



Different perspectives on equity instruments now and into the future – EIB’s experience and look-aheads

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Equity / Quasi-Equity FIs Background



- The choice of a financial instrument by MAs depend on market failures, suboptimal investment situations and the level of risk, returns and ownership deemed acceptable for this MA
- Equity/quasi-equity instruments
 - Allow for providing forms of subordinated finance that the banking system is not providing
 - Can support preliminary activities such as product R&D
 - Suits the development requirements of many SMEs, from innovative to traditional and social enterprises
 - Are characterized by higher expected returns against risks, which calls for the need of implementing mitigating measures



Equity / Quasi-Equity FIs

Key Requirements



To mitigate the risks inherent to equity, it is advised to

- balance the risks across a large spectrum of activities: seed / early-stage / late-stage / growth
- weigh impact vs. volume vs. returns vs. risk
- consider hybrid solutions (i.e. quasi-equity vs. straight equity)
- entrust commercial / commercially oriented fund managers
- design proper governance and limit MA roles to supervision and policy / strategy guidance
- associate private investors to a large extent
 - at fund of funds level and/or
 - at fund level and/or
 - at final beneficiary level



EIB's Experience with Equity / Quasi-Equity FIs



- As Fund-of-Funds manager
 - Foresight Environmental Fund (2007-2013 - London JESSICA HF)
 - Amber Green SPRUCE (2007-2013 - Scotland JESSICA HF)
- As co-financier
 - 10 equity funds through four UK JEREMIE Holding Funds (2007-2013)
 - 6 equity funds and 3 quasi-equity funds through three UK Regional HF (2014-2020)
 - CAP TRI Fund in Hauts-de-France (2016)
 - Financière Région Réunion (2018)
 - Up to five other projects for 2019
- As Advisor / through the EIAH
 - Several ex-ante evaluations and platform structuring missions for MAs (France, Netherlands, Spain, Slovakia).

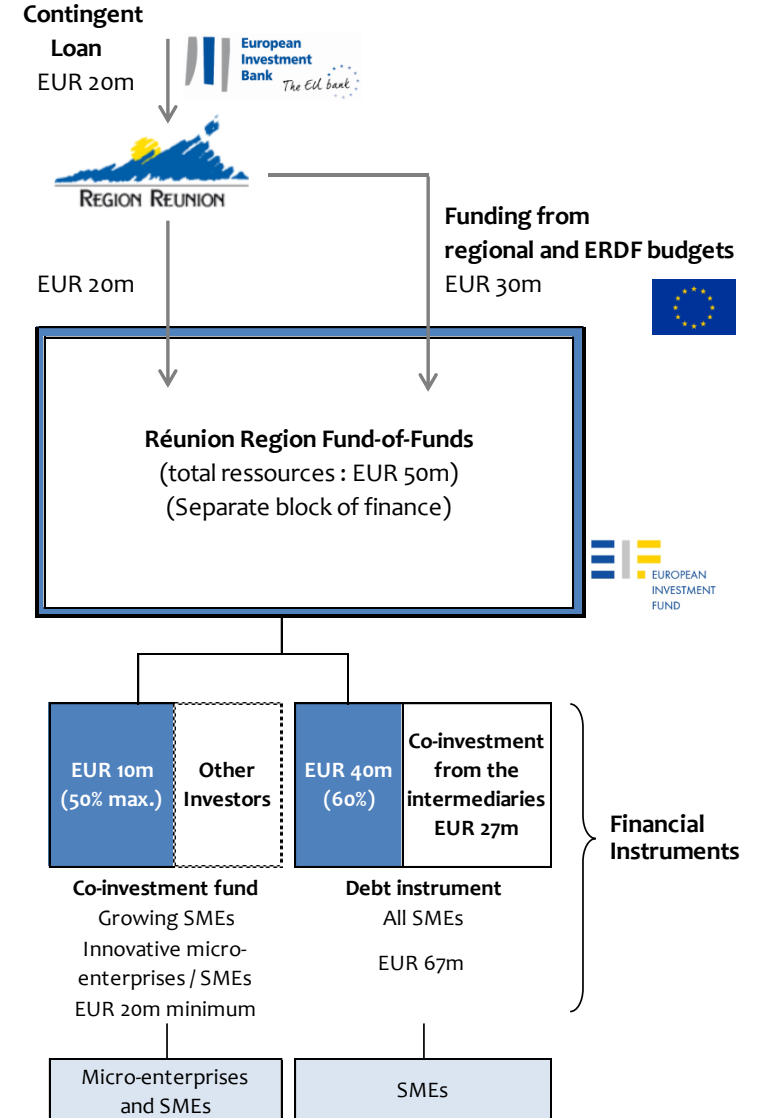


Equity / Quasi-Equity FIs

Case Studies for the future (1)



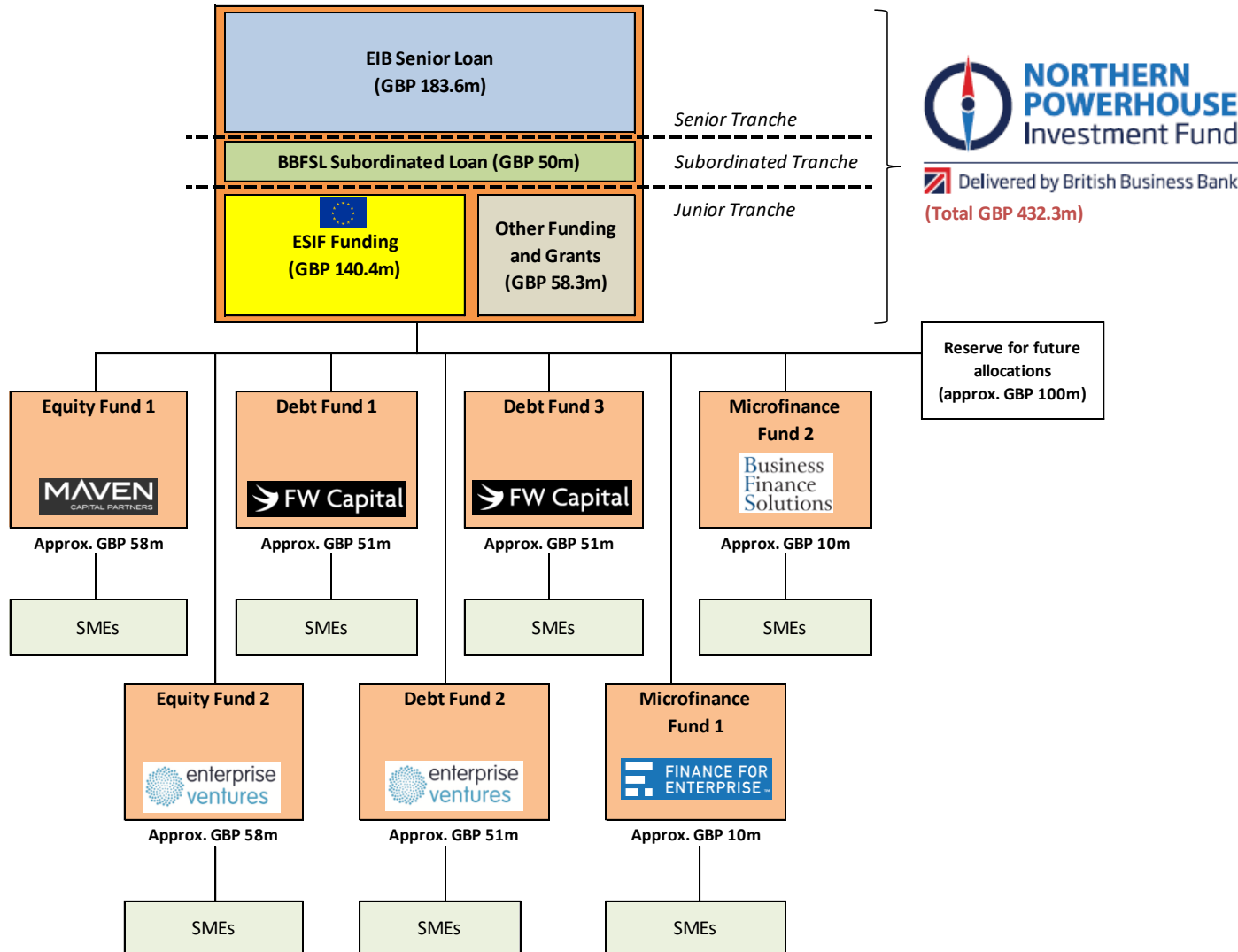
- Financière Région Réunion (FRR) is a Fund-of-Funds managed by EIF.
- The Réunion Region provides a total of EUR 50m, including
 - ESIF (ERDF) and regional resources (for a total of EUR 30m)
 - an EIB contingent loan of EUR 20m.
- Implementation of the two underlying instruments throughout 2018.
- Over 500 SMEs and MSMEs will be receiving support.
- Considerable impact for a region facing various challenges: remoteness from main trade markets, unemployment



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Equity / Quasi-Equity FIs

Case Studies for the future (2)



- NPIF is a regional SME investment fund that is deployed across seven FIs, including two equity funds.
- One of the three debt funds provides quasi-equity loans.
- Overall, equity and quasi-equity will represent about 45% of investments, essentially financed by ESIF and the regions, while EIB finances the SME loan resource
- Two other similar cases:
 - Midlands Engine Investment Fund (GBP 250m)
 - The North-East Fund (GBP 120m)





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