

Commitments by institutional investors to help fund the technology leaders of the future

Appendix 2: Specifications relating to funds, mandates and internal asset management programmes – July 2020

I. Aims of the specifications

These specifications set out the investment criteria adopted as part of the partnership agreement between institutional investors (hereinafter the “Agreement”) signed on 13 January 2020, which formalises the commitments made by institutional investors to devote a larger proportion of their investments and additional investments to the funding of French start-ups, both unlisted companies in the late-stage/growth private equity segment and listed technology companies. The intended investment universe primarily consists of companies that own (or are developing) technologies or that are exploiting technological opportunities to gain a competitive edge through an innovative business model, enabling them to distinguish themselves from traditional operators.

It is understood, as regards unlisted investments, that the institutional investors, under the Agreement, shall use the investment criteria established by these specifications to decide whether proposals are suitable. However, as well as simply complying with these specifications, the final decision regarding a proposal shall result from a discussion within the governance body, during which that body shall give an opinion on the credibility of statements made by funds regarding their strategy.

II. Unlisted investments

a) Objectives

The commitment made by institutional investors in relation to unlisted investments is intended to support the development of the late-stage/growth segment of the French private equity market.

The aim of the institutional investors is to boost the resources of late-stage/growth private equity funds investing in companies at the fundraising stage in order to (i) support the development of a private funding ecosystem in France and (ii) support the development of start-ups with strong growth potential.

b) Guidance and criteria applicable to funds

The Partners agree that eligible funds must show all following characteristics:

- Funds must be managed by asset management companies authorised in France, whose asset management teams are entirely or partly located in France, and preferably taking the form of FCPIs (professional private equity funds), SLPs (limited partnerships) or other French-law structures subject to the AIFM Directive. Any exception must be agreed by prior consensus among the Partners, or failing that by a simple majority vote;
- Primarily, investments should be in newly created funds, although pre-existing funds may be used incidentally;
- Fund management and performance fees must be reasonable in view of market practices and the resources used in relation to the investment strategy;
- Funds must essentially invest in equity and have a French, pan-European or global investment strategy;
- Funds may be private equity funds investing in the late-stage/growth segment as part of a strategy focusing on that segment or a multi-segment strategy (across several funding stages), targeting companies that (i) are generating strong growth, (ii) have, in principle, already carried out several substantial funding rounds and secured their business model and (iii) are profitable or on the path to profitability;
- Funds must have the staff and financial resources needed to help companies significantly accelerate their growth in order to become leaders in their segment; that capability shall be assessed by the Partners in view of the characteristics listed below, and it shall be up to the candidate funds to show that they belong to one of the categories, by any means:

- Fund with a minimum target size of €1 billion and able to lead late stage/growth funding rounds of more than €50- 100 million;

Or

- Fund with a smaller target size, but whose asset management company aims to manage a fund of that size eventually via several closings or several increasingly large funds, it being understood that the size of the first fund must be at least several hundred million euros;

Or

- Fund with a smaller target size but whose position in a specific market niche, generally involving smaller late-stage/growth ticket sizes, allows it to lead funding rounds.
- Funds may specialise in a specific sector (digital, life sciences, energy transition etc.) or may be multi-sector or generalist funds.

c) Investment compliance rule

The partners agree that the bulk of the portfolio of eligible funds must be made up of assets that comply with the criteria listed in II.b), namely equity investments, as lead investors, in late stage/growth roundtables (usually corresponding to “series C” funding and beyond). Thus, the following assets do not comply with the initiative:

- Assets financed using leverage as the main axis of value creation, which is often a sign of a lower risk component and lower innovation intensity. The use of leverage in deals may nevertheless be allowed under the following three conditions: (i) a reasonable level of debt; (ii) a technological / innovative nature at the heart of the business model of the underlying companies and (iii) an annual turnover growth of the underlying companies of 10% minimum for 5 consecutive years, observed prior to the investment fund;
- Assets financed at stages other than late stage/growth. However, this criterion is not applicable to the biotechnology company sector, where the notion of time to market is more relevant than the denomination of the series;
- Assets other than direct participations in the capital of companies, and in particular investment in funds of funds.

It is nevertheless conceivable that exceptions could exist in the portfolio construction, based on portfolio equilibrium requirements or specific transaction opportunities. Thus, the partners agree to tolerate a proportion of "non-compliant" assets of a maximum of 20% of the assets (in amounts) of the candidate funds. This proportion is subject to a formal *ex ante* declaration by the candidate funds and is excluded from the calculation of the contributions promised by the partners. It is subject to a biannual verification by the General Directorate of the Treasury.

d) Guidance and criteria applicable to management teams

The Partners agree that the target funds’ management teams must show all following characteristics:

- Teams must be entirely or partly located in France;
- Teams must show a proven track record in late-stage/growth investments and in providing practical support to companies at this stage of development, or must have recruited staff to develop that capability, or can show a credible and detailed roadmap towards achieving that capability;
- Teams must be experienced, showing a strong combined track record and proven skills, or may be new teams with an innovative model and relevant experience;
- Teams must be able to apply responsible investing techniques, helping companies make progress in terms of ESG (environmental, social and governance) issues;
- Reporting to investors, accompanied by regular meetings, must be excellent in terms of financial results, economic results, compliance with ESG criteria and information required in terms of transparency within the meaning of Solvency II.

III. **Listed investments**

a) Objectives

The commitments made by institutional investors in relation to listed investments are intended to help create a specialist French ecosystem for technology stocks.

Institutional investors must invest in funds or grant mandates to teams acquiring stakes in technology stocks that are

already listed or floating on the stockmarket, in order to encourage the creation, growth and ongoing presence in France of asset management teams specialising in the technology sector, which currently receives limited coverage from French asset managers.

b) Guidance and criteria relating to the asset management strategy

The Partners agree that funds, mandates and internal asset management programmes investing in the “global tech” theme must show all following characteristics:

- Most of their assets under management must target companies, based in France, Europe or anywhere in the world, that own (or are developing) technologies or that are exploiting technological opportunities to gain a competitive edge through an innovative business model, enabling them to distinguish themselves from traditional operators;
- They must focus on companies whose shares are, in part or in whole, tradeable in a financial market, or on funds or mandates that have a pre-IPO strategy;
- A minimum proportion of their assets under management must be invested in listed small- and mid-cap stocks;
- They may or may not be linked to a major French or foreign asset management company, provided that they have a proven and substantial presence in France in terms of the location of investment teams;
- Their management and performance fees must be reasonable in view of market practices and the resources used in relation to the investment strategy.

c) Guidance and criteria applicable to management teams

The Partners agree that the asset management teams selected by the Partners must show all of the following characteristics:

- Teams may be pre-existing or specially formed and must either be located in France already or decide to establish themselves in France;
- Teams must be experienced, with proven expertise in relation to listed technology companies, as well as showing operational excellence (particularly as regards management quality, use of quality improvement methods, historical performance, intelligence regarding target technologies and markets, back-office processes and compliance);
- Teams must be able to apply responsible investing techniques, helping companies make progress in terms of ESG (environmental, social and governance) issues;
- Reporting to investors, accompanied by regular meetings, must be excellent in terms of financial results, economic results, compliance with ESG criteria and information required in terms of transparency within the meaning of Solvency II.

IV. Amendment of the specifications

These specifications may be amended and supplemented at any time subject to the agreement of all Executive Committee members (or failing that after a simple majority vote) as provided for in the Governance Charter drafted by the investor-partners.