Fitch Affirms European Investment Fund at 'AAA'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 13 May 2024: Fitch Ratings has affirmed European Investment Fund's (EIF) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook and Short-Term IDR at 'F1+'.

KEY RATING DRIVERS

Strong Support: EIF's 'AAA' rating is driven by the strong extraordinary support the fund would receive from its shareholders, including the European Investment Bank (EIB; AAA/Stable; 60% of subscribed capital as of end-2023) and the European Union (EU; AAA/Stable, 30%), as well as 38 large financial institutions based in the EU, the UK and Turkiye.

Fitch assesses EIF's shareholders' capacity to support at 'aaa', in line with the rating of its key shareholder, EIB. The shareholders' 'strong' propensity to support the fund translates into a zero-notch adjustment to the support capacity. This reflects EIF's strategic importance for the shareholders, given its key role in leveraging funds for SMEs in the EU, through its participation in the latest important initiatives such as InvestEU programme, RePowerEU plan and European Tech Champions Initiative.

Extremely Strong Capitalisation: EIF's 'aa-' Standalone Creditor Profile (SCP) is based on Fitch's Insurance Criteria and underpinned by its 'extremely strong' capitalisation and leverage factor score. In 2023, the fund's net par-to-capital ratio slightly improved to 0.85x (2022: 0.92x) due to a decline in guarantee exposure-at-risk. Fitch expects EIF's net par-to-capital ratio to moderately increase in the coming years as a result of business growth, but to remain in line with the current assessment.

The EIB started providing additional funding to EIF through an intra-group loan to support the implementation of the new InvestEU programme, which accounted for 39% of EIF's activity in 2023. The total available amount is about EUR8 billion and Fitch expects a gradual draw down from EUR874 million as of end-2023. The agency considers
this loan as operational debt rather than financial debt, which has no impact on its assessment of EIF’s SCP. EIF’s InvestEU exposure is match-funded by the intra-group loan, and repayment of interest and principal will be fully covered by inflows from the outstanding portfolio and guaranteed by the EU.

**Medium Risk Guarantee Portfolio:** EIF’s guarantees predominantly cover SME exposures and benefits from structural credit enhancement where EIF retains senior exposure. The majority of guarantee exposures is investment grade, with an average credit quality of ‘A’ based on EIF’s internal risk assessment. Non-investment-grade exposure remains small.

**Private Equity Drives Investment Risk:** In its normal business operations, EIF gains exposure to private equity and asset-backed securities. At end-2023, EIF held EUR1.8 billion private equity assets (2022: EUR1.6 billion), the main driver of the fund’s risky asset ratio. A large share of private equity exposure is structured and EIF retains only senior exposure. Other investments include a diversified portfolio of investment-grade sovereign and corporate bonds with an average ‘A’ rating, in line with the previous year’s assessment.

**Very Strong Liquidity:** Fitch bases its 'very strong' assessment of EIF’s liquidity profile on typically low liquidity needs from a cash-flow perspective, and the high level of liquid assets (cash and equivalents, and easily marketable debt securities) on EIF’s balance sheet.

**Very Strong Business Profile:** EIF acts as an implementing vehicle of EU policies, with a mandate to provide debt, equity and guarantee products to SMEs, and act as an intermediary for realising the development and cohesion initiatives of the EU through special mandates. As such, we expect its business profile characteristics to be stable and not influenced by prevailing market conditions and the competitive landscape.

**Good but Volatile Profitability:** EIF’s high net profits in the past five years have been supported by adequate risk mitigation, low credit losses, and the good performance of financial assets. EIF reported a strong net profit of about EUR234 million, a significant increase from EUR70 million in 2022. As a result, the fund reported a return on equity of 5.2% in 2023 (2022: 1.7%), beating expectations. Net investment income also contributed to net profit as reinvestment yields improved during the year.

Incurred credit losses are likely to remain low, despite the uncertain macro-economic environment, which supports EIF’s control of increasing operating expenses from the fund’s digitalisation initiative. Fitch expects EIF’s long-term run-rate return on equity to be in the range of 2% to 5%.
RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Support: A downward revision of our assessment of EIF’s key shareholders' capacity or propensity to provide support to the EIF.

SCP: A weakening of EIF’s SCP could result from a deterioration in capitalisation or pressures on liquidity and investment risks. A downward revision of the SCP below ‘aa-' would result in negative rating action as the uplift above the SCP for extraordinary support is already at the maximum of three notches permitted under our criteria.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings are at the highest level on Fitch’s scale and cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

EIF’s ratings take into account the rating of its key shareholder, EIB, which owns 59.7% of the fund’s subscribed capital.

ESG CONSIDERATIONS

Fitch does not provide ESG relevance scores for European Investment Fund. In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose in the key rating drivers any ESG factor which has a significant impact on the rating on an individual basis. For more information on Fitch's ESG Relevance Scores, visit the Fitch Ratings ESG Relevance Scores page.

RATING ACTIONS

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**VIEW ADDITIONAL RATING DETAILS**

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**APPLICABLE CRITERIA**

Supranationals Rating Criteria (pub. 11 Apr 2023) (including rating assumption sensitivity)

Insurance Rating Criteria (pub. 04 Mar 2024) (including rating assumption sensitivity)

**ADDITIONAL DISCLOSURES**

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

**ENDORSEMENT STATUS**

European Investment Fund EU Issued, UK Endorsed

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