

## ELTIF 2.0 – just one month to go...

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Regulation (EU) 2023/606 (“**ELTIF 2 Regulation**”), which will amend Regulation (EU) 2015/760 (“**ELTIF Regulation**”), will come into force on 10 January 2024.

The original ELTIF Regulation was aimed at boosting European long-term investments in the real economy, but did not gain a lot of traction, with very few ELTIFs having been authorised. The purpose of the ELTIF 2 Regulation is to enhance and reshape the ELTIF Regulation so that it can remain attractive to professional investors and also align private market strategies to a wider, retail investor base.

We have set out, in this alert, some of the key features of ELTIFs and some of the changes that will be introduced under the ELTIF 2 Regulation.

### **What is an ELTIF?**

ELTIFs are closed-ended alternative investment funds (“**AIFs**”) managed by an authorised alternative investment fund manager (“**AIFM**”) with a long-term ELTIF label – they cannot be managed by sub-threshold AIFMs.

AIFs which use the ELTIF designation are able to benefit from a marketing passport to both professional and retail investors in the European Union (“**EU**”) – the ability to market the product to retail investors across the EU is a key advantage of an ELTIF, compared to other AIFs.

Under the current ELTIF Regulation there are significant limitations in terms of the types of assets in which ELTIFs are able to invest and the relevant diversification limits that are required to be applied. It is for this reason that ELTIFs, to date, have not been heavily taken up across the EU.

The ELTIF 2 Regulation will seek to amend and, in some cases, “relax” some requirements applicable to ELTIFs in order to make them more attractive products, while still retaining the necessary features to ensure investors are adequately protected.

**What are the key changes proposed?**

We have summarised in the table below a few of the key features that will take effect under the ELTIF 2 Regulation.

<b>Feature</b>	<b>ELTIF Regulation</b>	<b>ELTIF 2 Regulation</b>
<b>Minimum investment requirement</b>	€10,000 for retail investors without exceeding 10% of the overall portfolio of financial instruments in the ELTIF (not more than 10% for a portfolio of €500,000 or less).	None. However, a suitability assessment (in line with MiFID II) has been put in place, together with a clear written alert to be issued to retail investors under certain circumstances
<b>Eligible assets</b>	Required to invest (at least) 70% of capital in eligible assets.  Individual real assets must have a value of at least €10,000,000.	Required to invest (at least) 55% of capital in eligible assets (therefore increasing the threshold for potential investment in other assets by 15%). Broader scope of what investments constitute eligible assets.  No minimum value requirement for real assets. “Real assets” redefined as assets with an “intrinsic value due to their substance and properties”.
<b>Diversification</b>	Up to 10% of the ELTIF’s capital could be invested in: instruments issued by (or loans granted to) a single qualifying portfolio undertaking; any single real asset; units/shares of any single ELTIF/EuVECA/EuSEF/UCITS/ EU AIF managed by an EU AIFM (where those funds also invest in eligible investments and have not themselves invested more than 10% of their capital in any other collective investment undertaking). Up to 5% of the ELTIF’s capital could be invested in UCITs-type assets, when issued by a single body.	Increased limit to 20% for the aforementioned assets.  Increased limit to 10% for UCITs-type assets, when issued by a single body.
<b>Market capitalisation for undertakings admitted to trading on a regulated market or MTF</b>	€500,000,000 limit at time of the initial investment.	Limit increased to €1.5 billion.
<b>Investing structures</b>	Restrictions on investments in	Facilitation of fund of fund

other funds through the life of an ELTIF. investments and master-feeder structures (albeit limited to feeder ELTIFs which invest in master ELTIFs only). Amendments to the framework relating to investments located in third countries.

### ***Liquidity and borrowing***

Borrowing limited to 30% of the capital of the ELTIF. No minimum holding period. No provision for early exit. Borrowing limit increased to 50% of the NAV of the ELTIF with respect to retail investors and 100% for ELTIFs that are marketed to professional investors only. Minimum holding period introduced. Possibility for early exit under certain conditions, by way of a full or partial matching of transfer requests by exiting investors and potential investors.

### ***What happens next?***

It is expected that the European Securities and Markets Authority (“**ESMA**”) will publish its final regulatory technical standards in respect of the ELTIF 2 Regulation in the coming weeks.

The ELTIF 2 Regulation will apply from 10 January 2024 onwards, with a five-year transitional period for ELTIFs that are already authorised under the ELTIF Regulation and are still raising capital, though they may choose to opt-in to the ELTIF 2 Regulation from the date of its application.

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