The European Federation of Financial Services Users
Fédération Européenne des Usagers des Services Financiers

EuroFinuse's Response to the Questionnaire on Long-Term Investment Funds

Reply of the European Federation of Financial Services Users (EuroFinuse)

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Executive Summary

EuroFinuse welcomes this Questionnaire on Long-Term Investment Funds, which deals with crucial questions that unfortunately were generally not considered before. At the same time, we are expecting the publication of the long-awaited Green Paper on Long-Term Investment from the European Commission that should provide clarification to stakeholders on the Commission's views.

The approach to long term investment adopted by the Commission in this questionnaire is quite restrictive and looks more like Project Finance. A lot of long-term investments seem to be excluded from its scope. For example developing a new drug is a long-term and innovative investment that does not seem to be considered in this Commission's approach of "long-term investment".

We wish to highlight that equities and bonds are much simpler products that have been designed centuries ago to fund the long-term needs of the real economy. We are concerned that the Commission may add complexity to the already very large array of "packaged" investment products available in Europe by creating yet another "species" of investment funds next to the UCITS and AIFs, especially if they would be made available to individual investors.

We believe there are other and simpler ways to promote long-term investments. The European Commission would do better in our view by looking at ways to promote the engagement of long-term shareholders, especially individual ones, and of managers of existing "packaged" investment products, as proposed by EuroFinUse in several recent papers and reports.

For more information about our views on long-term investment, please check EuroFinuse's Response to the European Commission's Consultation on UCITS VI and Long-Term Investment.

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1. YOUR IDENTITY

1. **What type of entity are you?**

   a. Institutional investor (insurance company, pension fund, other investor)

   b. Public body (please indicate whether you make investments into infrastructure or whether you are financial supervisor/regulator)

   c. Operator or manager of an investment fund or company

   d. Infrastructure provider (builder or developer, project organizer, linked entity)

   e. Other (please specify)

   The organization representing European individual shareholders and investors

2. **If you are an infrastructure provider, what is your field of activity?**

   a. Energy infrastructure

   b. Transport infrastructure

   c. Communications infrastructure

   d. Social infrastructure (e.g. hospitals, schools)

   e. Other (please specify)

3. **Do you operate 'cross-border' (where relevant)?**

4. **Where is your current head office (where relevant)?** Brussels

2. INVESTORS

5. **Do you invest directly in longer-term projects or assets?**

Equities (including non-listed equities) and bonds as long-term assets and investments: in that sense, individual investors do invest directly in long term assets. But, typically individual investors would not invest directly in long-term projects, except via crowd funding.

6. **If so, what financial instruments do you normally use?**

   a. Debt financing (bonds, etc.): yes

   b. Equity financing: yes

   c. Indirect investments, such as funds: yes

   (Pension and investment funds)

   d. Other forms of participations (if so, please elaborate)

   Life insurance policies have a clear component of long-term investment that we would like the Commission to take into account.

Also, there are already in certain EU Member States collective investment vehicles other than funds that are long-term investment vehicles, such as investment companies (UK), SICAF[1] and SCPI[2] (France) and *Fondos de Inversion Inmobiliaria*[3] (Spain).

7. **What do you normally seek to invest in?**

a. Infrastructure projects (please specify the type of infrastructure)

b. Housing: yes, see reply to 6.d above

c. Social projects

d. Other (please specify)

We would like to highlight that this list of long-term investments is very limited and seems more about Project Finance. Many other long-term investments seem to be excluded in this approach. For example developing a new drug is a long-term and innovative investment that does not seem to be considered in this Commission's approach of "long-term investment".

Shares and bonds can fund most long-term needs of the real economy. We are concerned that the Commission may add complexity to the already very large array of "packaged" investment products available in Europe by creating a new species of investment funds next to the UCITS and AIFs.

We believe there are other and simpler ways to promote long-term investments. The European Commission would do better by looking at ways to increase the number and involvement of long term shareholders, especially individual ones, as proposed by EuroFinUse in several papers and reports[4].

For example, dividends to long-term shareholders can be increased (and/or award double voting rights). Also, some life insurance contracts that impose exit fees for the first years of holding, enabling the manager to invest in longer term assets. The same could be considered for UCITs funds that intend to invest long term.

[1] Société d'investissement à capital fixe.

[2] Sociétés Civiles de Placement Immobilier.

[3] They are long-term financial instruments, as returns for fund participants come from rental and price evolution of real estate asserts. These funds charge high redemption fees (even up to 5%) which decrease over time (or even disappear) after a period of three or four years in general. Their liquidity is much more limited as regards to those funds investing in securities, as these funds are only required to allow redemption at least once a year; and calculate NAV on a monthly basis.

[4] Among many others, our Response to the European Commission's Consultation on UCITS VI and Long-Term Investment and our Report on Barriers to Shareholder Engagement.

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8. **What criteria do you use when assessing such investments?**

    a. Regulatory safety : yes

    b. Risks: yes

    c. Better returns: yes

    d. Liquidity : yes

    e. Other (please specify)

9. **If you do not invest through investment funds, what are the reasons?**

    We do.

    a. Difficult to find the right funds
    b. Lack of transparency on how the funds invest
    c. Time horizon of fund is too short
    d. Other (please specify)

3. INVESTMENT MANAGERS AND INTERMEDIARIES **N/A**

4. INVESTMENT BENEFICIARIES **N/A**

5. TO BE COMPLETED BY EVERYONE

10. **If the European Commission were to design a common framework for LTI funds, what would be the most important features of such funds that would make them attractive for you to invest in them?**

    a. What types of investors should the fund focus on (institutional, high-net-worth, retail)? **We are quite skeptical about adding yet another investment product species to the already too long list of packaged products available in the EU.**
    At the same time, we believe there is a true potential for the involvement of individual, small or "retail" investors; as they have a true need for saving and investing long-term (mostly for retirement purposes; also for other major lifetime events such as home purchasing or higher education). Currently, they invest long-term mostly by specific products for private pension saving but also though real estate, equities or bonds. The growing replacement of "economic" end-investors by

"agency" investors[5] has been criticized in UK's "Kay Review" and extensively by EuroFinUse in several reports.

In case the Commission is to move forward and create this new species of investment funds and wants to make those available to individual investors (which is not our recommendation); then fund managers should ensure that individual investors can redeem their fund shares in good conditions after a certain number of years.

b. What types of assets should be permitted?
   i. **Debt financing (bonds, etc.)**
   ii. **Equity financing**
   iii. **Indirect investments, such as funds: They should not be permitted. We believe that "funds of funds" should not be permitted in this LTI framework. The fund should make decisions on which investment maturities to go for; , although those maturities should be somewhat high. Again one way for UCITS funds to go longer term could be to impose higher exit fees for the first years. Also Member States' tax systems should encourage long-term investments and holdings.**
   iv. Other forms of participations (if so, please elaborate)

c. What types of target investments should be permitted?
   i. Infrastructure investments
   ii. **Any investments with longer-term maturities: Maturity should be considered jointly with the nature of the investment.**
   iii. Other kinds of targets
   iv. Other combinations of investments

d. If the longer-term investments were to be limited only to those with certain maturities, what threshold might be appropriate?
   i. Only investments with a maturity +10 years
   ii. Only investments with a maturity + 20 years
   iii. **Other possible maturity? We believe maturity of assets for LTI funds should be somewhat high, but we do not advocate for establishing a fixed**

[5] Indirect holding of assets also entail a cost problem for retail investors (especially those in packaged investments); not only for the amount of those costs (which commonly turns benefits for the funds into negative returns for end investors), but also for the costs' disclosure to end-investors.

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threshold. The eligibility of assets for LTI should be based not only on maturity but also other characteristics (e.g. nature of the investment). We believe criteria should be somewhat flexible.

e. If shorter-term investments were allowed to be included into the portfolio, what proportion of the portfolio should be permitted for them?
We do not believe that short-term investment is adequate for composing the portfolio of LTI funds; however, it should be possible for the fund to invest in assets with different maturities.

f. Should a diversification of investments be required?

Yes, as a fund should not invest only in a specific project or asset (this is one of the main characteristics of funds).

g. If so, what should the minimum number of ultimate counterparties be?
This requisite should also consider the weight of the portfolio components e.g. if the portfolio is truly diversified or the highly concentrated in one or fewer projects or assets, with the rest having a marginal share on the portfolio.

h. Should investors have redemption rights?
   i. Periods less than a year
   ii. ii. Yearly
   iii. Some longer set period: **Yes**
   iv. No rights from the fund manager
   v. **Other approaches (e.g. relying on or requiring secondary trading of units in the fund)**
   Yes, investors should have certain redemption rights (even if the LTI fund is non-UCITS[6]);

i. If redemption rights are to be given, must additional steps be required (e.g. ensuring a liquidity buffer is available)?

[6] Please read page 6 and 7 of our Response to the European Commission's Consultation on UCITS VI – Long Term Investment for our comments to the liquidity tools for UCITS funds.

vi. **<u>Yes, if targeted at individual investors (whose rights are frequently threatened and not respected).</u>**

j. Transparency requirements (e.g. possibility to "look-through")
<u>Of course: in particular, the detailed portfolio of the fund's investments should be published at least every year.</u>

k. Other requirements

11. **Which features should be defined in more detail by legislation and which should be left to contractual arrangements? Why?**

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