Invest Europe

Protecting private equity

INVEST EUROPE'S DÖRTE HÖPPNER EXPLORES THE IMPORTANCE OF PENSION FUND INVESTMENT WITHIN PRIVATE EQUITY, VENTURE CAPITAL AND INFRASTRUCTURE

IT IS ESSENTIAL THAT EUROPEAN AND INTERNATIONAL REGULATION ON INVESTORS' CAPITAL BUFFERS AND COMPANY TAXATION DO NOT HINDER INVESTMENT OR REDUCE RETURNS

Pension fund allocations to private capital continue to strengthen thanks to the appeal of alpha, while new policy is beginning to reflect the benefits of private equity, venture capital and infrastructure funds for retirement savers. It is essential that European and international regulation on investors' capital buffers and company taxation do not hinder that investment or reduce returns.

Pension funds are the largest single investor group in European private equity and provided over a third of the €44.6 billion that European firms raised in 2014. Given the re-emergence of volatility at the start of 2016, long-term investments in private companies or infrastructure projects can look particularly appealing.

For their part, European policymakers want to tap the €12 trillion of capital held by institutional investors for much-needed investment. Private capital in its many forms is seen as part of the solution, as evidenced clearly in the Capital Markets Union Action Plan released last year, a policy initiative that aims to facilitate the connection of institutions with capital to European businesses and projects in need of investment.

The European Commission believes that venture capital and private equity funds that drive innovation and, by extension, employment and growth in small to medium-sized enterprises, are to be encouraged. Meanwhile, the European Fund for Strategic Investments hopes to use public funds as a catalyst to mobilise up to €315 billion of investment capital.

Private equity has established a strong reputation through its activities since the financial crisis. The industry invested €350 billion in some 25,000 companies employing almost eight million people between 2007 and 2015. Venture capital firms have created huge success stories in Europe, such as music discovery app Shazam and takeaway food delivery company, Delivery Hero. All this has been made possible with pension fund investment.

So, it is essential that pension funds can continue to invest in all forms of private capital and that regulation does not contain provisions or create unintended consequences that reduce pension funds' appetite for private equity, or the returns they can derive from it.

Thanks to strong arguments, proposals made in 2014 for the Institutions for Occupational Retirement Provision (IORP) II Directive do not contain any new capital requirements for investments in private equity, and are progressing smoothly through the EU negotiating process. However, at the same time, the European Insurance and Occupational Pensions Authority is working on its risk-based framework for the pensions industry, dubbed the 'Holistic Balance Sheet', which may ultimately include Solvency II-style capital requirements. As one of Europe's key financial supervisors, EIOPA has significant influence and could ultimately shape regulation affecting pension funds, savers and companies.

Invest Europe is working with partner organisations to ensure that all parties truly understand the nature and benefits of private capital. Our industry will also continue to press for the recalibration of risk weightings on private equity and other investments from Solvency II, which came into force at the start of this year.

The OECD's Base Erosion and Profit Shifting reform is also in our sights for any potential or unintended harm to private capital investment as tax authorities around the world seek to preserve their tax take. Key deliverables were published last year, though more work is needed to flesh these out with detail.

We will continue to monitor these developments closely and will work to protect the special relationship between pension funds and private equity. ∎

Written by Dörte Höppner, CEO, Invest Europe