efama
European Fund and Asset Management Association

EFAMA's comments
on the European Commission consultation on
the review of the EuVECA and EuSEF Regulations

Who can manage and market EuVECA and EuSEF funds?

1) Should managers authorised under the AIFMD be able to offer EuVECA to their clients? Please explain.
2) Should managers authorised under the AIFMD be able to offer EuSEF to their clients? Please explain.

Yes. Any firm authorised under Alternative Investment Fund Managers Directive (AIFMD) should be allowed to manage, name and market their compliant funds either as "EuVECAs" or "EuSEFs", as these authorised AIFMs ought to be adequate to manage a EuVECA or EuSEF fund.

What happens when a EuVECA or EuSEF manager, post registration, exceeds the €500 million threshold?

3) What would be the effect of EuVECA or EuSEF managers, managing EuVECA or EuSEF funds only, continuing to enjoy the relevant passports once the total EuVECA or EuSEF assets under management, subsequent to their registration as fund managers, exceed the threshold of €500 million?

In particular, a sub-threshold AIFM should not lose the EuVECA marketing passport, if its total assets under management grow to a point where it exceeds the AIFMD threshold. The EuVECA regulation envisages a closed ended fund of a fixed lifecycle with an initial subscription period at the outset. Once this subscription period has closed, the EuVECA manager would, in general, no longer market and would therefore no longer need the expanded passport nor the EuVECA label. However it could be conceivable the AIFM might facilitate secondary trading of EuVECA holdings under certain circumstances thus it might be worth making provision for this scenario.

Please also consider our answer in conjunction with our reply to Question 4 below.

4) What would be the effect of EuVECA or EuSEF managers, managing EuVECA and/or EuSEF funds, continuing to enjoy the relevant passports once their total assets under management, subsequent to their registration as fund managers, exceed the threshold of €500 million?

Eliminating this artificial threshold of €500 million will provide several positive effects: Firstly, this would incentivise the entry of existing managers in other sectors of the market to enter the private equity sector by establishing EuVECAs or EuSEFs. This would enhance the level of expertise in the sector and create economies of scale as existing managers would not have to set up separate entities to establish and manage EuVECAs or EuSEFs. Furthermore, it will strengthen both brands, as funds with the same underlying both over and under €500 million would enjoy the same nomenclature, thus making marketing those funds to investors easier and more streamlined. Furthermore, more and larger players could be interested in investing more resources into managing and marketing.

We would therefore expect that if a EuSEF and EuVECA manager exceeds the EUR 500 million threshold, post registration, it would be possible for the manager to continue to benefit the EuSEF/EuVECA passports as long as it is compliant with the AIFMD directive and with the EuSEF/EuVECA regulation.

6) What effect would a reduction in the minimum EUR 100,000 investment have on the take-up of EuVECA? If you favor a reduction, what would be an appropriate level?
7) What effect would a reduction in the minimum EUR 100,000 investment have on the take-up of EuSEF?
8) How would any reduction of the minimum EUR 100,000 investment be balanced against the need to ensure appropriate retail investor protection?

Generally speaking, any revision in terms of minimum protection requirements for investors other than professional investors to which EuVECAs and EuSEFs are offered should be considered on the ground of levelled regulatory requirements. Different measures currently exist for EuVECAs/EuSEFs and ELTIFs offered to retail clients not only in terms of investible amounts, but also on obligations for the managers and depositary regime.

These products are currently being considered by the European Commission as strategic investment channels to foster the EU economic growth, through SME and infrastructure financing. In this regard, such a possible reduction of the minimum threshold for EuSEF and EuVECA should therefore also encompass ELTIFs and should take a holistic approach that analyses all possible measures to fully protect retail investors. This avoids that revising one piece of regulation would indirectly bring detriment to the attractiveness of other equally strategic investment products.

19) What are the key issues or obstacles when setting up and marketing EuSEF or other types of social investment funds across Europe?

Many of these social investments, also known as 'impact investments', are illiquid - they lack exit options and require a long investment horizon, if only because measuring social or environmental impact can often only be done over the long term.

Many of these 'social investments' are also synonymous with charity and need to be marketed to the targeted investors. There is currently a marketing problem, as many potential customers / investors are confused about what it is they are asked to do. There therefore needs to be clearer messaging about what social investing or impact investing is.

20) What other measures could be put in place to encourage both fund managers and investors to make greater use of the EuVECA or EuSEF fundraising frameworks?

Consideration should be given to decoupling EuVECA and EuSEF as a package. Given the crowded regulatory schedule when the first iterations of the Regulations were being considered, it was understandable that the two regulations were considered alongside each other. It may now be worth considering each Regulation separately rather than applying the same template to each.

There are significant differences between models for social investment and venture capital investment. Most notably, social investment, also known as 'impact investment', does not necessarily follow the venture capital model of investing in a range of undertakings over a fixed period with a view to disinvestment at a fixed point. It would be worth considering adapting the EuSEF model to incorporate open ended funds and funds that are not of a fixed lifecycle – this would be more aligned to the structures traditionally adopted by funds investing in social enterprises. In this scenario it would be necessary to make clearer provision for the management and marketing of EuSEFs by full scope AIFMs as the scenario of an AIFM going over threshold would become a more pressing scenario.

It is also worth noting that social enterprises typically do not have making a profit as their primary objective, and generally will reinvest the majority of their profits back into the enterprise or other social causes. Investments in such enterprises will therefore not deliver the scale of returns traditionally expected by investors. Investors in social enterprises will usually therefore be seeking to participate in social enterprises for other purposes, e.g. to support the social projects being undertaken by the enterprise. While investors may wish to dedicate part of their investment portfolio to such enterprises, given the overall objective of the investor will be to achieve capital growth or income (or some combination of the two), investors are unlikely to want to allocate a significant sum to such investments. Therefore, investment thresholds and requirements for non-professional investors should be set at a level which can allow such investors to participate in EuSEFs without committing a significant proportion of their investment capital.

Lastly, we also see merits in developing greater understanding of what a social investment (i.e. 'impact investment') actually is, with a view to allowing investments and funds to be compared more easily and for retail and institutional investors to be able to measure the social impact of their investments (indices and benchmarks could play an important role here). We think the European Commission could play a facilitation role in getting managers and third sector players to build up common definitions and understandings.

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