

*On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY*

## **Response to European Commission Roadmap on EU Retail strategy**

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Invest Europe supports the European Commission's objective to develop a coherent regulatory framework to empower consumers to make informed investments in EU capital markets.

Traditionally, the private equity industry is only marketing to investors that are either institutional (pension funds, insurers, banks, sovereign wealth funds, fund-of-funds) or at the very least experienced (family offices, entrepreneurs). The reason for this comes from the very nature of the industry. In order to make long-term and active investments into unlisted businesses that require time to grow and evolve, private equity funds have structured themselves as closed-ended funds with no redemption rights, which favour illiquid and large commitments from investors in a position to make such investments.

Currently, the only investors classified as retail under EU law committing capital to private equity are arguably not retail. High net worth individuals committing capital into venture funds are large and experienced investors with a detailed knowledge of the market, which are limited partners into the fund they invest. Our opinion is that these are only deemed retail under EU law due to the inadequacies of the current MiFID investor categorisation. Indeed, such a definition does not take into consideration their investing specificities (market knowledge that is sector-related, frequency of investment that is not one day-traders). As announced in Action 8 of the CMU Action Plan, a revision of the Annex II of MiFID is therefore warranted.

On the other hand, situations where private equity managers market to individuals committing smaller tickets - and which are objectively retail clients - are rare. The attractiveness of the private equity asset class and the desire from some investors to commit capital indirectly into start-ups and scale-ups is however driving an increasing number of private equity funds to offer products that are directly available to retail clients. This is a positive development as it will foster currently low capital market participation rates.

In that spirit, one must appreciate that the ELTIF regime is deemed by private equity market participants as the future vehicle of choice for marketing to these type of investors. Changes to the ELTIF regime (as opposed to an opening of the AIFMD regime to retail investors) is therefore, from our perspective, the main tool to ensure that more private equity funds are accessible to retail investors through relevant intermediaries.

We fully acknowledge that retail marketing should be subject to an appropriate set of rules that differs from the ones applying to professionals. Fees transparency, adequate risk disclosure and proper incentives mechanisms are three crucial pillars of a retail framework. We also agree that a further degree of harmonisation may help consumers better understand market products, provided of course such harmonisation allows the investor to recognise the distinctions between different types of products, both in terms of fee structure (in a private equity context, the recognition of the features of the carried interest model is a good

example), risk profile (diversification benefits) and underlying nature of the investments (active involvement in unlisted businesses, as opposed to a basket of shares).

We are at the disposal of the European Commission would it wish to have further information on the retail trends in the private equity industry and welcome the further initiatives it will take to ensure it is easier and more secure for these investors to invest in European capital markets.

### **Contact**

For further information, please contact Martin Bresson ([martin.bresson@investeurope.eu](mailto:martin.bresson@investeurope.eu)) at Invest Europe.

## About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

## About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

For more information please visit [www.investeurope.eu](http://www.investeurope.eu).

