European ELTIF Study
Market Development and Perspectives

After a slow start, the European Long Term Investment Fund (ELTIF) market has grown significantly. Based on a survey of asset managers, the market had grown to between EUR 7.2bn and EUR 7.7bn at the end of 2021, according to Scope estimates, from 53 registered and marketed products. The market is thus significantly larger than the most recent estimate of EUR 2.4bn as of April 2021. The EU created the ELTIF in 2015 as a vehicle to give professional and wealthy private investors uniform, regulated access to illiquid asset classes.

Private debt accounts for most ELTIF capital, at 36% of placed volumes. Infrastructure is the second biggest at 31%, although many products in this category are only approved for professional investors. Around 26% is invested in private equity ELTIFs. The remaining 7% is in mixed funds. A total of 46% of ELTIF volumes are placed in funds reserved for professional clients; 54% is in products that are eligible for both private investors and professional clients. The most active asset managers that offer their products to private investors include Amundi, Azimut, BlackRock, Commerz Real, Muzinich and Partners Group.

The largest regional markets in Europe are Italy and France. The Italian ELTIF market is dominated by private investors who benefit from tax incentives under certain conditions. The French ELTIF market has the longest history but is mainly aimed at professional investors.

Germany's ELTIF market is lagging that of Italy and France. After the unpleasant experiences investors had with closed-end investments during the financial crisis, German investors in particular have become sceptical about closed-end products. In addition, complex settlement, often involving a high degree of manual effort, has hindered sales in the fragmented German banking market that also has a lot of fund platforms. For this reason, ELTIF placements in Germany have tended to take place within the private wealth units of major banks, which carry out settlement in-house.

After initial difficulties, however, there have recently been some positive examples in Germany that show ELTIFs are starting to catch on outside the major banks. Learning processes have developed both in the distribution of private banking units and in settlement.

One growth driver for ELTIFs is likely to be a regulatory regime review currently under discussion in the EU intended to optimise the framework conditions for offering and distributing ELTIFs by reducing restrictions. A secondary market trading would also be beneficial as affluent private clients in particular sometimes perceive the illiquidity of the vast majority of ELTIF products as a hurdle. Furthermore, experiences from Italy show that tax incentives can be a strong driver of growth in the ELTIF market.

It is not just investors and fund providers who would welcome wider use of ELTIFs. The EU also has an interest as ELTIFs could prove to be a powerful tool for implementing the EU Green Deal since they promote investments in real assets and infrastructure.

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Introduction

The EU is aiming to make financial markets more transparent, more stable and more interconnected. One building block in this process is an instrument that it created for investors in 2015: the European Long Term Investment Fund (ELTIF).

Easier access to illiquid investments

The objective is to enable long-term investments in illiquid private assets including unlisted assets such as infrastructure projects, private equity and private debt. Real estate investments are also possible, but only if they serve a long-term purpose that offers social or economic benefits.

The ELTIF is a regulatory regime, not a product class. The regulations set the framework conditions for investment products that can be included in the regime.

In addition to the overarching goals, there are concrete needs that the EU wants to see met through ELTIFs. For example, there is a major need for financing the structural investment backlog for infrastructure projects after the global financial crisis. At the same time, bank lending requirements are becoming more and more stringent. The EU hopes that engaging private investors will close the gap between financing needs and supply. ELTIFs are designed to facilitate this engagement by giving private investors access to investments that were previously reserved for institutional clients.

Investor protection takes centre stage

In another lesson from the global financial crisis, the EU is making investor protection a core feature of ELTIFs. As a result, ELTIFs must meet multiple requirements. These include transparent costs, limited leverage, custodian capabilities and high requirements for asset managers in terms of diversification and investment types. For example, at least 70% of a fund's volume must be invested for the long term in equity investments, debt financing, infrastructure or medium-sized companies.

Requirements for investors are restrictive as well. If an investor has assets of less than EUR 500,000, they can allocate a maximum of 10% in ELTIFs. Combined with a minimum asset requirement of EUR 100,000, this results in a minimum investment of EUR 10,000. These restrictions help protect investors because in the vast majority of cases, ELTIFs offer limited liquidity or no liquidity at all. The aim is to ensure that investors can do without their invested capital during the life of the ELTIF.

Uncomplicated distribution in the EU

ELTIFs can be distributed throughout Europe. Country-specific solutions, which are often associated with high costs, are obsolete. Passporting to other EU countries is very quick, usually taking only seven to 10 days. This simplifies distribution across Europe, putting into perspective the costs that arise when setting up an ELTIF.

The EU is working on a review to facilitate the development of ELTIFs and investor access. This reform is expected to enter into force during the second half of 2022 at the earliest.

The European product range

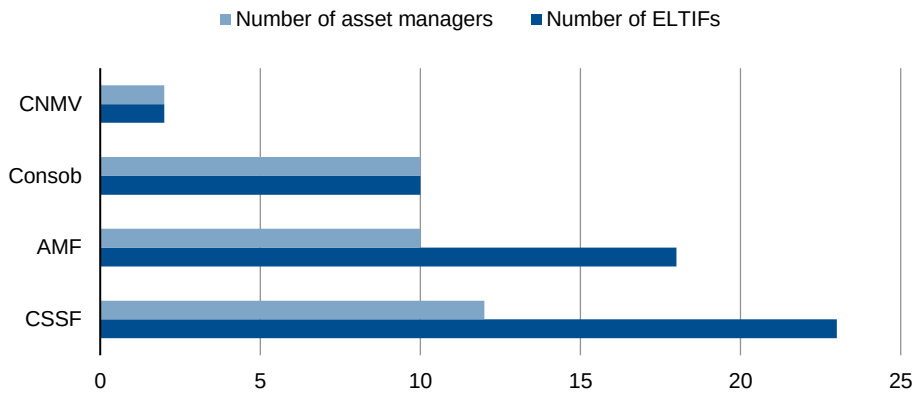
Scope's ELTIF study is based on a total of 53 ELTIFs from 31 asset managers[1]. According to the European Securities and Markets Authority's (ESMA) ELTIF register, these were registered with a national competent authority as of 31 December 2021 or reported by asset managers and are being actively marketed[2].

[1] Different asset managers from one company were counted as one asset manager.
[2] ELTIFs of an asset manager that are subject to the same strategy but were registered as several ELTIFs for prospectus-related reasons were counted as one ELTIF. This reduces the number of ELTIFs in the ESMA register from 57 to 51 products at the end of 2021. In the next step, the products that have only been registered but not yet marketed (three) were deleted and the products that have been reported by asset managers but are not listed on the ESMA site (five) were added.

Limited to four local supervisory authorities thus far

ELTIFs have been registered with four national competent authorities since 2015: Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg, Autorité des Marchés Financiers (AMF) in France, Commissione Nazionale per le Società e la Borsa (Consob) in Italy and Comisión Nacional del Mercado de Valores (CNMV) in Spain. As a rule, ELTIFs can be distributed throughout the EU via the passporting regime as soon as they have been checked and approved by member States' regulators.

Figure 1: Registration of ELTIFs by national competent authority



Source: ESMA and own research, prepared by Scope; as at 31 Dec 2021

With 23 ELTIFs actively being marketed, most of the products have been registered with the CSSF. Nine of the those are being marketed in several countries via passporting.

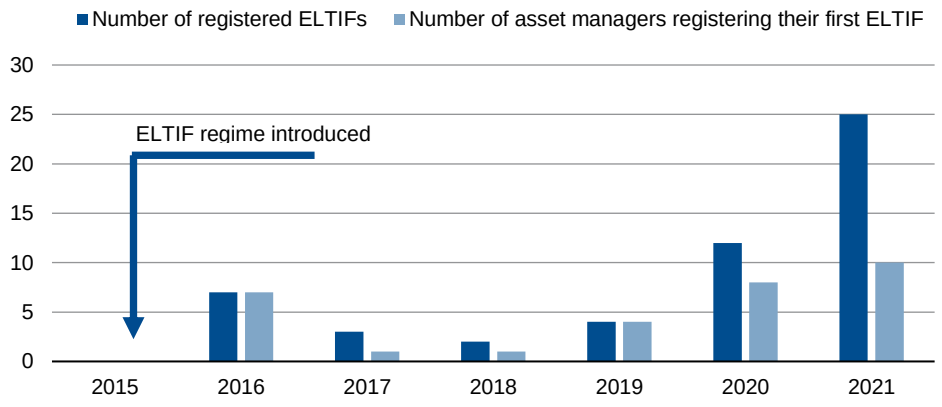
AMF had the second highest number of ELTIFs registered, with 18 ELTIFs. Six of those are open for distribution in several countries outside France.

Ten ELTIFs were registered with Consob in Italy, and two with the CNMV in Spain. These products were only registered for distribution in Italy and Spain respectively.

Highly dynamic since 2020

Looking at the quantity of registered ELTIFs and their associated asset managers over time, significantly more ELTIFs have been registered since 2020 compared to the 2016-2019 period. This dynamic is reflected in many discussions with banks and third-party providers such as fund platforms, where ELTIFs have only become a relevant topic in the past six to 18 months.

Figure 2: Number of new ELTIFs over time



Source: ESMA and own research, prepared by Scope; as at 31 Dec 2021

Market volume

ELTIF market size is EUR 7.2bn to EUR 7.7bn

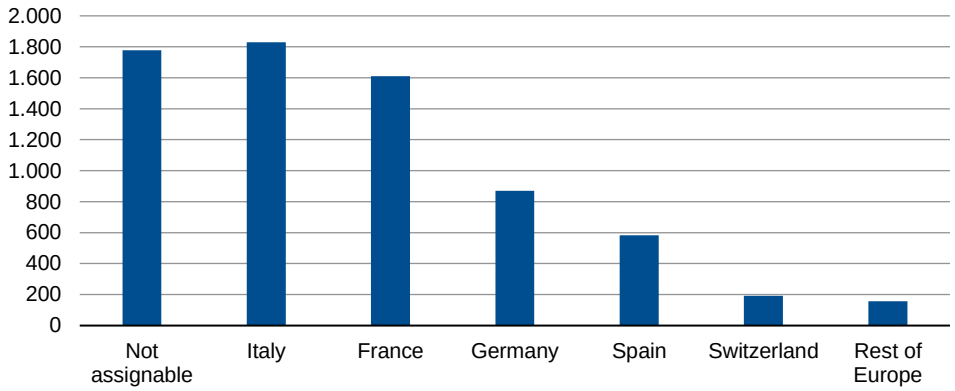
This study provides data for 43 of the 53 registered ELTIFs. The data comes from asset managers or external data providers such as Bloomberg, or it is publicly available on the internet. These 43 ELTIFs had placed a **volume of EUR 7bn** by the end of 2021[3].

No information on placed assets was available for the remaining 10 products, so for these products placed volumes had to be estimated[4]. Taking this into account, Scope estimates the size of the ELTIF market in Europe was likely to be in the range of **EUR 7.2bn to EUR 7.7bn at the end of 2021**.

Estimate is significantly higher than previous forecasts

This estimated market volume is only a small share of the market for all alternative investment funds (AIFs) in Europe, which ESMA estimated at EUR 6.8trn as of the end of 2020[5]. However, our current estimate is significantly higher than ESMA's latest estimate, according to which only EUR 2.4bn had been placed in ELTIFs as of April 2021[6]. The discrepancy in the figures is probably due to two factors: On the one hand, the ELTIF market has become so dynamic during the last 12 months that part of the deviation can be attributed to the fact that Scope's estimate was carried out eight months after ESMA's estimate. However, this alone cannot explain the large difference. Rather, it can be assumed that some product data were not provided to ESMA so could not be recorded. National competent authorities are not yet obliged to report placed volumes to ESMA.

Figure 3: Regional breakdown of the ELTIF market in Europe



Source: Scope, own calculations; as at 31.12.2021

Italy is the largest ELTIF market

The volume of placed ELTIFs is unevenly distributed by region[7]. **Italy** is the largest ELTIF market with a placed volume of EUR 1.83bn. A total of 28 ELTIFs have been offered so far. Demand in Italy is mainly driven by private investors, with relatively small average sales of less than EUR 100,000 per client. One of the drivers is tax incentives for products that invest either in Italy or in innovations in compliance with specific conditions. With these PIR-compliant products (Piani Individuali di Risparmio – individual pension plan), private individuals who reside in Italy benefit from a statutory exemption from capital gains tax (normally 26%) and inheritance tax, subject to a minimum holding period of five years. In addition, until the end of 2021, tax credits were available for capital losses under certain circumstances and up to certain limits. Many of the ELTIFs

Tax incentives strengthen distribution

[3] Detailed information on the placed volume is available for 33 products from 16 different asset managers. 19 asset managers assisted with the study.
[4] Four products are still in the underwriting phase, and the associated asset managers do not communicate figures during the underwriting phase. For six products, the associated asset managers did not participate in our survey and no information was available on the internet or Bloomberg.
[5] European Commission, Commission Staff Working Document, Impact Assessment Report, page 8, Source: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2021:0342:FIN:EN:PDF (25 Nov 2021)
[6] European Commission, Commission Staff Working Document, Impact Assessment Report, page 6, Source: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2021:0342:FIN:EN:PDF (25 Nov 2021)
[7] The market size estimates given below are based on the products for which detailed data was available for this study.

distributed in Italy are PIR-compliant and thus offer tax incentives to Italian private investors.

There are other reasons that facilitate the distribution of ELTIFs, especially in comparison to the German market. First of all, large Italian ELTIF suppliers such as Azimut, which already had six ELTIFs on the market by the end of 2021, have product and sales under one roof. Also, the market is less fragmented on the settlements side than Germany, and it is dominated by providers like BNP Paribas Securities Services and Allfunds, which can generally settle ELTIFs. Another positive factor for the distribution of ELTIFs in Italy is the fact that the Italian market is generally considered to be very strong as Italy has a large number of financial advisors.

France dominated by professional investors

The second largest ELTIF market is **France** with a volume of EUR 1.61bn. A special feature of the French market is that 15 of the 24 products offered may only be sold to professional investors. France's ELTIF market has the longest history. Asset managers such as Amundi, BNP Paribas Asset Management, Meridiam, October and Turenne brought ELTIFs to market in 2016 and 2017, albeit exclusively for professional investors.

Two factors significantly influenced the development of ELTIFs in France. First, the ELTIF vehicle provided certainty regarding the regulatory capital charge for private equity investments for companies subject to the Solvency II Directive, such as insurance and reinsurance companies[8]. At the same time, interaction between the ELTIF regulation and the AMF's General Regulation gave French investors further advantages in terms of transparency reporting requirements.

In addition to this regulatory aspect, ELTIFs were the only vehicle that allowed flexible investment in direct loans. This had a positive impact on the development of private debt ELTIFs. For example, the provider October launched its first crowdfunding ELTIF in 2016. The EUR 1.3bn Meridiam Infrastructure Europe III, the largest ELTIF to date, was also launched in 2016[9].

Another special feature of the French market is that it allows for investments in ELTIFs within the framework of insurance shells, subject to conditions. This means French private investors can invest up to 10% of an insurance contract in an ELTIF. Professional investors can invest up to 50% of the contract in ELTIFs if this does not exceed 10% of their assets.

Germany in third place

In **Germany**, around EUR 870m in ELTIFs had been sold by the end of 2021. Just under EUR 590m of that is attributable to Commerz Real's ELTIF klimaVest. As an impact fund under Article 9 of the EU's Sustainable Finance Disclosure Regulation, klimaVest invests in renewable energy assets and sustainable infrastructure. The fund offers investors daily liquidity so occupies a special position among ELTIFs, which are usually closed-end products with occasional liquidity or no liquidity.

Private wealth units are the number one distribution channel

The remaining amount of roughly EUR 280m was placed primarily by private wealth units of major banks. The first product in the German market, Partners Group's Direct Equity ELTIF, appeared in 2018 and was distributed within Deutsche Bank's private wealth segment. Since then, Deutsche Bank's private wealth segment has added two more ELTIFs: BlackRock's Private Equity Opportunities ELTIF and BlackRock's Private Infrastructure Opportunities (the latter is open for subscription until the end of the third quarter of 2022). UBS is offering an ELTIF to its private banking clients in Germany: the Private Markets ELTIF from Partners Group[10]. Two private debt ELTIFs have been

[8] Where private equity ELTIFs were recognised as a long-term equity investment, the products were subject to a regulatory capital charge of 38%, while for other private equity vehicles there was uncertainty as to whether they were subject to regulatory capital charge of 49%.
[9] In the data evaluation, this product is only included proportionally in the volumes placed in France as it was distributed globally.
[10] In purely arithmetical terms, the volume of this product is attributed to Switzerland as UBS is set up as a Swiss client for settlement purposes.

distributed within the HypoVereinsbank network in Germany: Firstlight Middle Market from Muzinich and Leveraged Loans Europe from Amundi. The next section will discuss the special features of the German market in detail.

Private investors also strongly represented in Spain

Spain has the fourth largest ELTIF market with EUR 580m. As in Italy, the Spanish market is dominated by retail products, but professional investors are also invested. A total of 17 ELTIFs have been offered for sale in Spain so far, with six being distributed predominantly or exclusively in Spain. In terms of asset classes, private debt products dominate and are available from asset managers like Oquendo, Muzinich and Talde. After some initial ambiguity regarding the tax treatment of ELTIFs in Spain, the current law does not provide for any active tax disadvantages when acquiring an ELTIF. However, some other AIF vehicles offer tax advantages (tax deferral).

According to data available to Scope, **other countries** with some volume of active ELTIF distribution are Luxembourg, Sweden, the Netherlands, Belgium, Austria and Finland (ordered by detailed data on sales volume).

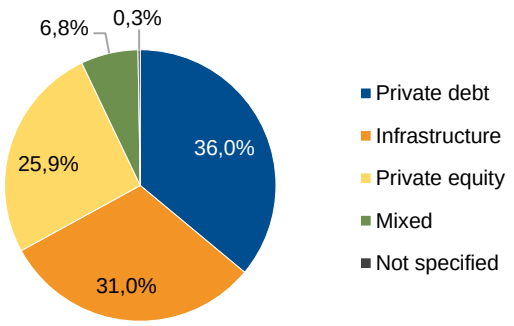
Following an appropriate notification process, ELTIFs can be distributed **outside the EU.** For example, some products were available to private clients in Switzerland. In addition, those French ELTIFs that are only approved for professional investors were in part also distributed outside Europe in the US and Asia. No details are available on this for this study, however.

Asset managers do not provide detailed information on the countries in which their products were distributed for a placed volume of EUR 1.77bn.

Private debt is largest asset class by volume

In the **asset class breakdown**, private debt dominates with EUR 2.53bn or 36% of the volume placed in a total of 16 products. The second strongest asset class is infrastructure with EUR 2.17bn or 31% with eight products. It is worth noting that many of the ELTIFs that are only approved for professional investors invest in infrastructure (including the largest ELTIF in this survey). Around EUR 1.82bn or 25.9% is invested in the 16 private equity ELTIFs.

Figure 4: Breakdown of the ELTIF market by asset class



Source: Scope, own calculations; as at 31 Dec 2021

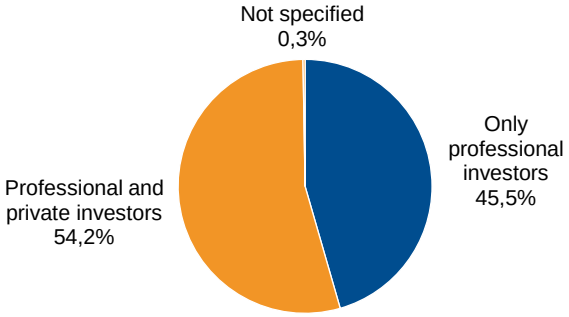
Of the nine products investing in multiple asset classes, a large part of the total volume of approximately EUR 478m, or 6.8%, was distributed in Italy. This is because many of the PIR-compliant ELTIF products are not limited to one asset class.

Hardly any products with a focus on real estate thus far

Pictet Real Estate Capital Elevation Core Plus ELTIF is the only product that focuses on real estate in the group analysed. The subscription phase for this product only started in November 2021. Amundi launched another ELTIF with a real estate focus at the beginning of 2022. It remains to be seen to what extent real estate will establish itself as

another ELTIF asset class in the future. Three ELTIFs did not include detailed information on asset class.

Figure 5: Breakdown of the ELTIF market by client group



Source: Scope, own calculations; as at 31 Dec 2021

Almost 50% of market volume in products for professionals

When analysing the volume of ELTIFs placed in terms of **client groups,** the market is divided roughly in half between products that can only be marketed to professional investors and products that are aimed at professional and non-professional clients. EUR 3.2bn or 45.5% was placed in ELTIFs for professional clients, while EUR 3.8bn or 54.2% was placed in products marketed to private investors and professional clients. 15 ELTIFs were registered to market to professional investors and 35 were registered for broad marketing. No information was available for three ELTIFs. While the first ELTIFs for professional investors were launched and distributed by French providers in 2016, the first ELTIF for private investors was marketed by Partners Group in 2017.

Given the high share by volume of ELTIFs aimed exclusively at professional investors, current discussions about the review of the ELTIF law need to be understood. According to these discussions, requirements for ELTIFs will in future distinguish between products that can only be marketed to professional investors and those that can also be marketed to non-professional investors.

Looking at minimum subscription size, 29 of the ELTIFs examined with relevant details offer a minimum investment amount of less than EUR 100,000. Of those products, 19 operate with the smallest possible minimum investment amount of EUR 10,000. Eight ELTIFs have a minimum investment amount of between EUR 100,000 and EUR 500,000. A further eight products require at least EUR 1m. Finally, eight ELTIFs did not provide detailed information in this regard.

Around EUR 2.5bn is ESG-related

Among ELTIFs with an explicit **ESG reference,** EUR 2.46bn was placed by the end of 2021. These include Meridiam's largest ELTIF (EUR 1.3bn) and Commerz Real's klimaVest (just under EUR 600m), both of which are in the infrastructure asset class. After Turenne has already launched a sustainable private equity ELTIF for professional investors, Mirova launched Mirova Environment Acceleration Capital at the end of 2021, the first sustainable private equity ELTIF (Article 9 of the EU Disclosure Regulation) that can also be purchased by private investors. 11 products have an ESG reference. Of those, seven explicitly mention that they are managed as products under Article 8 or 9 of the EU Disclosure Regulation.

In terms of **cost structure,** ELTIFs are significantly cheaper than conventional participation models in private markets strategies such as funds of funds. Annual management fees for share classes with relatively small minimum investment amounts of less than EUR 100,000 range between roughly 0.95% and 2.5%. Private debt strategies generally have lower management fees than private equity strategies due to lower

expected returns. In addition to a fixed management fee, many ELTIFs also have a performance fee that ranges from 10% to 20% above a predefined hurdle rate. The hurdle rate is typically fixed at 7%-8% for private equity products and lower for mixed strategies. A few products also have benchmark-related performance fees.

Private debt has shorter maturities than private equity

In terms of **maturities,** private debt products typically have a relatively short maturity of five to eight years. Private equity strategies typically have a maturity of eight to 11 years. ELTIFs investing in real estate and infrastructure have the longest maturities. For example, Pictet's Real Estate Capital Elevation Core Plus ELTIF has a maturity of 30 years, the infrastructure ELTIFs from Meridiam and Generali have a maturity of 25 and 35 years respectively, and klimaVest does not mature until 2070. Amundi's Real Estate ELTIF REALTI, which has a term of 99 years, has just hit the market. All long-term structures that are also marketed to private investors allow early redemption. Pictet's Real Estate Capital Elevation Core Plus, for example, can be redeemed after a minimum holding period of five years. The Amundi Real Estate ELTIF provides for monthly liquidity from 2023 under certain conditions. The most flexible is Commerz Real's klimaVest, which allows daily liquidity for certain amounts.

Why did the ELTIF market get off to such a slow start?

Analysing market data shows that ELTIFs are being used more and more extensively. Nevertheless, there are several hurdles that inhibit the spread of these new funds. These hurdles need to be overcome.

Hurdles on the supply side

Legal requirements as a major hurdle for asset managers

A major hurdle from the perspective of ELTIF providers are legal issues. The ELTIF regime imposes very strict requirements that many portfolios and asset managers do not meet. For example, after the investment phase, at least 70% of an ELTIF's capital must be invested in real assets, infrastructure, equity holdings or financing. The key point is the stipulation that an ELTIF must invest directly in such assets. Funds of funds structures are not permitted.

To relax the requirements for providers, the EU's review of the ELTIF regime plans to allow funds of funds structures, but only up to a share of 40%. Also under discussion are plans to allow a master-feeder structure, although the master must also be an ELTIF, according to the first draft of the review. This should enable more asset managers to launch ELTIFs in the future. In addition, the review aims to provide greater clarity by eliminating room for interpretation that has become apparent in practice when interpreting the ELTIF regime established in 2015 (e.g. with regard to regional investment requirements).

Asset managers require long lead times when setting up their first ELTIF. For example, BlackRock and Commerz Real invested between one and two years of preparation before they were able to bring their first ELTIFs to market. In addition to drafting and approving a prospectus, operational issues such as product settlement need to be clarified. If third-party providers such as fund platforms are involved, contracts may have to be adapted. Co-ordination lead time decreases significantly with subsequent products as a result of lessons learned.

Supply and distribution are often not available from a single party

Providers must also co-ordinate with potential clients since most products are built for anchor clients, especially in Germany. The advantage to this approach is that it gives asset managers greater security regarding minimum sales volumes. In Germany in particular, the need for co-ordination is even greater, since (with the exception of Commerzbank with Commerz Real as a subsidiary), no typical private markets asset manager has a significant distribution network in Germany. Supply and distribution are

not therefore combined under one roof. This is partly different in countries like Italy or France.

Hurdles on the demand side – a German perspective

Asked why ELTIFs got off to such a slow start in Germany compared to Italy and France, private banking units give a variety of answers.

For one thing, German investors suffered particularly large losses with closed-end funds during the financial crisis. As a result, some private banking units and their private clients have exited closed-end investments. In general, there is still a good deal of scepticism about closed-end investments among many German private clients.

Complex settlement hinders sales

Also, settlement of ELTIFs is usually complex and involves a high degree of manual effort. ELTIFs are a new product for the settlement and fund platforms, so contract amendments and system adjustments are necessary. This poses a particular challenge for the fragmented German banking market. It will take time and research before the product is more widely known and can be settled. For example, many banks that carry out settlement via third parties depend on products being set up in the standard segment of Vestima, Clearstream's fund trading platform. In the past, most products were only set up in the Vestima Prime segment, which may not be accessible to some banks or may involve high settlement fees. Neuberger Berman has reached a milestone in this regard with its first NB Direct Private Equity ELTIF. The product is designed to be traded via Vestima's standard segment. This groundbreaking product will probably set the stage for many more ELTIFs in Germany.

Relaxation of time-consuming advisory process in sight

In addition, the advisory process is relatively time-consuming, as the ELTIF regime has so far provided for a separate suitability assessment, including one for assets and one for suitability under MiFID II. There is the prospect of some relief here, as the EU amendment provides that in future only one suitability assessment will be necessary. Revocation periods must also be monitored.

Lastly, Germany lacks supportive tax incentives as in Italy. These clearly have a positive impact on demand for ELTIFs.

The ELTIF market in Germany

Successful distribution via private wealth units

Private Wealth: ELTIFs have arrived in the private wealth units of major banks, and they are being distributed successfully through this channel. In view of the product's special structure, lead times of three to six months are needed before distribution can begin. The first product can take even longer. Clients in this segment appreciate the exclusive access they are given to private markets strategies, which were previously reserved for institutional clients, and the resulting diversification effect for their portfolio.

Lack of liquidity is not a problem in this client segment. These products are typically designed with high minimum investment amounts such as EUR 125,000, and they typically have several capital calls[11] like ELTIFs for institutional clients. Here, major banks have an advantage because they settle transactions in-house so do not depend on external service providers, which still have difficulties settling the products via their platforms, as described above.

Difficult to introduce in parallel with day-to-day business

Moreover, large banks usually have the capacity to assign a project manager for an ELTIF launch. Experience has shown that it is usually not very effective to launch an ELTIF alongside day-to-day business. The tasks involved with settlement and advisory are complex and may involve a high degree of manual effort. In addition, manual

[11] Here, the EU review will clarify that in the case of several capital calls, revocation is only possible after the first capital call.

processes may be prone to errors. Small orders in the private markets segment are still the exception. Consequently, systems are not designed for scalable, efficient solutions. All in all, ELTIF settlement currently stands in the way of the banks' efforts to achieve straight-through processing.

Private banks beyond the major banks have a general interest in implementing private markets strategies in the form of ELTIFs. However, implementation has often failed due to settlement issues as these banks usually depend on third parties for settlement, which leads to the problems described above. There are some positive examples from the recent past, however, where asset managers have managed to set up their products with third-party platforms, enabling distribution beyond the major banks. This is due to the recent increase in demand for the ELTIF product and the learning processes that have taken place.

Affluent private clients: ELTIFs open the door to private markets for the affluent private client segment (private clients with financial assets of more than EUR 100,000 but below the private wealth segment). That is because this client group has usually not previously had a way to invest in private markets strategies via closed-end funds.

Withdrawal from closed investments after financial crisis

In addition to settlement issues, a common difficulty here is that many banks exited closed-end investments after the financial crisis, so staff lacks relevant expertise in private markets. Appropriate training is needed first, which in turn requires lead time.

As a rule, it is sensible to market products with a minimum investment of up to EUR 50,000 in this segment. Even lower minimum investment amounts of EUR 10,000 or EUR 20,000 would be ideal. The paid-in model, i.e. a product with only one capital call, is suitable because it does not make the product too complex on the settlement side.

Commerz Real's klimaVest is the only product that has been successfully marketed in this segment in Germany so far. The advantage of this product is, on the one hand, that the asset manager (Commerz Real) and the distributor (Commerzbank) are part of the same company. On the other hand, klimaVest provides daily liquidity to a certain limit, so does not have the typical characteristics of a closed-end fund.

No ELTIF distribution in the public banking sector thus far

Public banking sector: In the private banking units of the public banking sector (savings banks) as well as in the co-operative sector (Volksbanken and Raiffeisenbanken), no ELTIFs have been distributed thus far. In view of the large number of parties involved, it can be assumed that a long co-ordination process will precede a decision. Considering the size of the public and co-operative banking sector in Germany, offering ELTIFs in this segment would be another milestone for the German market. Given that at least one player, Union Investment, is already dealing with the ELTIF issue, it is reasonable to expect that something will happen here in the foreseeable future.

Independent Wealth managers: ELTIFs have not yet arrived in Germany's independent wealth management segment. Here, fundamental questions still dominate the discussion as to the requirements liability umbrellas, financial investment intermediaries (§ 34f GewO) and financial service providers (§ 32 KWG) must fulfil before they can distribute ELTIFs. In addition, independent wealth managers depend on external service providers which, as described above, only partially support the settlement and custody of ELTIFs. One positive example is V-Bank, which can handle some of the ELTIFs authorised for distribution in Germany.

ELTIFs do not fit into many existing agreements

An additional complicating factor in this segment in particular is that many advisory mandate agreements provide for the possibility of liquidating the entire portfolio within a very short period of time, following the negative experiences with closed-end investments during the financial crisis. Only klimaVest currently meets this requirement, so advisory

mandate agreements must be adapted when an ELTIF is included. This is likely to scare away many independent wealth managers. The issue of being able to quickly liquidate a portfolio is not just a concern for independent wealth managers. A corresponding clause can often be found in the advisory mandate agreements of banks – especially those that have not managed closed-end investments in recent years.

This segment also offers great potential for the German ELTIF market, especially if fund platforms and third-party providers increasingly open up to ELTIFs.

The fact that new external service providers are positioning themselves in the European market to facilitate the settlement of ELTIFs should also have a positive effect. For example, BlackRock and fintech company iCapital entered into a partnership in the summer of 2021 to digitalise all areas of the subscription and investor services process, including capital calls, distributions, transfers and performance reporting for ELTIFs, among other things. In February 2022, iCapital entered into another partnership with Allfunds to improve access to private markets.

Self-directed investors currently have no way to access

Wealthy self-directed investors: Wealthy self-directed investors who do not have a custody account with a private bank or who are looked after by an independent wealth manager do not currently have the possibility to acquire an ELTIF – except for klimaVest, which has a digital subscription process that also covers the advisory process. External fund platforms, which wealthy self-directed investors would have to use for ELTIF settlement and custody, are generally not able to cover the advisory process (particularly the suitability check, including the asset check) or possible ongoing monitoring of criteria such as minimum holding periods. Since it can be assumed that ELTIFs will remain an advisory product, ELTIFs have low potential in this presumably rather small segment.

Institutional clients value diversification and cost advantages

Institutional clients: Outside of the private client world, ELTIFs are popular with small and medium-sized institutional clients in Germany, such as family offices, pension funds and corporates. Although these clients usually have the capital base to invest directly in private market investments of EUR 5m to EUR 10m, they appreciate ELTIFs because they can use them with relatively small tranches to further diversify their portfolios. The capabilities of ELTIF custodians and cost advantages over traditional private markets investments also play a role here. A major advantage of the ELTIF regime is that the structuring and set-up costs of products can be scaled very easily due to Europe-wide passporting.

Conclusion and outlook

Investors want to expand exposure to alternative assets

After recent years of strong returns in the stock market, this year 2022 got off to a very volatile start, even before the Ukraine crisis. The outbreak of the Ukraine war brought significant losses on global stock markets. At the same time, only meagre returns can still be earned in the bond market amid sharply higher inflation. The sharp rise in energy prices in the wake of the Ukraine war is driving inflation even higher. In this environment, it is little wonder that many institutional clients are looking to further expand their private markets holdings in 2022. According to a survey conducted by financial data provider Preqin in November 2021, 86% of the 300 institutional clients surveyed intend to invest at least as much if not more in alternative assets in 2022 than in 2021[12].

Affluent private clients can use ELTIFs to benefit from the return and diversification advantages of private markets strategies too. Indefi, a strategy consultancy specialising in investment management, sees great potential in the external distribution of alternative assets to non-institutional investors. According to a current estimate, Indefi predicts that

[12] Preqin Ltd, 2022, Alternatives in 2022, page 6

this segment will grow from EUR 360bn (2020) to EUR 680bn in 2025 in Europe. As many asset managers active in the private markets segment have focused on institutional clients, ELTIFs offer these companies growth opportunities and an interesting option for client diversification[13].

A total of EUR 6.8trn had been invested in alternative investment funds (AIFs) in Europe at the end of 2020. The estimated ELTIF market volume of EUR 7.2bn to EUR 7.7bn is still only a tiny share (0.11%) of the total closed-ended investment market, but it highlights their growth potential.

Momentum continues in 2022 with many new products

After some initial difficulties, ELTIFs are becoming more established in the European private banking market and among asset managers. This can be seen both in the number of ELTIFs registered over time and in the number of active asset managers. The Scope survey shows that many asset managers that already have or had an ELTIF in distribution are working on follow-up products. In addition, some new products went into distribution at the beginning of 2022. For example, Amundi launched two new ELTIFs: the real estate product described earlier and Amundi ELTIF Private Investment Capital Opportunity, which was launched in co-operation with Neuberger Berman.

Neuberger Berman is also launching its second private equity ELTIF, the NB Direct Private Equity Fund 2022 ELTIF. The firm aims to launch a new ELTIF every year. Partners Group launched a successor to Direct Equity with the Direct Equity II ELTIF. Specifically for Italy, Azimut has launched AliCrowd II, a venture capital ELTIF, and Digital Lending II, another private debt ELTIF. Oquendo launched a second ELTIF for the Spanish market with the Senior Debt Fund II.

Demand from affluent private clients likely to increase

For the German market, it can be assumed that demand for private markets strategies and therefore for ELTIFs will increase, especially in the affluent private client segment. Training and learning processes are gradually developing within the sales units of private banking units. The same is true for third parties involved in settlement and custody. In addition, new external service providers such as fintech platform iCapital are positioning themselves to facilitate ELTIF settlement across Europe. Establishing external service providers that use digital processes to help banks simplify the complex manual settlement process and make it efficient and scalable would be a decisive contribution to growing the ELTIF market.

It remains to be seen to what extent eliminating the minimum investment amount of EUR 10,000 per product and the 10% allocation limit for assets below EUR 500,000, as discussed in the EU's current review to the ELTIF regime, can spur growth in the ELTIF market. Ultimately, an ELTIF is intended to make private markets strategies accessible to affluent private clients. For this clientele, the currently envisaged minimum investment amount of EUR 10,000 should be sufficient. Given their long-term and illiquid character, private markets strategies do not represent a mass market product anyway.

Secondary market trading positive for market development

Given the objective of long-term investment in illiquid assets, the ELTIF regulatory regime does not generally provide for early redemption of units. Even if some ELTIFs offer partial liquidity – which may be linked to a minimum holding period, have longer notice periods, be limited in amount or only permitted for an early redemption fee – the vast majority of products are closed-end funds. For a typical private wealth client, the lack of a liquidation option during the life of the fund is usually not a problem. By contrast, affluent private clients sometimes perceive the illiquidity of the vast majority of ELTIF products as a restriction.

[13] Indefi, 2022, Perspectives, Retail Alts: Ready for Prime Time, page 1f.

For growth in the affluent private client segment, it would therefore be advantageous if there were a secondary market for ELTIFs, even if that was on a monthly or quarterly basis. Daily tradability up to a certain volume is certainly one of the main success factors behind Commerz Real's klimaVest ELTIF, in addition to the sustainability component. Given sufficient outstanding volume, it is reasonable to expect secondary market trading to develop, similar to conventional closed-end funds. Since the ELTIF is a European regime, there is a strong case for secondary market trading to be organised at a pan-European basis.

In addition, within the framework of the EU review, there is a discussion taking place on whether so-called qualified matching should be introduced for the first time in ELTIFs. This would allow subscription and liquidation requests to be matched directly within the fund, a bit like a secondary market within an ELTIF. The advantage of this variation would be that settlement would take place at the NAV of the fund, whereas in secondary market trading, supply and demand often meet at a significant price discount to NAV.

In this context, it is also exciting to ponder to what extent new technologies such as blockchain and the tokenisation of assets can facilitate settlement or enable secondary market trading in the context of digitalising the financial industry, and thus contribute to the growth of the ELTIF market in the long term.

National tax incentives as potential growth drivers

Another major driver for growth in the ELTIF market would be adjustments to the tax laws of European countries to promote long-term investments in real assets and infrastructure using national tax incentives. The success of ELTIFs in Italy is the best example of this. The example from France, in which ELTIFs can be purchased in insurance wrappers, is also an interesting building block to enable tax-optimised investments in ELTIFs.

Particularly in view of political ambitions to support the economy on its path to becoming carbon neutral (EU Green Deal), ELTIFs appears to be suitable as a vehicle for investments in physical assets and infrastructure, which could prove to be a powerful instrument, especially in combination with national tax incentives.

Overall, there is much to suggest that the momentum recently observed in the ELTIF market will continue. On the one hand, there is an immense need for financing long-term investments. On the other hand, in the current market environment, with a volatile stock market and still comparatively low yields in the bond market, demand for alternative investments is likely to increase. This is reflected in the large number of new products that have recently been registered, recently launched into marketing or are still in the planning stage. This growth would be strengthened by establishing digital, scalable processes on the settlement side that significantly simplify the complex manual settlement of ELTIFs.

Three-part split of the ELTIF market expected

In the long term, Scope believes that the ELTIF market will be divided into three parts:

- A segment for professional investors with simplified regulation in accordance with the current EU review compared to products that are also available to private investors.
- A segment for private wealth clients in which, as with conventional private markets products, there is no liquidity during the life of the fund and, in return, the typical illiquidity premium of illiquid investments can be achieved.
- A segment for affluent private clients that has comparatively low minimum investment amounts between EUR 10,000 and EUR 50,000 as well as a certain degree of partial liquidity during the term of the products. Since managing this liquidity requires part of the fund volume to be invested in liquid instruments, the classic private markets strategy is diluted to a certain extent in this segment.

Since the majority of ELTIFs have a very short history, Scope is refraining from analysing the performance of the products at this point. This topic will be the subject of a future ELTIF study, in order to bring even more transparency to this young market.

Appendix: Compilation of the ELTIFs included in the study

Supervisory authority	Asset manager	ELTIF name	Countries of distribution
Private debt			
CSSF	AMUNDI ASSET MANAGEMENT SAS	AMUNDI SENIOR IMPACT DEBT IV	AT, BE, DE, DK, ES, FI, FR, IT, LU, NL, NO, SE
CSSF	AMUNDI LUXEMBOURG S.A.	AMUNDI ELTIF LEVERAGED LOANS EUROPE	AT, DE, ES, FR, IT
CSSF	AZIMUT INVESTMENTS S.A.	DIGITAL LENDING	IT
CSSF	AZIMUT INVESTMENTS S.A.	CAPITAL SOLUTIONS	IT
AMF	BNP PAM	BNP PARIBAS EUROPEAN SME DEBT FUND	FR, LU, BE
CSSF	MUZINICH & CO. (IRELAND) LIMITED	MUZINICH TARGET LOANS 2025	IT
CSSF	MUZINICH & CO. (IRELAND) LIMITED	MUZINICH EUROPEAN LOANS 4 ELTIF SICAV, S.A.	ES
CSSF	MUZINICH & CO. (IRELAND) LIMITED	MUZINICH FIRSTLIGHT MIDDLE MARKET ELTIF	AT, DE, ES, FR, IT
AMF	OCTOBER FACTORY	OCTOBER ITALIAN SME FUND 1	FR, BE, DE, ES, IT, NL
AMF	OCTOBER FACTORY	OCTOBER SME IV	FR, BE, DE, ES, IT, NL
AMF	OCTOBER FACTORY	OCTOBER SME II	
AMF	OCTOBER FACTORY	OCTOBER SME III	
CSSF	OQUENDO CAPITAL SGEIC S.A.	OQUENDO IV ELTIF	ES
CSSF	PARTNERS GROUP (LUXEMBOURG) S.A	PARTNERS GROUP PRIVATE MARKETS CREDIT STRATEGIES 2017	AT, DE, DK, ES, FI, IT, SE
CNMV	TALDE GESTIÓN,SGEIC,S.A.	TALDE DEUDA ALTERNATIVE	ES
AMF	TIKEHAU INVESTMENT MANAGEMENT	ELTIF TIKEHAU DIRECT LENDING	
Private equity			
AMF	AMUNDI PRIVATE EQUITY FUNDS	AMUNDI ETI MEGATENDANCES	FR
AMF	AMUNDI PRIVATE EQUITY FUNDS	CAA ETI MEGATENDENCES	FR
CSSF	AZIMUT INVESTMENTS S.A.	AZ ELTIF - (subfund) OPHELIA	IT
CSSF	AZIMUT INVESTMENTS S.A.	AZ ELTIF - (subfund) PENINSULA TACTICAL OPPORTUNITY	IT
CSSF	AZIMUT INVESTMENTS S.A.	AZ ELTIF (subfund) ALICROWD	IT
CSSF	AZIMUT INVESTMENTS S.A. (former AZ FUND MANAGEMENT S.A.)	PRIVATE EQUITY HIGHPOST	
CSSF	BLACKROCK FRANCE S.A.S.	BLACKROCK PRIVATE EQUITY OPPORTUNITIES ELTIF	BE, DE, DK, EL, ES, FI, FR, IE, IT, LU, MT, NL, PT, SE, NO
CONSOB	CREDEM PRIVATE EQUITY SGR S.P.A.	ELTIFPLUS	IT
CONSOB	EQUITA CAPITAL SGR S.P.A.	EQUITA SMART CAPITAL - ELTIF	
AMF	MIROVA	MIROVA ENVIRONMENT ACCELERATION CAPITAL	
CSSF	NEUBERGER BERMAN AIFM S.À R.L.	NB DIRECT PRIVATE EQUITY ELTIF	LU, BE, DE, DK, ES, FI, FR, IE, IT, NL, PT, SE
CSSF	PARTNERS GROUP (LUXEMBOURG) S.A	PARTNERS GROUP DIRECT EQUITY 2016	AT, BE, CY, DE, ES, FI, FR, IE, NL, SE
AMF	TIKEHAU INVESTMENT MANAGEMENT	T2 ELTIF ENERGY TRANSITION FUND	FR, ES
AMF	TURENNE CAPITAL PARTENAIRES SA	EMERGENCE ETI	FR
AMF	TURENNE CAPITAL PARTENAIRES SA	CAPITAL SANTE 2	FR, LU, BE, NL
AMF	TURENNE CAPITAL PARTENAIRES SA	NOV RELANCE IMPACT	

Infrastructure			
CSSF	ADEPA ASSET MANAGEMENT S.A	SUSTAINABLE INFRASTRUCTURE GROWTH FUND	EN
CSSF	BLACKROCK FRANCE S.A.S.	BLACKROCK PRIVATE INFRASTRUCTURE OPPORTUNITIES ELTIF	DE, DK, ES, FI, FR, IT, LU, NL, PT, SE, CZ, EL, PL, IE, BE
CSSF	COMMERZ REAL FUND MANAGEMENT S.A R.L.	KLIMAVEST ELTIF	EN
CONSOB	EURIZON CAPITAL SGR S.p.A.	EURIZON ITALIAN FUND - ELTIF	IT
CONSOB	EURIZON CAPITAL SGR S.P.A.	EURIZON PIR ITALIA - ELTIF	
AMF	GENERALI GLOBAL INFRASTRUCTURE	GF INFRASTRUCTURES DURABLES	
AMF	MÉRIDIAM SAS	MERIDIAM INFRASTRUCTURE EUROPE III SLP	FR
AMF	MIROVA	BTP IMPACT LOCAL	FR
Real estate			
CSSF	PICTET ALTERNATIVE ADVISORS (EUROPE) S.A.	PICTET REAL ESTATE CAPITAL ELEVATION CORE PLUS ELTIF	
Mixed			
CONSOB	8A+ INVESTIMENTI SGR S.P.A.	8A+ REAL ITALY - ELTIF	IT
CONSOB	AMUNDI SGR S.P.A.	AMUNDI ELTIF AGRITALY PIR	IT
CONSOB	ANIMA SGR S.P.A.	ANIMA ELTIF ITALIA 2026	IT
CONSOB	ANTHILIA CAPITAL PARTNERS SGR S.P.A.	ANTHILIA ELTIF ECONOMIA REALE ITALIA	IT
CONSOB	HEDGE INVEST SGR S.P.A.	HI ALGEBRIS ITALIA ELTIF	IT
AMF	IDINVEST PARTNERS	IDINVEST ENTREPRENEURS CLUB	ES, LU
CSSF	KAIROS PARTNERS SGR SPA	RENAISSANCE ELTIF	IT
AMF	MANDARIN GESTION	NOVESS - LE FONDS ESS	FR
CSSF	PARTNERS GROUP (LUXEMBOURG) S.A	PARTNERS GROUP PRIVATE MARKETS ELTIF SICAV	BE, CY, CZ, DE, DK, EL, ES, FI, FR, IE, IT, LU, LI, MT, NL, PL, NO, PT, SE
Not specified			
CSSF	FONDACO LUX S.A.	THE BLOSSOM ELTIF II	Not yet marketed
CONSOB	PRAMERICA SGR S.P.A.	PRAMERICA ITEЯ ELTIF	IT
CNMV	SOLVENTIS, SGIIC, S.A	FONDO DE INNOVACION	ES

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