ELTIF 2.0: bigger and better

The EU's revamped long-term investment vehicle looks like the real deal

Anne Macey
Global Head of Public Affairs
Natixis Investment Managers

Key takeaways:

- ELTIF 2.0 offers a bigger range of assets, better accessibility, and a way for retail investors to tap private markets on a large scale for the first time.
- The involvement of the investment industry in the revamping of ELTIFs has played a big part in the improvements in and useability of ELTIF 2.0.
- The investment industry will need to remain proactive to ensure that the outstanding technical issues are resolved.

Those with long memories may remember the European Long-Term Investment Fund, or ELTIF.

Designed to encourage investment in the real economy across the European Union and launched to much fanfare some nine years ago, it didn't take off and soon faded from general consciousness.

Fast-forward nearly a decade and the new and improved ELTIF 2.0 is ready to do the job its predecessor could not. ELTIF 2.0 offers investors a bigger range of assets, better accessibility, and a way for retail investors to tap private markets on a large scale for the first time.

The investment industry is convinced this time it will fly: the number of registered ELTIFs has nearly doubled from 50 to 90-plus in the space of a year and more funds are being prepared to capture likely future fund flows.

What happened to ELTIF 1.0?

ELTIFs originally came into force in December 2015, with the aim of financing the real economy by channelling non-bank capital to long-term infrastructure projects and SMEs. ELTIFs are not actually a brand new structure, but are instead a European Alternative Investment Funds (AIF) with a long-term "ELTIF" label.

Following their introduction, only €2.4 billion was raised, and the funds were domiciled in just four countries.

The slow uptake was primarily due to restrictions placed on their use by individual countries, which made ELTIFs insufficiently flexible and generally unworkable.

In particular, the minimum ticket for retail investors of some €10,000 meant the great democratisation of private markets simply didn't happen.

The decision was therefore taken to re-engineer the ELTIF concept.

"Investment needs in Europe are huge for real assets, for sustainable and digital projects, for scale-ups" says Anne Macey, Global Head of Public Affairs, at Natixis Investment Managers. "Without an EU-wide long-term vehicle, it is likely that start-ups would go to the US to finance their growth. Investors were clear that they would invest if the product was adjusted. That has now happened."

Changes to eligibility of assets

The result was ELTIF 2.0, which went live in January 2024.

ELTIF 2.0 re-emerged as a more flexible product in terms of eligible assets, borrowing, and rules on concentration and diversification. It also improved access for investors, notably retail investors.

In terms of eligible assets, the scope has been considerably widened. The definition of real assets has been simplified and broadened. Investors can now allocate to green bonds and to fintechs. The market cap for eligible listed companies has been raised from €500m to €1.5bn. Simple, Transparent and Standardised (STS) securitisations are eligible under certain conditions. And the EU location requirement for eligible assets has been abolished.

Another key feature is that ELTIF 2.0 offers this time greater flexibility on portfolio composition and diversification, with a liquid investments pocket up to 45% for instance.

The coming democratisation of private markets

Perhaps the most significant evolution of the ELTIF is the democratisation of private asset ownership. The troublesome €10,000 threshold has been removed, as has the 10% exposure cap to real assets for investors with less than €500,000 to spare.

"The threshold reduction is a gamechanger," says Macey. "Retail investors can now invest from zero capital upwards, with strong investor protections still in place." ELTIF 2.0 aligns to the investor protection tenets established in MiFiD II. Macey adds: "The very fact retail investors fully understand that these are long-term investments is protection in itself.

The borrowing threshold of up to 30% of an ELTIF's capital value has been raised to up to 50% for ELTIFs open to retail investors, potentially improving investment performance. The threshold becomes 100% for professional investors.

ELTIF 2.0 also allows fund-of-funds structures, which can invest in other AIFs. This will give retail investors indirect exposure to funds that were previously the sole preserve of professionals or not available at all.

One last bump in the road

With the roadblocks largely removed, there is now impetus behind ELTIFs. There are one or two remaining bumps in the road, notably the redemption policy, which makes it difficult to operate open-ended ELTIFs. ELTIFs would have to impose a minimum notice period of 12 months and open-ended ELTIFs that want to implement a shorter notice period would have to hold up to 40% of the portfolio in cash or near-cash.

This "standard", developed by ESMA, is being reviewed by the European Commission. "As an industry we are working to ensure that the technical standards won't jeopardise the main thrust of ELTIF 2.0," says Macey.

On March 6 2024, the Commission amended the draft, including a requirement to inform national authorities before material changes are made to redemption policies and removing the requirement of a minimum 12-month notice period. ESMA is currently reviewing the amended draft and must now come back to the Commission with their approval or a new amended copy.

Why is the ELTIF process better this time?

The greater involvement of the investment industry in the revamping of ELTIFs has played a big part in the improvements in and useability of ELTIF 2.0.

"Most European decision-makers are really listening to the industry this time round," says Macey, who has played a role in advising on the development of ELTIF 2.0. "That's great, because as an industry we know the needs of investors and can design and develop a product that will appeal to them."

Macey and her colleagues at Natixis Investment Managers have actively engaged with European Ministries of Finance and the Commission, talking to key experts, including the Rapporteur at the European Parliament and his team, as well as regulators and financial officials in other EU member states. She says: "We exchange views, listen to their concerns and leverage the operational expertise of Natixis and its large range of affiliates spanning all key private assets capabilities to help draft the framework."

Macey's credentials make her a natural fit to engage in the development of the new ELTIF. In a previous role, as CEO of the European thinktank, Confrontations Europe, Macey, her team and founding members worked alongside the European Commissioner Michel Barnier's impulsion to reinstate long-term investment including ELTIF as a priority EU agenda item.

And, as former chief of staff of the General Rapporteur on the budget at the French National Assembly, she understands how the private sector should position its messaging to be properly understood and for its ideas to be integrated into political decision-making. The best and most effective way is actually to share the same vision and leverage operational expertise from the best experts in the private sector to make it come true.

Industry should remain proactive

The investment industry will need to remain proactive to ensure that the outstanding technical issues are resolved. "We think the EU Commission may well do what it has rarely done before and modify the technical standards," says Macey. "That would be testament to the industry's engagement efforts over the last two years."

In fact, Macey would like the Commission to go even further in the future and offer tax incentives for investment in ELTIFs, mirroring tax breaks offered in the US for similar vehicles, such as Business Development Corporations for instance.

"Yes, there are public finance constraints in the EU, but if we want the private sector to help finance the real economy, it should be realised that tax incentives could benefit everyone, including governments," says Macey. "Tax incentives could channel long-term capital to the real economy, facilitating the building of renewable power and energy infrastructure, SMEs, schools, hospitals and so on."

"This would create jobs and improve lives across the EU."

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RCS Paris 453 952 681
Share Capital: €178 251 690
43 avenue Pierre Mendès France
75013 Paris
www.im.natixis.com

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