**Appendix 1 to the Rules for submission and selection of tenders Tender for VC Funds** **to the PFR GreenHub project under PFR Fundusz Funduszy FIZ - Term Sheet**

Key conditions for the open Call for Tenders on the Selection of VC Funds
to the PFR GreenHub project under PFR Funds of FIZ Funds – Term Sheet (TS)

The terms used in this document have the meaning defined in Appendix 7 to the Rules for the Call

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| 1. **Objectives of the PFR GreenHub**
 | * 1. General objectives of the PFR GreenHub arising from the European Green Deal

The GreenHub project aims to take measures to increase the performance of sustainable investments and implement the European Green Deal. The funds disbursed under the PFR GreenHub will be used to address the following demands:1. Mitigation of climate change – comprising measures for the sake of limiting or preventing greenhouse gas emissions. Mitigation may mean, among other things, making use of new technologies and renewable energies, increasing the energy efficiency of older appliances or changing management practices or consumer behaviour;
2. Adaptation to climate change – comprising adaptation to changes in environmental, social or economic systems in response to either actual or expected climate stimuli and their effects or impacts;
3. Sustainable use and protection of water and marine resources – comprising activities that contribute to the sustainable use and protection of water and marine resources;
4. Transition to a circular economy – based on the gradual decoupling of economic activity from the use of limited resources and the disposal of waste from the system;
5. Prevention and control of pollution – meaning to avoid or minimise the generation of pollutant waste, thus avoiding its release into the environment. Control of pollution focuses on measures taken after waste is generated in order to limit the damage that it may bring about;
6. Protection and restoration of biodiversity and ecosystems – assuming that biodiversity is a key indicator of ecosystem health. A wide range of species will cope with threats better than their limited number in large populations. Even if some species are affected by pollution, climate change or human activity, the ecosystem, as a whole, can adapt and survive.
	1. General objectives of the PFR GreenHub arising from the European Green Deal for individual industries:

What is crucial in achieving the objectives of the GreenHub project is making investments in the following sectors of the economy:1. Power industry – in terms of the production, development and distribution of alternative fuels and means to support the proliferation of renewable energy, as well as means that boost the efficiency of the energy sector, or energy-intensive electronics (e.g., as data centres);
2. Infrastructure – understood as boosting the production or manufacturing efficiency associated with the traffic of goods or persons by land, air or sea, including the development of electric vehicles, micro-mobility and infrastructure;
3. Food Production – comprising food production methods and agricultural practices aimed at boosting efficiency and reducing greenhouse gas emissions;
4. Industrial Processes – in particular, in terms of the reduction of emissions from the production of large, heavy goods and materials. Activities in this area comprise actions and measures aimed at reducing, reusing or managing waste in production and creating a low GHG-emission alternative to traditional inputs (e.g., chemicals, steel, plastics, etc.);
5. Climate data analysis and generation – comprising recording or analysing land- and climate-related data that will be useful for reducing emissions, or through climate technologies used by companies;
6. Capture and storage of greenhouse gases – meaning the removal of greenhouse gases from the atmosphere and their storage, primarily generated from energy and industrial processes, but also taking into account the natural climate solutions developed specifically for the sequestration of greenhouse gases.

1.3. **Specific objectives for the PFR GreenHub:**1. Creation and commercialisation of innovative technologies in the field of green technologies,
2. Deployment of innovative green technologies in production processes,
3. Popularisation of innovative technologies in the field of green technologies,
4. Making up and development of professional investment teams in the field of green technologies.
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| 1. **Fund**
 | Call for Tenders on the selection of VC Funds for the implementation of the PFR GreenHub project is conducted by PFR FF FIZ. |
| 1. **State aid**
 | The PFR GH project does not envisage state aid . |
| 1. **Tenderer**
 | The Tender for investment by PFR Fundusz Funduszy FIZ in the VC Fund under the Call may be submitted by the existing VC Fund or the Managing Entity (or persons managing the VC Fund or persons managing the Managing Entity) which is to establish a VC Fund, as well as by individuals intending to establish a VC Fund or Managing Entity.  |
| 1. **Legal form of the VC Fund**
 | The VC fund may operate in the form of:1. Non-Public Assets Closed-End Investment Fund *[Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych]*
2. Capital company,
3. Limited joint-stock partnership,
4. Collective investment institution domiciled abroad of the Republic of Poland or an entity whose legal form is similar to that of the respective closed-end investment fund, Capital company or limited joint-stock partnership.
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| 1. **Model of the VC Fund**
 | The VC Fund may pursue the Investment Strategy under the commitment-based model or the deal-by-deal model, with the following assumptions:Model 1 – commitment-based1. The Fund’s contribution will not be higher than 50% of the Declared Capitalisation and the contribution of the remaining Investors will not be lower than 50% of the Declared Capitalisation, whereby the contribution made by Commercial Investors not lower than 30% of the Declared Capitalisation,
2. The Managing Entity or Key Personnel (or the Key Personnel vehicle) will provide not less than 1% and not more than 20% of the Declared Capitalisation.
3. The declared share of individual Investors in the Declared Capitalisation is specified by the Tenderer in the Tender.

Model 2 – deal-by-deal1. Contributions in the Declared Capitalisation will be provided by: (i) the Managing Entity or Key Personnel (or the Key Personnel vehicle) and they may not account for less than 3% and not more than 40% of the total amount of Declared Capitalisation, and (ii) from the remaining scope by PFR GH.
2. Co-investors make their contribution either directly or indirectly (e.g., by means of an investment vehicle) to the Company in which the VC Fund invests, while each time providing, together with the contribution from the Managing Entity, at least 50% of the investment value.
3. Co-Investors must be obtained by the Tenderer each time beforehand the Investment in the Company is made and must be approved by the Fund in accordance with the Investment Agreement.
4. As part of submitting the Tender, the Tenderer should provide a list of potential Co-Investors who will be evaluated by the Fund in the course of evaluating the Tender. The Fund may approve either all or portion of the Co-investors named on the list, who will be able to co-invest with the VC Fund in Companies. Those Co-investors acquired by the Tenderer to make the Investment in the Company, yet not approved by the PFR GreenHub as potential Co-Investors during the submission of the Tender, will be subject to due diligence practices in order to obtain approval of the PFR GreenHub prior to joining the VC Fund’s Investment in the Company. Due Diligence practices exercised by the Co-Investors, who have been approved during the Tender submission, will also be verified at later stages of the investment process.
5. The Managing Entity may request Co-Investors for paying additional fees on an arm’s length basis to (i) partially cover the transaction costs (including due diligence costs) of the Company being the subject to the Investment (ii) partially cover the costs of the Investment management fee for the period in which a respective Company is included in the VC Fund’s portfolio, to be paid annually or semi-annually – depending on the Tenderer’s choice, for the duration of the Investment. The exact amount of the additional fees in question is each time subject to negotiation between the Co-Investors and the Managing Entity prior to joining the Investment, in accordance with the *pari passu* principle.

At the stage of submitting the Tender under the Call, the Tenderer is to select from among the 2 above-mentioned VC Fund Models.Contributions to the VC Fund both in Model 1 and Model 2 will be cash contributions. |
| 1. **Declared Capitalisation**
 | In the Tender, the Tenderer is obliged to specify the value of the Declared Capitalisation while bearing in mind the fact that the maximum contribution of the Fund will be PLN 80 million or its equivalent in the settlement currency of the VC Fund. The Declared Capitalisation in the co-investment model does not comprise Co-Investors’ contributions made to individual investments. |
| 1. **Investment Strategy**
 | Along with the Tender, the Tenderer is obliged to present the Investment Strategy. The Tenderer’s Investment Strategy should include the methodology for the selection proposed by the Managing Entity and evaluation of potential investment projects (Portfolio Companies) to achieve the Objectives of the PFR GreenHub, as well as the method of how the objectives of the VC Fund are to be achieved, in particular, with regard to (i) investing in Portfolio Companies, (ii) growth in the value of Portfolio Companies; and (iii) realisation of divestments in Portfolio Companies.The Investment Strategy will be evaluated in terms of having regard to the interests of Investors and the credibility of the achievement of the PFR GreenHub Objectives, with particular emphasis placed on the objectives specific to the PFR GreenHub.The Investment Strategy will be appended to the Tender and the Investment Agreement, or it will be included directly in the Investment Agreement.The Fund’s Strategy shall not provide for: 1. investing in electricity or other generation capacity
2. investing in Companies, whose transferable securities are admitted to trading on a multilateral trading facilities (MTFs) referred to in the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.
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| 1. **Managing Entity**
 | The Managing Entity will be responsible for the management and pursuit of the Investment Strategy by the VC Fund, including the management of the VC Fund’s investment portfolio. The Managing Entity will be an entity independent from Investors other than the Managing Entity and Key Personnel.The Managing Entity must provide human resources featured with the appropriate knowledge and skills necessary to make autonomous, rational and profit-driven Investment Decisions consistent with the Investment Strategy, as well as must follow professional market standards in line with the guidelines of Invest Europe, ILPA or other equivalent venture capital or private equity market organisations.The Managing Entity may act as:1. Individuals making up the internal management body of the VC Fund, e.g., the management board of a capital company which, having been established and selected under the Call for Tenders, will act as a VC Fund), or
2. Legal persons making up the external managing entity of the VC Fund (e.g., general partner of a limited joint-stock partnership, which, having been established and selected under the Call for Tenders, will manage the VC Fund), or
3. An independent third-party undertaking, authorised under the legislation of a state in which it conducts business, to manage the VC Fund’s investment activities, either in whole or in part (e.g., the body to manage the investment portfolio, either in whole or in part, of the investment fund which, having been established and selected under the Call for Tenders, will act as the VC Fund)

The Managing Entity must inform Investors about any changes in its ownership structure. |
| 1. **Change of the Managing Entity**
 | The Managing Entity may solely be changed as a result of dismissal by the Investors (with or without justifying the reason) or due to the loss by the Managing Entity of the power to conduct activities related to the management of the VC Fund. The decision on dismissal of the Managing Entity will be made by the Investors under the terms of the Investment Agreement, e.g., by the Meeting of Investors.Detailed issues related to a potential change of the Managing Entity must be regulated and addressed in the Investment Agreement. |
| 1. **Team**
 | The Tenderer is obliged to indicate a team that will be made up of members of the Key Personnel, remaining members of the Investment Committee and additional persons featured with the preparation and experience necessary to conduct the investment activity of the VC Fund and dedicated to conducting the operational activity of the VC Fund within the VC or the Managing Entity. The Team should be composed of persons having the skills necessary to make investments in a sector consistent with the Investment Strategy and Objectives of the PFR GreenHub FoF.The Tenderer is responsible for committing the Team to follow professional market standards in line with the guidelines of Invest Europe, ILPA or other equivalent PE/VC market organisations. Dedicated human resources, the declared time commitment of individual Team members and the proposed division of Carried Interest should be adequate to the size and Investment Strategy.  |
| 1. **Key Personnel**
 | The Tenderer is obliged to indicate key persons featured with appropriate experience, skills and knowledge with regard to investment management and knowledge of the venture capital or private equity market, making the Investment Strategy to be more likely implemented.The tasks of the Key Personnel will include, in particular, the management of the VC Fund and representation of the Managing Entity. At least two members of the Key Personnel will be dedicated to the VC Fund for a minimum of 80% of professional working time during the VC Fund’s investment period. Changing the members of the Key Personnel is subject to the consent of the majority of Investors. Detailed issues should be addressed in the Investment Agreement. The proposed solutions should not deviate from the ILPA solutions and standards[[1]](#footnote-1). |
| 1. **Investors**
 | Only Professional Investors may be the investors of the VC Fund.Investors may take up stocks or shares in the VC Fund directly or indirectly, namely through an investment vehicle.At the time of making an Initial Investment in a Portfolio Company, Investors should be independent of Portfolio Companies.Investors and the Portfolio Company are independent of each other if they are not partners or shareholders of the Portfolio Company prior to the investment by the VC Fund in that company. |
| 1. **Co-Investor**
 | If the VC Fund is implemented using Model 2, the Co-Investor in a given Investment must meet the following conditions:* 1. to be independent of the VC Fund’s Managing Entity and of individual members of the Key Personnel and other members of the Investment Team,
	2. to be independent of the Company at the time the Initial Investment is made by the VC Fund, e.g., to not be a direct or indirect shareholder or stockholder of the Company in which the VC Fund will invest, notwithstanding its ownership rights,
	3. to contribute funds that are not public funds
	4. to bear the full risk associated with the Investments in the Company made jointly with the VC Fund.

Co-Investors and the Portfolio Company are independent of each other if they are not partners or shareholders of the Portfolio Company prior to the investment by the VC Fund in that company. |
| 1. **Portfolio Company**
 | The Fund will be obliged to provide the VC Fund with funds for Investments in Companies that meet the following criteria:1. having SME status, unless the non-SME status is solely due to employing more employees than foreseen for SMEs;
2. against whom no application for the opening of restructuring or bankruptcy proceedings has been submitted, there are no grounds for bankruptcy, as well as against whom there has been no declaration of bankruptcy, the opening of restructuring proceedings or loss of business activity;
3. members of the management body whereof have not been lawfully convicted for an offence/crime consisting in giving false evidence, offence/crime against property, against credibility of documents, against money and securities trading, against business transactions, against the banking system, a penal-fiscal offence/crime or other offence/crime related to performance of activities or committed for financial gain;
4. not operating in Restricted Industries;
5. being not based nor engaged in commercial and business contacts with entities based in any country that does not cooperate with the EU with regard to the application of internationally agreed tax standards;
6. being not engaged in activities infringing the provisions of law applicable in the territory in which the Company is based or conducts business activity, as well as infringing the provisions of the law of the Republic of Poland and/or EU law;
7. whose shares are not traded on the regulated market referred to in Article 4.1.21 of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU;
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| 1. **Criterion of the geographical location of the Portfolio Company**
 | When pursuing the Investment Strategy, VC Funds should make it plausible to invest at least some of their assets in companies based in the territory of the Republic of Poland or operating in the territory of the Republic of Poland in order to stimulate the broadly understood development of these companies.The VC fund is obliged to substantiate the achievement of the above-mentioned postulate by appropriate selection of investments as part of the pursuit of the Investment Strategy, which will be the subject of the evaluation of the submitted Tender. |
| 1. **Contribution of PFR Fundusz Funduszy FIZ**
 | In Model 1 – the contribution of PFR Fundusz Funduszy FIZ to the VC Fund will amount to 50% of the Declared Capitalisation given at each of its closures, but not more than a total of **PLN 80 million** or its equivalent in another currency.In Model 2 - the contribution of PFR Fundusz Funduszy FIZ to the VC Fund will amount to a maximum of **PLN 80 million** or its equivalent in another currency, whereby the VC Fund will finance a maximum of 50% of the value of each Investment in a Portfolio Company made by the Co-Investor and the VC Fund in the co-investment formula within a given investment round. |
| 1. **Method of financing and operating costs of the VC Fund**
 | Financing of the VC Fund through contributions to the Declared Capitalisation includes:1. Investment Budget – specifying the total expenditure of the VC Fund for Investments;
2. Operating Budget – containing the costs of establishing a VC Fund and operating costs of a VC Fund (VC Fund management costs), the catalogue of which will be specified in the Investment Agreement

The Managing Entity will notify Investors of the amount of Management Costs incurred, whereas the annual Investment and Operating Budgets forecast will be submitted to the Investors Board/Advisory Committee.In addition to the financing of contributions to the Operating and Investment Budgets, the Fund will contribute to the Declared Capitalisation for the Managing Entity to cover the Management Fee. The Management Fee (MF) represents the remuneration of the Managing Entity for managing the VC Fund.In the Tender, the Tenderer will propose the amount, terms of payment and covering the costs of the VC Fund. The costs of the Fund will be proposed by the Tenderer throughout the Investment Horizon of the VC Fund, made up on an arm’s length and adjusted to the Declared Capitalisation.The amount of the Management Fee proposed by the Tenderer in the Investment and divestment periods will be based on an arm’s length basis. |
| 1. **Contribution of the Managing Entity**
 | In total, at least **1% in Model 1 or 3% in Model 2**, yet not more than 20% of the Declared Capitalisation in Model 1 and not more than 40% in Model 2, will be provided by members of the Key Personnel/Team, through the Managing Entity or in another transparent manner approved by the Fund.The own contribution will be made with the use of cash.  |
| 1. **Investment Horizon**
 | **The VC Fund’s operation period should not last longer than 10** years following the date of signing the Investment Agreement, with the possibility of prolonging thereof for 2 years with the consent of the majority of Investors. Investment and divestment periods will be separated within the Investment Horizon. Detailed rules for shaping the Investment Horizon will be set out in the Investment Agreement. |
| 1. **Restrictions with respect to the location of the VC Fund and entities with which it maintains relations**
 | The VC fund cannot be registered, nor can it maintain business or economic relations with entities registered in countries that do not cooperate with the EU in the field of combating money laundering practices, terrorism and tax fraud. |
| 1. **Prohibited Sectors**
 | The VC Fund will not invest in Companies that operate in the field of:* 1. prohibited by the law of the Republic of Poland or the law of the country where the Portfolio Company is based,
	2. production or trade in weapons or ammunition,
	3. construction or decommissioning of nuclear power plants,
	4. production, processing or marketing of tobacco, tobacco products and electronic cigarettes,
	5. production or marketing of intoxicants, psychotropic substances or precursors,
	6. gambling,
	7. production or marketing of alcoholic beverages,
	8. production or marketing of pornographic content,
	9. GMO,
	10. human cloning,
	11. information and communication technologies enabling unlawful access to information and telecommunications networks or databases, downloading electronic data or supporting the previously mentioned areas.
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| 1. **Content of the Investment Agreement**
 | Each and every Investment Agreement, irrespective of any other conditions and the legal form of the VC Fund, shall contain mandatory provisions concerning, in particular, the following issues:* + 1. commitment of the Key Personnel and the Managing Entity to inform PFR Ventures and the Advisory Committee/Investors Board of any situation which may potentially give rise to a conflict of interest, including capital or personal relationship of the shareholders or partners of the Companies, members of the management or supervisory body of the Companies or their spouses, relatives by blood or affinities (up to the second degree) with partners, shareholders or with persons managing or supervising the VC Fund, the Managing Entity (including members of the Team/Key Personnel), Professional Investor or other persons of these entities who can influence the VC Fund’s investment decisions,
		2. commitment of the VC Fund to develop and implement in-house control procedures and commitment of the Team members to act while exercising the utmost due diligence required for a professional,
		3. commitment to ensure the appropriate organisational structure and management structure necessary to ensure credibility of activities conducted by the VC Fund,
		4. commitment to comply with the relevant standards and provisions concerning money laundering practices and fighting terrorism and tax fraud, including, in particular, commitment not to co-operate with entities incorporated in territories whose jurisdictions do not co-operate with the European Union in the application of tax standards agreed-upon at the international level,
		5. setting out of the rules for monitoring and for the portfolio of the VC Fund’s Investments, including commitment of the Managing Entity to perform a periodic valuation of the investment portfolio and fulfil the reporting and information obligations towards PFR Ventures,
		6. setting out of the rules for replacing Key Personnel and Professional Investors in the course of the investment period, as well as the rules related to the dismissal of the Managing Entity,
		7. setting out of the terms of distribution of funds between PFR FF FIZ, Investors and the Managing Entity arising from divestments, including the terms of disbursement of Carried Interest,
		8. setting out the of rules for documenting the business activity of the Company in the territory of the Republic of Poland as of the time of the Investment or Follow-on Investment and the rules for documenting the distribution of funds obtained from a given Investment for purposes indicated in the Investment Agreement,
		9. determination of the liability of the Managing Entity/Team for their actions contrary to the Investment Agreement or to the provisions of law, including non-fulfilment or unduly fulfilment of obligations under the Investment Agreement,
		10. setting out of the rules for managing conflicts of interest.
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| 1. **Additional terms and conditions of the Investment Agreement under Model 2**
 | The Investment Agreement concluded under Model 2 shall contain provisions concerning, in particular, the following issues:* + 1. obligation to commit the required pool of capital coming from Co-Investors for each Investment in order to establish appropriate economic parameters under which the Co-Investor is ready to make investments together with the VC Fund,
		2. setting out of the basic planned terms and conditions of Co-Investment Agreements regarding investments in the Portfolio Company to be made by Co-Investors together with the VC Fund, taking into account the conditions and requirements set out in these Rules,
		3. setting out of the rules for and amounts of incurring transaction costs of the Investment (including due diligence costs of the Company) by the Co-Investor,
		4. setting out of the rules for the maximum amount of the management fee to be paid by Co-Investors to the VC Fund
		5. setting out of the rules for and amounts of the distribution of funds between the VC Fund and the Co-Investor arising from divestments, as well as the rules for and the amount of Carried Interest to be paid by the Co-Investor to the Managing Entity,
		6. setting out of the rules and procedure for approving the co-investors of the VC Fund by PFR FF FIZ.
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| 1. **Form of investing by the VC Fund**
 | The Fund may make Investments by subscribing to new (subject to Refinancing) Equity Instruments issued by the Portfolio Companies, namely (i) securities, (ii) shares, (iii) participation units, or quasi-equity instruments. |
| 1. **Refinancing**
 | Funds from the Fund should not, as a rule, be allocated to Refinancing, namely repurchase of share rights or repayment of financial liabilities. Refinancing will only be possible in justified cases, provided that it is combined with the subscription to new Equity Instruments by the VC Fund. The Portfolio Company may be refinanced up to 50% of the Investment value (this condition must be met for each tranche of the Investment in the Portfolio Company). The repurchase price of instruments from existing owners should not be higher than the price of newly subscribed instruments.  |
| 1. **Investment Decision-Making**
 | Investment Decisions will be made by the Investment Committee. The Investment Committee will be an internal unit of the VC Fund/Managing Entity dedicated to making Investment Decisions. The Investment Committee will be composed of the Key Personnel members and, optionally, of other Team members who have contributed to the VC Fund, and, optionally, of additional experts and advisers indicated by the Managing Entity. The Tenderer shall describe in the Offer the proposed full composition of the Investment Committee and the manner of how it will make Investment Decisions.Investment Decisions will be made on an arm’s length basis, following the best practices in the venture capital/private equity market.Depending on the legal form of the VC Fund and the assumed Investment Decision-Making model, the Investment Committee may be the same body as the corporate body authorised to make decisions on behalf of the VC Fund, but in any case, its decisions are binding with regard to making Investments. |
| 1. **Investors Board/Advisory Committee**
 | The Investors Board/Advisory Committee under Model 1 will be composed of representatives of those Investors who have made the highest contribution to the Declared Capitalisation. The Investors Board/Advisory Committee may also include a representative acting on behalf of other smaller Investors. Under Model 2, the Investors Board will be composed of all Co-Investors/Co-Investor of a given Portfolio Company and PFR FF FIZ. The Investors Board/Advisory Committee, as an advisory body of the VC Fund, will, among other things, be issuing opinions or approvals regarding the compliance of the Investment Decisions with the principles of managing the conflict of interest, as well as their compliance with the Investment Strategy, the Investment Agreement and the law. The detailed powers of the Investors Board/Advisory Committee will be defined in the Investment Agreement.The detailed procedure for making decisions by the Investors Board/Advisory Committee will be set out in the Investment Agreement. |
| 1. **Meeting of Investors**
 | The VC Fund’s structure will include Meeting of Investors (Meeting of Shareholders, General Meeting – for capital companies and limited joint-stock partnerships, respectively, Meeting of Investors – for investment funds or another body non defined in codes, established within the organisational structure of the VC Fund), composed of PFR Fundusz Funduszy FIZ and representatives of all Investors.The Meeting of Investors will hold regular meetings, at the intervals agreed in the Investment Agreement, to discuss the performance of the VC Fund’s and the Managing Entity’s operations, as well as other current business matters related to the VC Fund’s operations, or within the time limits provided by law. |
| 1. **Minimum Rate of Return (Hurdle Rate)**
 | The Hurdle Rate, representing the minimum return on investment for Investors, at which the Management Team is entitled to the Additional Remuneration, will be proposed by the Tenderer.The amount of the Hurdle Rate proposed by the Tenderer will be based on an arm’s length basis. |
| 1. **Additional Remuneration (Carried Interest)**
 | The Carried Interest amount will be proposed by the Tenderer.The amount of the Carried Interest proposed by the Tenderer will be based on an arm’s length basis and adjusted to the Declared Capitalisation. The Carried Interest will be due to the Managing Entity upon reimbursement for all contributions made to the VC Fund, plus the Hurdle Rate. |
| 1. **Rules for distribution of funds arising from divestments from Portfolio Companies**
 | A detailed model of distribution of funds arising from divestments from Portfolio Companies will be proposed by the Tenderer.The model of distribution of funds arising from divestments from Portfolio Companies proposed by the Tenderer will not differ from market conditions and will have regard to the *pari passu* principle of distributing funds between Investors.An example model for distribution of funds arising from divestments from Portfolio Companies:* 1. In the first place, funds will be returned up to the amount of contributions to the VC Fund made by Investors and the Managing Entity, in proportion to their share in the VC Fund Capitalisation – until 100% of their contributions/Declared Capitalisation are returned.
	2. Further funds arising from divestments will be used to disburse the Hurdle Rate to Investors and

the Managing Entity* 1. Further funds arising from divestments, remaining after the disbursement of the Hurdle Rate, will be used for the disbursement of:
		1. The Carried Interest to the Managing Entity, and
		2. Profits for Investors and the Managing Entity.
	2. Financial flows under all the above-mentioned items will be made at the same time, on the same terms, to all entities, i.e., Investors and the Managing Entity in proportion to their Contributions to the VC Fund.

It will also be possible to distribute funds arising from divestments from Portfolio Companies, taking into account the catch-up formula. |
| 1. **Reporting**
 | The VC Fund will be required to periodically report to PFR Fundusz Funduszy FIZ in accordance with the data scope and the report model prepared by PFR Fundusz Funduszy FIZ, to be specified in the Investment Agreement. The VC Fund will prepare, for instance, monthly reports for tax purposes, quarterly reports and annual audited financial statements. |
| 1. **Compliance**
 | The Managing Entity will ensure the observance of the professional standards in the venture capital/private equity market and compliance with the laws and regulations relating directly or indirectly to VC Fund’s operations and the rules governing their Investments.The Managing Entity will put in place and ensure the observance of applicable legal standards and provisions providing protection from money laundering practices and tax fraud, as well as the combating of terrorism. The Managing Entity will put in place and control compliance at the VC Fund level and, if required by law, also at the level of Portfolio Companies, compliance with internal procedures providing protection from money laundering practices, tax fraud and terrorism. The Managing Entity will not be engaged in any business relations with entities registered in countries that do not cooperate with the EU in the field of combating money laundering practices, terrorism and tax fraud.Moreover, the Managing Entity will ensure:* 1. The holding and retention of authorisations necessary to perform the tasks of the VC Fund, required by law in accordance with the jurisdiction competent for the registered office/place of registration of the VC Fund,
	2. Economic viability and financial feasibility of its activities,
	3. An appropriate organisational structure (including a transparent structure of Investment Decision-Making in compliance with the best market standards),
	4. An appropriate financial/accounting structure ensuring reliable, complete and credible information on the VC Fund’s finances,
	5. A robust and reliable method for the selection and evaluation of Portfolio Companies, based on the due diligence practices of the investment objective,
	6. A procedure for the disclosure and management of conflicts of interest of any type that may arise within the VC Fund, in particular, those connected with the provision of an equity contribution by the Managing Entity or with Portfolio Companies of the VC Fund’s Investors.
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| 1. **Excusal Right**
 | PFR GH will be vested in a right to exclude from participation in the investment, if the investment in the Portfolio Company is not compliant with the Investment Strategy contained in the investment agreement with PFR GH, or if the Portfolio Company carries out Restricted Activity. In justified situations, PFR GH may waive this right. |

1. https://ilpa.org/model-lpa/ [↑](#footnote-ref-1)