



## ELTIF – EUROPEAN LONG TERM INVESTMENT FUND

### Attractive vehicle for long-term financing in the European real economy

The European Council approved on May 19, 2015 the new regulation on ELTIF (European Long-Term Investment Fund), directly applicable in each UE member state as from December 9th, 2015.

The ELTIF is a harmonised European regulation for European investment funds focusing their investments especially on infrastructure and other real assets, such as energy, education and health.

### EUROPEAN LONG TERM INVESTMENT FUND

#### Definition and purpose of the ELTIF

The ELTIF is an authorised and regulated vehicle, qualified as a European Alternative Investment Fund (AIF), and having as purpose to invest in businesses that need long-term capital. The ELTIF must be managed by an authorised European Alternative Investment Fund Manager (AIFM) in accordance with the Alternative Investment Fund Directive (AIFMD) and especially approved to manage the ELTIF. As an AIF, an ELTIF duly authorised in Luxembourg can take any legal form available in Luxembourg.

#### Investors and European passport

The ELTIF benefits from the European passport and can be marketed in the European Union to its professional investors and also to retail investors in compliance with AIFMD, (but the AIFM could discretionarily decide to reserve it only to professional investors).

In the case of marketing to retail investors, where the financial instrument portfolio does not exceed EUR 500,000.-, the AIFM of the ELTIF or any distributor shall ensure that the relevant investors do not invest more than 10% of their total portfolio with a minimum invested amount of EUR 10,000.-.

In addition and as a consequence of the possibility for an ELTIF to be marketed to retail investors, it is subject to specific additional requirements in order to protect retail investors (e.g suitability test for each investor, written warning that the product is not suitable for retail investors when the ELTIF life exceeds 10 years, requirement of equality of treatment of all investors, specific rules applying to the depositary...)

#### Eligible investment assets

An ELTIF can only invest in certain types of assets. At least 70% of its capital must be invested in eligible assets (the "eligible investment assets") and it is allowed to invest up to 30% of its capital in liquid assets that would be eligible investments for a UCITS (i.e. equity, bonds, money market instruments or units of other UCITS).

Are considered as eligible investment assets,

- Equity or debt instruments issued by a qualifying portfolio undertaking which are mainly unlisted or listed with a market capitalisation of no more than EUR 500 million,
- Direct and indirect holdings of real assets with a value of at least EUR 10 million that generate an economic and social benefit,
- Units of other ELTIFs, European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEFs),
- SMEs.

Borrowing rules are restrictive for ELTIFs. A total of five conditions need to be met, the most significant limiting cash borrowing to a maximum of 30% of the value of the capital of the ELTIF.

#### Diversification and concentration requirements

As mentioned here above, an ELTIF must invest at least 70% of its capital in eligible investment assets and it can only invest in certain types of assets. This 70% limit applies from the date specified in the constitutive document of the ELTIF, which must not be later than five years after the date of authorization or half the life of the ELTIF whichever is the earliest.

An ELTIF shall not invest more than 10% of its capital in instruments issued by or loans granted to any single qualifying portfolio undertaking or in a single real asset. However this limit can be increased up to 20% if the aggregate value of such assets in which it invests more than 10% of its capital does not exceed 40% of the value of its capital.

In addition an ELTIF shall not invest more than 10% of its capital in shares of a single ELTIF, EuVECA or EuSEF, and the aggregate value of shares in such vehicles in the ELTIF portfolio shall not exceed 20% of its capital.

Additional specific rules of diversification also apply.

Regarding the concentration rules, an ELTIF is not allowed to acquire more than 25% of the shares of a single ELTIF, EuVECA or EuSEF.

## Closed-ended fund and redemption rules

As a principle and as a consequence of the illiquid nature of most investments in long-term projects, ELTIFs have the particularity of being closed-ended funds, and investors are not allowed to redeem their shares before the defined end of life of the ELTIF, which must be mentioned in its prospectus. However the ELTIF AIFM may decide to offer early redemption rights if certain conditions are met (the liquidity of the assets must be in line with the redemption policy and be adequately managed).

## Supervision

### Distribution of proceeds and capital

An ELTIF may regularly distribute to investors the proceeds generated by its investment assets, which may comprise, inter alia, proceeds that the assets are regularly producing and capital appreciation realized after the disposal of assets.

An ELTIF may decrease its capital on a pro rata basis in the event of a disposal of an asset before the end of life of the relevant ELTIF, which will be considered to be in the investors' best interests by the AIFM.

## Transparency

A prospectus in line with the Prospectus Directive must be published for each ELTIF; it shall include all information enabling investors to have complete information regarding the proposed investment and the attached risks. In addition, when the ELTIF is marketed to retail investors, a key information document (KID) must also be published. The KID must include specific risks warning about the illiquid nature of the ELTIF.

## Conclusion

The ELTIF may *a priori* be considered as a complex structure due to an accumulation of applicable European regulations in addition of the ELTIF regulation itself (AIFMD, MIFiD, Prospectus Directive...). However, the ELTIF is a well-regulated and secure vehicle for retail investors wishing to participate in the financing of the real economy and infrastructure projects, through a regulated vehicle.

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