

## EVCA AT 30

# Trial by fire

*It's 30 years since EVCA came into being. During that time it's had to learn some hard lessons and make some big changes – particularly since the financial crisis. So to what extent has it succeeded in staying relevant? And how does the organisation see its future in this ever-changing climate? James Taylor reports*

In 2008, the European Private Equity & Venture Capital Association – EVCA to its friends – had its 25th birthday. At the time, the organisation didn't have much to celebrate.

Its members were increasingly under fire from politicians and mainstream press, suffering in a public relations battle for which they seemed unprepared and ill-equipped. Some blamed their associations (national and regional) for that; some blamed the larger firms for giving the industry a bad name. Either way, there was a feeling in certain quarters that umbrella bodies representing firms of every size and strategy were no longer fit for purpose; that smaller, more focused groups were a better response to the new order.

In addition, EVCA members were staring down the barrel of the worst economic crisis in a generation. And the toll of this crisis would not only be financial; in the weeks and months that followed the collapse of Lehman Brothers, it became clear that the entire financial sector – including private equity – was about to come under sustained attack from the regulators.

Was EVCA the right organisation to fight this battle on the industry's behalf? At the time, many in private equity thought not. The organisation had started out primarily as an investors' club, helping GPs get together for cross-border deals and cooperation. And while its offering had evolved

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substantially since, just as its members had evolved substantially, it didn't really have the resources or the expertise to deal with the sort of public affairs challenges that were

clearly coming – for the simple reason that it had never really needed them.

Five years on, as EVCA celebrates its 30th birthday, perhaps the best testament to its subsequent response is that it's now hard to imagine a time when people in the industry questioned its reason to exist. The financial crisis proved to be a turning point for a lot of organisations; but in most cases, not in a good way. EVCA may be one of the exceptions.

## EARLY DAYS

The idea – and the funding – behind the creation of EVCA in 1983 came from the European Commission, which saw the success that the US venture capital industry was starting to have across the Atlantic and was keen to foster a similar story in Europe.

“In the early days it was a smaller organisation with very different challenges,” says Anne Glover, chief executive at Amadeus Capital and chairman of EVCA's VC Platform Council (of which more later). “It was more a group of like-minded people, doing early stage investments in their »



*Höppner: promoting the growth message*

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» respective countries, who felt that there was an opportunity to work outside their own countries on a cross-border basis. And it was useful to have a place to meet and discuss how to reduce barriers to that.”

“It was a club, first and foremost, which provided a number of services to the industry,” says Vincenzo Morelli, partner emeritus at TPG and current EVCA chairman. “It didn’t really represent a public affairs interface with the Commission, because there was very little regulation to talk about; it was more a place to exchange opinions.”

Over time, EVCA continued to broaden its service offering, to include research, training courses, best practice guidelines, policy documents, events and so on. One of the organisation’s most notable successes came in 2005, when along with the UK and French national associations it published a set of valuation guidelines for private equity – which were subsequently endorsed and adopted by various groups around the world. “The success of that collaboration led to a body that has continued to thrive and is now international,” says Glover (who as chair of the BVCA led the British team). “It was a joint effort, which EVCA in effect bankrolled, and this was vital.”

Collaboration was not always the order of the day, however. As the European industry continued to grow at a rapid rate, it inevitably changed members’ interactions with each other.

“The early days were quite a special period, because all the managers were trying to establish private equity as a separate asset class, and to that extent they were all completely on the same side,” says Jonathan Blake, a partner at SJ Berwin, who’s been involved with EVCA since its inception. “As the industry matured, that fell away a bit: it went from being something very cosy and collegiate and clubby to being very clearly an organisation of competitors. So in the years leading up to the crash, there was a period of people going their separate ways, when EVCA became less relevant.”

But as Blake says, the crisis – and specifically the Alternative Investment Fund Managers directive – helped to change all that.

#### NEW CHALLENGES

“2008 without a doubt represented a sea change in the environment, and therefore in what EVCA needed to do about it,” explains Morelli. “Things were changing profoundly.”

There were three key priorities for the organisation in 2008/9, says Uli Fricke, managing partner of Triangle and EVCA chairman in 2010/11 (the first woman to hold that position). “First, to better explain our industry – we had to think much more about our image, because we’d acquired one without really thinking about it. Second, to make the industry segments understand that we were all in this together – that in this much more hostile public and regulatory environment, we’d be much stronger and more successful if we defended as a whole. And third, there was a need that we’d never had before to work with regulators to try to explain the industry, so any regulation would be as tailored as possible to what private equity is all about.”

In other words, EVCA suddenly had to deal with an internal communications issue, a public relations issue, and a public affairs issue all at the same time – each of which was a huge challenge in its own right.

The first (and perhaps the most fundamental) problem was to keep the association together – at a time when there was plenty of talk of splinter groups.

“We represent a very varied group of firms, and sometimes there’s a temptation for individual groups to think that compromises are being made or that EVCA is not sufficiently focused on their specific interests, so they pursue a separate agenda,” says Morelli. “I think those temptations were highest in 2008, when in particular the venture firms felt that the industry’s poor image was the responsibility of some of the larger funds.”



Fricke: industry needed to defend as a whole

But while this was ostensibly a plausible argument, it didn't actually stand up to scrutiny, he suggests. "When you drilled down – and we measured this through polling – most regulators, influencers and politicians had equally negative views of pretty much anyone who was collecting savings to invest in the equity of non-listed companies. It didn't really matter whether you were investing investing €1 million from a €10 million fund or €100 million from a €1 billion fund. And it was this recognition – that the perception issue was deep and broad – that brought the industry together."

Another compelling argument in EVCA's favour was that the imminent wave of European legislation – specifically the AIFM directive – clearly needed a pan-European response. And EVCA was best-placed to coordinate that. "Previously the national associations had been much better equipped to represent the industry and deal with public affairs issues, because the relevant tax and regulatory issues were predominantly dealt with under local laws," says Morelli. "This changed in 2008, because the locus of regulation shifted clearly to Brussels. For EVCA, this was frankly a new challenge."

Part of this challenge was to educate the regulators, says Karsten Langer, a partner at The Riverside Company and EVCA chairman in 2009/10, who first became aware of the extent of the task ahead when he led a training workshop for MEPs and their assistants. "It really opened my eyes to how little people knew about us at the time. People had come over from Fisheries, or Environment, and here they were about to write the law on private equity. That was scary. And it made me realise we needed to do something to make sure people understood how we add value to the broader economy."

But while EVCA had some policy experience, and was well connected within the European Commission and Parliament (via

its work with MEPs), the trouble was that it had virtually no links into the third key source of power in Brussels: the European Council. "[We] had never really needed to get involved with the Council," admits Fricke. "So we needed to substantially beef up our network."

#### ASSOCIATED PROBLEMS

This process had an important upside. Since Council delegates come from the member states, the best way for EVCA to build its influence was to develop closer ties with the national associations – a set of relationships that had at times been strained.

"When the industry was doing well, EVCA's relationship with the national associations was nice and simple," explains Fricke. "When the industry was feeling the pressure, the relationship became more difficult. [With the] image crisis in 2008/09, everyone in the industry looked towards the associations, and at that time, they didn't have perfect answers. So everyone tried as best they could – but there was always the possibility that you'd step on each other's toes."

Working together on the Brussels taskforce – which later became the Public Affairs Executive – helped to change that, she says. "I've been on the taskforce from day one. I know what a huge amount of effort went into that policy work. And it's been a good trust-building exercise – a good platform for the associations to better understand each other's perspectives."

Dörte Höppner, who's been secretary-general of EVCA since 2011 (and previously ran the BVK, the German national association), agrees that it's been a very productive exercise. "We include the national associations very early on in our political strategy discussions, to make sure we take into account their interests – because in the end they have to live with the results. We always take the lead as we have the Brussels expertise. But inviting them in and giving them the opportunity to make »



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» their voice heard – that is working very well. The national associations now work really closely together on a basis of trust.”

That’s been evident from their work on the AIFM directive. “EVCA has done an extremely good job in coordinating the industry’s response [to AIFM],” Blake argues. “The directive in its early forms needed a lot of commenting on, and the way in which EVCA and the national associations got together to reach constructive conclusions with the regulators was very good.”

“The Public Affairs Executive has become an extremely successful body and really changed how the industry associations work together in Europe,” adds Morelli. “The national associations used to

compete a bit for membership with EVCA – but now the industry has coalesced and [we’re] much better coordinated.”

Of course, he would say that. But it does seem that EVCA’s approach has gone down well in Brussels. “It’s a professional and proactive organisation with lots of genuine expertise and knowledge,” Steven Maijoor, chair of the European Securities and Markets Authority (the industry’s key regulator), tells *PEI*. “Their strength has been that they provide constructive and detailed suggestions rather than just disagreeing with a particular proposal. It’s important that [industry representatives] understand what interests the other parties around the table are trying to serve – including the politicians and regulators – and are constructive. EVCA strikes me so far as an organisation that works in that fashion.”

This new spirit of collaboration is also extending to other areas – like the European Data Collection project, an attempt to collect industry-wide data from across the region. On previous occasions when EVCA had tried to make this happen, it failed to get all the big associations on board. Now it looks as though a consensus may finally be reached. “[It] has been on the industry’s agenda for decades, and never gotten anywhere; that’s changed over the last two years or so,” says Höppner. “Our relationships are very good, and the database project is testament to that.”

#### STORMS AHEAD

As well as changing what it did, EVCA also changed the way it was organised. The organisation was split into four platforms – venture, mid-market, large buyout and limited partners – each of which gets equal representation at EVCA’s top table. This has helped to address concerns that a single body can’t represent the interests of the industry’s various sub-sections.

“The reorganisation into platforms has certainly been a good thing; it gives each segment of the industry a place to discuss



#### EVCA: KEY DATES

**1983**

EVCA founded

**1985**

Runs first ‘Survey of Pan-European Private Equity and Venture Capital Activity’

**1987**

Holds first EVCA Institute private equity management training course

**1990**

Publishes first performance and measurement valuation guidelines

**1996**

Publishes its first ‘Economic and Social Impact Study of Venture Capital in Europe’; produces first ever performance figures for European PE

**1999**

Holds first ‘International Investors Conference’ in Zurich

**2000**

Publishes first industry reporting guidelines

**2005**

AFIC, BVCA and EVCA publish international private equity and venture capital valuation guidelines – later endorsed by 30 national and international associations



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## 2006

Releases 'Benchmarking European Tax and Legal Environments' survey

## 2007

Restructures itself into three divisions or 'platforms' - venture capital, mid-market and large buyout; completes groundwork for PEREP - Analytics, a pan-European private equity database

## 2008

Foundation of Brussels taskforce, a joint initiative by EVCA and the national associations to respond to AIFMD

## 2009

White paper published by EVCA's venture capital platform, examining how the public sector can help create a self-sustaining venture industry in Europe

## 2010

Limited partner platform officially constituted in March 2010

## 2012

Publication of the EVCA 'Handbook of Professional Standards'; legal framework agreed for creation of pan-European private equity activity database; first EVCA 'Responsible Investment Summit'

its own issues and interests," says Glover. "The addition of LPs is also very positive, because previously there was nowhere GPs and LPs could meet to discuss generic issues."

Indeed, the growth of the LP platform segment – which has signed up over 100 members in the last three years, from a standing start – has been a particularly notable development for an organisation once considered a GPs' club. It's even just elected an LP as chairman for the first time: George Anson of HarbourVest, who takes over from Morelli in June.

Anson argues that the addition of the LP platform has hugely boosted EVCA's credibility. "If EVCA was only comprised of GPs, and it argued that private equity shouldn't be lumped in with hedge funds, the politicians would say 'Well you would say that'. What you need is the end user of private equity to back that statement up and say that more regulation might not be a bad thing – but to overlay that with unnecessary rules and regulation, that's not fair."

This arrangement benefits LPs too, he points out. "Individual contributions have little impact – but if [LPs] can work with and get behind an association, they can be a very powerful lobbying voice."

One of his aims for the next year – as part of a broader 'outreach' effort to sell the benefits of Europe to investors outside the region (and trumpet the industry's role in attracting inward investment into the region) – is to sign up more non-European LPs. "Nearly 40 percent of the money raised for European funds last year came from outside Europe," he points out. "I'd like to see those investors more represented in the LP category."

So what else will be on EVCA's agenda in the next few years? The internal wobbles of the crisis years may largely be a thing of the past. But the regulatory battles are likely to keep coming thick and fast. New

concerns like ESG are coming to the forefront. And the public relations problem that the industry has been grappling with since even before the financial crisis remains unresolved.

"It's not just about lobbying and meeting policy officials," Höppner accepts. "We also need a strong communications effort to support the debate around the legislative process." EVCA has doubled its comms team in recent years, as it looks to reach a broader audience of industry stakeholders.

One promising avenue is to focus on private equity's role in facilitating Europe's economic recovery – an issue that is top of mind for all European politicians and regulators at the moment. "That seems to me to be a logical place for the industry to position itself – as playing an important role in the growth agenda," says Maijoor.

Langer says this has been ongoing ever since his chairmanship. "We tried to present private equity as part of the solution, not the problem. We had stats to show that private equity-owned companies had fewer defaults, grew faster and so on – and this idea of private equity as contributing to the growth of Europe started to gain traction."

"Only private equity will be able to provide the necessary amount of risk capital in Europe," insists Morelli. "The politicians are starting to get that. The Commission green paper on long-term investing is a good sign; they're starting to figure out that this is a very important goose that lays very precious eggs."

And in the meantime, EVCA must make sure it keeps delivering the services that its various members want – which may mean more big changes in the coming years. "I certainly hope so," says Höppner. "The world we are operating in – Europe, the financial sector and private equity specifically – is a changing world. So the industry will react and adapt to that, and we as an association need to reflect and represent this." ■