

# European Long Term Investment Funds (ELTIFs)

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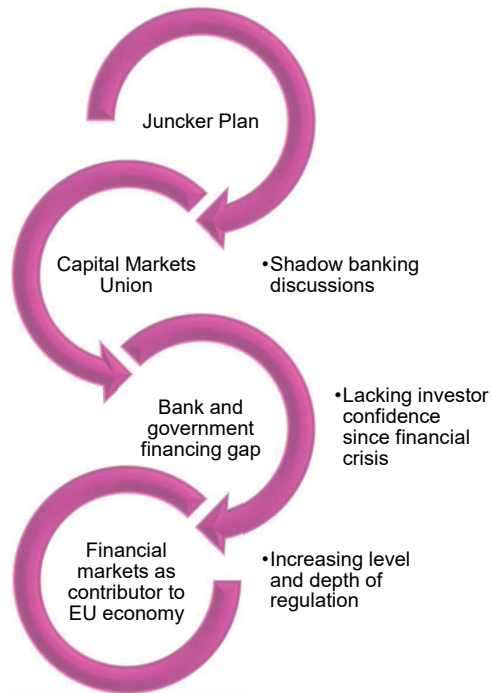
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# The international context

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# Do ELTIFs provide a solution?

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# Timeline

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# What is an ELTIF...in a nutshell

An alternative investment fund ('AIF')

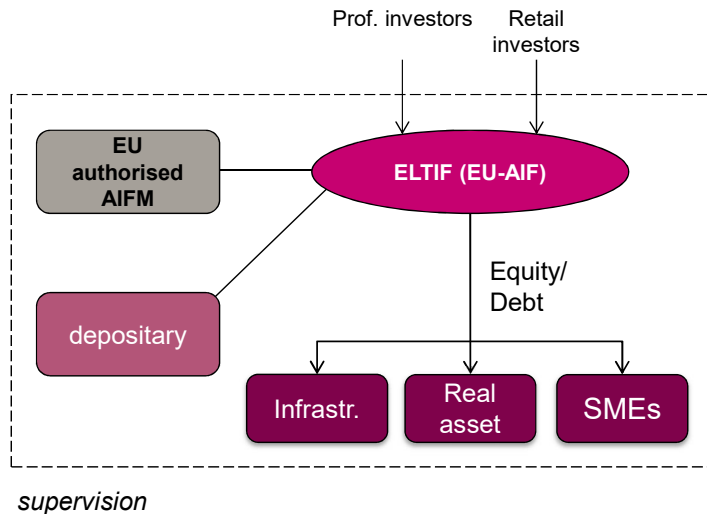
managed by a European Alternative Investment Fund Manager (AIFM)

raising capital from institutional and retail investors across the EU

investing in long-term assets

subject to diversification requirements

# Basic ELTIF set-up



- > EU AIF: in principle all legal forms permitted
- > Authorised EU AIFM
- > UCITS-eligible depository
- > Product approval and supervision
- > EU marketing passport for professional and retail investors
- > Protection of name „ELTIF“

# Why use ELTIFs? – Some of the advantages...

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- Harmonised European-wide product rules for long-term investments
- First EU-wide access for retail investors to long-term assets
- Retail investor protection mechanisms
- Economically and socially valuable investments
- Possibility to participate in efforts to relaunch the European economy
- Political support (CMU)
- Loan origination possible
- Favourable treatment under Solvency II
- EIB subsidies in a streamlined process
- Possibly interesting tax treatment
- Label





## Key features - focussing on ...

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- > Authorisation process
- > Investment rules:
  - Eligible assets
  - Diversification
  - Borrowing
  - Interdictions
- > Lifetime and redemptions
- > Secondary market
- > Distributions
- > Transparency
- > Marketing



# Authorisation process

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## - Requirements for being authorised as an ELTIF

being an EU AIF (or compartment thereof): any form / regulatory status (SICAV, FCP, SCS, SIF, etc.)

appoint authorised EU AIFM

have investment strategy compliant with ELTIF regulation

submit an application form\* to the competent authority of its home Member State

establish constitutive document and prospectus compliant with ELTIF regulation

## - Requirements for being approved as an ELTIF's manager\*\*

being an authorised EU AIFM

request approval as the ELTIF's manager\*\*\* at the competent authority of the relevant ELTIF

The ELTIF candidate and its manager will be informed within two months\*\*\*\* from the date of submission of a complete application whether authorisation as an ELTIF, including approval for the EU AIFM to manage the ELTIF, has been granted

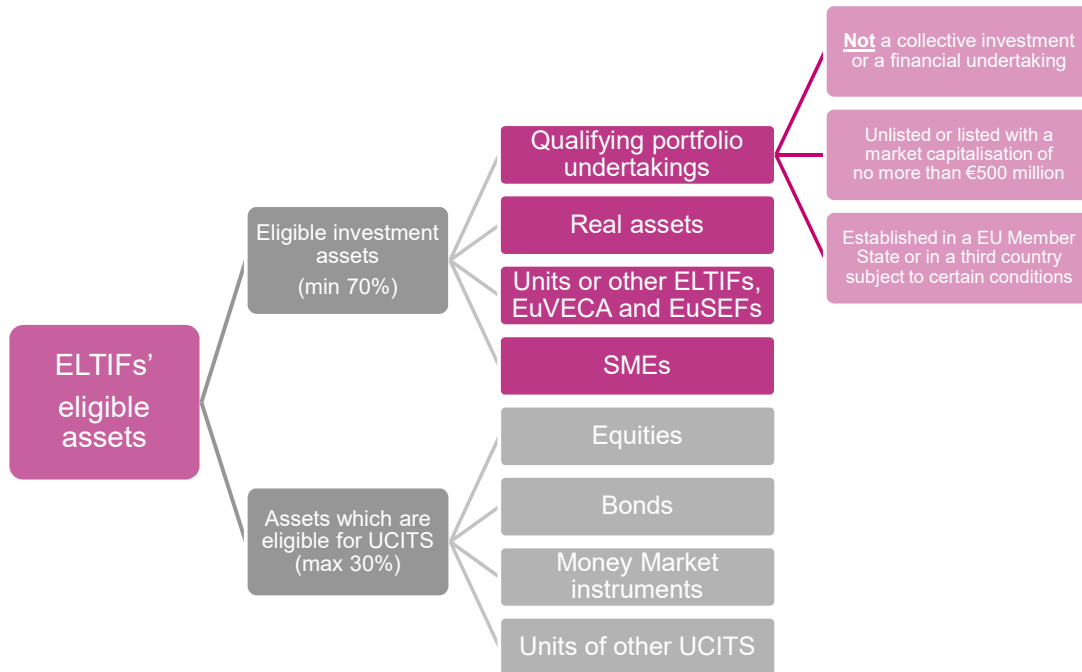
\* For more details see Article 5.1 of the Regulation

\*\*An ELTIF can be managed by an external AIFM or be self-managed

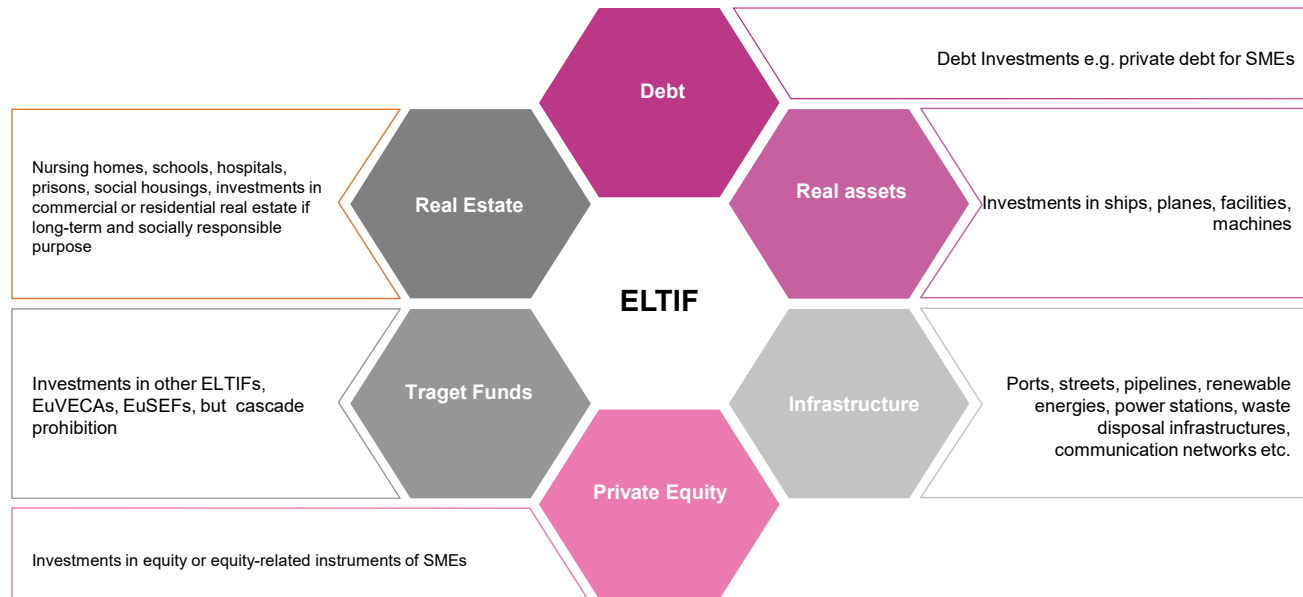
\*\*\* For more details see Article 5.2 of the Regulation

\*\*\*\*three months when the candidate is internally managed

# Investment rules – Eligible assets



# What can an ELTIF portfolio include?



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# Investment rules – Diversification and concentration rules

An ELTIF must invest at least 70 % of its *capital*\* in eligible investment assets within a maximum of five years of authorisation.

An ELTIF can invest up to:	10% of its capital in instruments issued by, or loans granted to, any single qualifying portfolio undertaking
	10% of its capital directly or indirectly in a single real asset
	10% of its capital in units of any single ELTIF, EuVECA or EuSEF
	5% of its capital in eligible assets for UCITS, where those assets have been issued by any single body

The aggregate value of units of ELTIFs, EuVECAs and EuSEFs in an ELTIF portfolio must not exceed 20 % of the value of the capital of the ELTIF. An ELTIF cannot acquire more than 25% of the units or shares of a single ELTIF, EuVECA, or EuSEF.

An ELTIF may raise the 10% limit on investment in qualifying portfolio undertakings and in individual real assets to 20%, provided that the aggregate value of the assets held by the ELTIF in qualifying portfolio undertakings and in individual real assets in which it invests more than 10% of its capital does not exceed 40% of the value of the capital of the ELTIF.

\* Total commitments and total contributions + borrowing

# Investment rules – Borrowing rules

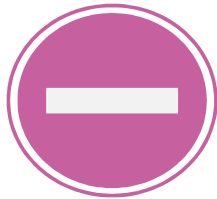
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An ELTIF may borrow cash provided that the borrowing:

- > represents no more than 30 % of the value of the capital of the ELTIF;
- > serves the purpose of investing in eligible investment assets, except for loans to qualifying portfolio undertakings, provided that the holdings in cash or cash equivalents of the ELTIF are not sufficient to make the investment concerned;
- > is contracted in the same currency as the assets to be acquired with the borrowed cash;
- > has a maturity no longer than the life of the ELTIF; and
- > encumbers assets that represent no more than 30 % of the value of the capital of the ELTIF.

# Investment rules - Prohibitions

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An ELTIF is prohibited from:

- short selling of assets
- taking direct or indirect exposure to commodities
- entering into securities lending, securities borrowing, repurchase transactions, or any other agreement which has an equivalent economic effect and poses similar risks, if thereby more than 10 % of the assets of the ELTIF are affected; and
- using derivatives (except for hedging purposes).

# Lifetime and redemptions

## Principle

In general, ELTIF are closed-ended funds. Investors in an ELTIF cannot request the redemption of their units before the end of the life of the ELTIF. Redemptions to investors become possible from the day following the date of the end of the life of the ELTIF. Please refer to transparency requirements concerning specific warnings in this respect.

## Exception

Possibility for the ELTIF manager to grant a redemption right to investors before the end of the life of an ELTIF, provided that all of the following conditions are fulfilled:

- Redemptions are not granted before the date specified in the constitutive document of the ELTIF, which must not be before five years after the date of the authorisation as an ELTIF or half the life of the ELTIF, whichever is the earlier;
- An appropriate liquidity management system and effective procedures for monitoring the liquidity risk of the ELTIF are in place, which are compatible with the long-term investment strategy of the ELTIF and the proposed redemption policy;
- Redemptions are limited to the defined amount;
- Investors are treated fairly and redemptions are granted on a pro rata basis if the total redemption requests exceed the amount invested in eligible assets for UCITS.





# Secondary market

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- Potential alternative exit possibility for investors
- Articles may not prevent secondary market trading of shares
- Free transfer of shares by investors
- Normal stock exchange rules on listing apply
- Publication of market price alongside NAV



# Distributions

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- ✓ Distribution policy to be determined in constitutive document
- ✓ Frequency and timing of distributions to be disclosed in prospectus



## Permitted :

- ✓ Regular distribution of proceeds: regular income and capital appreciation
- ✓ Reserve for outstanding commitments
- ✓ Reduction of capital upon disposal of asset

# Transparency

## Information to be contained in the prospectus

Statement setting out how the ELTIF's investment objectives and strategy for achieving these objectives qualify the fund as long-term in nature;

Information to be disclosed by closed-ended UCIs in accordance with the prospectus directive;

Disclosures required under AIFMD;

Indication of the categories of assets in which the ELTIF is authorised to invest;

Indication of the jurisdictions in which the ELTIF is allowed to invest;

Any other information required by the competent authority.

## Specific warnings to be included in the prospectus and in any other marketing documents

Prominently inform investors about the illiquid nature of the ELTIF;

Statement concerning the specific date for the end of the life of the ELTIF and any right to extend temporarily the life of the ELTIF;

Information of investors about the end of the life of the ELTIF as well as any option to extend the life of the ELTIF;

Statement whether the ELTIF is intended to be marketed to retail investors;

Explanation about the rights of investors to redeem their investment;

Information of investors about the long-term nature of the ELTIF's investments;

Statement concerning the frequency and the timing of any distributions of proceeds to investors during the life of the ELTIF;

Advice of the investors that only a small proportion of their overall investment portfolio should be invested in an ELTIF.

## Key information document

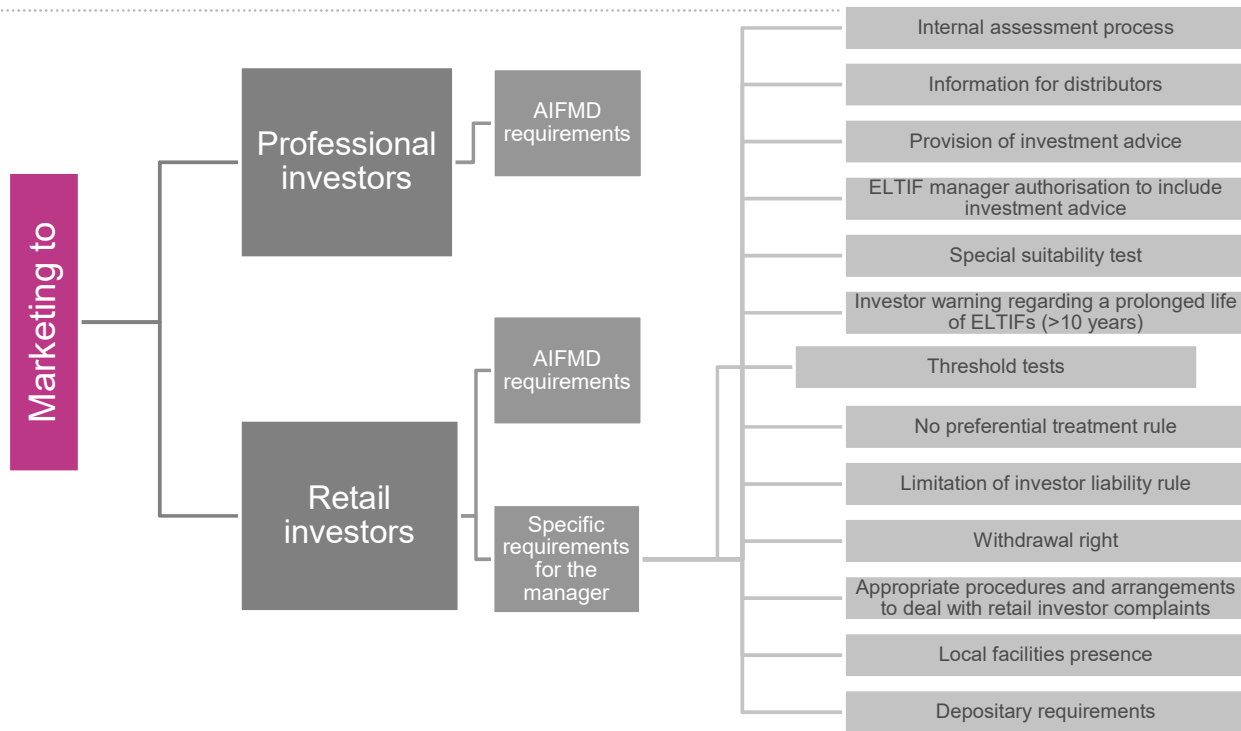
Required only where the units of the ELTIF are marketed to retail investors;

ELTIF is considered as a packaged retail product and falls under PRIIPs regulation.



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# Marketing – Professional versus retail investors



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## Notes

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