IQEQ

Know how Know you

Guide to ELTIF 2.0

What is ELTIF 2.0?

The European Long-Term Investment Fund (ELTIF) 2.0, which became applicable on 10 January 2024, is an evolution of the original ELTIF framework established in 2015.

Its primary goal is to enhance the attractiveness of ELTIFs for a broader range of investors, particularly retail investors, by simplifying regulatory requirements and expanding investment opportunities. These funds are designed to facilitate financing for the real economy by channelling capital into long-term projects, including infrastructure and small and medium-sized enterprises (SMEs).

Challenges with ELTIFs to date

Despite the initial optimism surrounding ELTIFs, uptake has not met expectations. By the end of 2022, only €11.3 billion was invested in ELTIF structures, representing a small fraction of the overall European AIF market. Market participants have expressed support for the fund's objectives, but restrictive investment and distribution rules have limited their growth potential.

ELTIF 2.0, which came into force on 9 April 2023, and was applicable from 10 January 2024, is a direct response to these challenges, aimed at increasing the funds' appeal.

Opportunities and market context with ELTIF 2.0

There is a significant opportunity for growth in the ELTIF market.

Currently, private investors hold roughly 50% of the estimated $275 trillion to $295 trillion in global AUM, yet represent only 16% of AUM in alternative investment funds. With expectations that ELTIF volumes could reach €100 billion by 2028, this represents a substantial increase from €11 billion in 2022. Major fund managers, including Blackstone, Amundi, and Partners Group, have begun launching retail products, indicating strong market demand.

Key jurisdictions for ELTIF registration include Luxembourg, France, and Ireland (which has a unique 24-hour authorisation process for non-retail ELTIFs), which collectively account for a notable share of the market. As the regulatory landscape continues to evolve, ELTIF 2.0 is poised to democratise access to alternative investments, fostering greater participation from retail investors in long-term economic financing.

ELTIF 2.0 is likely to be an attractive structure for insurance companies, as under pending revisions to Solvency II that are due to come into force on 1 January 2026, investments by insurance companies in ELTIFs will benefit from a capital weighting of 22%, which is materially lower than the current weighting of 39% that applies to certain types of long-term illiquid investments in other forms of AIFs. Additionally, "look-through" requirements will not apply to ELTIFs, and these changes to Solvency II are being made to encourage insurance companies to invest in long-term investments.

Key changes in ELTIF 2.0

The ELTIF 2.0 regulation introduces several important modifications:

1. **Relaxed capital raising rules**: The original minimum investment requirement of €10,000 for retail investors has been removed. Additionally, the previous restriction limiting retail investors to a maximum of 10% of their overall assets in ELTIFs has also been eliminated
2. **Simplified suitability assessments**: The requirement for distributors and managers to establish local facilities and conduct separate suitability assessments for retail investors has been lifted. Instead, the MiFID II suitability test now applies
3. **Flexible investment rules**: The minimum investment in eligible assets has decreased from 70% to 55%, while the maximum investment in a single asset has increased from 10% to 20%. ELTIF's that are restricted to professional investors are no longer subject to any concentration limits. This greater flexibility aims to encourage a wider range of investment strategies
4. **Expanded definition of eligible assets**: The list of eligible assets has significantly broadened to include FinTech assets, certain securitised assets, and green bonds. Moreover, the definition of real assets has been expanded, removing the requirement for these assets to demonstrate economic or social benefit. There is no longer a minimum value for real assets, which previously had to be at least €10 million
5. **Fund of funds provisions**: Up to 100% of an ELTIF can now be invested in target funds, including UCITS and EU AIFs managed by authorised AIFMs[1]. This allows for greater diversification without the previous limitations on cascading investments

Reference

1 Provided that the underlying UCITS or EU AIF invests in eligible assets and does not hold more than 10% of its assets in any other collective investment vehicle.

Key features of ELTIF 2.0

- **Eligibility for investors**: There are no minimum ticket sizes for investors, and previous caps on private investors' allocations have been eliminated. However, investors are advised about the long-term nature and low liquidity of these investments
- **Suitability assessments**: The elimination of the separate suitability assessment simplifies the process, with the MiFID II requirements ensuring investors are adequately informed
- **Eligible asset allocation**: ELTIFs must maintain a minimum of 55% in eligible assets while allowing up to 45% in liquid assets. The diversity in eligible assets, including real assets and green bonds, is designed to promote investment in illiquid opportunities
- **Diversification rules**: The maximum investment in a single asset is capped at 20%, while no such restriction exists for professional-only ELTIFs
- **Increased leverage**: Leverage limits have been raised from 30% to 50% of NAV for retail investors and to 100% for professional investors, providing managers with more options for capital deployment
- **Liquidity options**: ELTIFs may now include optional liquidity windows and matching mechanisms, with a focus on fair treatment of limited partners (LPs). Fund managers are expected to implement robust liquidity and redemption policies
- **Co-investment opportunities**: Co-investments are now permitted, allowing investors to engage directly in investment opportunities alongside the fund

Key jurisdictions

Ireland

The new Irish ELTIF regime, effective from 11 March 2024, offers a streamlined structure for managers, enhancing speed to market.

Key features include:

- ELTIFs can be established as a Retail Investor ELTIF, a Qualifying Investor ELTIF (subject to Retail Investor ELTIF Rules, with a minimum subscription/commitment of €100,000), or a Professional Investor ELTIF. They can utilise various legal structures like ILP, ICAV, PLC, Unit Trust, or CCF. ELTIFs can also be established as sub-funds of an umbrella ELTIF
- A Retail ELTIF can be a sub-fund of an existing umbrella Retail Investor Alternative Investment Fund (RIAIF), while a Qualifying Investor ELTIF and a Professional Investor ELTIF can be sub-funds of an existing umbrella Qualifying Investor Alternative Investment Fund (QIAIF). Umbrella structures provide segregated liability among sub-funds
- Local rules for QIAIFs and RIAIFs are generally disapplied for ELTIFs, eliminating gold-plating requirements and offering greater flexibility than non-ELTIF AIFs. For example, Central Bank of Ireland requirements such as subsidiary rules, loan origination, and private equity rules do not apply to ELTIFs
- Qualifying Investor ELTIFs and Professional Investor ELTIFs are subject to a minimum subscription/commitment of €100,000 and benefit from a long-established fast-track 24-hour approval process, thus minimising establishment costs and significantly improving speed to market for ELTIFs seeking to raise capital from sophisticated high-net-worth individuals and institutional investors
- Co-investment vehicles and loans to qualifying portfolio companies are also permitted

France

The new French ELTIF regime, particularly through the “Green Industry Law” adopted on 23 October 2023, and further complemented by the ordinance of 3 July 2024, on the modernisation of French alternative investment funds, provides fund managers with a highly attractive and modernised investment toolbox while expanding the investor base.

Key features include:

- Eligibility conditions for ELTIF 2.0 funds have been modified to facilitate investor access to these products, notably through life insurance products, the PEA (French equity savings plan), and the so-called PEE-PER (French company savings plans and retirement savings plans). These new provisions aim to support the development of French ELTIF 2.0 by redirecting savings toward the real economy
- FPS (Fonds Professionnel Spécialisé) and OFS (Organisme de Financement Spécialisé) are expected to become the preferred structures for French ELTIF 2.0, with the possibility of being structured in various forms, including a newly created structure as a non-legal entity: the Special Limited Partnership Company (Société de Libre Partenariat Spéciale). This new structure retains the key features of the classic Société de Libre Partenariat, such as limited partnership, management bodies, and limited liability for limited partners
- To encourage capital risk mutual funds (FCPRs) and real estate collective investment undertakings (OPCIs) to obtain the ELTIF 2.0 label, FCPRs and OPCIs labelled as ELTIFs will, for a period of two years starting from 10 January 2024, have the option to be governed by the more flexible rules of ELTIF 2.0 FPS to avoid certain investment and diversification constraints

Luxembourg

The new Luxembourg ELTIF regime, effective from January 2024, allows fund managers to continue benefiting from a very attractive investment toolbox while broadening the investor base.

Key features include:

- Luxembourg modernised its Part II UCI regime in 2023 to allow for increased structuring options, lower entry tickets, and broader exposure to illiquid products. The Part II ELTIF provides the ideal platform under various (semi) open-ended strategies marketed in a more harmonised way to a broader investor base
- Considering the cost of setting up and ongoing maintenance (administration costs, transparency, and distribution), umbrella structures (such as running vintage programmes) help achieve substantial economies of scale while facilitating management from an operational standpoint
- SICAV-SA is likely to become the preferred form for funds established under the Part II ELTIF regime because it combines the flexibility of variable capital with control through a manager-owned general partner, along with an opaque legal form that is typically preferred for (semi) open-ended structures with retail capital

Challenges and how IQ-EQ can help

Challenge	How IQ-EQ can help
1. Fund managers are seeking diverse capital sources, including private wealth channels and retail investors, leading to a potential influx of a large number of investors	We offer expertise in servicing private markets, flexibility to host liquid components, and tailored administrative support, successfully contributing to the launch of several ELTIFs
2. AIMA forecasts €100 billion in flows into ELTIFs by 2028, yet only 16% of retail investor AUM is in private markets, which represent 50% of global wealth. This disparity underscores the challenge of engaging retail investors and necessitates a reassessment of the target operating model (TOM) to enhance accessibility	We will simplify onboarding processes through MaxComply™, our user-friendly platform that enhances the retail investor experience and facilitates greater participation in private markets by offering jurisdiction-specific structures and increasing transparency in reporting with our portfolio monitoring tool, IQ-EQ Cosmos
3. The French life insurance market will not be accessible by non-French ELTIF 2.0 including through Feeder-Master structure (as per article R. 131-1 of the French insurance code both the feeder and the master need to be French funds to be eligible to French insurance life products)	We can help non-French investment managers to establish parallel French fund vehicle to access French Life insurance market that is expected to reach a projected market size of €147.50bn in 2024[2]

Reference

2 https://fr.statista.com/outlook/fmo/insurances/life-insurance/france

Key services

Fund launch and set-up

We can guide you during the entire initial onboarding process to make sure your fund is set up properly and to prepare the launch to investors.

- Fund accounting and reporting set up
- Share class: performance equalisation set-up
- Fee set up
- Fund information sheet/on-boarding tracker
- Assistance with a full regular authorisation and approval process
- Fund-raising document repository
- AIFM and regulatory hosting
- Investment management services
- AML/KYC RegTech SaaS offering powered by Maxcomply™
- Ability to connect with broader banking distribution (i.e Vestima etc)

AIFM services

- SFDR compliance services (SFDR disclosures, ESG policies and procedures, data collection, periodic disclosures)
- Regulatory reporting: AIFMD Annex IV reporting, PRIIP KIDs/EPT, EMT, Solvency II/TPT/SCR and EET
- Know Your Asset (AML/KYC verifications on assets)
- Risk management and support services, including the on-going monitoring of ELTIF and fund's prospectus restrictions, portfolio analysis
- Liquidity management services
- Portfolio and valuation reporting and oversight
- Risk management including reporting, portfolio analytics and data access
- Diligence on delegates (including investment manager and advisors)

Fund accounting

We have the in-depth knowledge of all capital markets, both liquid and illiquid, necessary to carry out hybrid fund accounting.

- Bookkeeping and accounting
- NAV/valuation reviews, fee accruals
- Financial statement preparation and statutory reporting
- Performance fee calculations
- Waterfall models
- Tax filings and compliance

Value added services

With IQ-EQ Cosmos, you can easily access your portfolio, fund, and deal performance metrics, along with essential information such as accounting records, carry, and management fees, all presented intuitively on any device.

It accommodates both liquid and illiquid investments and can be customised to meet your specific style and requirements. The platform's real value lies in its ability to provide detailed reporting on underlying deals, whether you are a fund of funds or a direct investment manager. With continuous upgrades and new features being rolled out regularly, our clients' deal teams can now generate investor reports with added commentary directly from their Cosmos dashboards, saving time and enabling efficient self-service. Connected to our Data Platform, IQ-EQ Cosmos leverages our industry-leading data warehouse capabilities (powered by Snowflake), helping you make informed decisions based on accurate and quality data and analytics. We offer more than just a portfolio monitoring platform; our team also supports data collection at the asset level, dashboard configuration, and document management.

Investor services

We support you in all aspects of servicing your investors.

- Investor AML/KYC (onboarding and ongoing) powered by MaxComply™
- Booking of investor transactions (ongoing)
- Registrar services including investor queries
- Registrar services - investor reporting
- Cash management (subscription / redemption)
- FATCA and CRS
- Capital calls/commitments (LP structure)
- Distributions

IQEQ

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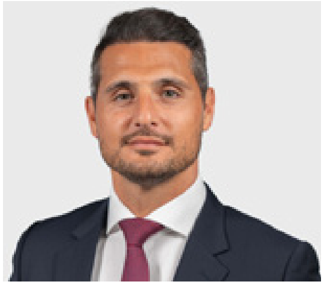

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