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Les actifs alternatifs liquides : une croissance exponentielle

Pourriez-vous nous expliquer ce que sont les alternatifs liquides ?

Les fonds alternatifs liquides sont différents des hedge fonds à plusieurs égards: ils offrent une plus grande transparence, un cadre régulé et la liquidité quotidienne propres aux fonds UCITS. Les fonds alternatifs liquides cherchent néanmoins à reproduire les caractéristiques des hedge fonds traditionnels.

En particulier, de nombreuses stratégies alternatives liquides utilisent des moteurs de performance différents des stratégies traditionnelles dites «long only» (obligations ou actions). Elles ne sont pas liées à un benchmark, et utilisent des techniques d'investissement différentes (des positions courtes, du leverage par exemple).

Comment les actifs alternatifs liquides ont-ils émergé ces dernières années ?

L'industrie des fonds Alternatifs UCITS a connu une rapide expansion depuis la crise de 2008 et plus particulièrement ces dernières années. Les actifs sous gestion dans ces fonds ont désormais dépassé 400 millions de $ en Europe ($418mm au 30 Sept 2016, selon Morningstar) a comparer a $86mm en 2008 (toujours selon Morningstar).

Ces trois dernières années les alternatifs UCITS ont attirés plus de flux positifs que toutes les autres catégories UCITS.

Quels sont les investisseurs qui ont fait le choix des actifs alternatifs liquides ?

Historiquement, les investissements alternatifs traditionnels ou illiquides ont été détenus par les grandes institutions et les investisseurs privés de type grandes fortunes. Aujourd'hui en revanche les alternatifs liquides étant structurés en fonds UCITS, ils permettent aux investisseurs privés de type «retail» d'accéder à de multiples stratégies alternatives pour des montants minimum moins élevés (typiquement autour de $1000). Parmi les investisseurs qui ont rapidement adopté ces stratégies liquides on compte de nombreux asset managers et banques privées, à la recherche de moyen de diversification pour un plus grand nombre de leurs clients.

Pourquoi les alternatifs liquides sont-ils privilégiés par rapport aux hedge funds traditionnels ?

Les fonds alternatifs liquides offrent des avantages par rapport à leurs équivalents traditionnels, les hedge fonds: une liquidité quotidienne, une meilleure transparence des portefeuilles, et en général des frais de commissions moins élevés. Une autre grande différence est aussi que grâce à leur label UCITS, ces fonds sont accessibles à de plus nombreux investisseurs.

Quelles évolutions se profilent pour ce secteur - selon vous- en 2017 ?

Nous nous trouvons dans un environnement complexe, ou les actifs traditionnels ont de fortes chances de ne pas performer aussi bien qu'ils l'ont fait ces dernières années. Les valeurs actions sont en effet toujours relativement hautes, les taux d'intérêts très bas, et les dynamiques de la croissance globale créent une grande incertitude sur l'avenir des marches.

Aux Etats-Unis une croissance moyenne mais soutenue risque de pousser la Reserve Fédérale à graduellement augmenter les taux directeurs, qui ont été proches de zéro depuis quasiment une décennie. Les dynamiques sont différentes pour les autres grandes économies en Europe comme au Japon ou l'on s'attend à ce que les taux restent très bas pour plus longtemps. Le ralentissement de la croissance en Chine contribue à créer plus d'incertitudes sur la croissance régionale et globale et de façon générale, la volatilité s'est accrue sur la plupart des marches (taux, devises, actions, matières premières).

Dans cet environnement nous pensons qu'il est intéressant de considérer des stratégies alternatives qui par nature sont moins dépendantes des actifs traditionnels et sont orientées vers des performances de types «absolute returns», c'est-à-dire non contraintes par un benchmark. Cette approche peut donner aux investisseurs un plus grand choix, plus de flexibilité par rapport aux stratégies traditionnelles, dans un environnement ou les rendements seront possiblement plus faibles et le risque possiblement plus élevé. Dans ce cadre, nous pensons que les stratégies alternatives sont très susceptibles d'attirer de plus en plus d'investisseurs.

European Long Term Investment Funds - The first signs of success

One year following the entry into force of EU Regulation 2015/760 of the European Parliament and of the Council of 29 April 2015 (the "Regulation") on so-called European Long Term Investment Funds ("ELTIFs"), the first Luxembourg ELTIF vehicles were recently approved by the CSSF.

As the approval of these first vehicles clearly demonstrates, the ELTIF framework constitutes an interesting add-on to the Luxembourg fund toolbox, expanding the marketing passport for professional investors that was granted by the Alternative Investment Fund Managers Directive ("AIFMD") to qualified retail investors.

The adoption of the Regulation actually marks a significant development in EU retail market policy by supporting, for the first time, a harmonised, retail oriented AIF product[1]. As further detailed below, possible investment options for ELTIFs are very broad and include inter alia SME financing, infrastructure projects, loan funds, real assets and real estate projects of social and economic benefit.

According to publicly available information there is not yet a large number of ELTIFs available on the market. Since the entry into force of the Regulation, a few ELTIFs have been launched abroad, being however reserved to professional investors only. The now approved Luxembourg vehicles are likely the first ones that are designed to grant retail investors across Europe access to long-term assets, which could open a new era for long-term financing.

Tackling the financing gap for the real economy

The financial crisis emphasised the problem of investors' focus on short term economic gains which comes at the expense of the underlying purpose of capital markets that is to finance growth of the real economy. Investment in long-term projects, such as e.g. infrastructure projects, real assets or SMEs (often also referred to as "alternative investments"), can be realised through a variety of financial instruments, for example, equity participation or loans.

Market research conducted by the EU Commission showed evidence that the estimated funding gap for infrastructure and other long term assets is huge, and that there are important pockets of unused investor money. The EU Commission therefore stressed the need to unlock new sources of capital.

Long-term investments often share the features of requiring patient capital, being illiquid and not easily tradable on the secondary market. Traditionally alternative assets were therefore considered as being little compatible with the needs of non-professional investor groups such as smaller and retail investors.

Indeed, while the European Community created already decades ago a solid cross border market for liquid assets with the Undertakings in Collective Investments in Transferable Securities ("UCITS") Directives, no standardised product rules or harmonised market access were available for long term assets. The AIFMD created a functioning EU passport for managers who wished to offer non-UCITS funds across borders. However, it did not entirely fill the gap since its marketing passport only applies to professional investors, excluding retail and so-called "semi-professional" investors[2]. Indeed, since the introduction of the AIFMD smaller investors were sometimes facing even greater barriers than before when trying to access alternative assets on a cross-border basis. As a consequence, they were often unable to enjoy the benefits that a diversified investment portfolio including long-term assets can bring.

Trying to build a bridge between the UCITS and the AIFMD worlds, the ELTIF Regulation was put in place in order to reconcile the needs of larger investor categories with the features of long-term assets. The Regulation is designed to complement bank financing with a wider variety of financing sources so as to better stimulate capital markets and help filling the financing gaps.

In doing so, the Regulation aspires to support the European economy in its attempts to enter a path of smart, sustainable and inclusive growth, in accordance with the Europe 2020 strategy, and to foster high employment and competitiveness with a view to creating a more resilient economy that is less prone to systemic risks.

Breaking down the ELTIF structure

ELTIF is the first harmonised European product regulation for investment funds after UCITS and the first for alternative investment funds which grants a European-wide access to a (qualified) retail public. Which are the main features of the ELTIF Regulation? And how did the European lawmakers solve the ambitious challenge that is to address the need of long term assets for patient capital and to at the same time pay tribute to the wish of retail investors to be able to quickly liquidate their investments if sudden need arises?

ELTIFs are by definition alternative investment funds ("AIFs") in the meaning of the AIFMD. They can only be managed by fully authorised European AIFMs. The ELTIF Regulation can actually be seen as an additional layer of product regulation that comes in addition and applies on top of the manager regulation AIFMD.

The ELTIF Regulation restricts the eligible investments to certain long-term investments. What is interesting though is that the Regulation does not define in a legally binding manner what "long-term assets" are. When searching for a definition in the Regulation one may merely obtain some rather generic guidance from its Recitals, referring to criteria such as patient capital generating typically late returns, limited liquidity etc. No minimum maturity is legally imposed, which broadens the scope of potentially eligible investments.

The Regulation contains an exhaustive catalogue of so-called "eligible investment assets", but the categories set forth in such catalogue are rather broad. An ELTIF must invest at least 70% of its capital in eligible investment assets[3], including real assets, equity, quasi-equity and debt instruments of qualifying portfolio undertakings, loans as well as (to a limited extent) units in other ELTIFs, European Social Entrepreneurship Funds ("EuSEFs") and European Venture Capital Funds ("EuVECAs"). In practice this means that product sponsors have a large choice (under the supervision of the competent authority ultimately approving the ELTIF product) to define the target assets they wish to invest in. Investors will be informed in a transparent manner about the long-term nature of the targeted asset classes in the ELTIF's disclosure documents, which are slightly more comprehensive than in a pure AIFMD environment. Indeed, the ELTIF Regulation prescribes that every ELTIF shall have a prospectus the content of which is defined in the Regulation[4]. In addition, ELTIFs sold to retail investors must produce a KID[5].

In principle, ELTIFs are closed-ended products and redemptions during the fund's life time are not foreseen as they are difficult to reconcile with the illiquid nature of the assets. However, ELTIF sponsors are granted with the flexibility to create open-ended or semi open-ended ELTIFs at their choice, subject to certain conditions. In any event, each ELTIF is required to define its end of life (and the circumstances in which extensions are allowed) so that investors have a clear visibility about the period for which their money is locked up.

A valuable alternative for EU investors?

The new ELTIF framework allows investors to get exposure to infrastructure and other alternative assets and to thereby participate in the rebuilding of the European economy. In the past, many of these asset classes were not accessible to all relevant investor groups, or available frameworks were so complex that non-professional investors shied away from investing.

In order to unlock available investor money across Europe including from retail investors, the ELTIF Regulation tackled a difficult issue: increasing the volume of private capital to finance projects with long term, stable returns whilst creating safeguards that are sufficiently robust to justify the granting of a marketing passport to retail investors across Europe.

A number of features were built into the Regulation to achieve these objectives. These safeguards (to name just a few, without being exhaustive) range from strict diversification requirements over mandatory investment advice and suitability tests for retail investors up to specific investment thresholds applicable to retail investors.

ELTIFs are further subject to limits on leverage and a ban on certain deemed speculative activities such a short-selling or the use of financial derivative instruments for other than hedging purposes. A secondary market trading of ELTIF units might also be a feature that could provide comfort to investors as it may allow them to step out of an ELTIF (the case being, with a discount) should immediate liquidity need arise.

A new era for long-term financing in Luxembourg?

Market feedback has shown that there is unmet retail investor appetite for investment into long term assets. The ELTIF might be an answer to that issue. Indeed, from our experience with the first Luxembourg ELTIFs but also from discussions with other market participants we have learned that the ELTIF's potential for large European-wide distribution is considered as being one of the main advantages of the new legal framework. As the recent consultation by the EU Commission on cross-border distribution of investment products has shown, there is much room for improvement in cross-border distribution matters, and the ELTIF is seen by many as being a first step into the right direction.

Another valuable advantage of the ELTIF Regulation is the broad range of eligible investment assets. Where the market initially perceived the ELTIF as a vehicle designed mainly for the infrastructure market it seems as if views had changed over time. Indeed, features like the explicit permission for ELTIFs to grant loans without having a banking license is raising more and more interest. Also, private equity type funds could be structured under the ELTIF Regulation, and even real estate managers start showing first signs of interest to set-up future fund products under the ELTIF Regulation.

The setting-up of an ELTIF does not come without any challenge – the Regulation creates a new legal framework with its own rules and requirements that need to be complied with. In particular, one should bear in mind that the ELTIF is a regulated investment product and hence, regulatory product approval is needed in addition to fulfilment of the AIFMD "manager" requirements.

It may be worth though making the effort to familiarise oneself with and to abide by the new rules if this is the key to unlock additional investor money in the short term, without waiting for the uncertain outcome of current EU Commission works on cross-border distribution.

Conclusion

The ELTIF Regulation offers an interesting new fund vehicle which – after a relatively slow start in 2016 - could well take off in 2017. Further improvements to the current framework may be expected and should help the product attract further interest. Indeed, within its first year of existence the Regulation has already seen first improvements in terms of the Solvency II treatment of ELTIFs, and the forthcoming adoption of the Regulatory and Technical Standards ("RTS") relating to the ELTIF Regulation should further strengthen the framework by giving actors additional legal certainty. The market seems to have an appetite – let's hope the future will see enough ELTIFs to satisfy the demand.

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1) The EuSEF and EuVECA Regulations were to some extent forerunners to the ELTIF as they already allow retail investments under certain conditions, however they followed the approach of a "manager regulation" whereas the ELTIF is a "product regulation".
2) Except if and to the extent national Member States allow
3) The remaining 30% can be invested in liquid assets, i.e. such that would be eligible for a UCITS fund.
4) Containing the disclosures foreseen in the AIFMD, in the ELTIF Regulation itself and in the Prospectus Directive.
5) Due to the delay of the PRIIPs Regulation some of the final contents of such ELTIF KID still need to be defined.