CHECK AGAINST DELIVERY

Eric de Montgolfier – ECMI 2021 Annual Conference – Introductory Speech

Thank you very much for the introduction, Fabrice.

Good afternoon, everyone.

I would like to thank CEPS for their invitation and for giving me the opportunity to speak during the ECMI 2021 Annual Conference.

Firstly, I would like to quickly say a few words on who we are and what we do. **Invest Europe** is the largest PE association in the world. We represent the full spectrum of the PE industry, from the smallest, early-stage VC to the largest PE firms, as well as investors, including some of the largest pension funds, insurance companies and banks.

Our members represent 70% of the €700bn AUM managed by our industry in Europe and I shall come back shortly, to how we allocate those to the benefit of the European economy.

(*pause*)

I am delighted to speak to you today about how we can achieve the ambition of an even stronger Capital Markets Union.

Let us first remind ourselves again what the **CMU** is about: one of its core objectives is to make financing more accessible to EU companies. The CMU plays an important role in delivering more integrated and developed capital markets, and thereby provides opportunities for companies to access larger and more liquid pools of funds directly from investors.

Private financing is also essential for the **twin green and digital transition** we have ahead of us. As part of the European Green Deal, the EU set itself the legally binding target of becoming the first climate-neutral continent by 2050. The EU also set itself ambitious objectives for the digitalisation of its economy. Nonetheless, for these goals to succeed, a well-functioning capital market is key to ensure that private capital can flow without barriers to support this important transition.

At the time of the development of the CMU, we saw major differences between the growth rates in the EU and the US. The European economy is now well-functioning, and Europe has recovered well from the COVID crisis.

The EU economy is projected to keep expanding faster than expected, with a growth rate of **5%** in 2021, and **4.3%** in 2022.

Avenue Louise 81
B-1050 Brussels, Belgium
T +32 2 715 00 20

investeurope.eu
info@investeurope.eu

VAT: BE 0424 557 716
IBAN: BE33 3300 5785 0046
BIC/SWIFT: BBRUBEBB

European Transparency
Register: 60975211600-74

In short: we are doing well. But there is still a need to allocate private capital even better, and to ensure even better access to financing, in particular for the smallest companies – SMEs, start-ups, scale-ups – those who are struggling the most to get capital.

When it comes to providing more diversified funding opportunities for companies and reduce their over-reliance on funding through banks and public funds, it is clear that some operators – and notably in the PE industry – are outperforming in acting as the bridge between investors and businesses in need for finance.

In 2020 alone, PE and VC funds invested over **€88bn** in the European economy, and supported almost **7,000** SMEs. And investee companies backed by PE and VC funds represent **more than 10 million jobs** in the EU, with a job creation rate 5 to 6 times the European average.

Moreover, PE is consistently and often significantly **outperforming listed equities**. It is demonstrated in our latest report on The Performance of European Private Equity that:

-European Buy-Outs delivered a net IRR of **15%** versus **5.5%** for the MSCI Europe; and that

-European Growth Capital and Venture Capital funds also generated double-digit net IRRs way above European market indices.

However, for our industry to keep delivering, the remaining problems with the existing regulatory framework must be tackled.

(*pause*)

Maybe I should firstly give Sven [Gentner] a hat-tip. We have seen the Commission's proposal on the **AIFMD** – and much as we didn't really see a need for this directive to be reopened at all – we are overall pleased with seeing, that the Commission has – *almost* true to their own report – not tried to fix, what isn't broken, and only made small adjustments to the existing regime.

That being said: For us to keep allocating private capital to EU companies in need for financing, the issue is not just how we as an industry are regulated ourselves, but how the entire value-chain functions.

The **PE model** can essentially be understood as a circle starting and ending with savers and pensioners. Savers and pensioners entrust their capital to institutional investors, such as banks, insurers and pension funds. They will look to put that capital to use by investing into well-performing funds, which in turn themselves invest in businesses. Once these businesses are sold, after an average of 5 years in a PE context, capital is returned to the investors… and therefore ultimately securing the savings and pensions of the savers and pensioners. That is the essence of the PE model.

So a good place to start is changing the regulatory constraints on the investors.

Avenue Louise 81
B-1050 Brussels, Belgium
T +32 2 715 00 20
investeurope.eu
info@investeurope.eu
VAT: BE 0424 557 716
IBAN: BE33 3300 5785 0046
BIC/SWIFT: BBRUBEBB
European Transparency
Register: 60975211600-74

Insurance companies and banks must have better access to invest in our asset class. In 2020, European insurance companies invested **€9.3bn** in PE funds, and European banks invested **€4.2bn**. And these numbers should of course be even higher.

While **Solvency II** and **CRR** deliver their objectives on ensuring stability, they also have an impact on the ability of banks and insurers to commit long-term equity capital to businesses.

The recently launched **reviews** of the Solvency II and the CRR framework present a unique opportunity to ensure that institutional investors become a cornerstone of the CMU by giving their long-term equity exposures the risk charge they deserve.

And the good news are: no fundamental overhaul and no deviation from international standards – only careful recrafting – is required to do so.

In the **Solvency II case**, it is about changing the criteria defining the long-term equities category, to better acknowledge the way insurers hold long-term assets, and to incentivise them to set up long-term portfolios.

In the **context of CRR**, it is much welcome that, for the first time, "investments in private equity" are no longer deemed "high-risk exposures" in the new framework. Moreover, the explicit recognition that long-term exposures – such as those to closed-ended funds – shall never be considered speculative is a long-awaited step towards acknowledging the actual risk of long-term, non-redeemable commitments.

(*pause*)

Sophisticated investors must likewise have better opportunities to get involved. High net worth individuals, either directly or through family offices, have been increasingly keen to allocate resources to our industry. This is especially true for VC, where these investors represent nearly **18%** of the overall fundraising in 2020.

However, the binary distinction between retail and professional investors, which in turn leads to the retail categorisation of sophisticated investors, is highly problematic.

The **MiFID** rules on investor categorisation are based on a series of criteria that are more – if not exclusively – apt for average trading clients than long-term sophisticated investors. And unfortunately, these rules have highly influenced other EU legislation.

If the rules were changed and European high net worth individuals would then add **only an additional 1%** of their wealth into the asset class, this could represent around **€130 billion of investment** in VC and PE which would then be allocated to mostly European businesses.

To ensure better involvement of sophisticated investors, it is also essential that we can use the **ELTIF passport to market to retail clients**. As you know, ELTIF has not been used as much as it could have. Experience shared by our members showed that some of the rules were too restrictive for PE managers who were keen to use this voluntary passport to market to retail investors. The outcome was that many managers chose to turn away from the product. Of course, with consequences for retail clients interested in investing in these.

CHECK AGAINST DELIVERY

But I would say more importantly for the businesses that could have received support from these funds if they had been set up.

Therefore, we are pleased with the changes proposed to the ELTIF framework last week. They will make it less complex to market ELTIFs in several jurisdictions, easier for ELTIF fund-of-funds to be set up and clearer that fund managers can co-invest alongside the fund.

For us, this is a real life example of how the CMU can be a catalyst to change and a driver to investment growth – although of course negotiations are only at their beginning –.

Lastly, we hope of course that policymakers will not impose to our industry an increased regulatory burden in terms of reporting which would not be proportional and material enough, and therefore too costly to most market participants; but I will leave this important topic to Judy.

Thank you for your attention – I am looking forward to a good discussion with the other panellists.

Avenue Louise 81
B-1050 Brussels, Belgium
T +32 2 715 00 20

investeurope.eu
info@investeurope.eu

VAT: BE 0424 557 716
IBAN: BE33 3300 5785 0046
BIC/SWIFT: BBRUBEBB

European Transparency
Register: 60975211600-74