



Case Study Update
November 2025

The evolution of the ERDF Technology start-up fund Saxony (TGFS), Germany



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Abbreviations

Abbreviation	Full name
AML	Anti-Money Laundering
CIB	Circular Innovation Fund
CFH	CFH Management GmbH (former business unit CFH Beteiligungsgesellschaft mbH)
CRM	Customer Relationship Management
ECBF	European Circular Bioeconomy Fund
ETL/ELT	Extract, Transform, Load / Extract, Load, Transform
ERDF	European Regional Development Fund
GBER	General Block Exemption Regulation
GRW	Gemeinschaftsaufgabe Verbesserung der Regionalen Wirtschaftsstruktur / Joint task to improve the regional economic structure
HTGF	High-Tech Gründerfonds / High-tech start-up fund
ICT	Information and Communication Technology
MBG	Mittelständische Beteiligungsgesellschaft mbH
M&A	Mergers and acquisitions
OP	Operational Programme
PE	Private equity
RDI	Research, development and innovation
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
SME(s)	Small and medium-sized enterprise(s)
SMWA	Saxon State Ministry of Economic Affairs, Labour and Energy and Climate Protection
TGFS	Technologiegründerfonds Sachsen (Technology start-up fund Saxony)
VC	Venture capital
VF	VF Management GmbH & Co. KG (former name TGFS Management GmbH & Co. KG)
WMS	Wachstumsfonds Mittelstand Sachsen

Table of contents

1 Executive summary	6
1.1 Key takeaways	8
2 Results of TGFS I in the 2007-2013 programming period	10
3 Design of TGFS+ in the 2014-2020 programming period	12
3.1 Context	12
3.2 Previous experience with financial instruments	12
3.3 Ex-ante assessment	13
3.4 The financial instruments initiated	14
3.5 Timetable for set-up and implementation	16
4 Set-up of TGFS+ in the 2014-2020 programming period	18
4.1 Selection of bodies implementing the instruments	18
4.2 Governance structure	18
4.3 Financial size and payments	19
4.4 State aid	20
4.5 Monitoring and reporting	20
4.6 Terms and conditions of financing	22
4.7 Appraisal process for investments	23
4.8 Visibility and communication	25
5 Achievements of TGFS+ in the 2014-2020 programming period	27
6 Transition to the 2021-2027 programming period: TGFS III	30
7 Lessons learned	33
7.1 Main success factors	33
7.2 Main challenges	34
8 Outlook	36



The venture capital (VC) ecosystem of the Free State of Saxony, one of the 16 federal states of Germany, has been significantly shaped by the consecutive generations of **Technologiegründerfonds Sachsen (TGFS, Technology start-up fund Saxony)**, a set of VC funds supported by the European Regional Development Fund (ERDF), targeting innovative start-ups and technology-driven small and medium-sized enterprises (SMEs) in the region.

The first generation of TGFS, using 2007-2013 ERDF resources, was comprehensively described in the [fi-compass case study](#) published in 2015. This fi-compass case study is an update of this document, summarising the results of the first generation of TGFS, describing the evolution under the second generation, the **TGFS+**, implemented with 2014-2020 ERDF resources, and providing an outlook into the third generation of TGFS with 2021-2027 ERDF.

The first generation of TGFS invested EUR 108.4 million in 41 start-ups, achieved a leverage of 3.1x, and generated EUR 46.2 million in reflows alongside 14 positive exits, preserving nearly all invested capital. TGFS+ expanded its reach with 70 companies financed, mobilising EUR 138.8 million in private capital at a leverage of 3.7x.

In the 2014-2020 programming period, the TGFS+ introduced two sub-funds, complementary to each other:

- **TGFS Plus**, targeting scalable high-growth start-ups in sectors such as ICT, semiconductors, med tech and clean technologies, and
- **TGFS Basic**, supporting smaller innovative businesses with regional market potential.

Both were established under the existing TGFS holding fund structure, with management entrusted to **CFH Beteiligungsgesellschaft mbH** and three regional investment companies of the savings banks in Leipzig, Dresden and Chemnitz, as well as **Mittelständische Beteiligungsgesellschaft (MBG Sachsen)** managing TGFS Basic.

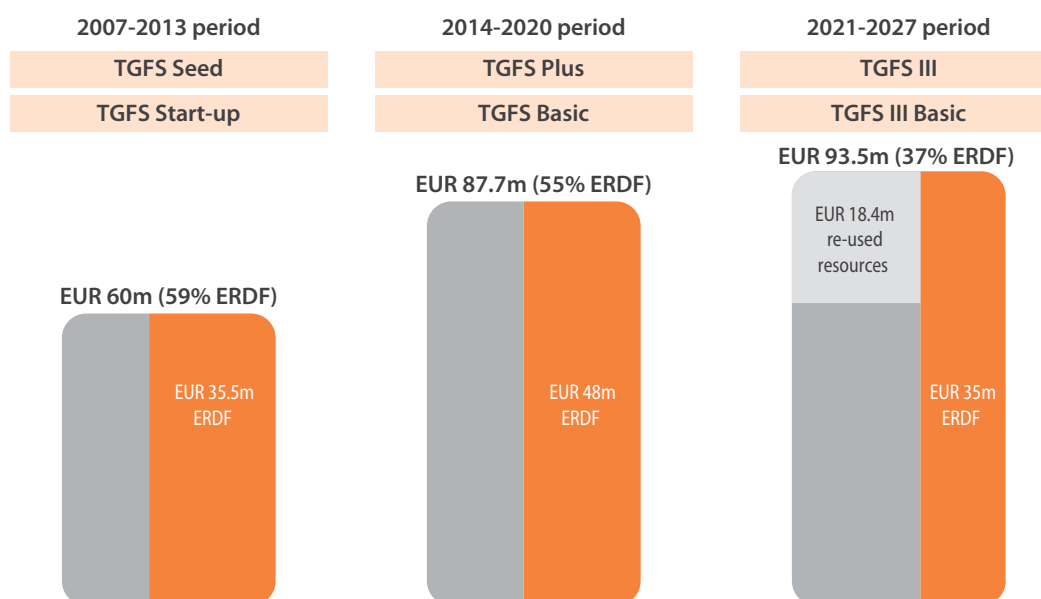
Despite challenges such as the COVID-19 pandemic and the war in Ukraine, TGFS+ has maintained strong investment activity and fostered a broader, more diversified portfolio. Together, both generations have supported job creation, R&D, innovation and strengthening Saxony's position as a dynamic start-up hub while ensuring a revolving use of public resources.

Due to a continued financial gap estimated for the 2021-2027 period, the Free State of Saxony decided to continue the VC support with a third generation of ERDF co-financed TGFS, with a total budget of EUR 93.5 million. The division into two sub-funds proved effective and is also maintained in this programming period.



The reflows of the first generation TGFS – resulting from successful exits and capital repayments – were partially reinvested as part of the funding structure of TGFS III. This exemplifies the cumulative impact of revolving instruments, where each generation of funds builds upon the financial and operational achievements of its predecessors.

Figure 1: Financial size of the three generations of TGFS – illustrating the use of reflows from TGFS I for the third generation of TGFS.



Source: fi-compass.

The below table presents general information on the second generation of TGFS (TGFS+), which this case study update focusses on, and comparing it with the first generation (TGFS I).

Funding sources

- TGFS I (1st generation): ERDF and regional contribution in the OP Saxony 2007-2013
- TGFS+ (2nd generation): ERDF and regional contribution in the OP Saxony 2014-2020

Type of financial product

- Equity and technical support

Financial size

- TGFS I: EUR 60 million total, including EUR 40 million for TGFS Start-up Fund and EUR 20 million for TGFS Seed Fund
- TGFS+: EUR 87.7 million total, including EUR 70.2 million for TGFS Plus and EUR 17.5 million for TGFS Basic

Thematic focus

- Start-up support to technology entrepreneurs and small innovative companies

Timing of implementation

- TGFS I: 2008-2015
- TGFS+: 2016-2023



Partners involved

Managing authority

- Saxon State Ministry of Economic Affairs, Labour and Energy and Climate Protection (SMWA) ¹

Bodies implementing the financial instruments

- CFH Management GmbH-led consortium, with three regional investment partners: SIB Innovations- und Beteiligungsgesellschaft mbH (Dresden), SC-Kapitalbeteiligungsgesellschaft mbH (Chemnitz), S-Unternehmensbeteiligungsgesellschaft der Sparkasse Leipzig mbH (S-UBG Leipzig)
 - MBG Sachsen (subcontractor)
-

Key takeaways

The TGFS was established with the primary objective of improving the VC offer for the seed and start-up phase of technology-oriented, knowledge-based start-ups in Saxony. By addressing the persistent financing gap for young companies, TGFS has enabled promising entrepreneurs to transform research-driven ideas into viable businesses.

A distinctive feature of the second generation of TGFS was its dual-fund structure: TGFS Plus focused on scalable, high-growth start-ups with exponential potential, while TGFS Basic targeted regionally anchored, early-stage SMEs with more moderate growth prospects. This segmentation ensured a well-balanced, industry-open offer that is available to a wide spectrum of start-ups.

Building on the first generation's experience, TGFS Plus and TGFS Basic introduced key improvements in the 2014-2020 period: clearer segmentation of fund types, streamlined investment processes, greater emphasis on scalability and follow-on potential and stronger focus on leverage and crowding-in private capital, including business angels, to mitigate persistent early-stage funding gaps.

In the Saxon VC market, TGFS was the only permanent source of capital at scale, given the limited attractiveness of the region to national and international funds and the predominance of very early-stage ventures. This unique role requires TGFS to balance inclusivity, by supporting a large number of early ventures despite high risks, with a selective liquidity strategy that concentrates resources on the most promising value drivers during divestment. Coordination between TGFS Plus and TGFS Basic, supported by a consultation mechanism and occasional crossover investments, has been key to managing overlaps and ensuring portfolio complementarity.

The VC subsidiaries of three regional savings banks were local stakeholders involved in TGFS Plus from three of Saxony's major cities: Dresden, Leipzig and Chemnitz. They are responsible for sourcing potential investments and ensure a very close hands-on support. This support is essential, especially for first-time founders from scientific organisations.

The revolving nature of financial instruments enables the re-use of resources generated through repayments and exits, thereby extending the impact of public funds over multiple programming periods. The use of reflows from the first generation TGFS was instrumental in enhancing the overall financial size of the TGFS III. The inclusion of reflows also played an important role in facilitating the participation of private investors, further enhancing leverage and market confidence.

¹ Name of the Ministry from January 2025 (formerly Saxon State Ministry of Economic Affairs, Labour and Transport).



Further relevant fi-compass resources:

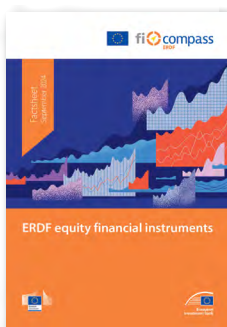
fi-compass case study ‘Technology Start-Up Fund (TGFS)’



The case study, published in 2015, presents the ‘Technology Start-Up Fund in Saxony’ (TGFS) that was created within the Operational Programme Saxony (ERDF) 2007-2013. The TGFS was launched in 2008 and managed approximately EUR 60 million across two funds: the Seed Fund and the Start-Up Fund. The case study shows how the public sector and financial entities worked together to support the regional economy and promote the creation and growth of young and innovative SMEs. It describes the objectives of the fund, set up of the financial instrument, strategy, achievements and lessons learned. The current publication provides an update to this 2015 fi-compass case study.

Read more [here](#).

fi-compass factsheet ‘ERDF equity financial instruments’



This factsheet is a good starter document and presents key features of equity financial instruments, together with industry best practice, to support managing authorities and other fi-compass stakeholders seeking to implement equity financial instruments in the future.

This resource is available as a PDF document and in form of an interactive online version.

Read more [here](#).

fi-compass model: Financial instrument for competitiveness and innovation: Equity combined with grant



This factsheet presents a model financial instrument that combines equity with grants to strengthen competitiveness and innovation across EU Member States. It outlines how managing authorities can use ERDF resources to bridge financing gaps for innovative enterprises, particularly start-ups and early-stage companies, while leveraging private investment and creating a supportive environment for scaling innovation.

Read more [here](#).

Results of TGFS I in the 2007-2013 programming period

The first generation of TGFS, implemented with 2007-2013 ERDF resources and described in detail in the 2015 [fi-compass case study](#), mobilised a total of EUR 108.4 million for investments in innovative companies. It was capitalised by EUR 35.5 million from the ERDF and EUR 9.5 million from regional public sources. By attracting EUR 48.4 million in third-party investments at final recipient level (in addition to the EUR 15 million contributed at Fund level), the fund significantly amplified the impact of public resources, achieving a leverage effect of 3.1.

Between 2008 and the end of its initial investment phase in 2013, TGFS Management assessed around 1 150 investment proposals and invested in 41 start-ups. Investments were diversified across sectors, with concentrations in ICT, internet-based business models and medical technologies. The public capital was fully invested by 2015, marking a successful first generation of the TGFS and laying the foundation for follow-on initiatives supporting high-growth start-ups in the region.

Data Virtuality

Sector: IT/Telecommunications

Fund: TGFS I

Co-investors: HTGF

Fund commitment: EUR 3.4 million

Total value of the investment: EUR 5.1 million

Location: Leipzig

Year invested: 2013

Data Virtuality GmbH, established in Leipzig in 2012 as a spin-off from Leipzig University, offers an advanced data integration platform designed to serve as a unified “single source of truth.” The platform combines data virtualisation with automated ETL/ELT and change data capture features to provide real-time and historical data access across hybrid and multi-cloud environments, significantly reducing integration effort (by up to 80%) and enabling seamless data modeling, governance, and delivery to any BI tool. Trusted by global enterprises such as BSH Hausgeräte, New York University, Crédit Agricole, and PartnerRe, the company operates from offices in Leipzig, Munich, and San Francisco.

In mid-2012, soon after the company’s founding, TGFS co-invested in Data Virtuality along with the High-Tech Gründerfonds (HTGF), providing around EUR 3.4 million in equity capital. This early-stage financing was aimed at supporting the development and commercialisation of its automated data warehouse and integration technology.

After more than a decade of support and collaboration, TGFS exited Data Virtuality in April 2024 when it was acquired by CData Software – a US-based provider of connectivity and data access tools. The acquisition is expected to accelerate Data Virtuality’s global growth while reinforcing its presence in Saxony.

For further information about the company, visit: <https://www.cdata.com/virtuality/>.





Since the end of its investment period in 2013, the first generation TGFS funds (TGFS Seed and TGFS Start-up) has focused on active portfolio management, follow-on financing and gradual divestments. More recently, main activities of these funds included supporting existing investee companies and completing exits, most recently the sale of Data Virtuality GmbH in 2024, which generated further partial capital repayments to investors.

As at December 2024, the portfolio included five active companies. Three of these companies were initially supported by the Seed Fund and later financed also by the Start-up Fund. 36 companies have been released from the portfolio, including 14 positive exits. The remaining portfolio continues to show return potential, with further exit planning underway.

The positive exits and the sale of companies with at least partial revenues have so far resulted in capital reflows of EUR 46.2 million. The net asset value of the invested companies still in the portfolio in 2025 is EUR 13 million. Therefore, the total value to paid-in (EUR 59.2 million) is 99%, indicating the preservation of the invested capital. Due to disproportionate distribution arrangements between the Free State of Saxony (TGFS Holding) and private investors, the latter have already received a positive return.



Design of TGFS+ in the 2014-2020 programming period

3.1 Context

In the past decade, Saxony has sustained steady economic development driven by pro-active regional policy, targeted investment in key sectors and continued EU support, particularly through the ERDF. The region has continued to use ERDF co-financing strategically to strengthen regional competitiveness, boost research, development and innovation (RDI) and support SMEs. This funding has been instrumental in creating innovation hubs and infrastructure critical for industrial transformation.

Saxony's regional policies have prioritised RDI and industrial excellence, focusing on **high-tech manufacturing, microelectronics and mobility** – sectors with a long tradition in the Free State of Saxony. A flagship example is the strong push to expand chip production, particularly in Dresden, which has grown into a key European semiconductor hub. The Free State has also fostered smart specialisation strategies to promote advanced technologies and the green economy. SME support included tailored grants and public-private partnerships, enabling local enterprises to scale RDI activities despite limited internal capacities.

The start-up ecosystem has also expanded in urban centres like **Dresden, Leipzig** and **Chemnitz**, where tailored support infrastructures, such as incubators and tech parks, have emerged and each city benefits from sector-specific strengths: Dresden in semiconductors, Leipzig in medical technology as well as digital and creative industries, and Chemnitz in automotive and mechanical engineering.

However, despite these advances, access to finance for innovative and technology-based firms has remained a persistent bottleneck. Saxony's comparatively small economic area makes it less attractive to national and international VC funds that seek larger markets and quicker returns. While some progress has been made in mobilising business angels and regional investors, gaps remain, especially in Series A financing rounds². Therefore, further strengthening the local VC ecosystem and ensuring better linkages with national and international investment networks remains a key priority for fully realising Saxony's innovation potential.

3.2 Previous experience with financial instruments

Before the launch of the first generation of **Technologiegründerfonds Sachsen** (TGFS) in 2008, Saxony had already begun experimenting with financial instruments to support entrepreneurship and innovation in the region.³ The experience gained through managing these earlier financial instruments laid the groundwork, both institutionally and administratively, for the creation of TGFS.

Over time, regional actors developed familiarity with EU-specific regulatory demands, particularly those related to State aid compliance, reporting and audit. These capacities proved essential when scaling up support to more complex, innovation-driven equity instruments. The management structures put in place benefitted from prior exposure to public-private funding frameworks, enabling smoother fund set-up and more effective engagement with early-stage businesses.

² A Series A round is the first significant round of funding by equity investors for a startup, typically following seed funding. It aims to scale the business, finance product development, market expansion, and team growth, in exchange for equity. For more information on investment rounds, please see the fi-compass factsheet '[ERDF Equity financial instruments](#)', pp. 21-23.

³ For more information, see [Technology Start-Up Fund \(TGFS\) - Case Study](#).



Importantly, the first generation of TGFS provided important strategic and practical lessons for the design of follow-up instruments under the 2014-2020 period. It became clear that regional proximity and continuity in fund management – combined with strong local networks and a deep understanding of the innovation landscape – were decisive success factors. These attributes allowed for more tailored support to portfolio companies, better alignment with local technology developments and ongoing risk monitoring.

Additionally, it was recognised that a notable share of supported companies, while not achieving the growth patterns typical of traditional venture capital models, nevertheless evolved into stable, job-creating small-sized enterprises. As a result, the takeaway from the first generation of TGFS was to introduce a dedicated segment within the successor fund for start-ups with more moderate capital needs, reflecting a more inclusive approach within Saxony's innovation ecosystem.

3.3 Ex-ante assessment

The ex-ante assessment for the 2014-2020 period⁴ confirmed the lack of access to capital in the early stages as a major barrier to innovation and the commercialisation of research-based ideas. Many of the region's technology-oriented start-ups lacked access to sufficient private financing to turn innovation projects into marketable products or scale up their operations.

The ex-ante assessment identified a significant financing gap in the VC and private equity (PE) segment, especially affecting RDI-intensive and technology-oriented start-ups and SMEs. While public RDI expenditure in Saxony is above average, private sector investment in RDI remains relatively low. In 2015, the overall annual VC demand in Saxony was estimated at EUR 124 million, with a corresponding supply of only EUR 73 million, leaving a financing gap of around EUR 50 million, EUR 30 million of which stems from structural market weaknesses. This justified public intervention, particularly via ERDF-supported financial instruments, to stimulate innovation-driven private sector activity and reduce the gap in early-stage financing.

To address the market weaknesses in VC financing, the ex-ante assessment proposed a tailor-made VC fund aimed at supporting seed and start-up stage technology-based SMEs. Investment tickets would range up to EUR 500 000 in the seed phase (with flexibility to go up to EUR 1 million in justified cases) and up to EUR 5 million for start-ups.

The governance structure foreseen in the ex-ante assessment involved the selection of a fund manager through a competitive tender, with adherence to Article 21 General Block Exemption Regulation (GBER) to avoid State aid notification requirements. The fund would primarily use equity or quasi-equity instruments (open or silent partnerships), mirroring the successful structure of the TGFS. The investment strategy would be focused on increasing the equity supply to promising high-risk start-ups in their earliest stages, thereby reducing barriers to growth and innovation. The strategy should acknowledge lessons learned from the predecessor fund, especially regarding the need for higher initial investments in the seed phase to meet evolving capital needs.

In addition to the VC fund, the ex-ante assessment recommended two other financial instruments: an SME Loan Fund based on subordinated loans and the GRW⁵ subordinated loan scheme. The SME Loan Fund introduced grace periods to mitigate liquidity pressures and delivers higher leverage and value added compared to grant funding. It supported the gradual transition from non-repayable to repayable support without crowding out existing instruments. The GRW subordinated loan aimed to assist companies with limited equity or collateral and offers similar value added through its revolving nature, confirming its complementarity to grant-based programs and proportionality in terms of subsidy intensity.

⁴ https://www.fi-compass.eu/sites/default/files/publications/Ex-ante-Bewertung_Finanzinstrumente_Sachsen.pdf.

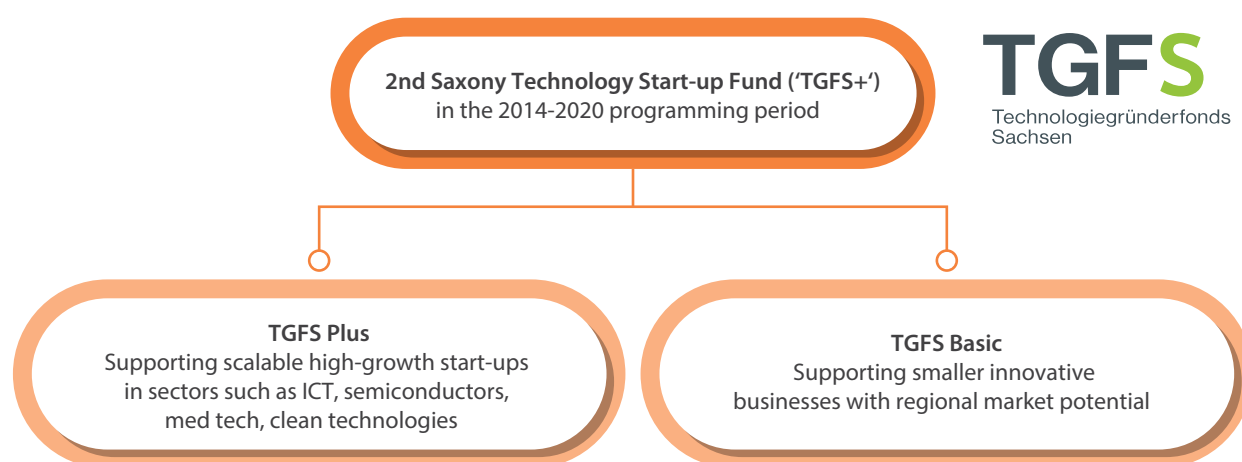
⁵ Gemeinschaftsaufgabe Verbesserung der Regionalen Wirtschaftsstruktur / Joint task to improve the regional economic structure.



3.4 The financial instruments initiated

Based on recommendations of the ex-ante assessment, Saxony initiated under the 2014-2020 programming period a second generation of equity financial instruments aimed at strengthening the VC ecosystem and fostering innovation-led start-ups. The central instrument of this initiative is the **Technologiegründerfonds Sachsen + (TGFS+)**, which comprised two distinct sub-funds: TGFS Plus and TGFS Basic.

Figure 2: Two sub-funds of TGFS+ in 2014-2020.



Source: fi-compass.

Also the first generation of TGFS comprised two sub-funds, namely the TGFS Seed fund and the TGFS Start-up fund, however with different parameters than TGFS Plus and TGFS Basic.⁶

Both TGFS+ sub-funds invested either together with other investors (co-investment model) or directly at the portfolio company level, taking the lead in early-stage investments and then attracting private capital later. These funds are legally structured as limited partnerships (GmbH & Co. KG) and operate under the umbrella of the interconnected holding fund structure, which also includes the previous generations of TGFS funds and the Wachstumsfonds Mittelstand Sachsen (WMS) funds ⁷(in a separate holding company).

The second generation TGFS funds' strategy continued to build on Saxony's existing research and innovation strengths, aiming to accelerate their commercialisation through targeted VC investments. According to the Operational Programme, TGFS+ was established to address persistent market failures in early-stage financing by strengthening the equity base of young, innovative enterprises, particularly spin-offs from universities and research institutions. The fund focussed on technology- and knowledge-driven sectors such as ICT, semiconductors, med tech, environmental and energy technologies and new media, thereby reinforcing Saxony's strategic strengths.

⁶ For more details on the terms and conditions of these funds in 2007-2013, please see table on page 15 of the 2015 fi-compass case study: [Technology Start-Up Fund \(TGFS\) - Case Study](#).

⁷ WMS is a growth capital / quasi-equity (mezzanine) fund in Saxony supporting – contrary to TGFS – established, mature SMEs in Saxony. WMS's investor base consists of the Free State of Saxony, the regional promotional bank of Saxony (Sächsische Aufbaubank, SAB) as well as a number of regional financial institutions. WMS is not using ERDF resources. For more information, please visit: [WMS Start - CFH](#).



With a particular emphasis on early-stage financing, TGFS+ prioritised investments in very young companies, often in the seed or start-up phase. This strategic focus allowed a larger number of entrepreneurs to test and launch business ventures, even though it implies high default risks, frequently due to the inexperience of the founders of the businesses.

The fund applied a portfolio strategy that aimed to spread risk while enabling selective reinvestment in promising portfolio companies during the divestment phase. In addition to financial support, TGFS fund management provided active guidance to founders and investees, including participation in advisory boards and the placement of external experts from its extensive network. This hands-on approach helped to mitigate the inherent risks of early-stage investing and improves the operational capacities of the start-ups.

TGFS Basic focused on companies with innovative business ideas whose market potential is initially limited to the regional level and less aggressive growth trajectories, while TGFS Plus supported enterprises with scalable business models that are expected to grow rapidly. It was created to complement TGFS Plus by broadening the reach of venture financing. The collaboration between TGFS Basic and TGFS Plus is contractually defined to prevent major overlaps: TGFS Basic could only invest in companies that do not align with the TGFS Plus investment profile or were previously rejected by TGFS Plus management (Steering Committee).

TGFS+ operates on a mixed public-private funding model at fund level, with clear incentive mechanisms for private investors.

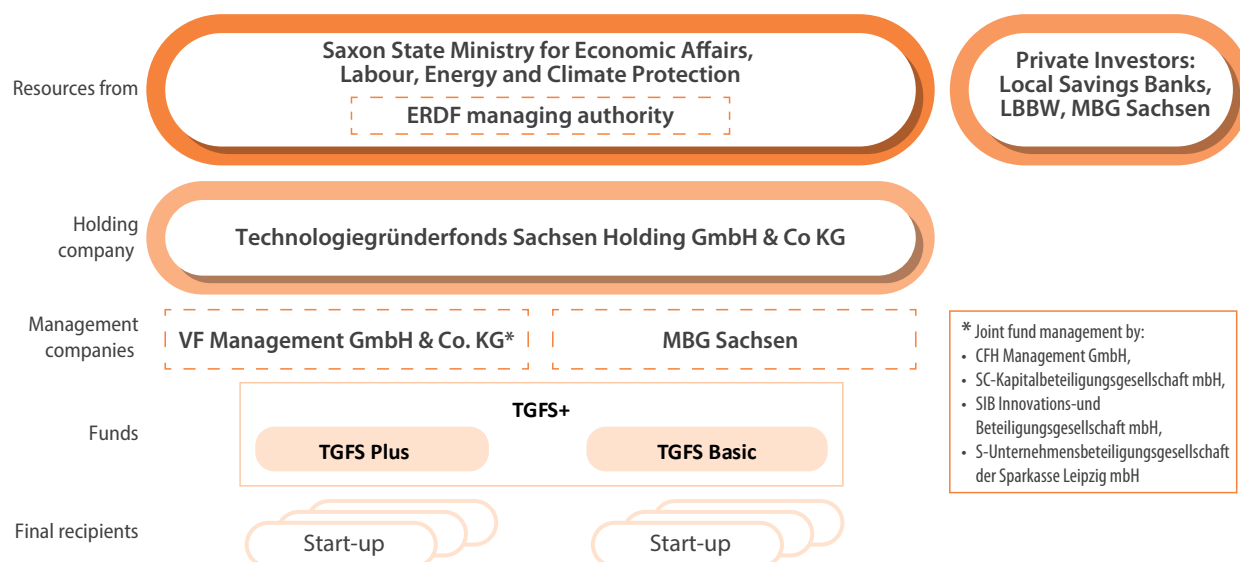
In the event of a loss, the Free State of Saxony absorbs 33% of the unrealised acquisition costs of private TGFS Plus-investors (limited to 20% of total investments), and in the case of successful exits, private TGFS Plus-investors receive a 33% uplift in their share of the returns. These incentives are supported by a fiduciary account funded by the state. The arrangement remains in place until private TGFS Plus-investors achieve a 1.55x return multiple. Thereafter, all fund proceeds go to the State until its contributions are reimbursed, after which returns are shared pro rata without further adjustments. However, these compensation payments will only be made if the Free State of Saxony (TGFS Holding) has received distributions from TGFS Plus and will not exceed the amount of such distributions.

This distinctive feature of the TGFS Plus sub-fund is a special incentive mechanism designed to attract private investors. Such compensation mechanism does not apply under TGFS Basic.

By the end of 2023, a total of EUR 114 million private third-party funds had been acquired for the TGFS+, which means a leverage of 1.3x on the total fund volume.



Figure 3: Simplified structure of the funds in the second generation TGFS.



Source: fi-compass.

3.5 Timetable for set-up and implementation

The timeline for the set-up of TGFS I and TGFS+ is compared in the table below. It shows the continuous availability of venture capital under the two generations of TGFS backed by ERDF from the two consecutive programming periods.

Table 1: Comparison of the set-up and implementation timeline of the TGFS I and TGFS+.

Action taken	TGFS I 2007-2013 ERDF	TGFS+ 2014-2020 ERDF
Ex-ante assessment completed	n/a	January 2015
Funding Agreement signed	December 2007	February 2016
First investment contract signed	August 2008	March 2016
End of implementation period	December 2015	December 2023

Source: CFH Management GmbH.



Set-up of TGFS+ in the 2014-2020 programming period

4.1 Selection of bodies implementing the instruments

Building on the initial success of TGFS in its first generation, the Free State of Saxony launched a new Europe-wide public procurement procedure on 20 August 2014 to select fund managers for the follow-up instruments in the 2014-2020 programming period. The contract was awarded by negotiated procedure to the consortium that had won the contract for the first generation TGFS as well, known as **Enterprise Finance and Venture Capital** comprising CFH Management GmbH and the VC arms of three regional savings banks, namely SIB Innovations-und Beteiligungsgesellschaft mbH (Dresden), SC-Kapitalbeteiligungsgesellschaft mbH (Chemnitz) and S-Unternehmensbeteiligungsgesellschaft der Sparkasse Leipzig mbH (Leipzig). The implementation was entrusted to a highly experienced and regionally embedded management team.

MBG Sachsen⁸ was newly introduced as the sole subcontractor responsible for managing the TGFS Basic fund, bringing additional expertise and ensuring distinct operational oversight. Both the Free State of Saxony and MBG Sachsen are also investors in the Basic fund, ensuring alignment of interest.

The selected management structure benefits from well-established procedures, a recognised market presence and robust internal systems for reporting, controlling and portfolio tracking. Lessons learned from the previous fund generation, such as the introduction of lean start-up principles and a sales manual, have been incorporated to improve fund operations and responsiveness to the market.

4.2 Governance structure

The governance structure of the TGFS has evolved over the two programming periods while maintaining continuity in its core institutional framework and regional focus.

In the 2014-2020 programming period, there was a clear division of roles and responsibilities within the governance structure of TGFS+:

- The **Saxon State Ministry for Economic Affairs, Labour, Energy and Climate Protection (SMWA)** acts as the ERDF managing authority, responsible for the strategic oversight of the financial instruments and for ensuring alignment with ERDF objectives. The Ministry defined as part of the tender for the holding fund manager the core investment parameters in funding agreements, including targeted sectors, investment sizes and eligible beneficiaries. The Free State of Saxony provided a subordinated loan to the holding fund. All shareholder decisions of the holding company require the approval of the Free State of Saxony (SMWA). Managing authority also monitors compliance and ensures performance is aligned with policy goals.
- The operational processes have been governed by the management companies of each sub-fund. **TGFS Plus** is operated via the existing **VF Management GmbH & Co. KG**, while its sister fund, **TGFS Basic**, is managed operationally by **MBG Sachsen**. Nonetheless, investor reporting and controlling for TGFS Basic remains centralised under VF Management GmbH & Co. KG, ensuring consistent reporting and monitoring.

⁸ Also involved in implementation of the ESF Mikromezzaninfonds 2014-2020.



- **CFH⁹** serves as the investment centre for both funds. It is responsible for fund management tasks (reporting, compliance with investment principles), carries out due diligence and structuring of deals and oversees investment execution, portfolio monitoring, investor reporting and exit strategies.
- **Regional partners¹⁰** were primarily responsible for deal sourcing, acquisition, initial screening of potential investments and local support of investees. They also participated in deal teams with CFH.

The funds operate under detailed procedural rules laid out in the rules of procedure of the management companies. All investments underwent a dual-assessment process by a deal team composed of one representative from CFH and one from the relevant regional partner. Each investment decision needed to be approved by an **Investment Committee**, composed of representatives of the investors. These committees ensured that all investment decisions adhered to both financial and strategic criteria.

The **Steering Committee** was responsible for the final allocation of investments to the respective sub-funds (TGFS Plus or TGFS Basic), based on established eligibility rules. Coordination between the two funds was ensured through a consultation mechanism, enabling fast, structured decision-making and facilitating crossover investments where justified. This process was reinforced by the use of a centralised database, which stored all fund and portfolio information in a standardised format to ensure consistent and efficient reporting across both instruments.

On 1 January 2024, the management structures of the TGFS and WMS funds were consolidated under a single entity. The Technologiegründerfonds Sachsen Management GmbH & Co. KG was renamed into **VF Management GmbH & Co. KG** and assumed the role of managing partner for all TGFS and WMS funds, streamlining operations and enhancing management continuity. The former Wachstumsfonds Mittelstand Sachsen Management GmbH & Co. KG was integrated into the VF Management GmbH & Co. KG. The consolidation was carried out due to cost-cutting measures.

4.3 Financial size and payments

The **second generation TGFS**, the total financial volume of the TGFS+ structure was EUR 87.7 million, split into TGFS Plus (EUR 70.2 million) and TGFS Basic (EUR 17.5 million). This capital included contributions from the Free State of Saxony (including resources from the Free State of Saxony's Coronavirus Recovery Fund), the ERDF and private co-investors.

Additional funding from the Free State of Saxony's Coronavirus Recovery Fund contributed to strengthening the financial base of TGFS+, enhancing its ability to support start-ups and early-stage companies during the post-COVID recovery period.

Table 2: Funding sources and amounts of second generation of TGFS+.

Funding source	Amount
OP Saxony 2014-2020	EUR 48 million
<i>out of which ERDF</i>	EUR 48 million
Free State of Saxony's Coronavirus Recovery Fund	EUR 15 million
Other (private) investors	EUR 24.6 million
TOTAL	EUR 87.7 million

Source: Managing authority.

⁹ CFH Management GmbH has been created in 1996 by Sachsen LB, at the time the public sector bank ('Landesbank') of the Free State of Saxony, for commercial equity investment activities (VC, PE, and FoF business as well as fund management for third parties).

¹⁰ SC-Kapitalbeteiligungsgesellschaft mbH, SIB Innovations- und Beteiligungsgesellschaft mbH, S-Unternehmensbeteiligungsgesellschaft der Sparkasse Leipzig mbH.



The flow of contributions was structured through TGFS Holding. Fixed payment dates from the Free State of Saxony to TGFS Holding were pre-defined in the funding agreements, in line with the investment forecasts submitted during the tender phase. TGFS Holding subsequently channelled the capital into the two fund vehicles, where it was called by fund management from all investors simultaneously to cover both investment needs and operational costs.

A specific governance provision allowed the Free State of Saxony to unilaterally reduce its commitment in the event of a slowdown in investment activity. However, both fund generations exceeded their planned investment ratios, demonstrating strong market uptake.

4.4 State aid¹¹

Investment under TGFS+ align with State aid law, particularly Article 21 GBER. Under these rules, the funds support only companies that are not listed on a stock exchange at the time the financing is provided and that either have not yet entered any market or have been commercially active for less than seven years since their first commercial sale.

To ensure compliance with State aid requirements, the cumulative participation of independent private investors must meet weighted minimum thresholds: at least 10% of risk finance for companies prior to their first commercial sale, and 40% for those active commercially but within the seven-year window.

Under specific conditions, follow-on investments are allowed beyond the seven-year period, capped at a total of EUR 15 million provided that the follow-on investment had been foreseen in the original business plan. In such cases, the minimum private investor participation is 60%.

For more information on State aid rules for equity financial instruments, read the State aid rules applicable for the fi-compass model [Financial instrument for competitiveness and innovation: Equity combined with grant](#).

4.5 Monitoring and reporting

The TGFS+ funds have been subject to a multi-layered monitoring and reporting framework.

Monitoring tasks focus on the continuous oversight of portfolio companies and fund operations. At the portfolio level, regional partners ensure that investee companies provide monthly updates to their respective investment managers. These updates form the basis for internal monitoring, allowing the investment teams to track operational progress, detect risks and identify the need for corrective action.

Valuation processes are also an integral part of monitoring: seed-stage holdings are conservatively written down until follow-on rounds are secured, while start-up and growth investments are valued in line with Invest Europe guidelines, based on the most recent financing round. In contrast, WMS investments are assessed using discounted cash flow methods, reflecting their more predictable cash flows.

Fund transparency is ensured through quarterly (portfolio level) and semi-annual (fund level) reporting, annual investors' meetings and active communication with stakeholders. Reports are made available to all investors and committee members and include detailed information on portfolio development, public co-financing, defaults and write-downs. In line with the fund statutes, shareholders receive bi-annual reports (in March and September), and since 2020, an annual in-person or virtual Investment Committee meeting has replaced the earlier semi-annual format. Investors and the Saxon State Government also receive annual statements of fund management costs, audited sub-fund financial statements and relevant tax information.

¹¹ It is the Member State's / region's responsibility to ensure compliance with State aid rules when they give aid through financial instruments (co-)financed by EU shared management funds. This section presents the State aid regime adopted in Saxony, Germany and is not an assessment or official position of the European Commission.



At the EU level, the fund management prepares documentation for the European Commission and other oversight bodies to meet the obligations arising from ERDF co-financing and State aid compliance. These reporting processes are supported by a centralised online software system used by the fund managers that supports CRM functions, real-time data analysis and the generation of periodic reports and valuations, thereby ensuring consistency across the TGFS fund generations.

To ensure consistency and oversight, the reporting cycle is complemented by strategy discussions between the investment centre and regional partners at least once per year. These meetings provide an opportunity to review portfolio performance, agree on corrective measures, and, if necessary, escalate underperforming investments to the investment centre for direct crisis management.

Additionally, monthly coordination meetings between the fund management and investment teams feed into the quarterly reports, which are then validated by the management board. Implementation of the financial instruments.

The audit authority, operating under the Saxon State Ministry of Finance, has conducted several audits of the TGFS structure. In addition to these EU-level checks, all fund companies are required to produce annual financial statements that are independently audited and certified. These audits also include a review of compliance with the German Budgetary Principles Act (Haushaltsgrundsätze), focusing on the effectiveness of the internal control system. Furthermore, the fund management is subject to regular anti-money laundering (AML) audits, which are assessed as part of the annual financial audit.

watttron

Sector: Mechanical/plant engineering

Fund: TGFS Plus

Co-investors: CIF, ECBF, Constancia New Business, SKion GmbH

Fund commitment: EUR 3.5 million

Total value of the investment: EUR 17.6 million

Location: Freital

Year invested: 2020

watttron GmbH is a spin-off of the Technical University of Dresden and a Fraunhofer institute, founded in early 2016. Headquartered in Freital near Dresden with additional offices in the US, the company develops and manufactures patented digital heating systems – notably the cera2seal and cera2heat technologies – that enable highly precise temperature control via individually addressable ‘heat pixels’. These innovations optimise packaging processes by reducing material and energy use and enabling the use of eco-friendly, recyclable or bio-based materials, while maintaining productivity and quality.

TGFS invested in watttron in 2020 and has supported the company through its early-stage development phase. In March 2024, TGFS participated as a long-standing partner in watttron’s EUR 12 million Series B funding round, led by the Circular Innovation Fund (CIF) and the European Circular Bioeconomy Fund (ECBF), alongside other previous investors such as Constancia New Business and SKion GmbH. This investment enables further development of watttron’s sustainable packaging technologies and supports its planned market expansion into the US and Asia.

For further reading about the company, visit: <https://watttron.de/?lang=en>.

watttron
The benchmark of efficiency



4.6 Terms and conditions of financing

The TGFS+ funds support early-stage and growth-phase businesses, specifically targeting innovation-driven start-ups, young technology companies and scalable venture models. These companies must be headquartered or operate permanently in the Free State of Saxony.

With respect to the sub-funds:

- TGFS Plus focussed on scalable, high-growth start-ups in key technology fields;
- TGFS Basic was designed for smaller, potentially more linear growth companies.

In line with the Operational Programme eligibility requirements, investments in undertakings in difficulty, primary agriculture and the processing or marketing of agricultural products as well as investments in the shipbuilding, coal and steel industries are explicitly excluded.

All investments needed to comply with the European Commission's SME definition.¹²

replex



Sector: IT/Telecommunications software

Fund: TGFS Plus

Co-investors: EnBW Ventures, HTGF, eValue AG

Fund commitment: EUR 1.4 million

Total value of the investment: EUR 5.4 million

Location: Leipzig

Year invested: 2018

Founded in 2016 (with origins in Duisburg) and later headquartered in Leipzig, replex GmbH is a software company specialising in the real-time visualisation and optimisation of complex IT infrastructures, both on-premises and in the cloud. Their platform offers full transparency into servers, virtual machines, containers, and cloud instances, providing utilisation insights, cost reporting, and actionable recommendations to C-level management to unlock cloud cost savings of up to 30%.

In 2018, TGFS became a shareholder in replex, with co-investors that included EnBW Ventures, High-Tech Gründerfonds (HTGF), and eValue AG. This investment supported the company's early-stage growth, enabling it to scale its product development and expand its market presence in line with its mission to optimise IT infrastructure costs and performance.

replex achieved a successful exit in 2021 when it was acquired by Cisco Systems. The deal brought replex's software and team into Cisco's AppDynamics organisation to enhance capabilities for full-stack, cloud-native observability and performance management. The acquisition highlighted replex's value in addressing modern IT complexity.

For further reading about the company, visit: www.replex.io.

¹² SME definition - Internal Market, Industry, Entrepreneurship and SMEs.



TGFS+ targeted companies developing or offering innovative, technology-driven products, processes or services aligned with Saxony's existing economic and research strengths. Financing to seed-stage companies could be provided if they had an innovative business concept, the realisation of which, from a technological and competitive point of view, gives rise to medium-term market potential. On the other hand, start-ups receiving financing typically have an innovative product or service already and plans to enter the market, with a validated concept regarding sustainable development. TGFS+ focussed on sectors aligned with Saxony's Innovation Strategy, including:

- Medical technology;
- Clean technologies;
- Electronics, semiconductors, sensors;
- ICT, telecommunications, and media;
- New materials;
- Future fields: digitalisation, energy, health, mobility, environment and raw materials.

The two sub-funds avoided financing pure research or unproven concepts and prioritised market-ready innovations with identifiable customer bases and scalable business models. An exit strategy needed to be in place at the point of investment.

Table 3: Financial product key characteristics.

Feature	Description
Target group	Young, innovation-driven technology companies and knowledge-based service providers
Investment focus	Seed and start-up stage companies in Saxony, tech-driven with scalable business models
Investment volume	• Investments in seed stage companies under TGFS Plus as well as companies under TGFS Basic: up to EUR 0.5m, • Investments in start-up stage companies under TGFS Plus: EUR 0.5-2.5 million, with possible follow-on investments up to EUR 5 million, • In exceptional cases, with investor consent, investments may exceed EUR 5 million (maximum EUR 15 million across all rounds).
Investment period	Until 31 December 2021, with follow-on investments possible afterwards
Fund lifetime	Ends 31 December 2023, extendable up to 2026 in 12-month increment

Source: CFH Management GmbH.



4.7 Appraisal process for investments

The appraisal process for investments under the TGFS funds was rooted in a structured, regionally embedded system designed to ensure both targeted outreach and sound investment decisions. The management and control structures, including call planning, fund allocation rankings, performance tracking and exit planning, already established under the first generation TGFS, have been applied to TGFS Plus and TGFS Basic as well.

The three regional management partners are – among others – responsible for sourcing potential investments and supporting early interactions with entrepreneurs. Due to their regional presence, they maintain close contact with potential investments. An investment team was formed consisting of one employee from the regional management partner and one employee from the investment centre (CFH). They coordinated the investment process from due diligence to contract negotiations and subsequent co-investor approaches. Investment decisions were ultimately made by the fund management. However, a positive vote by the investment committee was required before an investment decision could be made.

The Investment Committee was composed of investor representatives (including the Free State of Saxony) and independent experts in business and technology.

The process began with reviewing and improving business plans or market strategies, followed by a multi-step evaluation and investment cycle. All new investments were filtered through a screening and due diligence process. Regional partners and CFH identified deals, which underwent an initial plausibility check before the investment centre conducted a formal internal assessment. If the proposal aligned with the fund's objectives, a term sheet was drafted with legal advisors and the regional partner. A final decision was made by the Investment Committee through a simple majority. The process also included contract drafting, compliance with due diligence checklists and coordinated discussions with portfolio companies. Disbursements were carefully managed through a dual-signature control process and payout control sheets were implemented to document fund manager decisions, even when contractual milestones were not fully met but further investment was economically justified. The appraisal process placed significant emphasis on the 'VC suitability' of potential investments. This included the scalability of the business model, the presence of sufficiently large target markets (generally above EUR 100 million) and the right timing of the technology's market entry, i.e. neither too premature nor fully mainstream. Technological feasibility needed to already be demonstrated or at least highly probable and capital requirements needed to be consistent with the fund's risk tolerance while leaving room to attract co-investors.

The suitability of founder teams was another critical factor in the appraisal process. A catalogue of evaluation criteria assessed technical competence, teamwork capacity, willingness to share risks, rewards with investors and implementation skills. The personality mix within the team and their degree of risk-taking were also considered decisive success factors.

Upon selection, entrepreneurs receive comprehensive support, both before and after investment approval. TGFS staff offer advisory services free of charge, including assistance with legal, tax and accounting matters, guidance on controls and planning tools, support for intellectual property protection and help in identifying co-investors, management reinforcements or potential advisory board members.

Risk assessment was embedded throughout the appraisal. Beyond standard due diligence, TGFS applied a diversification strategy to mitigate both company-specific and industry risks. This included milestone-based capital disbursements, reliance on sector experts and co-investor participation to spread default risk. Start-ups were also encouraged to adopt lean start-up methodologies and structured sales strategies to validate market acceptance early. By ensuring a balanced portfolio across sectors and investment stages, TGFS sought to achieve a high probability of overall positive returns despite the elevated default risk of individual investments.



Exit planning begins early and is systematically documented, with investment managers preparing assumptions and plans, evaluating potential future buyers, strategic fit and market positioning. TGFS uses its networks to establish initial contacts with strategic or financial investors and, when relevant, involves M&A advisors to broaden buyer interest. These exit plans aggregate into fund-level divestment strategies, especially for funds in the exit phase.

4.8 Visibility and communication

In the 2014-2020 programming period, the TGFS+ ensured a strong visibility and communication presence through a multi-channel approach aimed at both potential investees and broader stakeholder audiences. This also continues for the third generation of TGFS.

The fund maintains a dedicated website¹³ that outlines its products, services and investment approach, serving as the central hub for information dissemination. In collaboration with partner savings banks, the TGFS also leverages physical offices and online platforms for regional outreach. These efforts are reinforced by regular participation in trade fairs, conferences and entrepreneurial competitions across Saxony, helping to position the fund as a prominent and accessible early-stage investor. The fund's staff is also highly proactive, frequently engaging with universities, research institutions and incubators to reach future entrepreneurs at the source of innovation.

The unified TGFS brand ensures consistent visibility across all communication channels. The fund's established corporate identity, coupled with a search engine-optimised web presence, ensures high recognition among Saxony's start-up scene. This is further complemented by regular press/LinkedIn¹⁴ releases, print and online media placements and sponsorship of major (regional) start-up events.

All communication activities comply with ERDF publicity requirements set by the managing authority of Saxony, ensuring transparency in public funding. Information on co-financing by the ERDF is clearly outlined in the investment agreements with portfolio companies and investments exceeding EUR 500 000 are publicly disclosed.

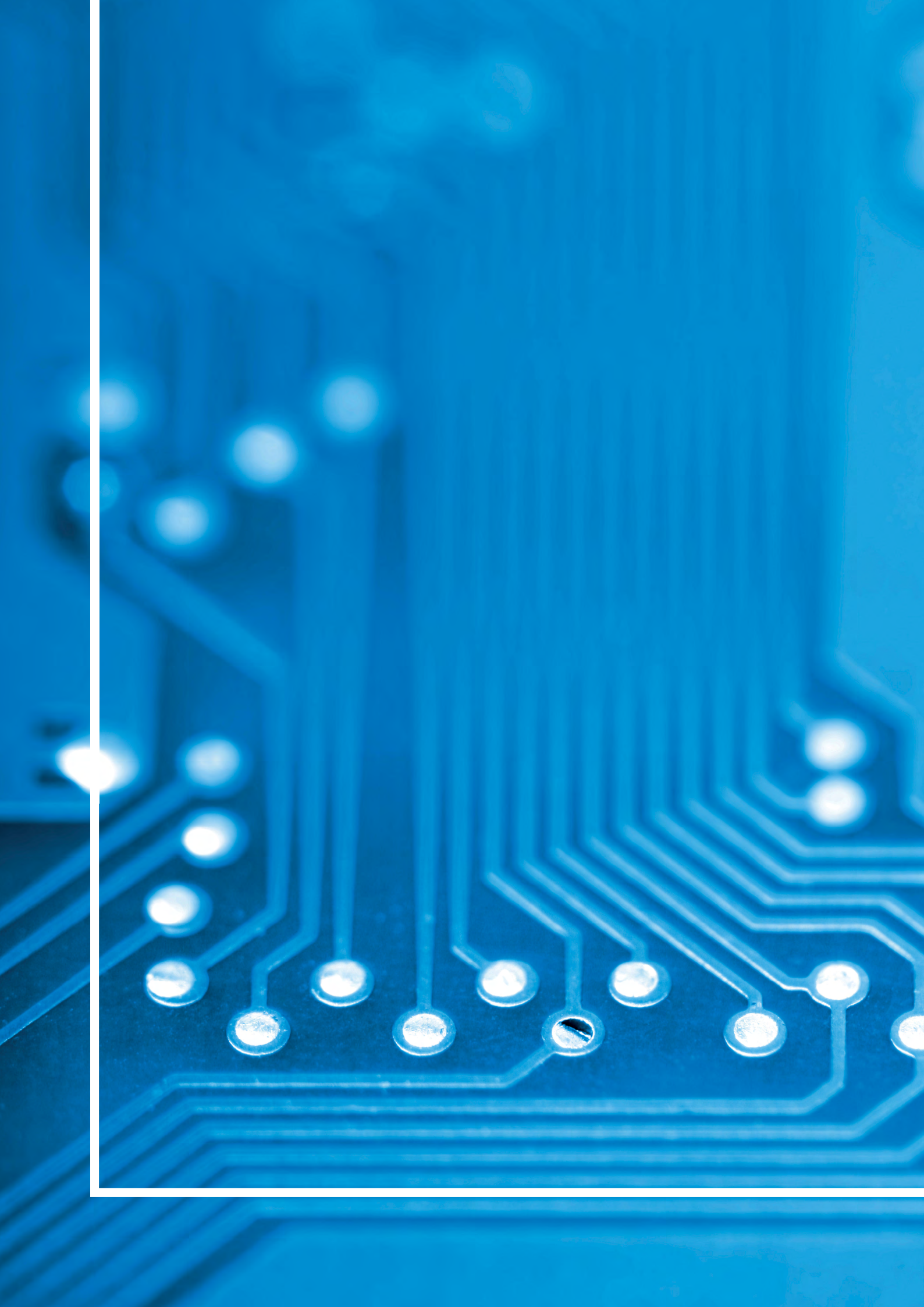
The fund's visibility strategy includes targeted digital outreach, such as newsletters and LinkedIn updates, as well as organising high-profile events like 'TGFSdate' to connect with stakeholders across regions and sponsorship of initiatives such as 'Enterprises. Capital. Networks'. The fund also capitalises on its strong track record and portfolio success stories, which serve as credible testimonials of TGFS's role in helping start-ups scale in Saxony and beyond.

The TGFS communication strategy also integrates a well-established distribution policy that embeds the fund in Saxony's entrepreneurial ecosystem. Key partnerships with university-affiliated start-up initiatives exist, as well as active engagement with business plan competitions, provide a fertile pipeline for deal flow. These connections also serve as platforms to raise awareness about TGFS's role as a locally rooted, experienced investor. Beyond Saxony, TGFS selectively participates in events in other federal states such as Berlin, and maintains strong ties with business angels, M&A advisors and venture capitalists nationwide.



¹³ <https://www.tgfs.de>.

¹⁴ TGFS Technologiegründerfonds Sachsen: Overview | LinkedIn.



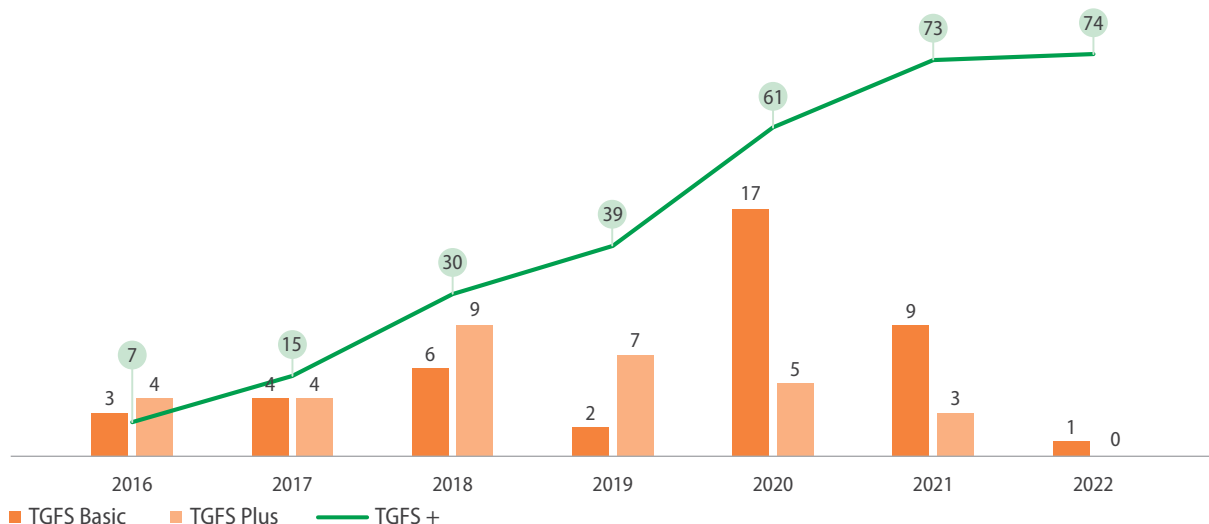
Achievements of TGFS+ in the 2014-2020 programming period

The **second generation of TGFS** has continued to play a crucial role in strengthening Saxony's start-up ecosystem, with portfolio companies distributed across the region, particularly in Leipzig and Dresden. Despite a challenging economic environment caused by the COVID-19 pandemic and the war in Ukraine, resulting in slowed product development, inflationary pressures and a more risk-averse investment climate, the fund has demonstrated resilience and maintained its relevance.

By the end of 2023, the TGFS+ had successfully mobilised approximately EUR 138.8 million in private third-party capital, achieving a leverage ratio of 3.7x relative to its ERDF contribution, taking into account management costs to be borne by the fund's assets.

TGFS+ made its first investment in March 2016, and in the following years the portfolios of the two sub-funds expanded steadily, with 8 to 22 new companies added annually. A notable increase occurred in 2020, when TGFS Basic increased its portfolio by 17 companies within a single year, partly driven by the specific financing needs arising from the COVID-19 crisis. Investment activity remained above average in 2021. Since inception, TGFS+ has invested in 74 companies, of which 40 have since exited the portfolio through insolvency or sale. As of today, the portfolio comprises 23 companies under TGFS Basic and 11 under TGFS Plus.

Figure 4: Number of approved participation cases in TGFS+, including TGFS Basic and TGFS Plus.



Source: GEFRA - Society for Financial and Regional Analysis.



With more than 70 companies financed, the TGFS+ investment portfolio was significantly broader than that of the first generation TGFS. This enabled the fund to support a wider spectrum of companies in terms of business concept and stages of development, while also achieving a greater diversification of investment risks.

Surveys revealed that 60% of companies would have delayed or reduced financing without TGFS+, while 29% could not have secured funding at all.

By the end of 2024, TGFS Plus had reached capital calls of EUR 60 million, representing 86% of the total fund allocation, whereas TGFS Basic had drawn EUR 16.7 million, corresponding to 95% of its allocation.

The two first generations of TGFS have contributed significantly to job creation (both temporary and permanent), carried out R&D, introduced innovations to the market, supported the upskilling of founders and fostered the development of regional clusters that enhance Saxony's attractiveness as a start-up hub.

Table 4: Comparison of key performance indicators of the TGFS in the first and second generation.

Indicator	TGFS I		TGFS+	
	Target	Results	Target	Results ¹⁵
Number of companies supported	40	41	58	70
Private investment raised	n/a	EUR 63.4m	EUR 50m	EUR 138.8m
Employment growth	224	519	270	435
Expected leverage	n/a	3.1	3.2	4.4 ¹⁶

Source: Managing authority / GEFRA - Society for Financial and Regional Analysis.

While exits from TGFS I have enabled reinvestment into the third generation of TGFS, reinforcing the revolving nature of the instrument, reinvestments from TGFS+ are still in their early stages. To date, positive exits and company sales have resulted in capital reflows of EUR 10.2 million for TGFS Plus and EUR 5.3 million for TGFS Basic. At the same time, the net asset value of the invested companies still in the portfolio reflects substantial growth potential still embedded in the funds' investments.

Beyond the financial performance, TGFS+ has had a clear and visible positive impact on the VC ecosystem in Saxony by enabling an increasing number of innovative start-ups to emerge, scale and attract follow-on financing. This, in turn, created broader benefits for the regional economy, including the development of a highly qualified workforce, the training of a new generation of entrepreneurs, the growth of technology-oriented companies, stronger cooperation between start-ups and established SMEs or industry, and greater incentives for private investors to engage in VC.

¹⁵ As at 31 December 2023.

¹⁶ The results in terms of leverage is calculated without management costs and fees for the sake of comparison with the expected leverage set at inception. The leverage effect actually achieved is 3.7, considering the management costs and fees paid from the Union contribution.



Rhebo

Sector: IT/Telecommunications

Fund: TGFS Plus

Co-investors: eCAPITAL, SHS Ventures, VNG Innovation

Fund commitment: EUR 2 million

Total financing: EUR 6 million

Location: Leipzig

Year invested: 2016

Rhebo GmbH, founded in 2014 in Leipzig, specialises in industrial and IoT cybersecurity by developing and offering solutions that provide real-time monitoring, anomaly and intrusion detection, and risk assessments for operational technology (OT) networks across industries such as energy, manufacturing, water, waste and healthcare.

In mid-2016, Rhebo secured a Series A financing round of EUR 2.5 million, co-led by TGFS and eCAPITAL. This capital injection enabled accelerated software development, the establishment of a sales force and the onboarding of key customers in critical infrastructures. TGFS, alongside other early investors, successfully exited Rhebo in January 2021 when the company was acquired by Landis+Gyr, a Swiss global leader in integrated energy management solutions. As a result, Rhebo became a wholly owned subsidiary. The acquisition was driven by alignment between Rhebo's OT/IoT cybersecurity capabilities and Landis+Gyr's smart metering and infrastructure strategy. Founders and management remained in place to guide the next growth phase.

For further reading about the company, visit: <https://www.rhebo.com/en/home>.



Transition to the 2021-2027 programming period: TGFS III

The Free State of Saxony has introduced a new VC fund for the ERDF 2021–2027 programming period, designed as the successor to the TGFS+. Falling under Policy Objective 1, Specific Objective 3 ('Innovative start-ups'), the instrument continues the region's longstanding strategy of strengthening the start-up ecosystem through equity financing.

The ex-ante evaluation justified the fund on the basis of persistent market weaknesses in early-stage VC. Saxony continues to suffer from an underdeveloped private VC market compared to hubs such as Berlin or Munich. Data showed that annual VC investment volumes in Saxony remained relatively stagnant, with only a small increase in the number of companies financed. Despite the emergence of niche players such as Smart Infrastructure Ventures or university-related investors, TGFS+ has remained the dominant early-stage VC actor in the region. The continued financing gap – estimated at EUR 30 million annually – is linked to information asymmetries and higher perceived risks, especially in the seed and early start-up phases. This justified a renewed public co-financed instrument to ensure early-stage financing remains available to promising founders in Saxony.

The third generation funds of TGFS (TGFS III and TGFS III Basic) were introduced in 2023, with a total budget of EUR 93.5 million. The ERDF contributed EUR 35 million, complemented by co-financing from the Sächsische Aufbaubank amounting to EUR 10 million, TGFS I reflows of the Free State of Saxony of EUR 18.4 million and private funds totalling EUR 30.1 million. The re-use of TGFS I resources substantially increased the financial size of the third-generation instrument and contributed to ease the participation of private investors.

Compared to its predecessor, the fund builds on a similar programme contribution size but seeks a higher overall volume to increase leverage and mobilise private capital more effectively. In parallel, the third-generation WMS funds, which provide growth capital for medium-sized and larger companies, continued to operate solely through reflows from previous funds and contributions from private and public investors.

The financial product primarily takes the form of open minority equity stakes, in line with the Venture Capital Investment Companies Act (UBGG), with supplementary use of mezzanine instruments such as convertible loans or silent participations, where appropriate. Similarly to TGFS+, typical investment amounts would range up to EUR 500 000 for less high-growth companies and up to EUR 5 million for scalable start-ups, with flexibility to exceed these levels for high-performing 'value drivers'. A maximum of 10% of the total fund volume may be committed to a single company. The fund would still follow a hands-on management model, providing close support to founders alongside financing. To secure private participation, differentiated treatment for private investors, such as minimum return guarantees and partial loss compensation, would again be included, as purely pari-passu structures were deemed unfeasible under Saxon market conditions.

The target group consists of young innovative companies, especially technology-driven start-ups and knowledge-intensive service providers located in Saxony. Eligible firms include those in the seed phase or within seven years of market entry, in line with GBER. The fund would continue to finance both 'classic' VC business models with high scalability and more medium-sized growth models, ensuring broader coverage and diversification. Priority sectors align with Saxony's innovation strategy, including digitalisation, energy, health, mobility, environment, raw materials and advanced manufacturing. Within these, fields such as biotechnology, eHealth, cleantech, semiconductors, IT and new materials would receive particular focus, though the fund will remain technologically open to avoid narrowing the portfolio in an already regionally limited market.



The implementation structure of the fund follows the one deployed under TGFS+, with one sub-fund (TGFS III) targeting scalable, high-growth start-ups, while another sub-fund (TGFS III Basic) serving smaller, potentially lower-growth companies. However, the TGFS III has been able to attract a larger volume of co-investors from the start and thus has greater capacity to support start-ups through multiple financing rounds toward successful exits. As at the end of 2024, the total fund size of TGFS III amounted to EUR 73.5 million, out of which EUR 21 million had been invested in final recipients. TGFS III Basic has a total fund volume of EUR 20 million, with EUR 5 million of capital calls. The current portfolio consists of 26 companies, 14 in TGFS III and 12 in TGFS III Basic.

A significant leverage effect is anticipated, with estimates suggesting the new funds could reach 4.4, mobilising more than four times the ERDF contribution in additional funding. This will be achieved through both private co-investment at the fund level and co-investment at the company level.

Overall, the fund is expected to make a substantial contribution to ERDF Specific Objective 1.3 and 3, enhancing SME growth, competitiveness, and job creation. By targeting early-stage companies with strong innovation potential, it addresses the structural market gap in Saxony, supports technology transfer from universities, and strengthens regional industrial clusters. At the same time, it ensures that private capital is mobilised, innovation-driven firms receive adequate growth opportunities and new sustainable jobs are created.



07 Lessons learned

7.1 Main success factors

Long-term regional VC strategy anchored in continuity and learning

The success story of TGFS is rooted in a long-term strategic approach to building Saxony's VC ecosystem, characterised by continuity through successive programmes. Continuity across successive programmes – from TGFS I through TGFS+ to TGFS III – has allowed to build institutional knowledge, refine investment processes and adapt to changing market dynamics. Lessons learned from prior fund generations informed improvements in deal sourcing, risk assessment and portfolio management. Earlier experience with regional SME financial instruments laid the groundwork for procedural and institutional efficiency, while strategic continuity has reinforced Saxony's position as a VC-friendly region and enabled cumulative knowledge transfer across fund generations.

Strong regional fund manager with embedded local expertise

A central success factor has been the establishment of a professional, state-backed fund management structure with deep regional roots. Led by CFH under the TGFS Management brand, the manager combined public-sector knowledge of SME development with financial expertise in equity investments and early-stage ventures. Staff with in-depth understanding of Saxony's industrial and academic landscape ensured investment decisions were tailored to local market realities. In-house competencies were further complemented by access to national networks and professional service providers, enabling tailored support to portfolio companies, refining business models, strengthening governance and improving their investment readiness.

Integration with Saxony's research and start-up networks

TGFS leveraged strong connections to universities, research institutes and regional industry to promote a pipeline of technology-oriented start-ups. These links were not only useful for sourcing high-quality deal flow but also crucial in embedding the fund within Saxony's broader innovation ecosystem. The 'Saxony Valley' identity, rooted in proximity to scientific talent, industrial know-how and entrepreneurial communities, helped attract founders, foster cluster development, and enhance Saxony's reputation as a vibrant start-up location. By integrating with these networks, TGFS not only identified promising technology-driven start-ups but also supported them through mentorship, industry contacts and collaboration opportunities. This integration enhanced both the visibility and the reputation of Saxony as a start-up hub.

Governance model balancing diverse stakeholder interests

A critical structural element was the use of a central coordinating body within TGFS (the management unit at CFH), which ensured smooth collaboration among diverse stakeholders, including local banks in the region, universities and public institutions. This mediating entity established clear decision-making rules and acted as a stabilising force in complex situations, such as balancing competing provincial priorities or managing limited funding across investment opportunities. The presence of a competent intermediary helped avoid conflicts and ensured efficient fund governance, ultimately making the TGFS model more institutionally resilient and sustainable.



Focused investment criteria and early market entry

TGFS+ targeted high-potential early-stage companies with a clear market focus, experienced or resilient founder teams and the ability to enter the market quickly with simple, scalable products. This early positioning allowed the funds to support start-ups during their most vulnerable phase, increasing the likelihood of success and follow-on investment. Close ties to co-investors and external experts further enhanced the growth trajectory of investees, while the fund's active coaching, mentoring and strategic guidance enabled better navigation of early business challenges and access to follow-up financing.

Effective utilisation of reflows

By efficiently recycling capital returned from earlier investments, TGFS has been able to expand its reach, increase lending capacity and support a broader range of SMEs with less additional public funding in its third generation. This reinvestment mechanism not only strengthens the sustainability and long-term impact of the TGFS initiative but also enhances market confidence, encourages private co-investment, and ensures continuity in addressing financing gaps for innovative and growth-oriented enterprises across successive fund generations.

7.2 Main challenges

One of the core challenges TGFS has faced lies in the inherently high-risk and capital-intensive nature of early-stage, technology-based companies. These ventures often require long-term financing over extended periods (typically six to seven years) which exceed the original timeframe of one programming period. Therefore the extension of the eligibility period of TGFS I (first to 2019 then to 2025) was necessary to align the long investment cycles of start-ups and the shorter funding horizons of EU programmes.

Moreover, with a failure rate of around 75%, TGFS had to rely on a small proportion of successful exits to ensure overall fund viability. To manage this high-risk environment, the fund adopted a carefully diversified investment strategy, spreading capital across multiple sectors, technology areas and stages to mitigate the impact of underperforming ventures. Investment decisions were guided by rigorous due diligence, scenario-based risk assessments and continuous monitoring of market and technological trends. The strategy also required intensive, hands-on engagement with portfolio companies, through mentorship and strategic guidance. This approach placed substantial demands on fund management resources, both in terms of staff capacity and financial oversight, but was necessary to safeguard the fund's sustainability and maximise the likelihood of positive outcomes.

As a relatively small regional equity fund, TGFS operates with constrained resources, limited staffing, investment volume and access to broad networks, when compared to national or international VC players. This structural limitation has made it harder to attract private co-investors, particularly during crises, when investor risk appetite diminished considerably. The response of TGFS, however, evolved between generations to reflect differing market conditions. During the first generation of TGFS, the 2009 financial crisis prompted a more conservative investment approach, scaling down its initial support targets and concentrating funding on fewer firms. In contrast, the second-generation TGFS adapted its strategy to concentrate funding on early-stage value drivers, selectively scaling up support to companies with the strongest growth potential and resilience. For example, in 2020, during the COVID-19 pandemic, TGFS Basic expanded its portfolio by participating in the highest number of companies since inception, demonstrating a pro-active approach to address the consequences of the crisis, that balanced increased support with careful risk management.

Furthermore, proximity to Berlin, a major VC hub, posed a challenge in retaining supported companies within Saxony after the investment period, as firms increasingly gravitated toward areas with stronger investor ecosystems and more diverse funding opportunities.



Navigating the complexities of EU State aid regulations remains an ongoing operational hurdle for TGFS. The asymmetric application of these rules creates complications, especially when blended with other EU grant-based support instruments critical in the seed and early-start-up phases. Ensuring compliance often requires additional administrative oversight, legal expertise and strategic adjustments, putting TGFS at a relative disadvantage compared to fully private VC funds that enjoy more regulatory flexibility. To manage this, TGFS leverages the extensive experience of its team, which has long term experience in the VC business, industry know-how and an understanding of the founders' needs. Additionally, the collaboration with regional institutional partners enhances their capacity to navigate regulatory complexities effectively.

Recent geopolitical tensions have exacerbated TGFS's operational challenges by lengthening exit timelines and raising capital costs. Inflation, rising interest rates and investor caution have contributed to sluggish product development, increased staffing costs and lower buyer activity, all of which delay portfolio companies' ability to scale and exit. This environment has also made co-investors more selective, pushing TGFS to concentrate earlier on value-driving elements of business plans.

The overlap in strategic focus between TGFS Basic and TGFS Plus has occasionally blurred their distinct investment profiles, demanding even more careful management of internal resources and portfolio differentiation. This challenge has persisted into the third generation of TGFS, which continues to maintain the same distinction of sub-funds. To address this, TGFS has put in place clear contractual arrangements that regulate cooperation between the sub-funds: TGFS Basic may only invest in companies that do not fit the profile of TGFS Plus or that have been declined by TGFS Plus fund management. This framework ensures that each sub-fund's value proposition and target segments remain clearly defined, while resources are allocated efficiently and portfolio overlap is minimised.

08 Outlook

TGFS continues to actively manage its funds, adapting strategies to support portfolio companies in a challenging financing environment, while maintaining a focus on long-term value creation. The latest developments across the funds are as follows:

- The term¹⁷ of TGFS I is currently extended until the end of 2025, with management planning targeted portfolio engagement, and the remaining investments continue to show potential.
- TGFS+ (TGFS Plus/TGFS Basic) experienced a mixed period, with some companies requiring insolvency filings and others receiving follow-on financing. Reduced fund returns have led to a lower target multiple for private investors, but liquidity remains sufficient to meet obligations. The fund terms are extended to the end of 2026, with further extensions under consideration.
- TGFS III/TGFS III Basic are in the investment period. The portfolio is therefore being further expanded, with the first follow-up investments already in the pipeline.

Major challenge remains to meet the increasing capital need of the start-ups in the deep tech sector, especially in the semiconductor and AI related industries. Even in the very early stages (this means several years prior scalable revenues), those start-ups need financing of at least EUR 1.5 million per year, often much more. Founders often fail to fund their projects despite there are many promising ideas out of the scientific research. Despite increasing VC activities with public resources over the last three decades, the gap between funding opportunities in the US and Germany increased, too. Furthermore, new competition in the high-tech industries arose in Asia, mainly China.

In the face of reduced co-investor activity, TGFS has become even more critical by continuing to support promising companies with board-managed follow-on funding, helping to sustain innovation and entrepreneurial momentum in the region.

¹⁷ The 'term' of the fund refers to the overall lifespan of the fund, including the period after the end of the official implementation period. During this extended term, the fund continues to manage its portfolio, support existing investee companies, make follow-on investments (if allowed) and gradually divest from its holdings.

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