# FORWARD

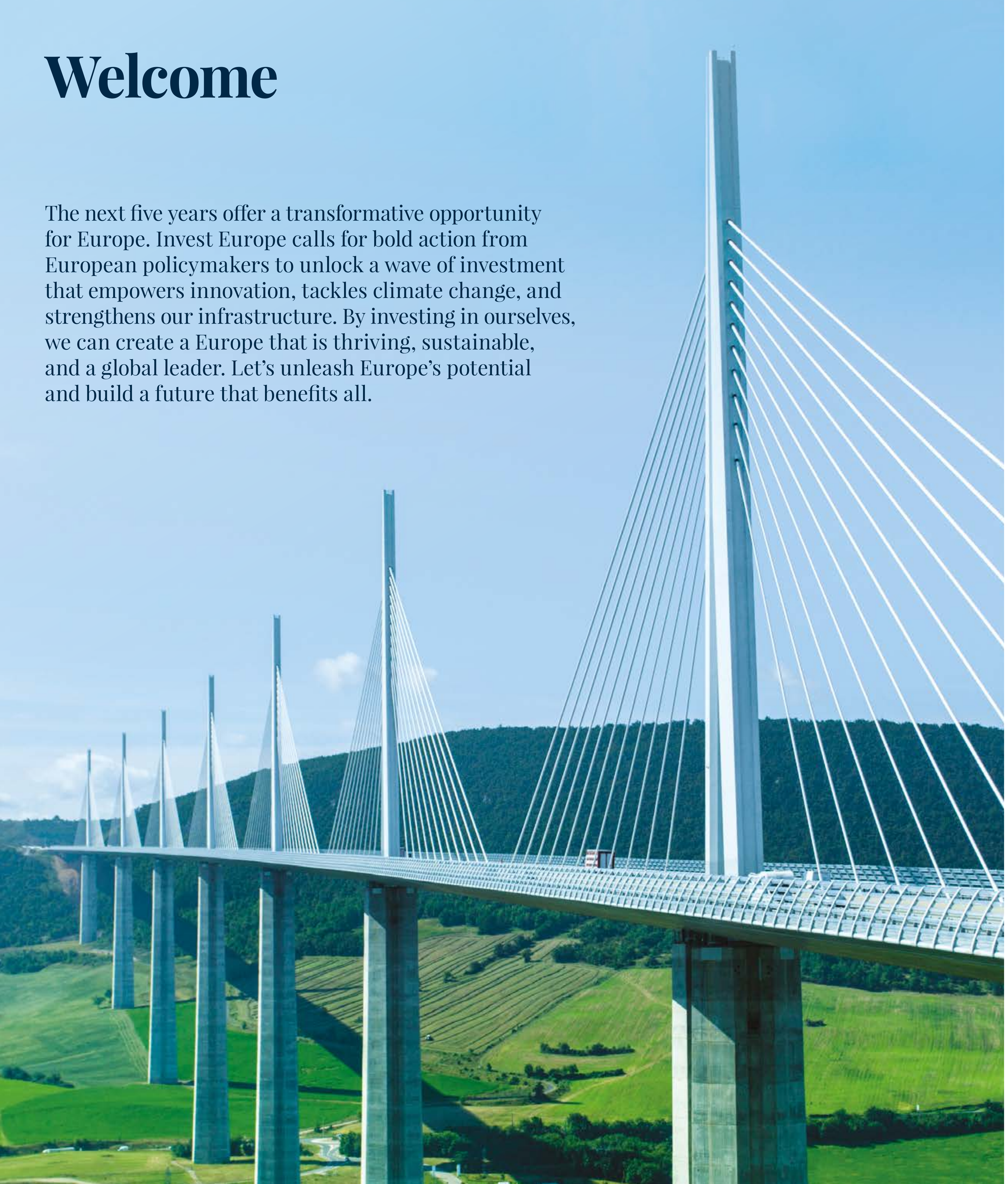
INVEST EUROPE JUNE 2024



## Delivering the European transition

Our 12 priorities for a more competitive union

INVEST EUROPE



# Welcome

The next five years offer a transformative opportunity for Europe. Invest Europe calls for bold action from European policymakers to unlock a wave of investment that empowers innovation, tackles climate change, and strengthens our infrastructure. By investing in ourselves, we can create a Europe that is thriving, sustainable, and a global leader. Let's unleash Europe's potential and build a future that benefits all.



# Contents



# Introduction

To realise Europe's twin transition, we must unlock a new wave of investment that has yet to be tapped.

**Eric de Montgolfier**
Chief Executive Officer

The new EU mandate offers European industry an opportunity to pause and consider the next five years, though private capital investors naturally take a longer-term view. Private equity, venture capital and infrastructure investments typically have a longer lifespan than five years. Our members think in terms of longer horizons, not short-term cycles. This perspective shapes our approach and the lasting impact we aim to achieve.

Tackling the major issues of the day such as climate change, conflict, social inequality, inadequate infrastructure, and emerging threats in the tech space will not be solved over the course of a political mandate. These multifaceted challenges demand sustained, long-term strategies. While it's essential to prioritise short-term victories to demonstrate progress, EU policymakers must remain focused on the horizon. And more importantly, policymakers must have a clear vision for that horizon.

*We see that for the coming mandate and beyond, a common goal has emerged from all corners of European industry: more funding is needed for European companies.*

Over the last five years, European lawmakers have introduced ambitious legislation, establishing new regulations, particularly concerning sustainability and digital policy, under the EU Green Deal and Digital Strategy. This level of ambition is commendable and communicates clear priorities and focus to European citizens and our international partners. The challenges posed by COVID-19 and recent conflicts in Europe have demonstrated the European Union's commitment to the fundamental values upon which it was founded: dignity, freedom, democracy, equality, rule of law, and human rights. Embarking on this new mandate provides us as European citizens with an opportunity to take pride in our European project.

This new mandate also presents a compelling opportunity for the European Union to elevate its ambition. Europe has established itself as a global leader in sustainability and digital regulation, a position further solidified during the last mandate. However, our focus on these areas must be complemented by a renewed commitment to fostering innovation. Innovation is the cornerstone of achieving our digital and sustainability goals, and not focusing our efforts to support it would leave us strategically unbalanced.

Invest Europe is the world's largest association of private capital providers. We represent Europe's private equity, venture capital and infrastructure investment firms, as well as their investors.

€1 trillion

in capital under management in Europe

605

member firms

European leaders have emphasised that a more competitive Europe is essential to achieving the EU's strategic goals. This requires increased, targeted investment in both European value chains within productive sectors and infrastructure that strengthens Europe's energy sources. We see that for the coming mandate and beyond, a common goal has emerged from all corners of European industry: more funding is needed for European companies. Europe's future influence will depend on the future performance and scalability of its innovative businesses. As private capital investors, this is an area where our members have significant expertise and financing capabilities.

For policymakers over the next five years, the message is clear: prioritise speed and scale. Our recommendations in this paper outline steps to put Europe on the path to capitalise on funding opportunities, increase financing for critical European infrastructure, and put Europe back in the race to lead at the global level. By doing so, Europe will attract the necessary funding to empower its game-changing innovators, driving the continent to the next level.

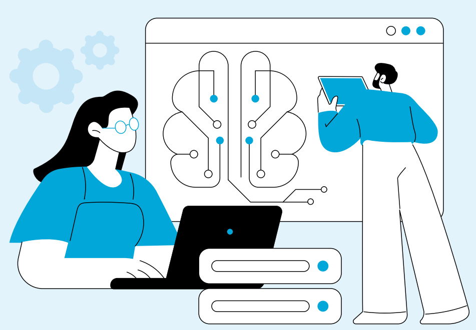
*Financing innovation is the cornerstone of achieving our digital and sustainability goals, and not focusing our efforts to support it would leave us strategically unbalanced.*

# What Europe needs

Private equity provides long-term investments, dynamism, strategic outlook, and flexible tactics to companies throughout their growth cycle.

**Invest Europe calls for a new era of strategic investment. Funding must flow towards innovation, tackling climate change, and fortifying infrastructure. By empowering these areas, we can build a Europe that is a leader in sustainability, economic strength, and technological independence.**

## 1 Innovation



We have to develop the most innovative technologies, creating new businesses and jobs for citizens.

### Private capital backed success

Investors: AT Impf, MIG

BIONTECH

Where would we be without a COVID vaccine? BioNTech, based in Mainz, Germany, achieved global attention when it joined forces with Pfizer and Fosun to develop a vaccine against COVID-19 in 2020. A now household name, BioNTech raised some of the largest venture capital funding rounds in European biotech history to pursue its range of candidates for infectious diseases, cancer and autoimmune conditions and invest in manufacturing capacity.

**1.4bn** in seed and VC funding rounds

**3,082** employees, more than doubled since 2019

## 2 Climate action

We must chase solutions to climate change and develop the circular economy to empower EU citizens to make sustainable choices.

### Private capital backed success

Investor: IK Partners

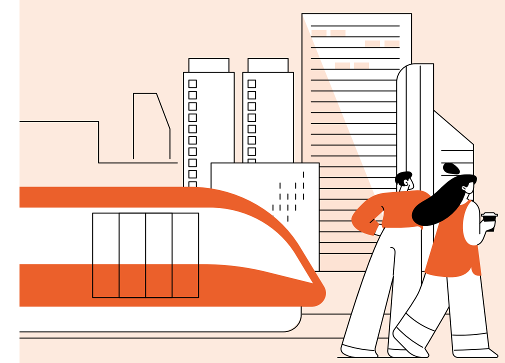
MDT TECHNOLOGIES

MDT, a frontrunner in smart building components, empowers energy efficiency. The company and its employees stand for top quality and user-oriented thinking. Recognising that buildings contribute 17% of global greenhouse gas emissions, they deliver automation solutions for heating, ventilation, and lighting in residential and commercial buildings. Their innovative products boast potential energy savings of up to 50%, driving real change in the fight against climate change.

**91%** EU Taxonomy eligible revenue

**83%** organic FTE growth from 2019 to 2022

## 3 Infrastructure



We need to transform our infrastructure, focusing on all relevant industrial sectors, to make it first in class.

### Private capital backed success

Investor: CapMan

NORLED

Norled AS, a top Scandinavian marine transport company (41 ferries, 30 express boats), prioritises clean infrastructure. Water transportation is an essential part of Scandinavian infrastructure. As a leader in sustainable solutions, they aim for a mostly zero-emission fleet within a decade. This is driven by investments in new vessels and eco-friendly tech like hybrid, battery-powered options, and even the world's first hydrogen-electric ferry.

**16** new electric ferries

**15** million passengers annually

## 4 Sovereignty

We must build our geopolitical status to no longer be dependent on external might.

### Private capital backed success

Investors: AIF, Astanor Ventures, ECBF, KU Leuven, PMV, Qbic, Vanden Avenne Group de Ceuster, V-Bio Ventures, VIB, Vives

APHEA bio

Aphea.Bio aims to become a global leader in the development of microorganism-based biocontrols and biostimulants, thereby ensuring a safe and healthy food chain and providing reliable science-based solutions to build the agriculture of the future. Secure food supply chains can lessen Europe's dependence on external factors like geopolitical tensions or extreme weather events that can disrupt global food production and imports. This ensures a steady flow of food for its population.

**>25m** in VC funding

**>30** products in the pipeline

### Missing our goals

We are on track for losing the race with the United States and, in some cases, China. European companies at the top of their game often end up becoming foreign businesses as we are unable to create both the ecosystem for companies to grow and to finance companies throughout crucial development stages.

We are not missing our goals by much, yet, we are clearly missing them. And, in doing so, we lose the huge rewards that innovation and performing infrastructure bring to our continent.

We must create a Europe that is not only the most attractive place in the world to start a company – but also the best place to grow one, up to the stage where these can become global businesses.

### The role of private finance

To help start-ups get off the ground and build the capacity of European mid-sized businesses to turn them into international champions, we will not only need public action – but to increase significantly the amount of private capital that can be invested in businesses that show promise.

As a significant importer of private capital, it is vital for Europe to take all steps to remain an attractive place for foreign investors while, in the medium-term, unlock sources of capital at home that have so far been sorely missing.

Private equity is the only funding instrument that has the fueling of start-ups, scale-ups, established companies, and European champions as its mission. It is an underutilised resource which can bolster EU competitiveness.

View more real life success stories online >

# What we provide

Expert investors, with deep company knowledge, build better businesses: stronger management, sharper operations, and new markets.

Private equity, infrastructure and venture capital fund managers act as a bridge between investors, whether global or local, institutional or retail, and, best-in-class growing EU businesses, from the smallest start-ups to late-stage scale-ups, and soon-to-be European champions.

Private equity ensures returns for millions of pensioners and savers at a time where the lack of financial performance is a massive problem for an aging population. As EU citizens fear that they will be unable to enjoy the same retirement benefits as their parents and grandparents, it offers pension and insurance funds the opportunity to capitalise on the EU economy's greatest successes.

## Investing the savings of all…

### Investors

- Pension funds
- Banks
- Insurance companies
- Family funds

## through a range of structures…

### Funds

- Venture
- Growth
- Private equity
- Infrastructure

## in valuable businesses…

### Businesses

- Start-ups
- Scale-ups
- Established businesses
- Unicorns

## to a better future for all

### Job creation

### Green growth

### Digital innovation

Returns

Reinvestments

*Because of their unique way of financing, our members can support innovative businesses in a way credit institutions simply cannot – making them a crucial part of the EU financing ecosystem.*

*The private equity and venture capital sector has been built around the ability to identify the potential for exponential growth through financing cutting-edge projects.*

**Providing excellent returns for EU pensioners**
24%
of all fundraising came from pension funds in 2023

**Raising significant capital for EU firms**
€133bn
raised in 2023

**Putting our money where our mouth is**
€100bn
invested into European companies in 2023

**Improving the EU industrial capacity**
€557bn
invested in European companies from 2019 to 2023

**Pulling investment into Europe**
~50%
of all fundraising came from outside Europe in 2023

**Vast and diverse investment strategies**
744
funds raised capital throughout 2023

**Direct impact on the real economy**
8,391
European companies received investment in 2023

**Creating jobs for EU citizens**
7.2%
job creation rate in private equity-backed companies in 2022 (vs 2% seen in European companies overall). Over **10.9 million** Europeans were employed by private equity and venture capital-backed firms.

## Recognisable brands backed by private equity

arena

B&B HOTELS

BIONTECH

DPA MICROPHONES

hunkemöller

Lily O'Brien's

NORLED

Skyscanner

View our success stories online >

# Q&A

## An interview with Invest Europe's Chair 2024 - 2025, Partner and Chairman of EMEA at KKR Johannes Huth



**Q**

**Ahead of the European elections, competitiveness has been high on the agenda. What does competitiveness mean to you, taking in your 30 years of experience as a global private capital investor?**

**A**

We were delighted to see that both investments and competitiveness are being prioritised by European policymakers.

Both are at the core of our license to operate, which is all about offering returns to our investors by investing in and building better companies.

Many of the companies we back have ambitions to become European or even global champions, so naturally, they need to be able to stand out with their expertise and specific offer.

**Q**

**How can private capital investors play a role to support the EU's goals?**

**A**

Private capital investors are powerful allies in achieving the EU's goals. As investors in capital at risk, our industry is well positioned to invest in nascent and transformative sectors and companies.

Private capital investors are deeply connected with European innovators, entrepreneurs and corporates. Our unique ability to source, pool and efficiently allocate private, long-term capital across the European value chains gives us a deep understanding of European industry at large.

**Q**

**What does a Europe, competitive in attracting private capital, look like in your view?**

**A**

There is a context of increasing global demand as well as global competition for private capital.

The present reality is that Europe is facing heavy competition from other geographies for private capital, fueled by a wide array of government policies and incentives.

When investors assess whether to allocate capital to Europe, it is first and foremost about seeing that Europe gets things right in building a productive and sustainable economy.

Secondly, it's about seeing whether they are a welcome partner in the building of a Single Market and Capital Markets Union, that is able to efficiently provide companies with access to capital.

**Q**

**You mentioned foreign investment. Looking at this from the perspective of a global private equity investor, what in your view makes Europe an attractive region for investors?**

**A**

The European Single Market provides a great opportunity for investment. What's not to like? It's a large, developed market - boasting the largest single market, offering access to a massive consumer base. It's a hub of innovation, thanks to world leading R&D, especially in critical sectors like technology, green energy, and healthcare. Europe has world class infrastructure, strong corporate governance, and a highly skilled workforce.

There are vast amounts of investment opportunities in Europe in cutting-edge companies, so it's still a very attractive place for foreign investors.

By the way, this is something to be encouraged! Without foreign investors, Europe would have no chance of meeting the set targets under the green and digital transition.

**Q**

**Given your three decades of experience in interacting with policymakers, what do you think the priorities outlined in Invest Europe's manifesto will bring to the table at this point in time?**

**A**

By fostering a deeper integration of private capital into the overall investment landscape, the European Union can unleash a significant surge of resources towards productive sectors that are critical to both our economic competitiveness and long-term security.

Areas like defence have understandably risen in prominence recently. But we must not lose sight of ongoing challenges like climate change and digital transformation.

Private capital excels at taking the long view. Unlike public markets that can be buffeted by short-term crises, our focus extends far beyond the immediate horizon. This long-term perspective positions private capital as a central pillar in building a resilient and prosperous Europe.

**Q**

**You've discussed challenges like economic growth and industrial competitiveness in all kinds of global fora, WEF and beyond. Is there a particular message you would like to send to EU policymakers ahead of the next mandate?**

**A**

We believe that private capital investors are a pivotal part of the solution to Europe's challenges; challenges that will demand courageous and sustained public policies, coupled with smart deployment of private capital at scale.

So often we have heard from EU leaders about how public funding alone cannot foot the bill to meet the needs of the twin transition. Well, we are here, we are ready to invest, but there needs to be some work done by regulators to ensure that we can complete our side of the deal. This manifesto outlines the perspectives of our sector on how to build this public - private partnership.

In terms of how we work together with the public sector, policymakers have to improve the interplay between public and private funding. This begins with the realisation that you can *allocate* public funding, but you have to *attract* private funding. We need to work together to ensure the right incentive structures exist for both.

# Our 12 priorities

To become globally competitive, Europe needs to build an ecosystem that rewards and incentivises innovation, while also ensuring an obvious pathway for companies to become global competitors.

**Private money, specialising in investing in innovation and known for backing winners, has to be a part of the way forward.**

European private equity has a lot of potential – but it still lags behind its global counterparts, limiting its ability to contribute significantly to European competitiveness.

Implementing a series of strategic actions can unlock the full potential of the industry and enable it to play a pivotal role in enhancing Europe's competitive edge.

To achieve this, policymakers must consider the entire ecosystem of private capital financing. Beginning with the investors, who invest into the funds, which in turn channel capital into high potential European companies. Taking a step back, policymakers should also examine the overall ecosystem under which all these actors operate.

We suggest 12 reforms, divided into 4 themes, that could be looked at to promote venture capital, private equity and infrastructure as providers of capital to EU businesses.

THEME 1

## Unlocking the capital to fund European change

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**1 PRIORITY**
Take down barriers that prevent pension funds and insurers from financing our digital and climate transition

**2 PRIORITY**
Redirect EU citizens' savings to productive asset classes through changes to EU passport and reporting requirements

**3 PRIORITY**
Attract foreign capital to the Union

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## Putting our continent on the global scale

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Complete the Capital Markets Union

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Leverage existing funding initiatives and create an EU Champions Fund

**6 PRIORITY**
Secure tax policies that are simple to adhere to, promote growth and incentivise cross-border fundraising & investments

THEME 3

## Boosting innovators, and creating the environment for them to thrive

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**8 PRIORITY**
Reshape EU company law to incentivise equity investments

**9 PRIORITY**
Develop a flexible, opt-in EU insolvency law on top of the existing EU-wide rules

THEME 4

## Investing in the ecosystem of the future

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**10 PRIORITY**
Ensure there is a straightforward, seamless, and compatible EU sustainability disclosure framework

**11 PRIORITY**
Attract private capital finance to the EU's most critical sectors, from infrastructure (digital, climate, transport, energy) to defence

**12 PRIORITY**
Improve the cross-border EU investment environment

THEME 1

# Unlocking the capital to fund European change

Europe needs a financing shift: leveraging long-term assets, including citizen participation and international capital, to fund innovation and the climate and digital transition.

**THEME 1**

# Unlocking the capital to fund European change

## Introduction

**We must** move on from a financing model that is based on large and traditional credit institutions – making full use of long-term asset classes to allocate capital to long-term projects.

**We must** foster participation of all European citizens to funds that finance projects valuable to the EU digital and climate transition.

**We must** mobilise capital from international sources and direct them to innovative EU businesses.

Today most EU savings are directed to bank accounts and not put towards tackling Europe's well-known societal challenges. This wasted potential leads to a significant and widening gap with other jurisdictions when it comes to the financing of innovation and new technologies.

Venture capital, infrastructure and private equity have demonstrated they are among the few asset classes that can truly finance businesses at the beginning of their life (start-ups or scale-ups) or when they face new or challenging conditions.

But they cannot do this without having access to capital from a wide range of sources, both in the EU and globally. Barriers to raising funds, whether they are of a prudential or legal nature, can severely affect the flow of capital to EU businesses. This makes the removal of these barriers crucial not only to these funds but to all the businesses that they support.

*In an ever-changing world, the biggest risk to our societies is our inability to invest in our own future.*

## Priorities

**1 PRIORITY**
Take down barriers that prevent pension funds and insurers from financing our digital and climate transition

To finance our transition, we need long-term capital deployed into the assets that will make a difference. Institutional investors have been entrusted with such capital and have a natural interest in committing part of this capital to portfolios of long-term funds. These investments would instantly give them exposure to a wide range of growing businesses. Yet, institutional investment remains hindered by a series of misconceptions and national restrictions.

EU law for example requires banks and insurers to hold disproportionately high amounts of capital when making investments in long-term, diversified funds, making these investments comparatively more expensive. Meanwhile, many national laws still prevent pension funds from being exposed to long-term funds altogether.

US pension funds currently allocate a significant 11% of their portfolios to private equity, venture capital, and infrastructure investments. This is in stark contrast to the EU, where the 2022 allocation stands at just 4.3%. Bringing European pension fund allocation up to 10% would increase investment into the sector, and thus asset exposure into European companies, by €124 billion in current values.

For insurers, currently less than 2% is allocated to private equity, venture capital, or infrastructure investors located in the EU27. Bringing that number up to a conservative 5% would increase investment into the European economy, in current values, by €277 billion. A 7% increase would yield a €443 billion increase from current levels.

**Missed opportunity:** Banks' assets represent 300% of the EU GDP…and yet they account for less than 5% of the overall investment base of private equity.

### Required changes

- Incentivise banks and insurers to allocate capital into innovative EU businesses by reassessing the capital charge they are subject to when investing in long-term, diversified funds (Solvency II for insurers and CRR for banks).
- Remove limitations to invest in long-term asset classes for pension funds (IORP Directive).

### Success criteria for EU economy

**By 2029, 7% of EU insurers' and 10% of EU pensions' assets under management should be committed to EU long-term private capital (Current situation: <2% and 4.3%).**

**2 PRIORITY**
Redirect EU citizens' savings to productive asset classes through changes to EU passport and reporting requirements

To allow retail investors to commit capital to long-term projects, one must understand that the entire EU financial services legal architecture is inherently biased towards daily-traded products, with disclosure and distribution channels indirectly rewarding short-term investments. As long as EU law fails to create incentives for savers to commit their capital where it can be most productive to the EU economy, such capital will risk being passive savings, or will unfortunately continue to go to volatile, speculative assets.

**Everyone can play a role:** Between 2019-2022 private individuals contributed €19.5 billion into private equity funds located in one of the EU27 countries.

EU-mandated investor documents like the KID (Key Information Document) should be revamped to help savers grasp the significance of their investments for the EU economy, rather than attempting to compare vastly different products. Simultaneously, efforts should persist in enhancing EU retail passports, enabling managers to develop new diversified products tailored to the liquidity requirements and risk profiles of retail clients.

Allowing experienced high-net-worth individuals from across the globe to commit capital into EU private equity, whether listed or private, would also be beneficial to start-ups, scale-ups and infrastructure projects. Currently the requirements are hindering experts and entrepreneurs from investing in private funds, despite their expertise. We need to create the conditions for our entrepreneurs to reinvest their profits into sectors they know best.

**Hands tied:** Currently, EU rules consider a junior banking professional as more qualified to invest in a company than a CEO with deep sector knowledge.

### Required changes

- Reshape disclosure requirements in EU law to make them more fit for purpose and streamlined to specific products and incentivise investments in productive assets (KID, MiFID).
- Amend EU passports to allow managers to more easily create diversified structures appropriate to EU small savers (ELTIF, EuVECA).
- Recognise the level of experience of larger, long-term private investors (definition of a "professional investor" in MiFID II).
- Consider additional tax and legal incentives to attract wealth capital to EU long-term asset classes.

### Success criteria for EU economy

**By 2029, at least 10% of EU high-net -worth individuals' investable assets shall be committed to EU long-term private capital (current situation: <2%).**

**3 PRIORITY**
Attract foreign capital to the Union

The small size and fragmentation of EU capital markets has long been a disadvantage for our continent, especially as banks have retreated from their role as financiers of long-term projects. But further to this, one of our continent's longstanding issues has been its inability to rally the capital of deeper markets for its own needs. While a large part of the EU financing is already coming from outside the continent, this masks significant disparities between markets and sectors.

Recent foreign direct investment rules have generally made it harder for EU funds and businesses to raise foreign capital. This is due to a lack of understanding of the unique, differentiating way in which private funds pool capital globally to invest in Europe. Many foreign investment regulations restrict investments in funds managed by European managers. This often stems from misconceptions about how these funds work. Specifically, there might be misunderstandings that foreign investors can directly influence the specific investments made by the fund, particularly in private equity.

Moreover, access to EU-sponsored programmes in areas such as technology and defence remains defined by eligibility criteria that include restrictive notions of (allowed) non-EU minority ownership and control.

Finally, foreign investors investing in EU businesses, directly or through funds, face a complex and fragmented foreign direct investment screening system. This is one of the stones that must be turned for Europe to make the most of capital that is ready to be deployed into its companies.

All of these issues cut Europe off from a much-needed stream of capital and can be addressed by EU lawmakers during the next mandate.

**Significant importer:** Almost 50% of capital injected by European private equity funds in EU businesses in 2023 was raised outside Europe.

### Required changes

- Redefine foreign investment rules to acknowledge characteristics of private equity fund structures – and ensure passive structures are not unduly covered by these rules.
- Create a Centralised Screening System for FDI to mitigate the inefficiencies and costs stemming from divergences in scope, requirements, timelines, and effects.
- Consider setting a One Stop Shop Mechanism for multi-country transactions, so investors only need to file a single application.

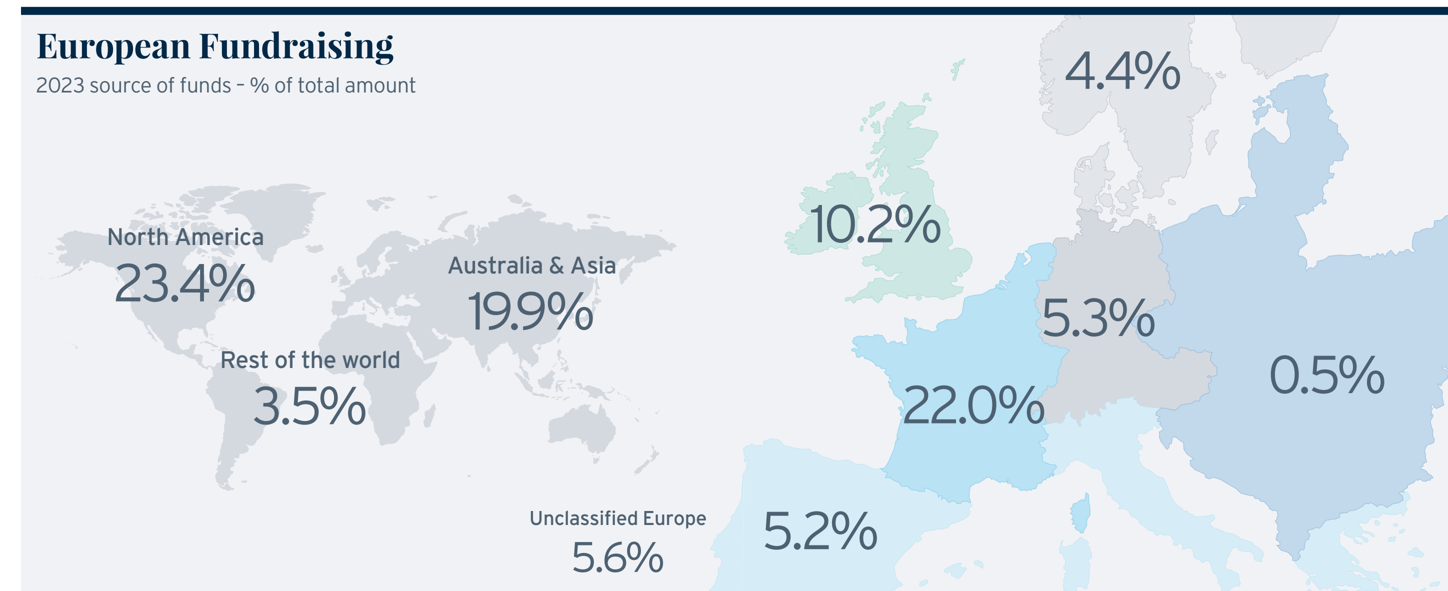
### Success criteria for EU economy

**By 2029, Europe must safeguard at least current levels of foreign investment by streamlining complex investment screening processes.**

THEME 1

## European Fundraising

2023 source of funds – % of total amount




Source: Invest Europe / EDC

THEME 2

# Putting our continent on the global scale

A unified European capital market requires streamlined EU-wide rules and supervision, dismantling national barriers to support cross-border investment and empower public backing for EU businesses.

**THEME 2**

# Putting our continent on the global scale

## Introduction

**We must** create the conditions for every fund in the EU to behave, if it wishes, as a European fund, subject to European rules and European supervision without the hindrance of national barriers.

**We must** strengthen the role of European authorities in removing technical barriers that prevent cross-border activities, including unnecessary reporting burdens.

**We must** increase our ability to incentivise EU businesses to remain in the Union.

**We must** be ambitious in creating a tax rulebook that incentivises cross-border investments within the Union.

Today our Union is better at financing innovative seed projects than at reaping the benefits of these investments when they reach a critical size. While we are good at promoting start-ups, scale-ups are leaving Europe as they are typically unable to receive growth capital from larger EU managers.

EU funds are too small in large part because they must operate in a fractured environment with differences in taxation, remaining single market barriers or diverging implementation of EU rules. At the same time, public finance has so far fallen short of providing the necessary funding and incentives to support larger businesses at a time when they are considering moving outside Europe.

This is why our focus should be put on actions that ensure businesses can operate across EU borders and beyond.

*It is only by setting aside our national preferences that we will tackle the Scale-up Gap and be truly able to compete on a global scale.*

## Priorities

### 4 PRIORITY
Complete the Capital Markets Union

Theoretically, existing EU passporting rules should offer fund managers the ability to market across EU borders easily. Yet, the positive effect of this passport remains limited as managers continue to face a series of barriers, whether these are cumulative fees charged by host authorities, or divergences in implementation and supervision.

In 2023, only 30% of all fundraising in EU27 countries was cross-border, despite existing rules at EU level allowing the free flow of capital.

All of this ultimately makes cross-border fundraising much harder than it could be, with the consequence of maintaining the average size of EU funds at a much lower level than in the United States and making EU funds less able to support our own scale-ups.

**Size matters:** Venture capital fund size in the EU is 22% lower than in the US on average.

#### Required changes

- Map existing legislative or monetary barriers that prevent managers from operating cross-border.
- Introduce the opportunity of opt-in EU supervision for funds that wish to have a European strategy.
- Give European Supervisory Authorities a new structure and additional tools to tackle existing barriers.
- Widen the existing venture capital regime (EuVECA) to allow all venture and growth funds supporting start-ups and scale-ups to operate more easily cross-border.

**Success criteria for EU economy**
**By 2029, increase the percentage of intra-EU cross-border fundraising from 30% to 50%.**

### 5 PRIORITY
Leverage existing funding initiatives and create an EU Champions Fund

The EU has taken big steps in recent years to provide greater amounts of funding that help European companies to grow, both directly through grants and Horizon Europe funding streams, and indirectly by supporting venture and growth funds through the European Investment Fund.

However, most of these products, including the recently launched EIC Fund, have too small ticket sizes to truly allow EU businesses to support scale-ups. They are also too complex to be used easily (contrary to systems set up elsewhere). This contributes to the trend of European companies, en route to becoming European champions, opting to grow in the US, rather than at home.

**Winner takes it all:** There are 2.5 times more Spotify jobs in the US than there are in Europe, despite Spotify being a European founded firm.

Based on already existing initiatives, such as the laudable ETCI, we should mobilise more capital from more countries towards the large end of the innovative market, offering European champions better opportunities to keep the EU as their home, while continuing to support smaller structures. This would help the continent support its core strategic sectors, including the digital and energy sectors, as well as to invest in its own sovereignty.

#### Required changes

- Develop the ETCI into an EU "superfund".
- Devote new own resources mechanisms to support innovation at EU level.
- Create a one-stop portal for all EU funding to facilitate application and leverage synergies between funding mechanisms.
- Provide more support through tax incentives and equity (i.e., operational expenditure as opposed to capital injections) in the same way as the United States has done with the Inflation Reduction Act.





### 6 PRIORITY
Secure tax policies that are simple to adhere to, promote growth and incentivise cross-border fundraising & investments

We should create a taxation policy that is simpler, clearer, and reduces any cross-border tax frictions, with the golden standard being applicable across all Member States.

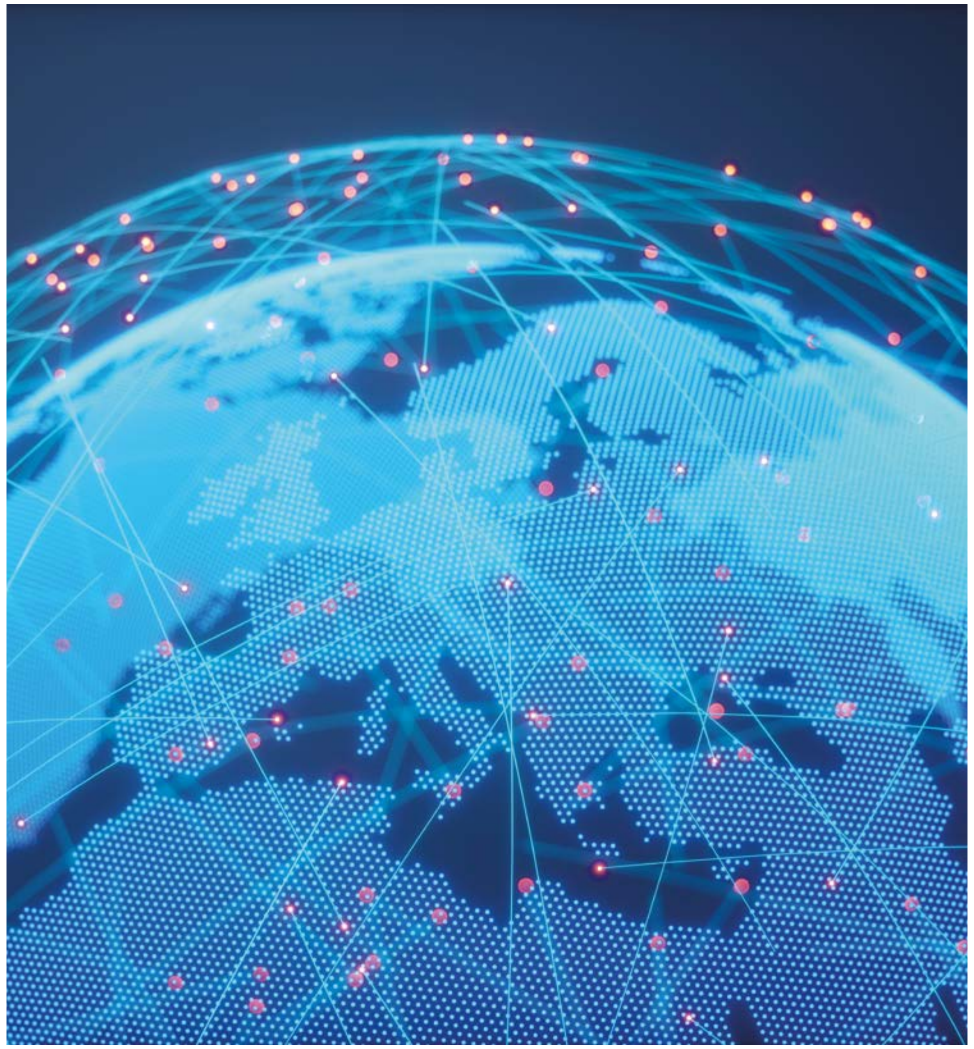
What businesses truly need is a taxation policy that is easy to comply with, fosters growth, and encourages cross-border fundraising and investments. We need to eliminate tax disparities and challenging processes, e.g., on refunds of withholding tax.

By implementing innovation and investment focused tax policies, we can create a business environment that encourages both local and international investors to participate in the European economy. This will not only drive economic expansion but also strengthen our position in the global market.

#### Required changes

- Create best practices for tax incentives for venture capital at the Member State level.
- Develop an ambitious and simplified uniform withholding tax system, which at the same time respects the rules of tax neutrality.
- Protect exemptions from withholding tax under existing taxation rules (e.g., the Parent-Subsidiary Directive and the Interest and Royalties Directive).
- Introduce standardised EU-pooling vehicles and treaty-accessible Special Purpose Vehicles.

*Only 30% of all fundraising in EU27 countries was cross-border, despite existing rules to enhance the free flow of capital.*



THEME 3

# Boosting innovators & creating the environment for them to thrive

To unlock Europe's full potential, we need to empower young talent, bridge the funding gap for innovative businesses, normalise risk-taking and potential failure as a learning experience, and incentivise cross-border investments.

THEME 3

# Boosting innovators, and creating the environment for them to thrive

## Introduction

**We must** create the conditions for young Europeans to use their talent to make a difference.

**We must** allow businesses that receive equity funding to remain eligible for public support.

**We must** recognise that failure can be a step on the path to success.

Today entrepreneurs across the EU struggle to find the right conditions to start their business journey, partly due to the number of requirements that are attached to setting up a company, partly due to the difficulties in marketing their products and ideas beyond their national borders.

As a continent, we are increasingly failing to put start-ups and scale-ups in a place where they can mobilise public and private resources, leading to significant gaps in funding for growing companies.

To overcome this situation, we need to give entrepreneurs the necessary tools to nurture their businesses, from their companies' inception up until the moment they reach a size where they can become viable on the global stage. Changes to entrepreneurship culture, easier access to talent and reduced red tape are all aspects that need to be further examined if we want EU businesses to have the chance to become tomorrow's international champions.

**Value sharing:** Value sharing mechanisms have become increasingly important for private equity managers, ensuring that the growth of businesses benefits all contributing employees. We suggest that the EU considers incentivising these mechanisms to foster long-term employee commitment. This could involve implementing new taxation rules for stock options or promoting best practices in participation mechanisms. Such initiatives not only enhance the EU start-up ecosystem but also ensure equitable distribution of value among creators.

## Priorities

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**PRIORITY**

**Develop a programme of EU regulations to promote talent mobility and the digitalisation of Europe**

Recent Commission programmes designed to support a "Start Up Union" have yielded results – but there remain many roadblocks before the EU can be competitive on a global scale.

**Losing talent:** During the last decade almost 30% of all EU unicorns relocated their headquarters abroad.

When creating new EU law, policymakers should put themselves in the shoes of innovators and determine, at every step of a young company's life, which changes would help, and which would hinder. From giving founders the ability to attract the best talent to their firms to improving their ability to develop their products in specific innovative sectors, there is a lot that can be done for start-ups to convince them that Europe is the best place for them to build their business.

### Required changes

- Streamline start-up visas to help attract talent to Europe.
- Create a "competitiveness test" for EU laws to ensure they do no prevent start-ups and scale-ups from operating.
- Develop programmes for young people to boost entrepreneurship skills and culture.
- Promote tax incentives for investments in start-ups and scale-ups, including taxation of stock options designed to attract or retain talent.

**Success criteria for EU economy**

**By 2029, increase by 30% the amount of start-up creation in Europe.**

8

**PRIORITY**

**Reshape EU company law to incentivise equity investments**

The size and level of independence of a business is key to determine whether a company, including start-ups and scale-ups, is eligible for eased regulatory requirements and funding programmes. Unfortunately, EU law considers companies that receive equity investment from third parties as being part of the same trade group as that investor. This then leaves many innovative businesses supported by venture and growth capital unable to benefit from proportionality rules or, as the case may be, public funding.

**Back of the pack:** Europe's 147 unicorns are a far cry from the 641 based in the US.

Separately, the wide diversity of company structures in the EU also makes it harder for growing EU businesses to operate across EU borders. Taking example of what has been done in the past, lawmakers should consider the opportunity of extending the concept of a Societas Europaea to start-ups.

### Required changes

- Change the SME Definition and use an appropriate definition of 'control' in sectorial law to help ensure that companies can receive backing by venture and growth funds without losing access to the benefits of being an SME.
- Consider whether a Societas Europaea specific to start-ups could help EU businesses to operate cross-border.

**Success criteria for EU economy**

**By 2029, 10% of EU start-ups created as Societas Europaea.**

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**PRIORITY**

**Develop a flexible, opt-in EU insolvency law on top of the existing EU wide rules**

Differences in EU insolvency laws create a lot of uncertainty for investors in businesses and act as a disincentive to cross-border investment. Investors can be reluctant to commit capital to innovative businesses – or to businesses in difficulty looking for a second chance – unless they know for certain what type of insolvency proceedings will apply. This is all the more true when it comes to risk-willing capital with diversified investments across Member States.

**Starting again:** Twice as many founders in the US (30% vs 15%) have had previous experience founding other companies than in Europe. (Source: JRC Technical Report)

Irrespective of the reasons for differences between markets, it is vital to have – to the widest possible extent – an EU-wide system in place that would give investors a better assessment of these worst-case implications of their investment. Without this, divergences will continue to act as a disincentive to investors, to the detriment of firms in difficult circumstances.

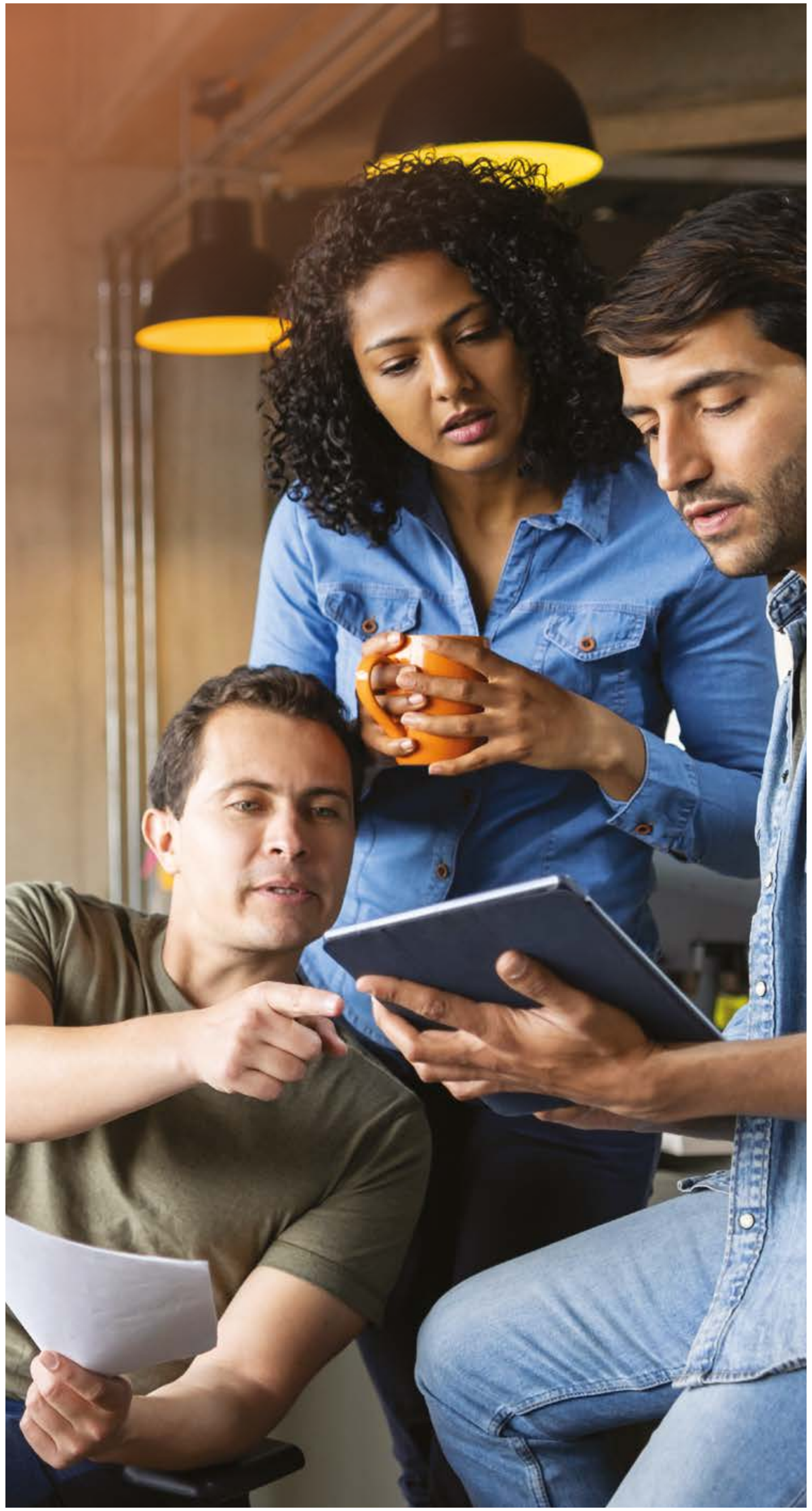
### Required changes

- Create a flexible European opt-in insolvency model, which companies with a European focus could choose as an alternative to their national model (with the ultimate aim of developing a truly integrated EU regime).

**Success criteria for EU economy**

**By 2029, 10% of all newly established EU companies should be using an EU insolvency regime.**

*Europe's past successes in innovation do not shield it from present and future stagnation.*



THEME 4

# Investing in the ecosystem of the future

Europe's future hinges on empowering citizens for climate action, modernising infrastructure, and bolstering defence for lasting security.

**THEME 4**

# Investing in the ecosystem of the future

## Introduction

**We must** give EU citizens the tools to tackle climate change in their everyday lives.

**We must** renew Europe's critical infrastructure and networks.

**We must** invest in our defence and build our own sovereignty to prevent future aggressions.

More than any other place on earth, our Union has been defined by its ability to respond to crises. Tackling climate change, regaining peace on our continent, and ensuring our sovereignty in an increasingly polarised world may not necessarily constitute new challenges – but they are all of an unprecedented magnitude.

After decades of underinvestment in our critical infrastructure and as public finances remain constrained by the needs of an ever-aging population, none of the objectives highlighted above will be met if we are unable to mobilise private capital from a wide range of sources, from within Europe and beyond.

From superconductors to the circular economy, and from defence investments to energy grids, there is no time to lose if we want to ensure that large infrastructure, private equity, and venture capital funds can contribute to the task. Funds that help make a difference should be incentivised while EU law should act as a driver to further investments in sectors that matter the most.

*If we want to keep the 1.5-degrees goal within reach, the world must triple its renewable power capacity and double energy efficiency by 2030.*

**Ursula von der Leyen**, European Commission President
Source

## Priorities

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**PRIORITY**
**Ensure there is a straightforward, seamless, and compatible EU sustainability disclosure framework**

Tackling climate change is the challenge of our century. The monumental effort and ongoing investment it demands should never be underestimated. To address this issue, the financial industry can incentivise the development of fund structures that empower EU citizens to directly invest their savings in climate solutions.

**Impact is the new black:** Many private equity and venture capitalfirms are launching impact funds, aiming to drive social and/or environmental outcomes, in addition to financial returns. An example of this is Summa Equity's €2.3 billion impact fund, the largest European impact fund investing close to date.

ESG disclosure rules, should reflect the diversity in the financial services sector. They should allow frontrunning ESG and impact investors to show their ambition and push the boundaries of what they can achieve, while ensuring others are also incentivised to continue their ESG journey.

90%

of Invest Europe's largest members have ESG investment and portfolio management processes in place, demonstrating the clear focus on ESG in the industry.
Source: Invest Europe data

European legislators must address the complexity that exists between the pieces of the ESG disclosure regulatory puzzle, at political and/or technical level. To achieve the desired progress and level of transparency, all pieces must fit seamlessly together, notably between how corporates, fund managers, and investors interact with their respective reporting regimes.

### Required changes

- Amend SFDR and CSRD legislation to achieve a double objective: ensuring that the best-performing companies and funds are incentivised for their efforts while allowing those still at an earlier stage of their ESG growth journey to seamlessly pursue their ever-improving path.

### Success criteria for EU economy

**Currently approximately one in three of Invest Europe membership's funds are categorised as sustainable, by 2029, this should be at least two thirds.**

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**PRIORITY**
**Attract private capital finance to the EU's most critical sectors, from infrastructure (digital, climate, transport, energy) to defence**

Photovoltaic solar panels in Spain, a high-speed train line in the centre of France, a telecom network in Sweden: all of these projects would not have existed, among thousands of others, if it were not for the support of infrastructure and private equity funds.

90bn

the increase in infrastructure investment per year required to achieve net-zero pathways.
Source: ETH Zurich



As the EU is seeking to commit additional capital to its energy, transport and digital grids – and develop new ways of production through the circular economy, all sectors will require a significant increase in the number of investments. This is now also true for investments in defence or dual-used products – which are increasingly needed to protect our continent from global disruption and external threats.

In that context, much more can be done to increase the ability of investors to commit capital to long-term key strategic projects. Importantly, because of the long-term nature of these investments, safeguards need to be provided to ensure that infrastructure investors do not risk losing their investment due to changing government priorities. Without this, investors may choose to invest in more stable environments with more certainty over the life of their investment.

### Required changes

- Create a European Infrastructure strategy designed to incentivise private infrastructure.
- Develop a high-level forum bringing together investors and regulators to exchange on how public finance can be best leveraged to attract private finance in high value projects.

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**PRIORITY**
**Improve the cross-border EU investment environment**

Strong cross-border flows are needed to ensure that finance is directed most easily to the best EU businesses, making them more competitive against their international counterparts. To maintain their validity, the role of EU and national authorities is essential to create the right conditions for cross-border investments. The current system for intra-EU investment puts European investors at a disadvantage compared to foreign investors as built-in protection for foreign investors against government decisions does not apply to them.

30%

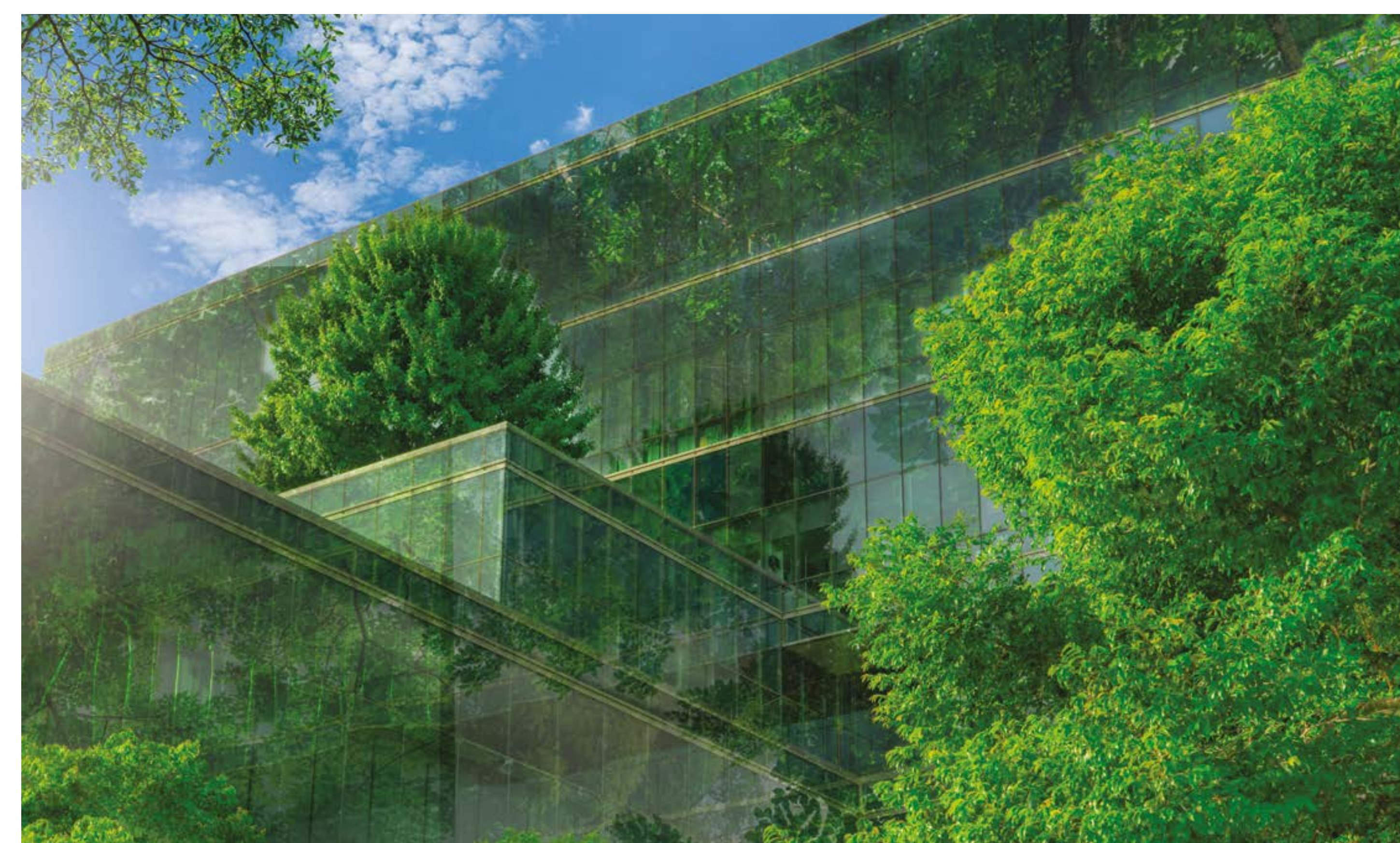
of all European private equity investments in Europe in 2022 were cross-border.

On top of this, the layer of EU and national laws and discrepancies between sectorial EU laws, can represent a significant challenge to any cross-border investments, often determining whether these investments take place or not. Beyond the concept of a "one law in, one law out", EU authorities should therefore concentrate further on the interoperability of EU rules.

### Required changes

- Enhance investor protection, including from regulatory changes, for those making cross-border and long-term commitments in key strategic sectors
- Assess annually how EU and national rules collectively fit with each other – with the aim of lowering complexity that may deter cross-border and foreign investments.

*In today's Europe, intra-EU investments are less protected from discriminatory regulation than investments from outside the EU.*



# Our 12 priorities

**To become globally competitive, Europe needs to build an ecosystem that rewards and incentivises innovation, while also ensuring an obvious pathway to becoming global competitors.**

THEME 1
## Unlocking the capital to fund European change

Read more on page 12

1 PRIORITY
Take down barriers that prevent pension funds and insurers from financing our digital and climate transition

2 PRIORITY
Redirect EU citizens' savings to productive asset classes through changes to EU passport and reporting requirements

3 PRIORITY
Attract foreign capital to the Union

THEME 2
## Putting our continent on the global scale

Read more on page 16

4 PRIORITY
Complete the Capital Markets Union

5 PRIORITY
Leverage existing funding initiatives and create an EU Champions Fund

6 PRIORITY
Secure tax policies that are simple to adhere to, promote growth and incentivise cross-border fundraising & investments

THEME 3
## Boosting innovators, and creating the environment for them to thrive

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7 PRIORITY
Develop a programme of EU regulations to promote talent mobility and the digitalisation of Europe

8 PRIORITY
Reshape EU company law to incentivise equity investments

9 PRIORITY
Develop a flexible, opt-in EU insolvency law on top of the existing EU-wide rules

THEME 4
## Investing in the ecosystem of the future

Read more on page 24

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View our success stories online >

# What is private equity?

**Private equity is a form of professional investment that involves taking an ownership interest (equity) in a company and holding it in private hands – as opposed to on a public stock exchange.**

Private equity managers believe that keeping a company private allows them to focus on making positive and lasting changes to the business, rather than meeting the short-term demands of stock markets and shareholders.

Private equity is typically a medium to long-term investment. Throughout the life of the investment, the managers will actively support the entrepreneurs who are running the business. This business is called a portfolio company.

Private equity managers raise investment funds from a range of sources, including institutional investors like pension funds, insurance groups and sovereign wealth funds, as well as private investors.

When the time is right, private equity managers sell their funds' ownership interests. This can result in healthy returns for Europe's leading pension funds and insurers, benefitting the millions of European citizens who depend on these institutions for their retirements.

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# Unlocking capital

## By 2029, we should increase the allocation to EU long-term capital of:

| Investors | 2024 | 2029 |
|---|---|---|
| Pension funds / IORPs | 4.3% | >10% |
| Insurers | <2% | >7% |
| Banks | 0.5% | >5% |
| High-net-worth individuals' investable assets | <2% | >10% |

This could unlock significant additional new capital to be invested in businesses, from start-ups to scale-ups and infrastructure.

## Other success criteria:

### By 2029, increase by:

| | |
|---|---|
| Intra-EU cross-border fundraising | +67% |
| Start-up creation in Europe | +30% |
| EU start-ups created as Societas Europaea | 10% |
| EU companies using an EU insolvency regime | 10% |
| Sustainable funds | x2 |