



Alternatives Investing in Europe

Going Mainstream

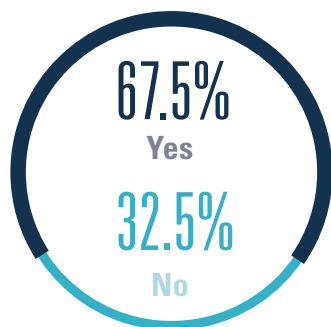
Europe is refining the ELTIF to make it more compelling for investor capital – potentially bringing billions of dollars of new, patient capital into the private equity, debt, loan, infrastructure, and real estate asset classes.

While the U.S. has numerous established structures for mass-affluent investment in alternatives, in Europe most investors are still focused on public markets.

As returns from liquid markets and cash deposits remain low, high-net worth investors in Europe are now increasingly attracted to private asset classes.

The E.U. is carrying out a consultation to give its ELTIF structure more mass-affluent appeal, and we believe a significant wave of investment in alternatives could arrive if it is successful.

In the U.S., take-up of alternatives investing is very high



N-357 RIAs

WEALTHIER CLIENTS
INTERESTED IN
PRIVATE EQUITY³

Source: Registered Investment Advisors
and Private Equity, iCapital Network,
June 2016

But in Europe, people hoard cash in deposits ... 37%
Share of financial assets held by European households in Deposits¹

... and take-up of liquid funds remains low ... 10%
Share of financial assets held by European households in Investment Funds¹

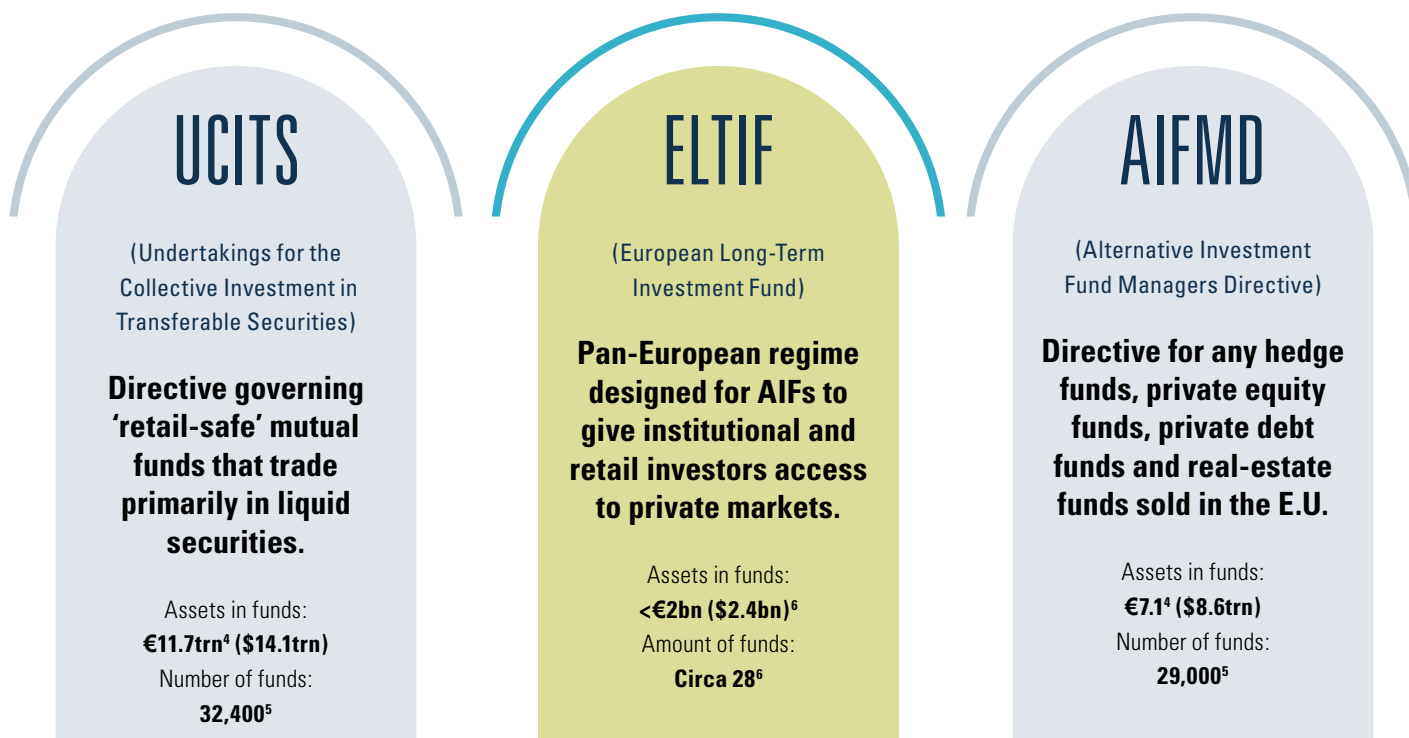


Meanwhile, the opportunity set in liquid assets has fallen ... 52%

Fall in the number of public traded companies in the U.S. since 2017²

The ELTIF, a future leader in the E.U. fund landscape?

The E.U. is consulting on the ELTIF fund regulations to make the format more desirable to asset managers and their clients. The structure could join UCITS and AIFMD funds to become one of the major players in the market.



What is an ELTIF fund?

Structure

- Closed-end fund structure to provide access to private market assets (real economy)
- ELTIFs have up to five years to invest at least 70% of money raised across eligible private markets asset classes, including private equity, private credit, infrastructure, and real estate.
- Funds cannot return investor capital for at least five years.
- Can be commitment based or subscription-based fund; unitized or non-unitized.

Targeted Investments

- Unlisted companies in the E.U. needing long-term capital
- Certain small and medium sized enterprises (SMEs)
- Real assets that need long-term capital to develop them, intellectual property and other intangible assets
- Other umbrella funds, including European Venture Capital Funds (EuVECA), European Social Entrepreneurship Funds (EuSEF) or other ELTIFs.

Targeted Investors

- E.U.-wide passporting allows for distribution to both institutional and retail (as defined under MiFID) investors across the E.U. under AIFMD
- Managers are responsible for conducting a suitability test:
- For investors with less than €500,000 in assets, their investment cannot exceed 10% of their assets across all ELTIFs (i.e. €200,000 in assets; investment cannot exceed €20,000)
- Initial minimum investment in one or more ELTIF must be at least €10,000
- Pension funds, municipalities that have pension obligations and insurance companies can invest.

Permitted ELTIF providers

- Managers authorized under the Alternative Investments Fund Managers Directive (AIFMD) can offer an ELTIF.
- They must comply with AIFMD rules on 'fit and proper' individuals, requirements on depositaries, valuation, mechanisms to deal with conflicts of interest and disclosure of information to investors.

How might the consultation turn ELTIFs into future leaders?

An advisory group to the consultation has identified three major areas for change:



Democratized investment permissions

Possible reduction in the requirement for listed securities in ELTIFs to have <€500m market cap.
Possible improvement in the funds' impractical borrowing and leverage limits.



Enhanced retail distribution

Current ELTIF distribution has focused on institutional, but consultation may boost retail uptake.
'Mass affluent' investors and DC pension funds are both seen as candidates for ELTIF's growth.



Greater freedoms for investors

Consultation asks whether clarity is needed on the potential sale of ELTIF units into secondary markets, potentially enabling investors to exit the funds early, perhaps at a lower price than fund NAV.

1. EFAMA KPI Report: Household Participation in Capital Markets, 2019 – http://www.efama.org/Publications/KPI%20Report_FINAL%20version.pdf
2. What is the Stock Market Even for Anymore, Michael Steinberger, New York Times – May 26, 2020 – <https://www.nytimes.com/interactive/2020/05/26/magazine/stock-market-coronavirus-pandemic.html>
3. iCapital Network Research – <https://www.icapitalnetwork.com/insights/research-practice-management/why-democratization-matters/>
4. EFAMA Monthly Factsheet – [https://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/07%20EFAMA%20Fact%20Sheet%20\(December%202020\).pdf](https://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/07%20EFAMA%20Fact%20Sheet%20(December%202020).pdf)
5. EFAMA Quarterly Report <https://www.efama.org/Publications/Statistics/Quarterly/Quarterly%20Statistical%20Reports/20%2012%20Quarterly%20Statistical%20Release%20Q3%202020.pdf>
6. European Commission - 'Public Consultation on the Review of the ELTIF Regulatory Framework' – https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/2020-eltif-review-consultation-document_en.pdf

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