

The effect of the Alternative Investment Fund Managers Directive on investing in venture capital

Survey Results March 15th 2010

Executive Summary

From March 2nd 2010 to March 10th 2010 the European Venture Capital and Private Equity Association, in collaboration with various European venture capital (“VC”) fund managers surveyed institutional investors (pension funds, banks, insurance companies, fund of funds) in European venture capital funds.

The survey’s intent was to gauge the attitude of European Limited Partners who invest in venture capital to the proposed Alternative Investment Fund Managers (“AIFM”) directive.

The results are startling. **If the AIFM directive remains in its current form one third of respondents would leave European venture** with a further third reducing their investments by over 30%

Six responses were called for in order to cover five areas of the directive, recognised to have an impact on venture capital operations. Three further questions were asked to qualify the level of capital the institutional investors surveyed have recently dedicated to venture capital.

The investors that responded have dedicated over €4.7 billion to European venture capital in recent years and in-turn the funding of innovative start-up companies. The same investors represent an estimated €560 billion of assets under management.

These results come in the same month when the European Commission laid out the priorities for its 2020 strategy calling for an “innovation union” and making “an efficient European venture capital market a reality”¹

1. <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>



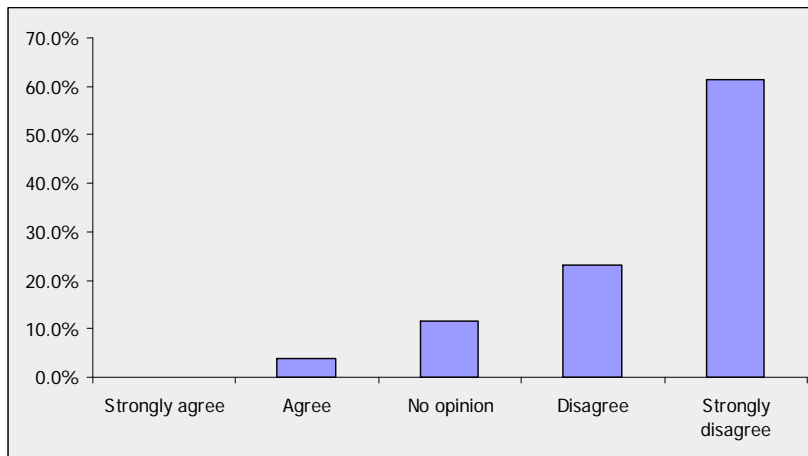
Section 1: The Effect on Investment Capacity of Geographical Restrictions under AIFMD

The AIFM directive calls for European LPs to restrict their activity to jurisdictions covered by AIFMD.

1. Please indicate to what extent you agree with the following statement:

“The inability to invest in venture capital beyond the EU is an acceptable trade-off for the additional protection which AIFMD may provide”

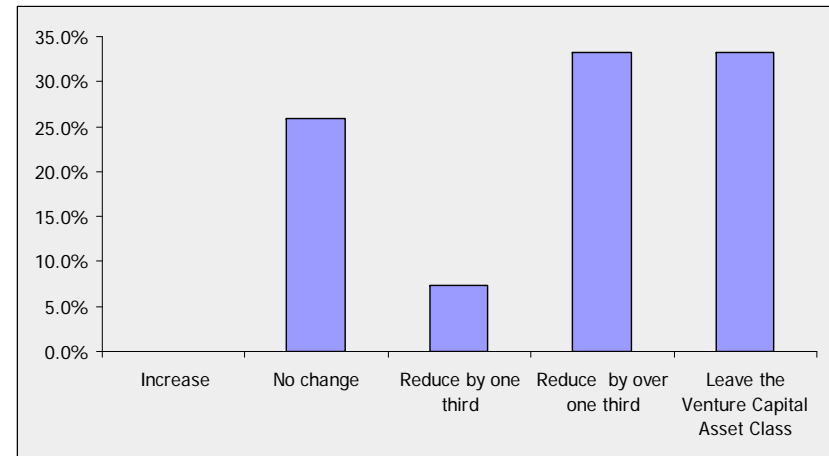
Strongly agree	0.00%
Agree	3.80%
No opinion	11.50%
Disagree	23.10%
Strongly disagree	61.50%



Almost 85% view the inability to invest beyond the EU as unacceptable

2. If you could not invest in venture beyond Europe to what degree would you change your investment in the European venture capital asset class?

Increase	0.0%
No change	25.9%
Reduce by one third	7.4%
Reduce by over one third	33.3%
Leave the Venture Capital Asset Class	33.3%



Flight from venture: Over 30% will leave and over 30% reduce investment by over one third



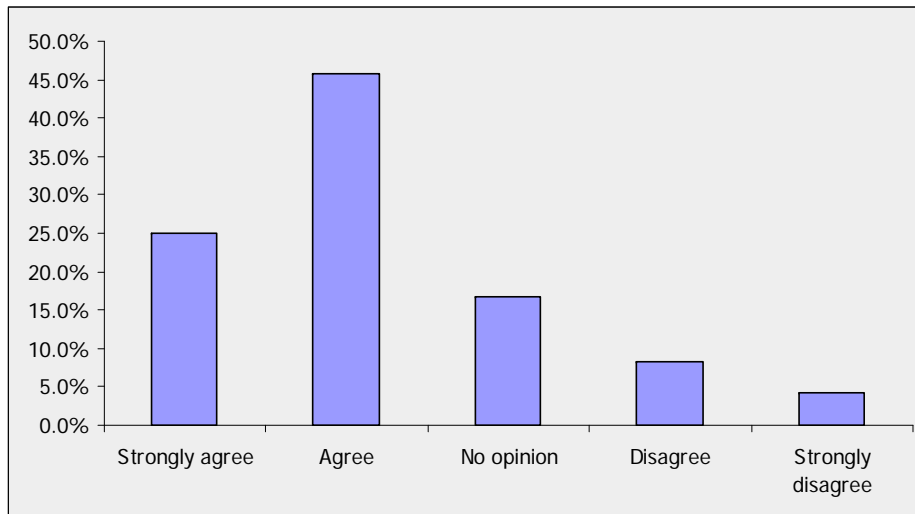
Section 2: Capital Requirements

The current proposals will require, in practice, most managers to hold capital of at least a quarter of the firm's annual expenses. This is a significant outlay for any venture capital firm and will act as a deterrent to new market entrants.

3. Please indicate to what extent you agree with the following statement:

“Any increase in investor protection due to increased capital requirements will be outweighed by the associated costs and potential consequential effects (e.g on fee levels, ability to co-invest and new team set-up)”

Strongly agree	25.0%
Agree	45.8%
No opinion	16.7%
Disagree	8.3%
Strongly disagree	4.2%



Over 70% view any potential investor protection from increased capital requirements as detrimental.

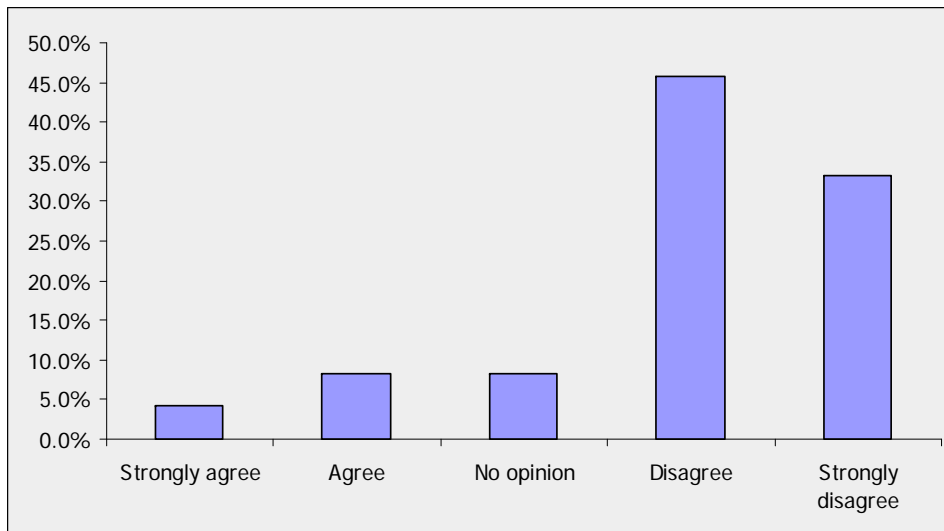
Section 3: Independent Portfolio Valuation

The AIFMD calls for annual independent portfolio valuation of *each holding* within a portfolio in addition to the currently required annual independent audit. The cost implications are significant and of major concern to venture capital firms. There are currently no guidelines or structure for determining who would be a suitable independent valuator.

4. Please state to what extent you agree with the following statement:

“The increase in cost and bureaucracy from additional independent scrutiny of valuations will be merited in terms of increased protection to investors”

Strongly agree	4.2%
Agree	8.3%
No opinion	8.3%
Disagree	45.8%
Strongly disagree	33.3%



Nearly 90% view the independent valuation of companies owned by venture funds as a cost burden providing little, if any, value or protection

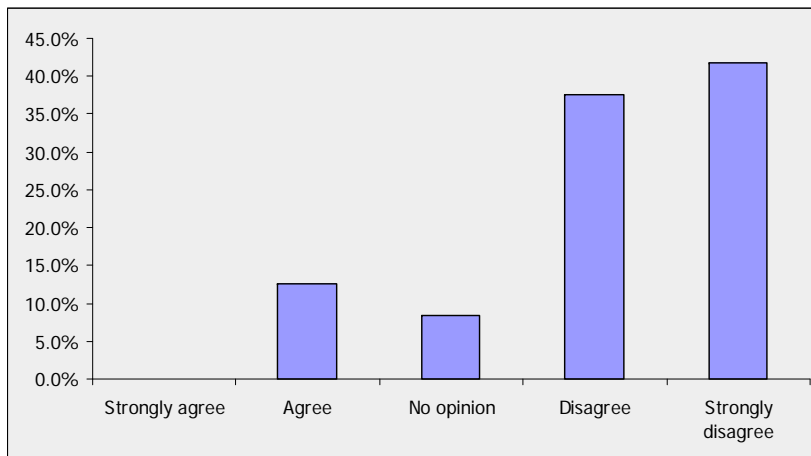
Section 4: Third Party Depository

The AIFMD calls for the use of third-party depository to increase transparency of individual investments by management companies. Share certificates will need to be held by the depository for safe keeping. Draw-downs from investors will need to be held by the depository as will proceeds arising on the sale of a portfolio company. The cost implications are significant and of major concern to venture capital firms.

5. Given that share certificates are non-bearer and readily replaceable and that capital calls and distributions are already effected via segregated accounts at (regulated) banks, please state to what extent you agree with the following statement:

“The extra cost of introducing a depository will be justified in terms of increased protection to the investor”

Strongly agree	0.0%
Agree	12.5%
No opinion	8.3%
Disagree	37.5%
Strongly disagree	41.7%



Nearly 80% of investors view the holding of share certificates and capital “drawn-down” by a third-party as an unjustifiable cost

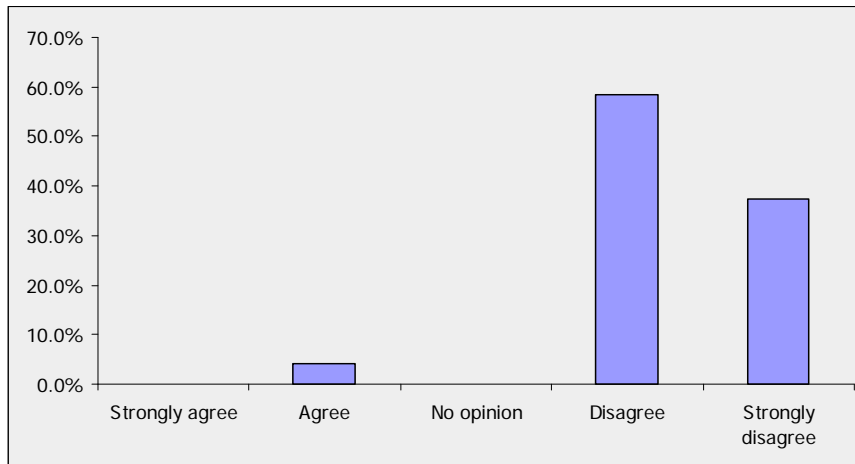
Section 5: Disclosure Requirements for Portfolio Companies

The AIFMD calls for portfolio companies to disclose a “statement of activity” and their “development plan”. Private companies not backed by venture capital funding would not be required to disclose their corporate strategy.

6. Please state to what extent you agree with the following statement

“ An obligation to make extra disclosure, which may be commercially detrimental to venture backed companies, is merited in terms of increased investor protection.”

Strongly agree	0.0%
Agree	4.2%
No opinion	0.0%
Disagree	58.3%
Strongly disagree	37.5%



Over 90% view disclosure requirements as unmerited.

Appendix: Qualifying Questions

The survey requested three responses to qualify the background of the respondents.

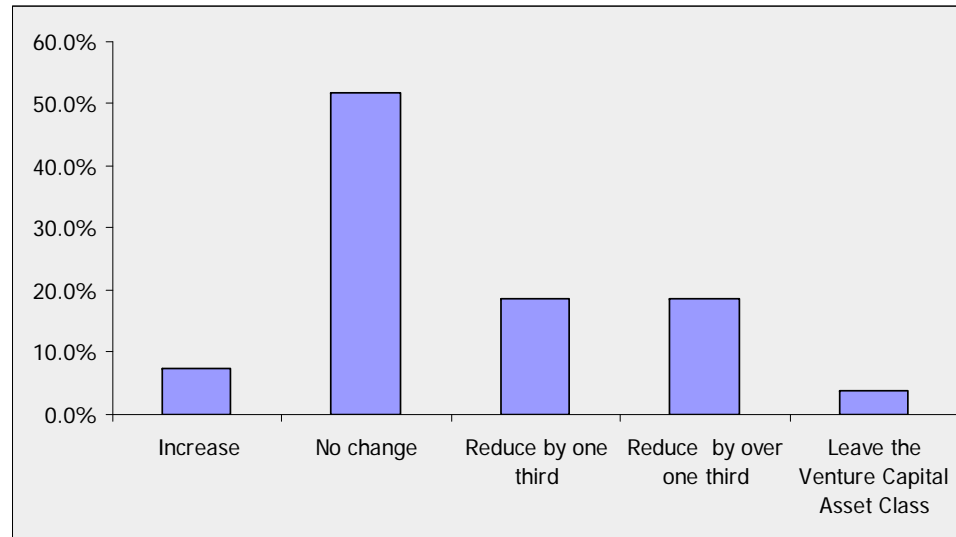
1. Please state the approximate value, in Euro millions, committed by your organisation to Venture Capital in recent years.

The aggregated figure for the 28 investors that responded was €14.05 billion

2. Please state the proportion of this amount committed to European Venture Capital.

The aggregated figure for the 28 investors that responded was €4.70 billion

3. Please indicate, to what degree if any, you expect this to change in the near future (outside of considering any impact from the AIFM directive) – see chart for results



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