European Commission - Fact Sheet

European Long-term Investment Funds - frequently asked questions

Brussels, 13 February 2015

1. **What is a European Long-term Investment Fund?**

The proposed European Long-Term Investment Fund, or ELTIF, is a new type of collective investment framework allowing investors to put money into companies and projects that need long-term capital. It is aimed at investment fund managers who want to offer long-term investment opportunities to institutional and private investors across Europe, e.g. in infrastructure projects. To benefit from this cross-border passport the new Funds would have to meet rules designed to protect both investors and the companies and projects they invest in.

1. **Why are they necessary?**

ELTIFs are designed to increase the amount of non-bank finance available for companies investing in the real economy of the European Union. Action is needed at European level as there is no consistency among the funding vehicles in Member States, where they exist. It is also not always clear whether such funds are really focused on long-term investments such as infrastructure projects. Existing funds can only raise money in one Member State as they are not accepted across national borders. This fragmentation means the growth of funds is limited.

1. **How would the ELTIF rules work?**

To qualify as an ELTIF, funds would:

- only invest in certain types of assets (see question 4) and at least 70% of the money in the fund has to be invested in these assets
- only be offered by a manager who is authorised under the Alternative Investment Managers Directive, AIFMD (see question 5) and so be subject to its rules, for example, the obligation to have a depositary.
- run for a specified period of time during which investors do **not** usually have the right o get their money back. (This would have to be clearly explained to investors, along with the advice that they should not put all of their assets into an ELTIF.) Managers can allow investors to get their money back under certain circumstances. In cases where this is allowed, it should be clearly explained to investors before commit their money.
- Strictly limit derivative use to currency and other directly related risks so avoiding their use for speculative reasons
- Limit leverage.

1. **What exactly can they invest in and why just 70%?**

ELTIFs can only invest in unlisted companies needing long-term capital, such as infrastructure, notably in network industries such as transport and energy, but also social infrastructure (hospitals, schools and social housing). ELTIFs can also invest in certain listed small and medium sized enterprises (SMEs), real assets that need long-term capital to develop them, intellectual property and other intangible assets, as well as European Venture Capital Funds (EuVECA), and European Social Entrepreneurship Funds (EuSEF).

Because of the long-term nature of the assets they will invest in, it may take ELTIFs a number of years to invest fully all of the money in the fund. The rules should not force ELTIFs to invest in assets that are not suitable just to meet a deadline. So ELTIFs will have up to five years to invest at least 70% of the money. They can have 30% in other assets. This is to provide the ELTIFs with some flexibility regarding when to sell assets or replace them with new ones. The 30% buffer can be held in assets that would be eligible for a UCITS fund (see below). This is to prevent ELTIFs from holding risky assets.

1. **Who can offer an ELTIF?**

Only managers who are authorised under the Alternative Investments Fund Managers Directive (AIFMD) can offer an ELTIF. The AIFMD puts in place a stringent set of rules for anyone managing alternative investment funds. These requirements stipulate that key personnel must be 'fit and proper'. They also include requirements on depositaries, valuation, mechanisms to deal with conflicts of interest

and disclosure of information to investors. As an ELTIF is not a UCITS fund it is an AIF and so its manager must be authorised under the AIFMD.

1. **Who will want to invest in an ELTIF?**

There will be a wide audience. Pension funds, municipalities that have pension obligations and insurance companies that need to find assets that pay a steady, reliable income to meet the promises they have made to their savers and policyholders will be attracted to ELTIFs. ELTIFs are also likely to appeal to smaller investors, including retail savers who can have up to 10% of their savings invested for a number of years in return for a steady income or a lump sum at the end. Investors should only put money into an ELTIF if they are completely sure they won't need it for that time. That is why the fact that they usually can't get their money back until the end has to be disclosed very clearly and there is a recommendation that investors should only commit a proportion of their savings to an ELTIF.

1. **How can we be sure retail investors will understand their money is locked up?**

If an ELTIF is marketed to retail investors, it would be a Packaged Retail and Insurance-based Investment Product (PRIIP) and so subject to the requirement to have a key information document, or KID, explaining its features and its risks. The KID will be a three page document that will set out in plain language what the most important feature of the PRIP is and what its risks are. For an ELTIF, one of the most important risks that will be clearly explained will be that any investment is locked away for the life of the ELTIF. Should an ELTIF manager offer the possibility to withdraw money out early, this would also have to be clearly disclosed to all investors, setting out the limited circumstances under which this would be possible.

1. **How can we be sure ELTIFs are sold to the right people?**

In addition to the information requirements described above, ELTIFs are investment products that come under the requirements of the Markets in Financial Instruments Directive (MiFID). In practice anyone selling an ELTIF will have to assess its suitability in relation to the financial needs of the person they are offering it to. This will require them to understand whether, for example, a retail investor can really afford to lock part of his or her savings away for the life of the ELTIF.

1. **Why can't investors get their money back whenever they want?**

The point about these funds is that the money is committed for the long term. Companies and projects receiving finance need to be confident that the money they expect to be able to use for many years won't suddenly be clawed back from them because some investors have decided the fund is no longer for them. On the other hand, investors will potentially be able to obtain an 'illiquidity' premium compensating them for their patience. In addition, we expect to see a secondary market emerge that would give some investors the chance to sell their units or shares during the life of a fund. If managers offer funds that allow for money to be taken out early, this can only be done after at least five years have elapsed; investors may only be able to withdraw a proportion of the money they have invested.

1. **Why let retail investors in at all? They can't invest in the European Venture Capital (EuVECA) and European Social Entrepreneurship Fund (EuSEF) which seem just as risky as ELTIFs.**

The European Venture Capital (EuVECA) and European Social Entrepreneurship Fund (EuSEF) regulations both set the minimum investment at €100 000. These two types of funds, which will be available from 22 July 2013, are targeted at a very different set of more specialist investors who do not mind investing in highly risky start-ups. ELTIFs will be subject to a set of consumer protection rules, such as diversification requirements, limits on leverage or a ban on short-selling. Consequently, ELTIFs are much more suitable for retail investors. ELTIFs are therefore expected to collect much more capital than EuVECAs or EuSEFs.

1. **Will EU money go into ELTIFs?**

Any European body can use ELTIF to fulfil its mandate. ELTIF are a flexible framework that can accommodate public and private funding in parallel, thereby creating interesting and new opportunities for public-private partnerships.

1. **How big is the market at the moment?**

This is hard to assess precisely because the market is so fragmented. However, it is possible to make some estimates. For infrastructure transaction volumes have been stable at between €100 and €150 billion each year since 2007, indicating a consistent demand for financing. While the size of the property fund market is similarly difficult to assess, one estimate puts it at €258 billion while the value of aircraft that have been ordered but not yet delivered is put at $700 billion worldwide. (All of these figures are in the Impact Assessment.)

1. **How much demand is there for ELTIFs?**

An estimated €1 500 to €2 000 billion will be needed to finance infrastructure project needs alone in Europe up to 2020. This indicates a need for large-scale financing. The impact assessment work that

has led to the development of ELTIFs showed a clear appetite from industry to be able to offer ELTIFs to the widest possible audience. (All these figures are in the Impact Assessment).

1. **How much ELTIF business is expected to be cross-border?**

This is hard to estimate. UCITS are also sold cross border and Lipper estimates that cross-border funds now account for 45% of European fund assets (vs 21% at end 2001)[1]. Due to its comparable structure, UCITS is the nearest comparison available.

1. **15. How is UCITS different?**

The guiding principle behind the UCITS Directive is that investors in funds authorised under it can get their money back at any time. On this basis, the fund framework that UCITS has created is entirely based on listed securities that can be sold on a regulated market at any time.

1. **Will any burden be imposed on Member States?**

It is important to remember that this is a regulation and so directly applicable to Member States. On that basis there is no need for Member States to transpose it into their national laws. However, the proposal will impose some limited requirements on supervisory authorities in Member States which will depend on whether they are the home country where the manager creating and marketing the ELTIF is based or another Member State in which the ELTIF is being sold (the host country):

- **Home Member State duties:** Supervisory authorities will have to have a system in place for investment managers authorised under the AIFMD in that home Member State to analyse and authorise applications for funds to be designated as ELTIFs. They have to keep the European Securities and Markets Authority (ESMA) informed regarding all authorisations and de-authorisations they make on a regular basis. Home Member State supervisors are also responsible for ensuring ELTIFs meet all the requirements of the regulation at all times. They will already be responsible for supervising managers' compliance with the AIFMD. Where an ELTIF is marketed in other Member States, it is the home Member State supervisor's job to pass on all relevant information to the other state's supervisor, at which point the ELTIF becomes eligible to be marketed to investors in that country.
- **Host state duties:** As ELTIFs benefit from an EU passport the duties of the host Member State are limited to having systems in place to receive notification. It is the host Member State's responsibility to ensure supervision of the ELTIF.
- **Gold plating:** The creation of the framework to create ELTIFs is one of the objectives of the Single Market Act II. It creates a single, harmonised set of rules for ELTIFs and Member States cannot add or remove any of the requirements set out in the regulation, so no gold-plating is allowed. As mentioned above, as a regulation it is directly applicable to all European Union countries.

[1] Lipper European Fund Market Review 2013.

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