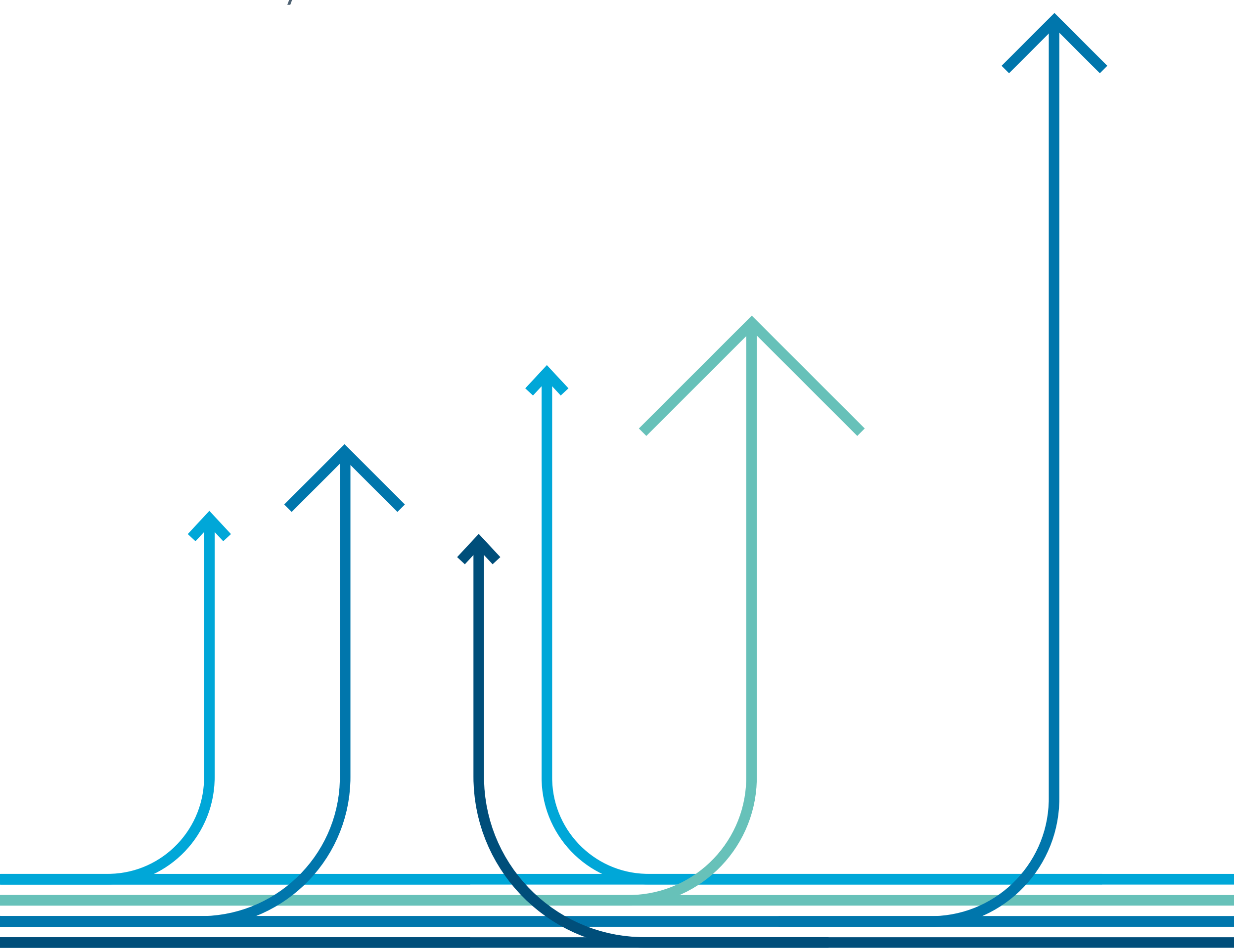
Private Equity:

Driving European Growth

Policy Priorities 2019–2024



The role of private equity[1]

It is the combination of patient capital and active ownership that characterises the private equity model and sets it apart from most other sources of funding.

From start-ups to well-established companies, most businesses in Europe are privately owned, and not listed on public markets. Private equity is one form of private investment and supports businesses of all sizes on their growth journey.

As well as providing vital funding, private equity adds value to companies in which it invests in the following ways:

Private equity: Impact in numbers

Over the past few years, private equity has become an increasingly important source of funding for European businesses and SMEs in particular. Private equity's robust performance since the financial crisis has underlined the industry's agility and the positive role EU policy can play in enabling growth.

€300bn

invested by private equity in companies located in the EU28 from 2014 to 2018

24,588

companies backed by private equity in the EU28...

Notes

1. The term 'private equity' is used in this document to refer to all segments of the industry, including venture capital. The term 'venture capital' is used in specific contexts where there are issues that relate particularly to this segment. For a more detailed explanation of private equity, please refer to p10.

Helping companies to grow

Private equity firms are actively involved in the running of the businesses they have invested in, strengthening management expertise, delivering operational improvements and helping them to expand into new markets. This active approach is also employed in helping underperforming companies to survive, protecting jobs and delivering successful businesses with a strong future.

Providing patient investment

Private equity funds make a long-term commitment to the companies they back, often investing for multiple years, using the time to set companies on a sustainable growth path. This helps businesses to plan for the future with the reassurance that comes from having a committed partner.

Delivering returns for savings and pensions

Most private equity funding comes from pension funds and insurance companies who invest the pensions or savings of millions of citizens across the world. Private equity is a key asset class for these long-term investors, as it generates capital gains on a consistent basis over the long-term. This is important, not least against the backdrop of changing demographics and in today's low yield environment.

Creating value for investors and society

By building better businesses, private equity plays a vital role in Europe's prosperity – benefiting employees, pensioners, investors and the wider economy. Private equity fund managers also invest their own money, meaning they have a strong interest in the long-term success of the investments they have undertaken.

Private equity plays an important role in supporting the EU's jobs and growth agenda. The following examples illustrate the industry's positive contribution to the real economy.

Did you know?

In France, one of Europe's largest private equity markets, nearly 210,000 new jobs were created between 2012 and 2017.[2]

Private equity investments made into 186 Spanish companies alone added 27,000 jobs between 2005 and 2012.[3]

84%

...of which are SMEs.

>53%

of the total amount raised by private equity in the EU28 between 2014 and 2018 came from outside the EU28.

Notes

2. Croissance et création d'emplois, France Invest, 2017.
3. Economic and social impact of Private Equity & Venture Capital in middle market transactions in Spain, ASCRI, 2018.

PRIORITY:

Backing businesses of today… & tomorrow

Europe's economy has delivered stable growth over the last few years, but downside risks are ever-present.

Keeping the economy on track by enabling investment-backed growth and increasing competitiveness will remain a key challenge for the EU.

With its commitment to innovation, operational improvement and long-term growth, private equity plays a critical role in unlocking the full potential of European entrepreneurs, delivering many benefits for the European economy.

Private equity often helps businesses to survive, protecting jobs and giving a long-term future to companies that otherwise may not have that opportunity.

To remain a positive catalyst for improved competitiveness, private equity needs a balanced and well-calibrated regulatory framework that provides a stable and supportive climate for converting entrepreneurial opportunity into business reality.

ACTION 1

Improve Europe's private equity ecosystem

AIFMD: The upcoming review of the Alternative Investment Fund Managers Directive (AIFMD) provides an opportunity to refine existing rules, while taking into account the specific characteristics of the asset class. Proper consideration should be given to consistency, proportionality and better tailoring of the Directive's requirements to ensure that private equity firms operate in an environment that allows them to support Europe's businesses and to generate returns for their investors, like European pension funds.

European companies that have been supported by private equity

ACCORHOTELS
ACTION
arena
DUCATI
hunkemöller
SHAZAM
Skype
skyscanner
Spotify
swissport
worldpay
zalando

ACTION 2

Enable investment in scale-up and growth

EuVECA: The review of the European Venture Capital Fund (EuVECA) Regulation is an opportunity to make the regime even more attractive and accessible to a larger number of small and medium-sized funds, for instance by turning it into a voluntary EU venture and growth label. It will be important to ensure that the framework remains proportionate and successfully complements the AIFMD marketing passport.

Smaller fund managers: Smaller fund managers are rightly exempted from the full requirements of the AIFMD. While this is welcome, given the disproportionate burden it would entail, it also means that many small EU managers have limited options to fundraise across borders. Further enhancing cross-border marketability by addressing remaining barriers to fundraising within the EU will be key to unleashing their full potential in supporting European businesses.

ACTION 3

Help businesses to finance growth through equity

A tax policy that promotes equity: A well-calibrated tax policy plays an important role in providing a favourable environment for businesses to flourish. One way to encourage further investment is by supporting companies to fund their activities through equity. This could be achieved through an allowance for equity issuance, making equity funding more appealing for Europe's enterprises. In return, this would also help to address concerns over the debt-equity bias.

ACTION 4

Support growth through smart public finance

Smart public investments: Through InvestEU and VentureEU, the EU should continue to provide smart support to venture capital and growth funds. Attention should be paid to the regulatory treatment of start-ups and scale-ups backed by venture capital to ensure they continue to benefit from the same advantages as other SMEs.

> Private equity helps to drive growth in Europe by funding companies and supporting them in becoming more efficient, resilient and professional.

PRIORITY:

Keeping global investment flowing

Europe has become more attractive as an investment destination over the last five years.

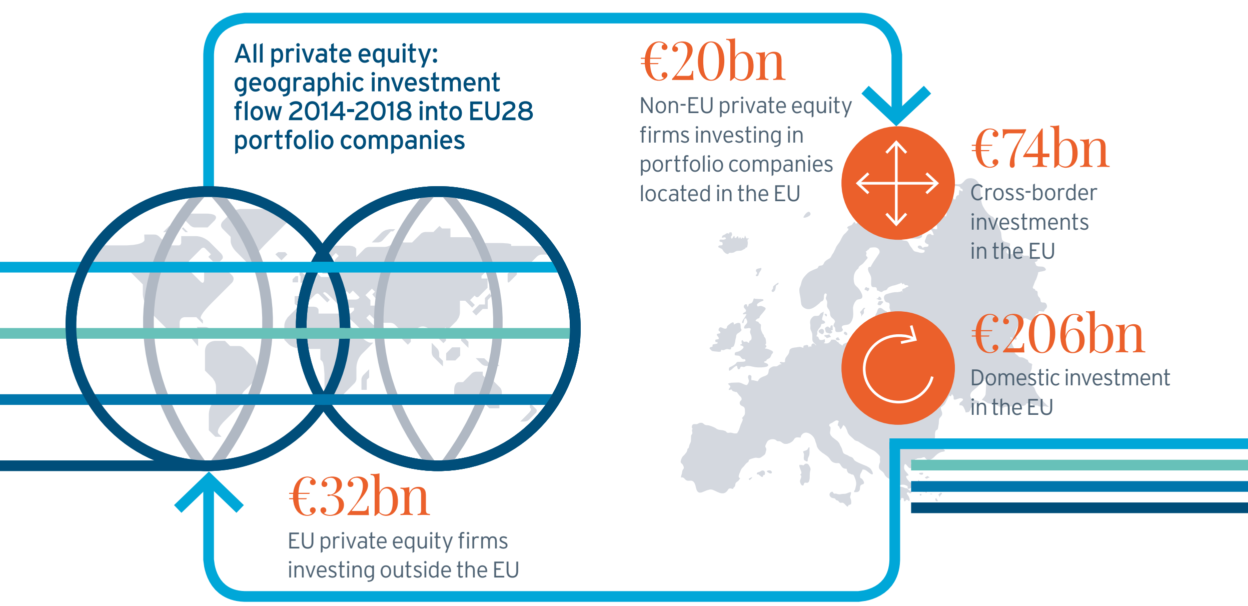
Overall, the EU has achieved a more favourable regulatory environment for investment, not least through the Capital Markets Union project. It is key to build on this success in the years ahead.

Amidst some voices calling for greater protectionism, it is important to consider that allowing the free flow of capital is key to allocating financial resources to the most productive and valuable use.

Keeping investment flowing and removing barriers to cross-border capital flows is not only critical to the inherently international private equity industry, but also to investors, the companies that the industry invests into and ultimately European citizens.

In the current low yield environment and faced with an ageing population, European investors need the opportunity to invest in a diversified range of asset classes across the continent and beyond, not least to achieve returns that ensure sufficient pensions for European citizens. Similarly, fund managers need access to investors to raise capital that is needed to help build European companies.

> “Strengthening global investment will be key to ensure business growth and long-term prosperity.”



ACTION 1

Ensure access to global investment opportunities

AIFMD: Cross-border barriers prevent companies from accessing more diverse, stable and resilient forms of funding. For private equity, cross-border structures and marketing are key. Many private equity firms (and their investors and advisers) will have direct and indirect connections and relations with firms around the world. A proper and workable third country regime would have the potential to greatly enhance EU investors' investment opportunities.

NPPRs: It is vital that National Private Placement Regimes (NPPRs) are available for small and large third country fund managers in the short and long-term. They should be an integral part of an efficient, uniform and commercially sensitive third country regime. Some non-EU fund managers may decide that they only wish to market their funds in specific Member States, rather than the whole of the EU. Applying the full passport in these cases would not be proportionate.

EuVECA: Extending the availability of the European Venture Capital Fund (EuVECA) regime to third country funds and fund managers would be a sensible step. Europe should take the initiative in developing a regime that is open, welcoming and gives EU investors access to a wider range of managers, in return ensuring that Europe's economy benefits from non-EU capital.

ACTION 2

Champion global investment

Foreign direct investment (FDI): Global investors are increasingly looking towards Europe. Almost 90% of investors think Europe has become a more attractive investment destination over recent years, according to Invest Europe's Global Investment Decision Makers Survey 2018. This is a positive testimony to Europe's achievements in cultivating an environment conducive to investment. A balance must be found between introducing safeguards, such as screening mechanisms, and maintaining an open investment climate.

ACTION 3

Protect cross-border investors against double taxation

Tax neutrality: With multiple entities often based in different countries, private equity is susceptible to double taxation. It is therefore important to ensure tax neutrality between direct investments and investment through private equity funds. To that aim, transposition of the OECD BEPS standards (Action 6 on treaty abuse in particular) should allow private equity funds to continue to use double tax treaties.

ACTION 4

Unlock the potential of capital markets

Initial Public Offering (IPO): IPOs are an important route for private equity-backed companies to 'take the next step' on their growth journey. It is vital for the EU to continue promoting high-quality capital markets, including the development of a vibrant IPO ecosystem.

PRIORITY:

Investing responsibly for the long-term

Professional investors such as pension funds and insurers take a long-term perspective.

They invest their assets over the long-term to meet their liabilities. This long-term investment philosophy ties in well with private equity. It gives fund managers the time and space not only to pick the right companies in which to invest, but also to engage patiently and actively with those companies.

While it is important for Europe to manage risks through a robust prudential framework, it is key that capital requirements for banks, insurers and pension funds do not disincentivise investment into private equity.

At the same time, environmental, social and governance (ESG) considerations are increasingly central to private equity investors and fund managers alike, and this is shaping how companies are being developed. One reason for this is a conviction that companies that address ESG issues can achieve better growth, cost savings, and profitability, while strengthening stakeholder relations and improving their reputation.

> “Private equity 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 citizens who depend on them.”

ACTION 1

Ensure that private equity remains an attractive asset class for long-term investors

Solvency II: The upcoming review should tackle the current misalignment between the true risk of investing in private equity funds and the risk weight applied. Regulation should not disincentivise insurers’ investments in private equity.

IORP: With pension funds providing about a third of the investment into European private equity (seeking returns for citizens saving for retirement), it is critical to avoid imposing any new quantitative capital requirements in the Institutions for Occupational Retirement Provision (IORP) Directive, which would disincentivise such investments.

ACTION 2

Enable investors to put money into companies and projects that require long-term capital

ELTIF: The review of the European Long-Term Investment Fund (ELTIF) Regulation provides an opportunity to assess the uptake of the regime and to consider steps that would further enhance ELTIF's proposition.

ACTION 3

Encourage sustainable investments

Sustainable finance: Private equity's active stewardship and long-term investment model mean many private equity fund managers already focus strongly on ESG. As the EU continues to show leadership on sustainable finance, any new rules need to be workable, proportionate and support Europe's wider economic aims.

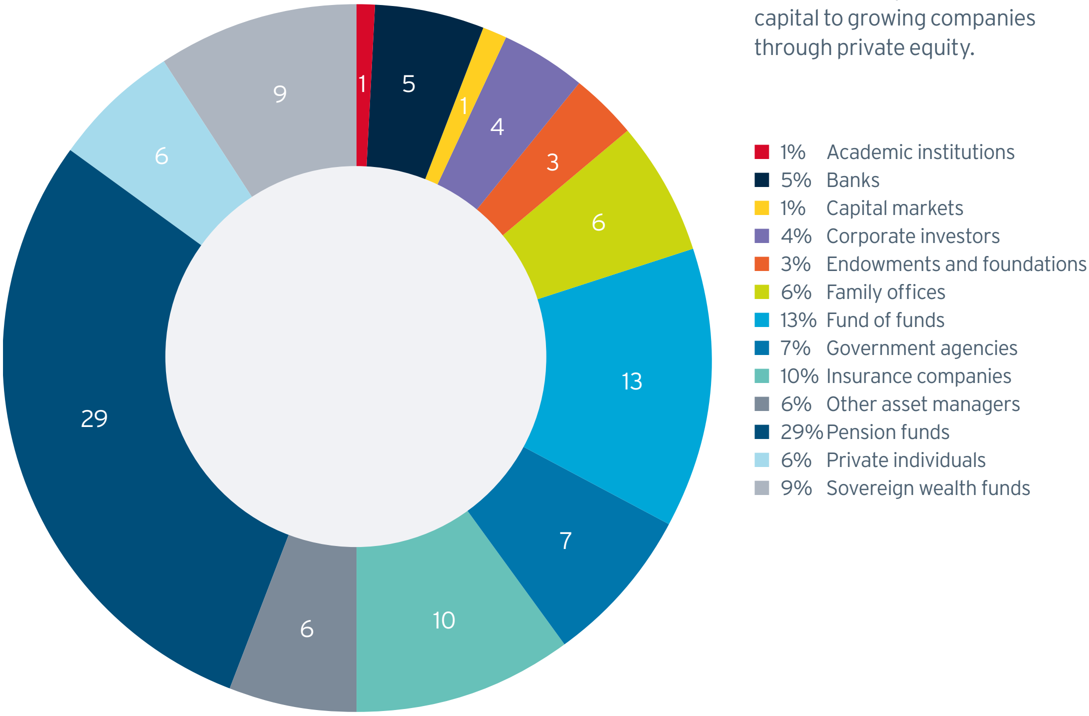
ACTION 4

Tailor requirements to sophisticated investors

Sophisticated investors: Part of the capital raised by private equity comes from high-net-worth individuals, often former entrepreneurs, or other private investors who do not meet the strict, trading-orientated professional investor criteria defined in the Markets in Financial Instruments Directive (MiFID). Recognising the value and sophistication of these 'semi-professional' investors and setting them apart from retail investors beyond the EuVECA regime – for example, by exempting them from the Key Information Document (KID) requirements – will ensure they commit more capital to growing companies through private equity.

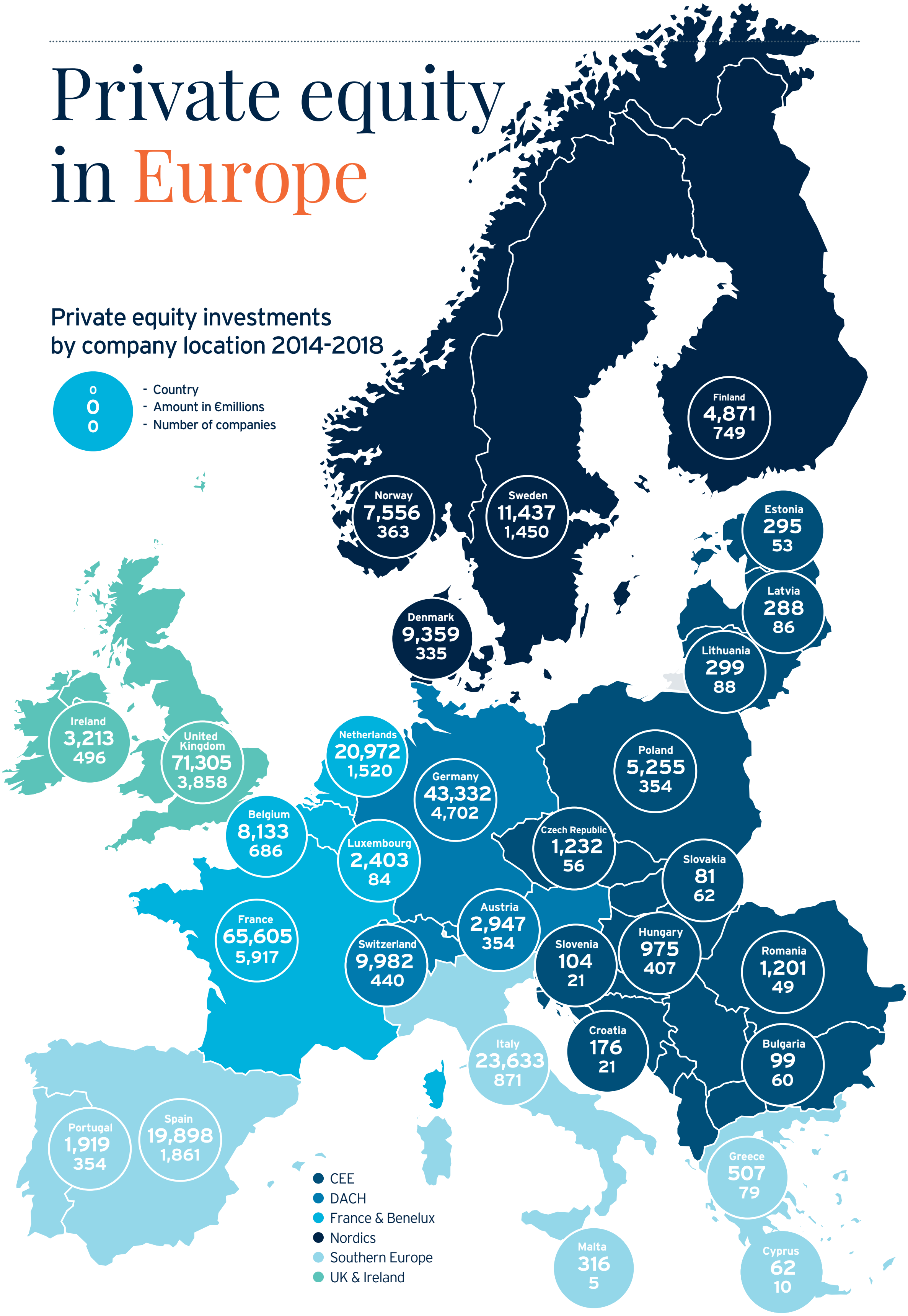
Investors in EU28 private equity funds 2014-2018

(% by amount)



Private equity in Europe

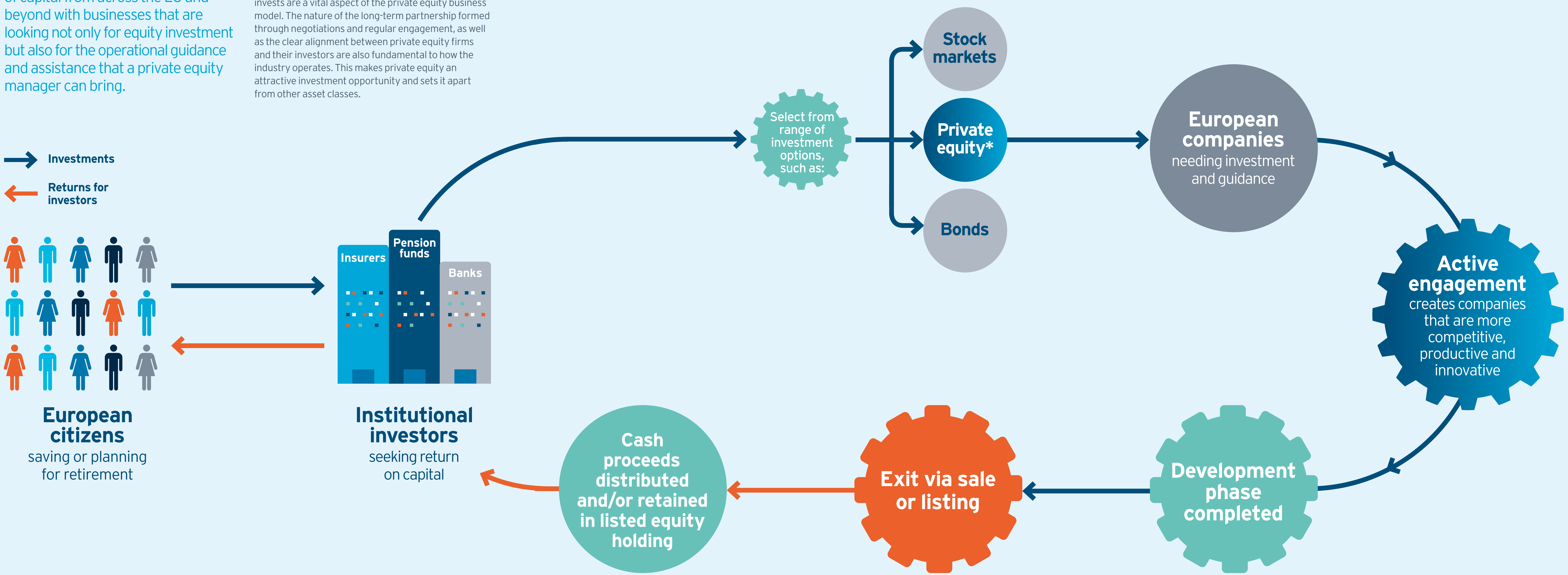
Private equity investments by company location 2014-2018



Private equity's role in the European economy

Private equity connects providers of capital from across the EU and beyond with businesses that are looking not only for equity investment but also for the operational guidance and assistance that a private equity manager can bring.

The effective stewardship and corporate governance frameworks put in place in the businesses in which it invests are a vital aspect of the private equity business model. The nature of the long-term partnership formed through negotiations and regular engagement, as well as the clear alignment between private equity firms and their investors are also fundamental to how the industry operates. This makes private equity an attractive investment opportunity and sets it apart from other asset classes.



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Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors, including some of Europe's largest pension funds. Our members invest for the long-term in privately held, unlisted companies from start-ups to well-established businesses, injecting capital, innovation and expertise.

On behalf of the European private equity industry, we engage in Brussels and play a constructive part in developing the EU legislation that shapes the future of the industry. With a track record of positive involvement at EU level for more than 35 years, we are committed to helping Europe deliver jobs and growth, today and tomorrow.

European Transparency Register: 60975211600-74