Response to European Commission Call for Evidence

Retailisation Strategy

We would like to respond to this Call for Evidence on behalf of the European private equity industry. While typically private equity funds are not offered to retail investors, some managers have recently set up structures that allow investors that are neither professional nor sophisticated to access the asset class. This is for example the case of managers setting up "ELTIF" vehicles – whose framework is also under revision.

First, we fully support the Commission objectives of improving financial literacy. A better basic understanding of the features of different products would go a long way in helping investors to assess which kind of products they should invest based on their characteristics (investment horizons, complexity of products) as well as the risks and rewards of each asset classes as a whole. This would generally help them build better portfolios.

For example, private equity is an asset class with characteristics that are often not well known from retail investors. It is too often mistaken as a "complex" asset class, even though its fee structure and investment model (investing in real businesses) are simple to understand, compared to some daily traded financial products. Forming a basis layer of knowledge would help Europeans to better understand what opportunities are within their realm.

Second, we acknowledge that financial literacy is only part of the puzzle. We support the development of simple suitability assessments that determine whether products are the right fit for clients. In a private equity context, the long-term nature of the asset class (limited or no redemption rights for the investors) and the risk that investors may lose part or all of their investments (depending on how diversified the portfolio the investor has invested in is) clearly makes it an investment not suitable to every retail investor. In our industry's case, ^private equity products are nearly always offered to retail investors through distributors and it is important these make sure they sell these products to clients that have the ability to commit capital for long periods.

Third, while disclosure is of course essential, we warn the Commission against the idea that giving the investor a direct comparison is necessarily the panacea to the retailisation gap. Experience with the KID implementation has shown an (over)harmonised comparison of all types of products is often counter-productive, if only because it forces disclosure documents to be oversimplified and often leads them to be factually wrong. A scope for differentiation should remain to reflect the diversity of products offered to clients across Europe. Changes to the KID may of course help achieve this objective.

Fourth, we fully support the Commission's view that there currently are overly restrictive protective measures for some investors with sufficient knowledge and experience, aka "sophisticated" investors. In our experience, this is very much the case of high-net-worth individuals, entrepreneurs and family offices who regularly commit capital to long-term asset classes, in particular venture capital. Examples across the market show that today traditional banking/high-trading tests remain the determinant of financial knowledge – creating an overreliance on banks for equity asset classes and leading to situations where, in reality, bank interns are sometimes deemed more experienced than private equity CFOs.

Adapting the definition of "professional upon request" so that more investors can be deemed as professionals is perhaps the most crucial building block of the second Capital Markets Union project. Specifically, the definition should itself become more sophisticated so that:

- non-financial experience shall be deemed relevant for investors in non-financial products
- sophistication of large-ticket, infrequent investors is taken into account

Such an objective is to our eyes much more crucial than the creation of a “semi-professional investor category” and could unlock significant amount of additional equity capital in the EU without affecting at all investor protection.

We stay at the disposal of the European Commission to give them additional input on these matters.