

How ELTIF 2.0 is likely to accelerate fund raising opportunities

- 1. A breakdown of ELTIF 2.0's key regulatory changes, mainly to facilitate accessibility to new investors, including retail.**
 - 2. Analysis of what industry focus and education is needed to drive uptake.**
 - 3. Insight from those who've raised ELTIFs and immediate opportunities to open up private market investments.**
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Simplified regulations will support and build on opportunities for fund managers to market ELTIFs to a wider range of investors, opening up a key source of additional capital. [Kevin Hogan](#) in Ireland and [Peter Brown](#) in Luxembourg explore the benefits.

The European Long Term Investment Fund's (ELTIF) take up since the regulations came into force in 2015 has been unimpressive. However, the updated regulations, which will apply from 10 January 2024, are set to give a considerable boost to the attractiveness of the ELTIF as a vehicle for retail type investors looking to gain access to private market investments that have historically been the preserve of institutional investors.

Regulators in the core European jurisdictions are gearing up for what is expected

to be a steady and increasing flow of retail-focussed private market investments.

The Central Bank of Ireland (CBI) announced in September that the country would be 'ELTIF-ready' by 10 January 2024. The CBI has streamlined the process of structuring for fund managers, for example, with a shortened consultation time and a standalone chapter in the AIF (alternative investment funds) handbook. Similarly, the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg expects the new regulations to further enhance the Private Markets offering in the Grand Duchy.

Ireland and Luxembourg's long-standing reputations in the market as well as their highly skilled workforces already make them attractive domicile choices for fund managers. This smoothing of the way for ELTIFs is likely to accelerate interest in both jurisdictions for servicing these types of funds.

One of the stated outcomes for ELTIFs was to democratise private markets, and [the European ELTIF Study by Scope](#), released in March 2023, found that the uptake in ELTIFs has increased 50% year-on-year, granted from a small base, and put the volume at EUR11.3 billion at the end of 2022. This clearly shows there is growing demand from a hungry retail investor pool. Also, governments across Europe have to find solutions to manage the challenges of an ageing population, which means individuals need to pick up the slack in funding their own pension requirements.

The upcoming amendment – dubbed ELTIF 2.0 – which came into force on 9th April 2023, but applies from 10 January 2024, is expected to further improve the use of ELTIFs in expanding fund managers' access to wider pools of capital looking to invest into private markets, in particular, responding to a growing appetite for Private Credit which offers liquidity for investor calls. It will also allow the conversion of existing ELTIFs to ELTIF 2.0 with regulatory approval.

The 3 key changes in regulation:

1. Eligibility – there's a change in what assets will be eligible for investment. Under the new version, for example, investments in FinTech, which meet qualifying criteria, are now possible. Also, there is a much broader definition of real assets and the EUR10 million value limit has been removed.

2. Investment criteria – these revolve around relaxing the borrowing rules and changes in illiquidity. For example, the original 70% investment in eligible investment assets has been lowered to 55%, while the 20% limit has been removed for fund of fund strategies. In addition, master-feeder ELTIFs are allowed and borrowing limits have been increased. ELTIFs may also be structured as open-ended funds under enhanced redemption rules.
3. Types of investors – the amendment allows for more access to retail investors, so long as the fund manager clearly explains the illiquid nature of the investment. The new version clearly distinguishes between ELTIFs marketed to retail investors and those to institutional investors. The new version also removes the EUR10,000 minimum investment for retail investors, putting this type of investment firmly on the table for a wider range of retail investors.

Though flexibility has been introduced, it doesn't exempt those marketing to retail investors from the core regulations. This means that not only will asset managers have to prepare a key information document, they will also be more closely subject to the rules of UCITS (Undertakings for the Collective Investment in Transferable Securities), for example, around depository rules.

3 focus areas to reap the rewards:

While ELTIF 2.0 represents an exciting opportunity to bring fresh capital into private markets, there remains work to do across the industry to realise those benefits once it comes into force:

1. Liquidity – private market assets are generally illiquid, and there is a need to work through options to create limited liquidity for retail investors by looking at asset mix. This will be an exciting option for Private credit, managers with ongoing interest cash flows and rapid deployment/refinancing of assets, particularly with enhanced returns following recent interest rate increases.
2. Operating Model – existing operating models tend to focus on low volume, highly illiquid private market assets or high volume, highly liquid assets in UCITS fund structures. A hybrid model will be needed to cater for the increased volume of investors while managing the liquidity, custody, and depository considerations related to private assets. Digital assets such as

tokenisation could be game changers here. [Digital Assets: a fund manager's new best friend](#)

3. Distribution – accessing private investors is more challenging for private markets managers who will need to build their distribution networks, work with private banks, and also educate those distributors on the characteristics of private markets assets and the liquidity profile of ELTIF funds when compared to more traditional UCITS products.

Read more about the possibilities as private markets are democratised:

[**The retail revolution of private markets**](#)

Market experience of ELTIF:

For fund managers who haven't yet raised ELTIFs, this podcast offers an insight into the experiences of Christophe Verboomen, Public Affairs Manager at Invest Europe; Jean-Christian Six, Regulatory and Asset Management Partner at Allen & Overy; and Rocio Goenechea, a partner at Oquendo Capital, who has successfully raised two ELTIFs and intends to raise more in the future. The panel also discussed the changes to the regulations and how these might play out in practice.

Ms Goenechea said during the Alternative Insight podcast that she expected, in practice, that managers would create parallel ELTIFs for institutional investors and retail investors, as she believes this would be more efficient. Six said it is likely managers will use the ELTIF to primarily reach retail investors, however, he did say this was simply an expectation at this point.

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Immediate opportunities:

One of the expected benefits from the ELTIF 2.0 changes is there will be scope for more public/private investment partnerships as the regulations allow for parallel investment in both public and private assets.

Also, the change in regulations for how retail investors can access ELTIFs means that fund managers can market to a wider range of potential investors, so long as it is done responsibly. This means managers can market to both institutional and retail investors, as long as the communication to both types is appropriate to their specific needs.

At the Aztec Group we have more than 20 years of specialised experience in private markets and have a track record within the existing ELTIF market. We have the expertise to administer ELTIFs for fund managers and to help you better understand how to unlock the benefits for your investors in either Ireland or Luxembourg, please contact [Kevin Hogan](#)