

Appendix 1 to the Rules for the Submission and Selection of Private Equity Funds under the PFR Fund of Funds FIZ Programme

Key Terms for the open Call for Tenders regarding the selection of PE Funds – PFR Fund of Funds FIZ (“Term Sheet”)

The terms used in this document shall have the same meaning as defined in the Rules for the Submission and Selection of Tenders of PE Funds under the PFR Fund of Funds FIZ Programme

1. Fund	PFR Fund of Funds Closed-End Investment Fund (“PFR Fund of Funds FIZ” or “PFR FF FIZ”)
2. No state aid	The Call does not envisage state aid.
3. Tenderer	An existing PE Fund or a Managing Entity (or persons managing the PE Fund or persons managing the Management Entity) intending to establish a PE Fund, which has submitted a Tender for PFR Fund of Funds FIZ to invest in the PE Fund’s Investment under the Call.
4. Legal form of Private Equity Fund (“PE Fund”, “Equity Fund”)	<p>The PE Fund may operate its business in the form of:</p> <ul style="list-style-type: none"> a) a closed-end investment fund of non-public assets, b) a company, c) a partnership limited by shares, d) a joint investment institution established abroad or an entity with a legal structure similar to a closed-end investment fund, a company or a partnership limited by shares established outside the territory of the Republic of Poland.
5. Declared Capitalisation of PE Fund	<ul style="list-style-type: none"> 1) The target capitalisation of PE Funds subject to the investment by the Fund shall be equal to at least EUR 50 million; 2) The amount of the Fund’s investments in PE Funds shall be not more than 25% of the total capitalisation of a given PE Fund at each closure.
6. Investment Strategy of PE Fund (“Investment Strategy”, “Investment Policy”)	<ul style="list-style-type: none"> 1) The manner in which the PE Fund’s objectives set by the Managing Entity will be delivered, in particular with regard to investing Investors’ funds in Portfolio Companies, Portfolio Companies’ value growth and making exits from investments in Portfolio Companies, taking into account Investors’ interests.

	<p>2) The Investment Strategy shall be attached to the Tender and to the Investment Agreement or shall be incorporated directly into the Investment Agreement.</p>
<p>7. Managing Entity of PE Fund (“General Partner”, “GP”)</p>	<p>1) Means a legal person or natural persons responsible for the implementation of the investment strategy and management of the PE Fund’s investment portfolio.</p> <p>2) The Managing Entity shall be an entity independent of the Investors.</p> <p>3) The Managing Entity must ensure human resources with the relevant knowledge and skills required to make autonomous, rational and profit-driven Investment Decisions, consistent with the Investment Strategy of the PE Fund, and must also observe professional market standards according to the guidelines of Invest Europe, ILPA or other equivalent organisations of the Private Equity market.</p> <p>4) The Managing Entity may operate as:</p> <p>a) natural persons composing the internal governing body of the PE Fund (e.g. the management board of a company which, after it has been established and selected under the Call, shall be the PE Fund), or</p> <p>b) legal persons composing the external governing body of the PE Fund (e.g. the general partner of a partnership limited by shares, which, after it has been established and selected under the Call, shall be the PE Fund), or</p> <p>c) an independent external undertaking authorised, under the laws of the country in which it operates, to manage, in whole or in part, the PE Fund’s investment activity (e.g. the entity intended to manage, in whole or in part, the investment portfolio of the investment fund, which, after it has been established and selected under the Call, shall be the PE Fund).</p> <p>5) The Managing Entity shall be required to inform the Investors of any changes in its ownership structure.</p>
<p>8. Change of the Managing Entity of PE Fund</p>	<p>1) A change of the Managing Entity may occur as a result of its dismissal (at the initiative of some of the Investors), with cause or without cause. The decision to dismiss the Managing Entity must be taken by the Investors, e.g. by the Investors Meeting.</p>

	<p>2) All matters relating to a potential change of the Managing Entity must be regulated and addressed in the Investment Agreement. In case of any doubts, it is suggested that ILPA's solutions and standards be applied¹.</p>
<p>9. Team</p>	<p>A team designated by the Tenderer, composed of members of Key Personnel, other members of the Investment Committee and additional persons who have appropriate background and experience to carry out an investment activity of the PE Fund and dedicated for the conduct, within the PE Fund or the Managing Entity, of operational activity of the PE Fund, obliged to maintain professional market standards according to the guidelines of Invest Europe, ILPA or other equivalent organisations of the PE market.</p>
<p>10. Key Personnel</p>	<ol style="list-style-type: none"> 1) Key persons designated by the Tenderer, who have the relevant experience, skills and knowledge in the area of investment activity management and knowledge of the venture capital or private equity market, which make the Investment Strategy of the PE Fund likely to be implemented. 2) Any replacement of Key Personnel members requires the consent of a majority of Investors (e.g. within the Board of Investors/Advisory Committee or the Investors Meeting). The detailed issues should be addressed in the Investment Agreement. In case of any doubts, it is suggested that ILPA's solutions and standards be applied².
<p>11. Additional requirements for Key Personnel/Team</p>	<ol style="list-style-type: none"> 1) The Managing Entity should ensure appropriate human resources dedicated to the implementation of the Investment Strategy of the PE Fund, including in the form of members of Key Personnel. The dedicated human resources should be adequate to the size of the PE Fund. 2) The declared time commitment of individual members of Key Personnel/Team and the proposed distribution of Carried Interest among members of Key Personnel/Team should be adequate to the Declared Capitalisation and the Investment Strategy of the PE Fund. 3) At least two Members of Key Personnel are dedicated to a minimum of 80% (not less than 32 hours per week) of professional working time to the PE Fund.

¹ <https://ilpa.org/wp-content/uploads/2019/10/ILPA-Model-Limited-Partnership-Agreement-October-2019.pdf>

² <https://ilpa.org/wp-content/uploads/2019/10/ILPA-Model-Limited-Partnership-Agreement-October-2019.pdf>

12. Investors	PFR Fund of Funds FIZ and the Professional Investor.
13. Professional Investor	<p>1) The entity which meets the criteria referred to in Article 2 point 13a) of the Act on closed-end investment funds³ (“professional customer”), who makes (directly or indirectly, i.e. through an investment vehicle⁴) investments in the PE Fund by making cash contributions;</p> <p>Including:</p> <p>2) A significant share in the Declared Capitalisation of the PE Fund shall be held by such Professional Investor (being one or several investors) whose contribution is a cash contribution:</p>

³ A professional customer within the meaning of the Act on closed-end investment funds means an entity to which a service is provided or is to be provided, or to which an offer is made to acquire participation units, take up investment certificates, or acquire or take up participation rights of an alternative investment company, and which has the experience and knowledge enabling it to make sound investment decisions and correctly evaluate the risk associated with such decisions, which is:

- a) a domestic bank, foreign bank or credit institution,
- b) an investment company,
- c) a domestic insurance undertaking or foreign insurance undertaking, or a domestic reinsurance undertaking or foreign insurance undertaking, within the meaning of the Act of 11 September 2015 on the business of insurance and reinsurance, operating in the territory of the Republic of Poland,
- d) an investment fund, alternative investment company or other joint investment company, investment fund company, ASI manager, management company or manager from EU,
- e) a pension fund or a pension fund company within the meaning of the Act of 28 August 1997 on the organisation and operation of pension funds,
- f) a commodity brokerage house within the meaning of the Act of 26 October 2000 on commodity exchanges,
- g) an entity which enters, as part of its business activity, into transactions on futures, options or other derivatives markets or on money markets solely for the purpose of securing its position taken on such markets, for its own account or for the account of other members of such markets, provided that the responsibility for the performance of the obligations under such transactions rests with the clearing participants of such markets,
- h) a financial institution other referred to in (a)-(g),
- i) an institutional investor, other than those specified in (a)-(h), which conducts regulated activities on a financial market,
- j) an entity conducting activity outside the Republic of Poland under conditions equivalent to those under which the entities specified in (a)-(i) operate,
- k) an entrepreneur meeting at least two of the following requirements, whereas the equivalent in Polish zlotys of the amounts expressed in euro is calculated with the use of the average exchange rate of the euro announced by the National Bank of Poland as at the day of drawing up of the entrepreneur’s financial statements:
 - the balance sheet total of the entrepreneur is at least the PLN equivalent of EUR 20 000 000,
 - the sales revenue of the entrepreneur is at least the PLN equivalent of EUR 40 000 000,
 - the equity or own capital fund of the entrepreneur is at least the PLN equivalent of EUR 2 000 000,
- l) a government body which manages public debt, a central bank, the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank or other international organisation performing similar functions,
- m) other institutional investors the main activity of which is to invest in financial instruments, including entities dedicated to the securitisation of assets and other financing transactions,
- n) an entity other than those mentioned in (a)-(m) which is treated as a professional customer.

⁴ Where a contribution is made to the PE Fund through an investment vehicle for a Professional Investor, (i) the ultimate beneficial owner of such investment vehicle and (ii) all intermediary entities in the structure of an investment vehicle shall also be deemed professional customers.

	<ul style="list-style-type: none"> a) from resources other than public funding⁵, irrespective of its ownership, b) which bears the full risk of contributions made to the PE Fund. <p>("Commercial Investor")</p> <p>(The quality and investment experience of the Professional Investors and the level of the Commercial Investor's share in the Declared Capitalisation of the PE Fund, including the extent to which such share is significant, shall be subject to evaluation during the Tender analysis);</p> <p>3) Other requirements for a Professional Investor:</p> <ul style="list-style-type: none"> a) it is independent of the Managing Entity of the PE Fund, b) at the time the initial Investment is made in a Portfolio Company, it is independent of that Company, i.e. it is not its member nor shareholder, not are there any undertakings or commitments relating to property rights between the Investor and the Portfolio Company.⁶
14. Portfolio Company ("Company")	An issuer of securities, shares or participation titles, which are the subject of PE Funds' investments.
15. Contribution of PFR Fund of Funds FIZ	<ul style="list-style-type: none"> 1) The target capitalisation of PE Funds subject to the investment by the Fund shall be at least EUR 50 million. 2) The share of PFR Fund of Funds FIZ in the Declared Capitalisation of the PE Fund shall be: <ul style="list-style-type: none"> a) a minimum of EUR 5.0 million or the equivalent of this amount in other currency b) a maximum of EUR 25.0 million or the equivalent of this amount in other currency. 3) The share of PFR Fund of Funds FIZ may not exceed 25% of the PE Fund's Declared Capitalisation.
16. Contribution of the Managing Entity	<p>In total, a minimum of 1%, but no more than 20% of the Declared Capitalisation of the PE Fund shall be provided by the members of Key Personnel/Team, through the Managing Entity or in another transparent manner acceptable to PFR Fund of Funds FIZ.</p> <p>Own contribution shall be made with cash.</p>

⁵ Including, as defined in the Act of 27 August 2009 on public finance

⁶ Independence between the Investor and the Portfolio Company is preserved in the case of Professional Investors who are natural persons and are acting as business angels, as well as in the case of Professional Investors who are institutional investors, also where such investors are members or shareholders of the Portfolio Company before the PE Fund makes its investment.

17. Investment horizon of PE Fund („Investment Horizon“)	Up to 10 years from the time of signing of the Investment Agreement, with an option to extend it with the consent of a majority of Investors. The detailed rules for defining the Investment Horizon shall be specified in the Investment Agreement.
18. Criterion of geographical location of PE Fund	<p>The PFR Fund of Funds FIZ fund shall endeavour to achieve its own investment objective by making investments mainly in PE Funds which will undertake in investment documents to invest in companies operating in the territory of the Republic of Poland at a level of at least:</p> <ul style="list-style-type: none"> (i) 50% assets of the PE Fund or (ii) double the amount of the payment declared by the Fund for the acquisition of the PE Fund’s property rights.
19. Ineligible investments in Portfolio Companies	<p>1) PE Fund’s investments may not be made to finance the following types of activity:</p> <ul style="list-style-type: none"> a) Construction or decommissioning of nuclear power plants, b) Producing, processing or marketing tobacco, tobacco products and electronic cigarettes, c) Producing or marketing alcoholic beverages (in so far as such activity is the main activity of the Portfolio Company), d) Producing or marketing pornographic content, e) Trading in explosives, arms and munitions, f) Activities involving games of chance, betting, machine games, low-stakes slot machines, g) Producing or marketing intoxicants, psychotropic substances or precursors, h) IT activities supporting the activities specified above, i.e. in so far as applications and other IT solutions support or facilitate the activities specified above (in so far as such activity is the main activity of the Portfolio Company), i) Other activities that violate the mandatory provisions of the law of the Republic of Poland and/or the law of the European Union Or the law of the country in which the Portfolio Company is established.

20. Form of investing by PE Fund (“Investment”)	<p>By way of taking up newly issued (subject to the Refinancing) by Portfolio Companies:</p> <ul style="list-style-type: none"> a) securities, b) shares, c) participation titles.
21. Refinancing (“Replacement capital”)	<p>Refinancing is defined as the calling by the PE Fund of financial instruments (debt or equity) which are issued by a Portfolio Company, from the existing owners of such financial instruments.</p> <p>Refinancing is also deemed to include the calling of equity financial instruments which were issued by a Portfolio Company, when made by the Portfolio Company, with the use of the PE Fund’s resources, in order to redeem them.</p>
22. Form of financing of PE Funds by PFR Fund of Funds FIZ	<p>Reimbursable financing by way of taking up of and payment for securities, claims (except for claims on natural persons), shares in limited liability companies, participation titles issued by joint investment institutions established abroad, derivatives within the meaning of Article 2 point 18) of the Act on closed-end investment funds⁷, money market instruments (i.e. securities or property rights incorporating solely monetary claims referred to in Article 2 point 21) of the Act on closed-end investment funds⁸), investment certificates, issued by PE Funds.</p>
23. Making of Investment Decisions (role of the Investment Committee)	<p>1) The PE Fund’s Investment Decisions concerning the Investment in and exit from Portfolio Companies (“Investment Decisions”) shall be taken by the Investment Committee, established by the PE Fund/Managing Entity.</p>

⁷ In accordance with Article 2 point 18 of the Act on closed-end investment funds, derivatives shall mean property rights the market price of which depends directly or indirectly on the price or value of securities referred to in Article 3 point 1(a) of the Act on trading in financial instruments, and other property rights the market price of which depends directly or indirectly on the formation of the market price of foreign currencies or one the change in interest rate levels.

⁸ In accordance with Article 2 point 21 of the Act on closed-end investment funds, money market instruments shall mean securities or property rights incorporating solely monetary claims: a) with a maturity of no more than 397 days as calculated from the issue date or b) which are regularly subject to adjustment to current conditions prevailing on the money markets in periods not longer than 397 days, or c) the investment risk of which, including credit risk and interest rate risk, corresponds to the risk of the financial instruments referred to in (a) or (b).

- and provided that there is demand for and supply of such instruments enabling them to be acquired or disposed of on a continuous basis, with the proviso that a temporary loss of liquidity of such securities or property rights does not cause such securities or property rights to lose the status of money market instruments.

	<ol style="list-style-type: none"> 2) The Investment Committee shall be an internal unit of the PE Fund/Managing Entity, dedicated to the making of Investment Decisions. The Investment Committee shall be composed of members of Key Personnel, and also, optionally, of other Team members who have contributed to the PE Fund and of additional experts and advisors designated by the Managing Entity. The Tenderer shall describe in the Tender the proposed full composition of the Investment Committee and the manner in which it will make Investment Decisions.⁹ 3) Investment Decisions shall be taken on the arms' length basis, in line with best practices in the venture capital/ private equity market.
24. Board of Investors/Advisory Committee ("Advisory Board", "Limited Partner Advisory Committee", "LPAC")	<ol style="list-style-type: none"> 1. The Board of Investors/Advisory Committee shall be composed of the representatives of the Investors with the highest contributions to the Declared Capitalisation of the PE Fund. The Board of Investors/Advisory Committee may also include a representative of the other smaller Investors. 2. The Board of Investors/Advisory Committee, as the advisory body of the Managing Entity/ PE Fund, shall, among other things, issue opinions regarding compliance of Investment Decisions with the rules for the procedure for management of conflicts of interest, and also whether they are consistent with the Investment Strategy, with the provisions of the Investment Agreement and with the provisions of the law. The detailed powers of the Board of Investors/Advisory Committee shall be defined in the Investment Agreement. 3. The detailed procedure for decision making by the Board of Investors/Advisory Committee shall be agreed in the Investment Agreement. 4. The Managing Entity shall have the right to participate in deliberations of the Board of Investors/Advisory Committee, without a voting right. The Board of Investors/Advisory Committee may decide, by a majority of votes, to exclude the representative of the Managing Entity from participating in deliberations of the Board of Investors/Advisory Committee.
25. Investors Meeting	<ol style="list-style-type: none"> 1) As part of the structure of the PE Fund, there shall be a functional Investors Meeting (the Shareholders' Meeting and the General Meeting – for companies and partnerships limited by shares, respectively; the

⁹ Depending on the legal form of the PE Fund and the envisaged model of making Investment Decisions, the Investment Committee may be the same as the corporate body authorized to make decisions on behalf of the PE Fund, but there is no such requirement; however, in either case, its decisions shall be binding with respect to making entries into and exits from Investments in Portfolio Companies.

	<p>Investors Meeting – for investment funds; or another non-statutory body created within the organisational structure of the PE Fund), composed of PFR Fund of Funds FIZ and the representatives of all Investors.</p> <p>2) The Investors Meeting shall hold regular meetings, at intervals agreed in the Investment Agreement, in order to discuss the Managing Entity’s performance and other current business related to the PE Fund’s operations.</p>
<p>26. Management Fee in the Investment Period</p>	<p>1) The amount of the Management Fee in the Investment Period shall be proposed by the Tenderer.</p> <p>2) The amount of the Management Fee in the Investment Period proposed by the Tenderer shall be set on an arm’s length basis.</p> <p>3) All fees payable to the Managing Entity and/or members of the Team, originating from the Portfolio Companies, shall reduce the management fee payable to the Managing Entity.</p>
<p>27. Management Fee in the Investment Exit Period</p>	<p>1) The amount of the Management Fee in the Investment Exit Period shall be proposed by the Tenderer.</p> <p>2) The amount of the Management Fee in the Investment Period proposed by the Tenderer shall be set on an arm’s length basis.</p> <p>3) All fees payable to the Managing Entity and/or members of the Team, originating from the Portfolio Companies, shall reduce the management fee payable to the Managing Entity.</p>
<p>28. Hurdle Rate</p>	<p>1) The Hurdle Rate, being the minimum return on investment for the Investors, shall be proposed by the Tenderer.2) The Hurdle Rate proposed by the Tenderer shall be specified on an arm’s length basis.</p>
<p>29. Carried Interest</p>	<p>1) The amount of Carried Interest shall be proposed by the Tenderer.</p> <p>2) The amount of Carried Interest proposed by the Tenderer shall be set on an arm’s length basis depending on the Declared Capitalisation of the PE Fund.</p> <p>3) Carried Interest shall be due to the Managing Entity after the return of all contributions made to the PE Fund, increased by the Hurdle Rate.</p>

<p>30. Rules for distribution of proceeds from exits from Investments in Portfolio Companies</p>	<ol style="list-style-type: none"> 1) A detailed model of distribution of proceeds from exits from Investments in Portfolio Companies shall be proposed by the Tenderer. 2) The model of distribution of proceeds from exits from Investments in Portfolio Companies proposed by the Tenderer shall be in line with the market terms and include the <i>pari passu</i> principle for the distribution of proceeds among the Investors. 3) An example model of distribution of proceeds from exits from Investments in Portfolio Companies: <ol style="list-style-type: none"> a) First, funds shall be returned up to the amount of contributions made to the PE Fund by the Investors and the Managing Entity in proportion to their share in the Capitalisation of the PE Fund – until 100% of the contributions made by them/Declared Capitalisation of the PE Fund is returned. b) Further proceeds from exits from Investments shall be used to pay the Hurdle Rate to the Investors and the Managing Entity. c) Further proceeds from exits from Investments, remaining after the payment of the Hurdle Rate, shall be used to pay: <ol style="list-style-type: none"> (i) the Carried Interest for the Managing Entity, and (ii) Profits for the Investors and the Managing Entity. d) The financial flows under all the above sections shall occur at the same time, on the same terms, to all the entities, i.e. the Investors and the Managing Entity, in proportion to the Payments made by them to the PE Fund. 4) A model of distribution of proceeds from exits from Investments in Portfolio Companies taking into account the catch-up formula is also acceptable. 5) In justified cases, the Fund’s participation in the distribution of proceeds from exits from Investments made in kind (<i>in specie</i>) is allowed.
<p>31. Reporting</p>	<p>The PE Fund shall be required to periodically report to PFR Fund of Funds FIZ in accordance with the data scope and the report model prepared by PFR Fund of Funds FIZ, to be specified in the Investment Agreement. In addition, the PE Fund shall prepare, among other things, quarterly reports and annual audited financial statements.</p>

32. Compliance

- 1) The Managing Entity shall ensure compliance with professional standards in the venture capital/private equity market and compliance with the laws and regulations relating directly or indirectly to PE Funds' activities and the rules governing their Investments.
- 2) The Managing Entity shall put in place and ensure compliance with applicable legal standards and provisions providing protection from money laundering and tax fraud, as well as the combating of terrorism. The Managing Entity shall put in place and control compliance, both at the PE Fund level and at the level of the Portfolio Companies in which the PE Fund will make Investments, with internal procedures providing protection from money laundering, tax fraud and terrorism. The Managing Entity shall not maintain any business relations with any entities registered in countries that do not cooperate with the EU in the field of combating money laundering, terrorism and tax fraud.
- 3) In addition, the Managing Entity shall ensure:
 - a) the holding and retention of authorisations necessary to perform the tasks of the PE Fund, as required by the law¹⁰,
 - b) the economic viability and the financial feasibility of its activities,
 - c) an appropriate organisational structure (including a transparent structure of Investment Decision-making in compliance with the best market standards),
 - d) an appropriate financial/ accounting structure ensuring reliable, complete and credible information on the PE Fund's finances,
 - e) a robust and reliable method for the selection and evaluation of Portfolio Companies, based on a due diligence analysis of the investment objective,
 - f) a procedure for the disclosure and management of conflicts of interest of any type that may arise within the PE Fund, in particular those connected with the provision of an equity contribution by the Managing Entity or with the PE Fund's co-investments in Investors' Portfolio Companies.

¹⁰ According to the jurisdiction relevant for the registered office/place of registration of the PE Fund.