligence, venture debt and impact investing;
- Diversifying funding sources by expanding to institutional investors' resources. This involves the strengthening of the AMUF product offering, including the launch of the 4th AMUF compartment focusing on European Secondaries (see section 2.4);
- Continuation of leveraging EFSI through fund co-investments with NPIs;
- Contribution of ESIF mandates, including the development of concepts for smart recycling of funds (reflows from ESIF, e.g. JEREMIE Bulgaria);
- Consolidation of the European Business Angels compartments (EAF) in co-operation with local partners with expected volumes of approximately EUR 50m p.a. (Austria, Denmark, Finland, Germany, Ireland, Italy and Spain plus a Pan-EU programme).

2.2.2 Equity activity

On the basis of the strategy outlined above, Table 2 presents EIF forecasted commitment volumes, for the years 2020 to 2022, by source of funding, as follows:

Table 2: Equity/Hybrid Debt - Equity commitments

		COP 2020-2022		
EUR m	2019 Forecast	2020 COP	2021 COP	2022 COP
1st Pillar- EIB	1,342	969	979	979
RCR & SLAs(2019)	*1,342*	*969*	*558*	*558*
Climate & Infra	*0*	*0*	*421*	*421*
2nd Pillar - EC	1,147	972	2,383	1,829
EIB in Invest EU with Senior Tranche	*0*	*0*	*346*	*346*
EIB in Invest EU with RCR	*0*	*0*	*600*	*600*
EC Invest EU	*0*	*0*	*513*	*513*
EC EFSI Sw1	*715*	*394*	*200*	*0*
EC EFSI Sw2 IFE	*298*	*450*	*104*	*0*
EC Cosme	*135*	*78*	*0*	*0*
EC Escalar	*0*	*50*	*250*	*0*
Climate & Infra	*0*	*0*	*369*	*369*
3rd Pillar - Regional Mandates	595	619	744	673
4th Pillar - Private Investors	260	680	845	950
TOTAL Equity	**3,344**	**3,240**	**4,950**	**4,430**

2.3 Guarantees, securitisation and inclusive finance (GS&I)

2.3.1 GS&I strategy

The main products in the GS&I spectrum, such as securitisation, guarantees, debt funds, regional mandates and inclusive finance are analysed below. In all product lines, ESG and climate considerations will very much be focus themes for the coming years.

2.3.1.1 Uncapped and capped Guarantees

Strong and persistent market demand for EIF portfolio guarantee products will keep volumes high in 2020 (circa EUR 3bn p.a.). In detail, the following activities are considered during the COP period:

- The InnovFin SMEG mandate, a solid, standardised and scalable product, continues to meet strong interest. EIF plans to sign, mainly under EFSI 2, EUR 3.5bn of volumes in 2020 and at least EUR 1.4bn in 2021 (including potential over-commitment made possible by the upgrade of InnovFin SMEG portfolio rating – cf. p20, to address policy priorities in common agreement with EC).
- COSME LGF, a first-loss-piece portfolio guarantee attracts strong demand. Benefiting from EFSI 2 resources, the product will be fully deployed by 2020 (with approximately EUR 400m p.a.).
- CCS GF, a pilot first-loss-piece portfolio guarantee facility dedicated to support Cultural and Creative Sectors SMEs and Small Public Enterprises, is expected to be fully deployed by 2021 (with approximately EUR 45m p.a.). Such programme is benefiting also from EFSI 2 resources in response to the strong market demand experienced since its start of implementation.
- Similar to InnovFin SMEG, in 2021, signatures under the current MFF can still take place, provided transactions are approved in 2020 and budget remains available. Depending on the availability of InvestEU, uncapped guarantees similar to the InnovFin guarantee product and capped guarantee similar to COSME LGF and CCS GF shall continue to be offered from 2021 onwards.

2.3.1.2 Debt Funds

The newly launched EFSI Private Credit Tailored for SMEs mandate was well perceived by the market and the pipeline is strong. The mandate includes a cash investment product (funded product) and an investor guarantee product (unfunded product). EIF plans to generate a total volume of EUR 1bn for the whole COP period. After 2020, diversified debt funds are being considered for financing under InvestEU.

In order to further support the asset class, private fundraising is expected to start in 2020 with the creation of a new European Private Debt Compartment under AMUF targeting EUR 250m (50% dedicated to diversified debt funds).

2.3.1.3 Securitisation

Securitisation is one of EIF's area of expertise. EIF expects that the market will continue to grow in volume, as the new regulatory framework increases the market's and investors' acceptance of the product. If all transactions currently in the pipeline close before year-end 2019, activity in 2019 will be at a record volume (EUR 2.6bn), aided by EIBG's delivery of EFSI. It should be pointed out though that due to the complexities of a couple of large transactions and the proximity to the year end, their closing may not be achieved on time, which may then affect the volume projections for 2020. It is anticipated that the contribution to EIB's EFSI volumes will decrease after 2020, since EFSI is ending. EIF is exploring alternative ways of maintaining its presence in the market and the volume of business, through different avenues. A stronger co-operation with private investors for joint participation in future transactions is one of the options carefully considered. An increased focus for 2020 will be towards thematic-based transactions aiming to provide maximum impact where needed, such as financing the environment, gender balance, climate change, etc.

2.3.1.4 Regional mandates

Regional mandates and the increase of the SME Initiative programme in Finland are expected to represent a share of the activity in 2020. The volumes are impacted by the end of several regional initiatives and the delayed start of new Regional Mandates (InvestEU MS and non-InvestEU) in 2022.

2.3.1.5 Inclusive Finance

EIF is already successfully deploying the guarantee (mainly under EFSI 2) and capacity-building investment windows of the EaSI programme, focusing on microfinance and social entrepreneurship. One new mandate under EaSI - funded products - is included in the COP period for a total commitment of EUR 50m, bringing the overall commitment for this year to EUR 120m.

2.3.2 GS&I activity

Given the above considerations, Table 3 presents EIF's GS&I forecasted commitment volumes for the years 2020 to 2022 by source of funding as follows:

Table 3: Guarantee/Inclusive Finance commitments

		COP 2020-2022		
EUR m	2019 Forecast	2020 COP	2021 COP	2022 COP
EIF OR (Securitisation)	1,724	850	850	850
1st Pillar- EIB SLA (fronted Securitisation)	758	390	90	50
2nd Pillar - EC	3,193	4,625	3,676	3,346
Cosme	*380*	*440*	*270*	*0*
InnovFin SMEG	*2,292*	*3,500*	*1,408*	*0*
EFSI Private Credit	*375*	*445*	*350*	*400*
EC others	*146*	*240*	*170*	*60*
Invest EU Capped guarantee	*0*	*0*	*486*	*486*
Invest EU Uncapped guarantee	*0*	*0*	*992*	*2,400*
3rd Pillar - Regional Mandates	1,071	530	129	484
4th Pillar - Private Investors	140	365	405	440
Securitisation (Third party)	*140*	*325*	*360*	*400*
AMUF (Private Credit)	*0*	*40*	*45*	*40*
TOTAL GS&IF	6,886	6,760	5,150	5,170

2.4 Fundraising from Institutional Investors ("4th Pillar" initiative)

In order to attract even further private investors into the financing of the European economy, and in particular into start-ups and growing SMEs, EIF has developed a product offering relying on its deep and long expertise in the field of private equity. The objective is to raise up to EUR 2bn by end 2020 and at least EUR 1bn per annum thereafter from private investors, such as pension funds, insurance companies, corporates, banks, foundations, as well as sovereign wealth funds.

The product offering of EIF towards private investors relies on two models, which have proved successful since the 4th Pillar initiative has been launched at the end of 2017:

- A FoF model (AMUF[4] and successors), offering predetermined investment strategies under compartments (growth capital, VC, life sciences, private debt and secondaries), enabling small investment ticket sizes (as of EUR 10m). It will be complemented by a new vehicle targeting more specifically sustainable development investment (SDUF). This FoF will focus more on emerging teams or sectors, whereas AMUF will invest in more established player.

- Specific partnerships, tailor-made to the investors requirements, typically of a larger size (above EUR 100 to 150m): The partnership with the Silk Road Fund (CECIF) is an example.

The AMUF initiative provides private sector institutional investors with an investment vehicle to access European fund managers of institutionally investable quality in various sectors and market segments. EIF seeks to provide a conduit for accessing these markets for players that typically would otherwise not invest in this space or cannot do so because of size limitations on both sides of the spectrum (e.g. too small or too large PE funds).

Against this background, EIF's offering is directed to the following types of investors:

- Small to mid-size European institutions (predominantly insurance companies and pension funds) who cannot or do not want to afford an expensive infrastructure to access this asset class directly;
- EU Banks, Corporates and other investment institutions;

[4] Final closing of AMUF 1 in Q1 2020.

- Selected large scale European and non-European family offices;
- Non-European Sovereign Wealth Funds with sizable assets under management;
- Other non-European institutional investors who lack the knowledge and market expertise to access the European market directly.

In accessing these funding sources, EIF is able to crowd-in private sector funding in segments where there is a genuine private sector interest and redirect public policy's resources to market segments and geographies that, representing sub-optimal investment structures, require additional market guidance and support for seeding and developing a sustainable market ecosystem.

Fundraising from active or perspective private investors is now close to EUR 600m from seven different countries, mostly European (Italy, Spain, Portugal, Luxembourg, Germany), but not only (Kuwait and Japan). It is expected that AMUF 1 reaches around EUR 800-850m at final closing, turning it into one of the biggest FoF in Europe.

Appendix 1: Glossary of Terms

ABS	Asset-Backed Securities
AMUF	Asset Management Umbrella Fund
CCS	Cultural and Creative Sectors
CECIF	China EU Co-Investment Fund
COP	Corporate Operational Plan
COSME	Competitiveness for SMEs
EAF	European Angel Funds
EaSI	European Union Programme for Employment and Social Innovation
ECap	Economic Capital
EFSI	European Fund for Strategic Investments
ESCALAR	European Scale-up Action for Risk capital
ESG	Environmental, Social and Governance
ESIF	EU Structural and Investment Fund
FIs	Financial Intermediaries
FO	Front office
FoF	Fund of Funds
GS&I	Guarantees, Securitisation & Inclusive Finance– EIF Service
IFE	InnovFin Equity
IFI	International Financial Institution
IIW	Infrastructure and Innovation Window
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LGF	Loan Guarantee Facility
LMM	Lower Mid-Market
MFF	Multi-Annual Financial Framework
MS	Member State
NPBI	National Promotional Banks and Institutions
NPI	National Promotional Institution
PE	Private Equity
RCR	Risk Capital Resources
ROE	Return On average Equity
SDG	Sustainable Development Goal
SDUF	Sustainable Development Umbrella Fund
SLA	Service Level Agreement
SME	Small and Medium-sized Enterprise
SMEi	Small and Medium-sized Enterprise initiative

SMEW	SME Window
SMEG	SME Guarantee Facility
VC	Venture Capital