

ELTIF 2 is Coming: Opportunities for Asset Managers

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ELTIF 2 Guide – Part 1

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The new European Long-Term Investment Funds Regulation (EU) No. 2023/606 (“ELTIF 2”) will become applicable on 10 January 2024.

The Regulation introduces a more flexible framework for the setting-up and marketing of ELTIFs in Europe. The aim is to facilitate investments in these funds by institutional and retail investors and further support the growth of EU economy.

The amendments introduced by the ELTIF 2 Regulation will broaden the scope of eligible investments, allow for a more flexible management of ELTIFs – for instance, as regards the rules on leverage and reimbursement of the fund’s units or shares – and facilitate the marketing to retail investors.



What are ELTIF funds?

ELTIFs are alternative investment funds (“**AIF**”) set-up to pursue long-term investment strategies by investing mainly in unlisted companies or listed companies with a low market capitalization through equity, debt, or loans.

The ELTIF Regulation (EU) No. 2015/760 (the “**ELTIF Regulation**”) was approved in 2015 by EU institutions to create a new investment vehicle channelling professional and retail investors’ money into long-term infrastructure projects and the real economy in general.

While AIFs can be marketed under the EU passporting rules only to professional investors, the ELTIF marketing passport applies also to marketing to retail investors across EU Member States.



ELTIFs are alternative investment funds established to pursue long-term investment strategies.



The changes made with the ELTIF 2 Regulation concern both the rules on eligible assets and investments, and those relating to the conditions for raising capital from retail investors.

A new boost to ELTIF funds

Notwithstanding the approval of the ELTIF Regulation in 2015, only a limited number of ELTIFs were launched in Europe. As part of the Capital Markets Union Plan, EU institutions reviewed the ELTIF Regulation to improve the attractiveness of ELTIFs.

The changes made in the ELTIF 2 Regulation affect both the rules on eligible assets and investments and those on the requirements for investments made by retail investors. ELTIF 2 also introduces more flexible tools for managing ELTIF funds, for instance by entitling investors to redeem their investments after the expiry of a minimum holding period.

What are the main changes made by the ELTIF 2 Regulation?

The main aspects addressed by the ELTIF 2 Regulation can be summarised as follows:

- ▶ **Eligible assets** – ELTIFs will be enabled to pursue a global investment mandate by investing also outside the EU. More flexibility will be introduced as regards the investments in real assets, while ELTIFs will be permitted to invest also in simple, transparent and standardised (STS) securitisations as well as in European green bonds. Investments in recently authorized financial undertakings – such as Fintech companies – will also become eligible.
- ▶ **Portfolio diversification and leverage** – Only 55% of the ELTIF capital will have to be invested in eligible investment assets, as opposed to the current 75% threshold. The portfolio diversification requirements imposed under the ELTIF Regulation are loosened and can be derogated in full in case of ELTIFs that are marketed solely to professional investors. Asset managers will be allowed to set-up master-feeder ELTIF structures. ELTIFs will have additional room to use leverage to finance their investments or pay costs and expenses under the ELTIF2 rules.
- ▶ **Exit options for investors** – Under the ELTIF 2 Regulation investors can be entitled to ask for the reimbursement of the investment made in the ELTIF before the end of the life of the ELTIF after the expiry of a minimum holding period. As an alternative exit option, the rules or instrument of incorporation of the ELTIF can provide for the possibility of full or partial matching of transfer requests of units or shares of the ELTIF made by existing investors.



The regulatory framework resulting from the entry into force of the ELTIF 2 Regulation will eliminate the current barriers to raising funds from retail investors and will allow the creation of alternative investment products focused on illiquid assets, including real estate.

- ▶ **No minimum investment ticket** – The existing rules on ELTIFs provide that retail investors must invest a minimum ticket of Euro 10,000 in an ELTIF, and that the value of their investment cannot exceed 10% of their financial instrument portfolio. Under the ELTIF 2 these limitations will no longer apply.
- ▶ **Additional requirements on the marketing to retail investors** – ELTIF 2 requires asset managers to comply with the product governance requirements set out under the MiFID2 to market units or shares of ELTIFs to retail investors. The marketing to retail investors requires an assessment of suitability in accordance with the MiFID2 rules. However, the distribution of the ELTIF to retail investors is possible also if the investment is not suitable, provided that the investor gives its express consent and that other conditions are met.

New opportunities for asset managers

The revised ELTIF 2 framework will eliminate the existing barriers to investments by retail investors and permit the creation of alternative investment products focusing on illiquid assets, including real estate. It creates significant opportunities for asset managers, enabling them to launch new classes of alternative investment products that can be marketed on a cross border basis in all EU Member States also to retail investors.



This is the first of a series of articles concerning the ELTIF 2 Regulation published by Lexia. The additional articles will be available on the [Lexia](https://www.lexia.it) website.



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