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LONG-TERM INVESTMENT FUNDS
QUESTIONNAIRE

Response by Association Française de la Gestion financière (AFG)

The Association Française de la Gestion financière (AFG) represents the France-based investment management industry, both for collective and discretionary individual portfolio managements. Our members include 426 management companies. They are entrepreneurial or belong to French or foreign banking or insurance groups. AFG members manage 2,600 billion euros in the field of investment management (with nearly 1,400 billion euros in collective schemes), making in particular the French industry the leader in Europe in terms of financial management location for collective investments, and second at worldwide level after the US.

AFG plays an active role in the promotion of long-term savings, in particular through the work of our Retirement and Employee Savings Schemes Committee, our Real Estate Funds Committee, our Private Equity Committee, our SRI Committee and our Corporate Governance Committee.

We welcome the opportunity to contribute to this questionnaire on long-term investment funds (LTIFs) and will be pleased to elaborate these first answers at a later stage.

To begin, we think the Commission could clarify its proposal and its objectives.

Although the title of the consultation refers to “long term investments” its content is mainly focussed on the financing of infrastructures.

In our view two types of vehicles/funds could/should be promoted:

- infrastructures funds investing in infrastructures only : non liquid assets, very long term, ..
- balanced funds which can be used as a support to long term savings, investing in assets that can be more easily traded but can be nevertheless considered long term with reference to their level of risk and the volatility of their price (diversified infrastructure, other long term assets,…)

If a distinction can be made between these two type of funds, both might be considered as LTI funds.

As we stated in our answer to the so-called “UCITS VI” consultation, we do think that both UCITS and non-UCITS funds can be used for LT investing. If they are UCITS it should be clearly stated that these “LT UCITS” are less liquid than ordinary UCITS and can invest in LT assets such as infrastructure for example.
Some UCITS rules would have to be adapted for the “LT UCITS” but clearly not all of them.

5. <u>TO BE COMPLETED BY EVERYONE</u>

17. 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)?

All types of investors, but with a special warning specifying that these funds are dedicated for LT investment and are not as liquid as ordinary UCTIS.

    b. What types of assets should be permitted?

All types of assets.

    c. What types of target investments should be permitted?

It depends on the category of the fund (infrastructure fund or LT balanced fund).

    d. If the longer-term investments were to be limited only to those with certain maturities, what threshold might be appropriate?

10 years and more.

    e. If shorter-term investments were allowed to be included into the portfolio, what proportion of the portfolio should be permitted for them?

For none of the two categories of funds there is a need to allow a minimum or a maximum level of short term investments.

    f. Should a diversification of investments be required?

In most cases, yes. However an exception should be carved out for dedicated funds subscribed by a limited number of investors who may decide not to diversify.

        i. If so, what should the minimum number of ultimate counterparties be?

Fore “pure” infrastructure funds, diversification could begin with 3 different projects.

g. Should investors have redemption rights?

It depends on the category of the fund.

For “pure” infrastructure funds: investors should not have any “right” to redeem from the fund before the end of the specified investment period. This being said, a secondary market could be organised to provide (but not to guarantee) liquidity.

For LT balanced funds: investors should have redemption rights, mitigated by specific mechanisms such as liquidity fees, gates, etc.

h. If redemption rights are to be given, must additional steps be required (e.g. ensuring a liquidity buffer is available)?
i. Transparency requirements (e.g. possibility to "look-through")

To assess eligibility of the investment for certain categories of investors and comply with prudential regulation, a “look through” approach is recommendable.

j. Other requirements

Tax and prudential regulations should be adapted.

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

Legislation should set principles for the absence of liquidity, the type of valuation.

Infrastructures investments with enhanced social and responsible impact should be encouraged.
Management companies and investors could be encouraged to describe how they take into account ESG criteria in their investment policies.

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Sincerely Yours,

(signed)

Pierre Bollon