ELTIF: A LONG FUND INDEED

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» THE EXISTENCE OF A BROADER INSTITUTIONAL APPETITE FOR INVESTING IN LONGER TERM ASSETS, AND THAT INDIVIDUALS PLANNING FOR FUTURE LIABILITIES MIGHT BENEFIT FROM THE REGULAR RETURNS PROVIDED BY SUCH INVESTMENTS. «

IN JUNE 2013, the European Commission proposed the creation of a new type of EU closed end fund: the EU Long Term Investment Fund (Eltif).

The fund will offer professional and retail investors in the EU a readily available pooling mechanism through which to invest in companies and projects that require long-term capital financing and are not traded on regulated markets.

The Commission's ambition is to build within the EU a common, comparable cross-border standard for what long-term assets are, for whom they may be suitable, and how they function; in short, a long-term assets counterpart brand to the Commission's successful Ucits fund brand for investment in liquid financial assets, the assets under management of which reached €6,697 billion in March 2013.

The Commission considers long-term investment the provision of "long-lived capital" – to finance tangible assets – for example, energy, transport and communication infrastructure, housing and industrial facilities – and intangible assets such as education, and research and development, and provide investors with long-term, stable returns.

While it acknowledges "very large investors such as large pension funds or insurance undertakings" already have access to such investments, it notes the existence of a broader institutional appetite for investing in longer term assets, and that individuals planning for future liabilities might benefit from the regular returns provided by such investments.

It has published its proposals for an Eltif regulation, which offers uniform rules on authorisation and investment policies, and operating conditions for EU alternative investment funds that are structured as Eltifs. The regulatory framework comprises three core features: rules governing eligible assets and their diversification, a high threshold competence level required of those allowed to manage and market Eltifs, and the alignment of the Eltif's investment horizon with the redemption expectations of investors (early redemption is not allowed).

The proposal does not contemplate fixed time periods for holding assets, nor the duration of any Eltif. Managers of Eltifs will have a marketing passport throughout the EEA, allowing Eltifs to be sold to all types of European investors without complying with national private placement regimes.

An Eltif will only be able to invest in unlisted companies needing long-term capital, real assets requiring long-term capital to develop them and EU regulated funds financing start-ups or businesses seeking to achieve a social impact (respectively the so-called EuVECA and EuSEF funds – niche nonretail products introduced in 2013, yet to bed down).

Eltifs will be subject to a network of other EU measures. Only EU funds qualifying as alternative investment funds under the Alternative Investment Fund Managers Directive (AIFMD) and managed by investment managers authorised under the directive will be eligible for inclusion under the Eltif brand. Eltifs will also have to publish a prospectus that complies with the Prospectus Directive.

Where the marketing is to retail investors, an additional key information document will be required that complies with a proposed EU regulation on key information documents due to be adopted later this year. Eltifs will be subject to MiFID requirements relating to marketing, selling and disclosure.

The industry has responded positively. Suggestions include: there should be two types of Eltif (one for professional investors and one for retail investors); the proposed prohibition on marketing Eltifs structured as partnerships to retail investors should be discarded, given the characteristics of a partnership vehicle are appropriate for facilitating long-term investment; and Eltifs should be able to be structured as funds of funds (albeit limited to other Eltifs, EuVECAs and EuSEFs).