3 QUESTIONS 2

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on European Long Term Investment Funds ELTIF 2.0

Q #1 *What is an ELTIF, and why did the current ELTIF regime need to be revised?*

When it was first introduced in 2015, there was much excitement surrounding the European Long Term Investment Fund (ELTIF) regime. It offered the opportunity for both professional and retail investors to access diversified fund portfolios of long-term assets like infrastructure, real estate and non-listed companies across Europe. Hailed as a key part of the European Commission's investment plan and the subsequent capital markets union (CMU), ELTIF was meant to help rebuild Europe and channel billions into the European real economy. The hope was for it to become the default vehicle of choice for non-speculative alternative strategies, sitting alongside the successful UCITS brand as a global gold standard for investment.

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In reality various challenges with the practical application of the regime led to limited success initially. Eligible assets and investment and borrowing restrictions were widely perceived as unnecessarily restrictive, which in turn limited managers' ability to design ELTIF products that would provide the returns investors expect. Managers and distributors had to contend with numerous monitoring and local substance obligations to accommodate retail investors. On the other hand, institutional investors were not sure why they should use ELTIF when they were already familiar with existing alternative investment options. Whilst asset managers were keen to offer ELTIFs, these challenges meant that many managers called for reform.

Q #2 *What are the major changes the review process introduced?*

When the European Commission started their review in 2020, they received plenty of input from industry representatives and I am glad to say that their package of reforms address most of the important challenges. A clear division between ELTIFs marketed to retail versus solely to professional investors will help a lot, including the option for partially open-ended ELTIFs subject to liquidity management requirements. The revised rules will also broaden the scope of eligible assets, promote portfolio diversification, and strengthen the liquidity profile of ELTIFs. Very importantly, the removal of the minimum initial investment and the 10% exposure threshold, as well as full integration with MiFID suitability assessment, means that retail investors will have greater access to ELTIFs with increased protection.

Q #3 *In light of those changes, is ELTIF 2.0 going to be successful?*

I hope so! It has been great to see the efforts taken by the European Commission to listen to industry concerns and remove the barriers that have been encountered to date. The new regime could be in place and ready to be implemented as early as Q3 this year. Whilst for some there is still room for further refinement (e.g. the ability to offer a truly open-ended ELTIF), these reforms will undoubtedly make the ELTIF more attractive to asset managers and investors alike, and I think we will see significantly more investment through the ELTIF regime once they are introduced. As an early indication, there were only around 20 ELTIFs in the ESMA register prior to the review and right now there are over 80, with many more in the pipeline. So enthusiasm is clearly increasing with the coming legislative changes.

As a last word, we should be optimistic but of course not complacent – it will be important to ensure the regime continues to meet the needs and expectations of the industry and European investors and that it remains competitive.

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