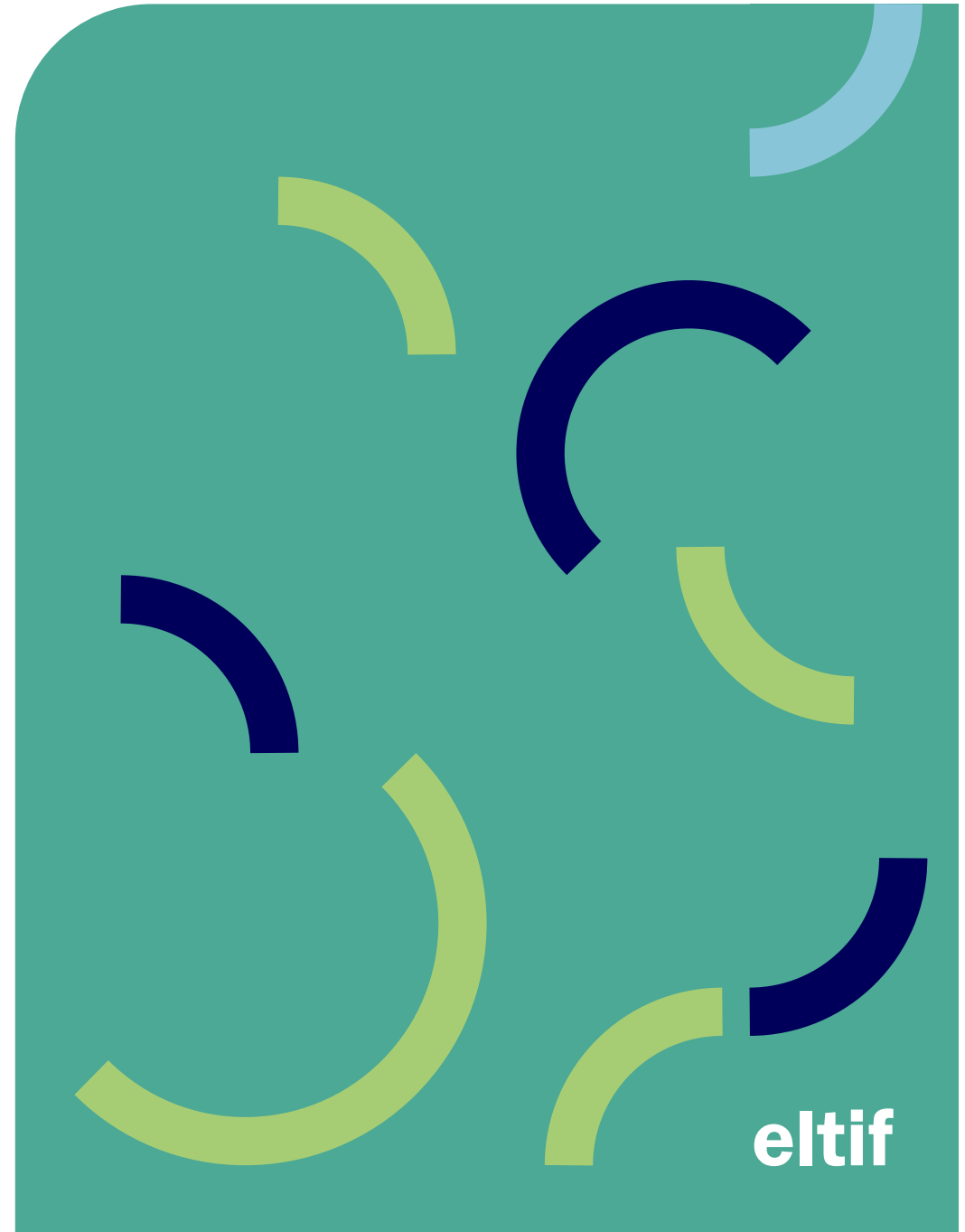


ELTIF 2.0 – the European long-term investment fund (ELTIF)

December 2024



Foreword

The European long-term investment fund (ELTIF) is a pan-European regime for Alternative Investment Funds (AIF) which channel the capital they raise towards long-term investments in the real economy, including towards investments that promote the European Green Deal and other priority areas, in line with the European Union objective of smart, sustainable and inclusive growth.

The ELTIF represents a milestone in the development of the cross-border European long-term funds business.

This publication has been prepared by the Association of the Luxembourg Fund Industry (ALFI) in order to provide general information on the ELTIF and ELTIF structures in Luxembourg. It has been updated upon adoption and publication of the updated ELTIF Regulation (EU) 2023/606 which became effective in January 2024.

Luxembourg is proud to offer to sponsors and investors a legal framework that is diverse and flexible enough to meet the needs of a wide range of ELTIFs, their managers and investors.

What's new in ELTIF 2.0?

ELTIF 2.0 is Regulation (EU) 2023/606 of 15 March 2023 amending Regulation (EU) 2015/760 ("ELTIF 1.0") as regards the requirements pertaining to the investment policies and operating conditions of European long-term investment funds and the scope of eligible investment assets, the portfolio composition and diversification requirements and the borrowing of cash and other fund rules.

The key changes include:

- More flexibility in eligible investment assets, the portfolio composition and diversification requirements
- Simplification of definition of "real assets"
- The possibility to set up ELTIF Fund of Funds
- The possibility to set up ELTIF master-feeder structures

- Possibility to implement full or partial matching, before the end of the life of the ELTIF, of transfer requests of units or shares of the ELTIF by exiting ELTIF investors with transfer requests by potential investors
- Changes to the provisions on marketing of ELTIFs to retail investors
- More flexibility on the use of borrowing
- Carve-outs for ELTIFs sold only professional investors

ELTIF 2.0 applies from 10 January 2024.

ELTIFs already authorised in accordance with and complying with the provisions of ELTIF 1.0 Regulation are deemed to comply with the ELTIF 2.0 Regulation, unless they raise additional capital from investors, in which case they are deemed to comply with the ELTIF 2.0 Regulation until 11 January 2029.

A ELTIF authorised before 10 January 2024 may wish to consider the option of submitting itself to ELTIF 2.0, which requires that the competent authority of the ELTIF is notified thereof.

Table of contents

Foreword	2
What is an ELTIF?	4
Executive summary	5
What could ELTIFs look like?	6
What does the ELTIF mean for managers and investors?	7
ELTIF rules	8
Authorisation as an ELTIF, and approval of ELTIF managers	8
Investment rules	9
Sustainability perspective	11
Lifetime, redemptions and transfers of units or shares between investors	13
Disposal of assets and distribution of proceeds	16
Transparency	17
Marketing to professional and retail investors	18
ELTIF timelines	21
Definition of professional and retail investors	23

What is an ELTIF?

A financial vehicle

designed to facilitate long-term investments in the real economy including energy, transport and social infrastructure, and job creation, and to contribute to the achievement of the European Green Deal and projects that put the Union's economy on a path towards smart, sustainable and inclusive growth.

55% of the capital

must be invested in long-term assets.

EU/EEA cross-border distribution passport

The ELTIF benefits from a cross-border passport allowing it to be marketed to professional and retail investors across the EEA

Regulated fund vehicle and manager

The ELTIF is authorised and supervised by the European Economic Area (EEA) competent authority; its manager must be an authorised EEA Alternative Investment Fund Manager (AIFM)

Professional and retail investors

An ELTIF may be offered to:

- Institutional investors
- Other professional investors
- Retail investors

Where the ELTIF is offered to retail investors, additional requirements apply. In particular, a product governance process needs to be implemented and suitability requirements must be met.

Mix of long term assets and liquid assets

Eligible investment assets of ELTIFs may include:

- exposures to qualifying portfolio undertakings including equity, quasi-equity, debt and loans
- real assets
- units or shares of one or several other alternative investment funds (AIFs)
- certain securitisations
- green bonds

ELTIFs may also invest in eligible assets for Undertakings for Collective Investment in Transferable Securities (UCITS) such as equities, bonds and other UCITS.

Executive summary

The ELTIF Regulation lays down minimum requirements which must be met by long-term funds in order to be authorised as an “ELTIF” or “European long-term investment fund”.

An ELTIF must, *inter alia*, be managed by authorised EU Alternative Investment Fund Managers (AIFMs) and meet minimum eligible asset and diversification requirements.

An ELTIF may invest in long-term assets such as small and medium-sized enterprises and in the development and operation of infrastructure, public buildings, social infrastructure, transport, sustainable energy and communications infrastructure.

Authorised ELTIFs will be permitted to:

- Use the designations “ELTIF” and “European long-term investment fund”¹
 - Raise capital from professional and retail investors across the Member States of the European Union and European Economic Area
- See Section Definition of professional and retail investors on page 23.*



¹ The ELTIF name is a protected designation and can only be used if authorisation by a EU national competent authority has been obtained.

What could ELTIFs look like?



Real Estate Funds

• Nursing homes, schools, hospitals, prisons, social housings, investments in commercial or residential real estate only in restricted form.



Infrastructure Funds

• Ports, streets, pipelines, renewable energies, power stations, waste disposal infrastructures, communication networks etc.



Debt Funds

• Investment in debt instruments e.g. SMEs.



Private Equity Funds

• Investments in equity or equity-related instruments of small and medium-sized enterprises (SMEs). May include certain newly approved financial institutions like FinTechs.



Real Assets

• Immovable property, such as communication, environment, energy or transport infrastructure, social infrastructure (including retirement homes or hospitals), as well as infrastructure for education, health and welfare support or industrial facilities, installations and other assets (intellectual property, vessels, equipment, machinery, aircraft or rolling stock among others.)



Other Funds / Feeder ELTIFs

• Other ELTIFs, EuVECAs, EuSEFs, EU AIFs managed by EU AIFMs and UCITS.

However, feeder ELTIFs must invest into master ELTIFs

What does the ELTIF mean for managers and investors?

- ELTIFs channel investments, for example, into the development of European and international small and medium-sized enterprises (SMEs), infrastructure and certain types of real estate for the mutual benefit of the real economy, individual investors, institutional investors, managers and citizens;
- Investors: ELTIFs are intended to meet demand from:
 - Institutional and professional investors (including small and medium-sized enterprises) for a long-term fund regime
 - Retail/non-professional investors seeking exposure to e.g. long-term, typically illiquid assets and the protection of a dedicated regime;
- Managers: the ELTIF enables the managers of, for example, private equity, infrastructure and real estate funds to offer well-regulated European products meeting demand from investors internationally and contributing to the real economy;
- Cross-border funds: in line with the spirit of the EU Capital Markets Union, the ELTIF facilitates the development of truly European cross-border long-term funds which:
 - May make investments in multiple jurisdictions
 - May be distributed to investors on a cross-border basis
 - Are eligible for distribution to retail investors in the EEA or in accordance with local regulation outside the EEA
- ELTIF designation: the designations “ELTIF” and “European long-term investment fund” are recognised by institutional and professional investors and retail investors keen to make long-term investments both in Europe and (subject to certain conditions) globally;
- Luxembourg role: the ELTIF strengthens the position of Luxembourg as a leading European centre for long-term funds and as an international hub for cross-border fund distribution.

ELTIF rules

The ELTIF and their managers are subject to requirements, *inter alia*, on:

- Authorisation as ELTIF including approval of ELTIF managers;
- Investment rules: eligible assets and permitted activities, portfolio diversification rules and prohibited activities;
- Lifetime, redemptions and transfers of units or shares between investors;
- Distribution of proceeds and disposal of assets;
- Transparency and the prospectus;
- Marketing to professional and retail investors.

The requirements applicable to ELTIFs are laid down in the ELTIF Regulation² which is directly applicable in EU Member States without national transposition of this regulation.

The manager of the ELTIF must be an EU authorised AIFM, subject to the requirements of the AIFM Directive³ or the national law transposing the AIFM Directive, such as the Luxembourg AIFM Law.⁴

Any investment vehicle or compartment thereof that qualifies as an AIF is eligible to apply for and obtain the ELTIF label.

Authorisation as an ELTIF, and approval of ELTIF managers

An ELTIF must be authorised by the competent authority of its home member state in accordance with the ELTIF Regulation.

Only EU AIFs are eligible to apply for and to be granted authorisation as an ELTIF. A sub-fund (compartment) of an EU AIF may be authorised as an ELTIF.

An ELTIF may either be managed by an authorised AIFM or be an internally managed AIF. In the latter case, the AIF has to be authorised under the AIFM Directive as an AIFM.

The application for authorisation as an ELTIF must include:

- The document of incorporation: the fund rules or instruments of incorporation;
- The name of the proposed manager of the ELTIF;
- The name of the depositary and, where the ELTIF can be marketed to retail investors, the agreement with the depositary;
- Where the ELTIF can be marketed to retail investors, a description of the information to be made available to investors, including a description of the arrangements for dealing with complaints submitted by retail investors;
- Where the ELTIF is a feeder ELTIF, additional information on the relationship with the master ELTIF.

Authorisation as an ELTIF is valid for all EEA Member States.

On the manager side, the application must include:

- The written agreement with the depositary;
- Information on delegation arrangements regarding portfolio and risk management and administration with regard to the ELTIF;
- Information about the investment strategies, the risk profile and other characteristics of AIFs that the EU AIFM is authorised to manage.

The candidate ELTIF and its manager will be informed within two months from the date of submission of a complete application whether authorisation as an ELTIF, including approval for the EU AIFM to manage the ELTIF, has been granted.

In Luxembourg, the application for approval as an ELTIF must be made using a specific application form, generally via the CSSF's *eDesk* electronic platform.

² Regulation (EU) 2015/760 of 29 April 2015 on European long-term investment funds, as amended

³ Directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers.

⁴ The Luxembourg AIFM Law is the Law of 12 July 2013 on alternative investment fund managers.

ELTIF rules

Investment rules

Eligible assets and permitted activities

The eligible assets of ELTIFs are:

- Eligible investment assets, the ELTIF's long-term investments, which may include:
 - Exposures to qualifying portfolio undertakings;
 - Units or shares of one or several other collective investment undertakings;
 - Real assets;
 - Simple, transparent and standardised (STS) securitisations;
 - Green bonds;
 - Certain newly approved financial institutions such as FinTechs.
- As part of a liquid assets portfolio, assets which are eligible assets for Undertakings for Collective Investment in Transferable Securities (UCITS), which may include, *inter alia*:
 - Equities;
 - Bonds;
 - Money market instruments;
 - Units of other UCITS;
 - Deposits with credit institutions.

A **qualifying portfolio undertaking** is a portfolio undertaking which is either:

- Not listed;⁵ or
- Listed with a market capitalisation of a maximum of €1.5 bn.⁶

A qualifying portfolio undertaking cannot be a financial undertaking except if the financial

undertaking is not a holding company or a mixed-activity holding company and has been authorised or registered less than five years before the date of the initial investment. This allows ELTIFs to invest e.g. in start-up and FinTechs.

A qualifying portfolio undertaking must be either:

- Established in an EU Member State;
- Established in a third country that:
 - Is not identified as a high-risk country in relation to money laundering and terrorist financing identified by the Financial Action Task Force (FATF);
 - Is not mentioned in the EU list of non-cooperative jurisdiction for tax purposes.

Exposures to Qualifying portfolio undertakings may include:

- **Equity or quasi-equity⁷ instruments** which have been issued by:
 - A qualifying portfolio undertaking and acquired by the ELTIF from that qualifying portfolio undertaking or from a third party via the secondary market
 - A qualifying portfolio undertaking in exchange for an equity or quasi-equity instrument previously acquired by the ELTIF from the qualifying portfolio undertaking or from a third party via the secondary market
 - An undertaking in which a qualifying portfolio undertaking holds a capital participation in exchange for such an equity or quasi-equity instrument acquired by the ELTIF

- **Debt instruments** issued by a qualifying portfolio undertaking;
- **Loans** granted by the ELTIF to a qualifying portfolio undertaking.

Real assets⁸ are assets that have an intrinsic value due to their substance and properties.

ELTIF investments in **collective investment undertakings** may include units or shares of ELTIFs, EuVECAs, EuSEFs, EU AIFs managed by EU AIFM and UCITS provided that those ELTIFs, EuVECAs, EuSEFs, EU AIFs and UCITS either:

- Invest in eligible investments and have not themselves invested more than 10 % of their assets in any other collective investment undertaking, or
- Are feeder ELTIFs.

ELTIFs may invest in **simple, transparent and standardised (STS) securitisations** where the underlying exposures correspond to specified categories.

ELTIF investments in **green bonds** may include bonds issued by a qualifying portfolio undertaking, under the EU Regulation on green bonds.

An ELTIF may only use **financial derivative instruments** for the purpose of hedging the risks inherent to other investments of the ELTIF; it may not use derivatives for speculative purposes.

An ELTIF may enter into securities lending, securities borrowing, repurchase transactions, or any other agreement which has an equivalent economic effect and poses similar risks if thereby no more than 10% of the assets of the ELTIF are affected.

5 Not admitted to trading on a regulated market or on a multilateral trading facility (MTF).

6 Admitted to trading on a regulated market or on a MTF and at the same time has a market capitalisation of no more than €1.5 bn.

7 "Quasi-equity" is defined as any type of financing instrument where the return on the instrument is linked to the profit or loss of the qualifying portfolio undertaking and where the repayment of the instrument in the event of default is not fully secured.

8 A "real asset" is defined as an asset that has value due to its substance and properties and may provide returns, including infrastructure and other assets that give rise to economic or social benefit, such as education, counselling, research and development, and including commercial property or housing only where they are integral to, or an ancillary element of, a long-term investment project that contributes to the European Union objective of smart, sustainable and inclusive growth.

ELTIF rules

Investment rules

Diversification and concentration rules⁹

An ELTIF must invest at least 55% of its capital¹⁰ in eligible investment assets within a maximum of five years after the date of authorisation, taking into account the investments of any underlying investments in eligible investment assets through investments in ELTIFs, EuVECAs, EuSEFs, EU AIF managed by an EU AIFM or UCITS.

Diversification thresholds/concentration limits applicable to retail ELTIF

The following diversification thresholds/concentration limits are only applicable to ELTIFs marketed to retail investors; they are NOT applicable to ELTIFs marketed to professional investors.

An ELTIF can invest up to:

- 20% of its capital in instruments issued by, or loans granted to, any single qualifying portfolio undertaking;
- 20% of its capital directly or indirectly in a single real asset;
- 20% of its capital in units/shares of any single ELTIF, EuVECA, EuSEF, EU AIF managed by an EU AIFM or UCITS;
- 10% of its capital in eligible assets for UCITS, where those assets have been issued by any single body. This limit can be raised to 25 % where bonds are issued by a credit institution that has its registered office in a Member State and that is subject by law to special public supervision designed to protect bond-holders.

ELTIF may acquire no more than 30 % of the units or shares of a single ELTIF, EuVECA, EuSEF, EU AIF managed by an EU AIFM or UCITS. In addition, a look-through on the underlying assets of

the target funds must be applied to ensure adequate diversification. This does not apply to a feeder ELTIF investing into a master ELTIF.

The aggregate value of STS securitisations in an ELTIF portfolio is maximum 20% of the capital's value.

The aggregate risk exposure to a counterparty of the ELTIF stemming from over-the-counter (OTC) derivative transactions, repurchase agreements, or reverse repurchase agreements is maximum 10% of the value of the capital of the ELTIF.

Investments in assets which are eligible for UCITS must meet the limits set in the UCITS Directive.

Borrowing rules

An ELTIF may borrow cash provided that the borrowing:

- Represents no more than 50% of the net asset value of the ELTIF for retail ELTIFs, and no more than 100% of the net asset value of the ELTIF for ELTIFs marketed solely to professional investors;
- Serves the purpose of making investments or providing liquidity, including to pay costs and expenses, provided that the holdings in cash or cash equivalents of the ELTIF are not sufficient to make the investment concerned;
- Is contracted in the same currency as the assets to be acquired with the borrowed cash, or in another currency where currency exposure has been appropriately hedged;
- Has a maturity no longer than the life of the ELTIF.

When borrowing cash, an ELTIF may encumber assets to implement its borrowing strategy.

Borrowing arrangements that are fully covered by investors' capital commitments are not considered to constitute such borrowing.

Breaches

Investment breaches are subject to CSSF Circular 24/856.

In case of "passive" breaches of diversification thresholds/concentration limits or borrowing rules beyond the control of the manager, the manager must take such measures as are necessary to rectify the position, taking due account of the interests of the investors in the ELTIF, within an appropriate period of time.

Where the ELTIF offers investors the possibility to redeem their units or shares, and where the liquid assets fall below the minimum percentage required, within a period of time that is appropriate for that ELTIF, the ELTIF manager must take the necessary measures to reconstitute the minimum percentage of the liquid assets, while maintaining the ability of investors to redeem, taking due account of the interests of the investors in the ELTIF.

Prohibitions

An ELTIF shall not undertake any of the following activities:

- Short selling of assets;
- Taking direct or indirect exposure to commodities;
- Entering into securities lending, securities borrowing, repurchase transactions or any other agreement which has an equivalent economic effect and poses similar risks, if thereby more than 10% of the assets of the ELTIF are affected; and
- Using derivatives (except for hedging purposes).

⁹ The diversification and concentration rules apply from the date specified in the document of incorporation of the ELTIF, which must not be later than five years after the date of the authorisation as an ELTIF or half the life of the ELTIF, whichever is the earlier. In exceptional circumstances, the competent authority of the ELTIF, upon submission of a duly justified investment plan, may approve an extension of this time limit by no more than one additional year.

¹⁰ "Capital" means the aggregate capital contributions and uncalled committed capital, calculated on the basis of amounts investible after deduction of all fees, charges and expenses that are directly or indirectly borne by investors.

ELTIF rules

Sustainability perspective

Sustainability aspects of the ELTIF Regulation

The ELTIF aims to contribute to steering Europe onto a path of smart, sustainable and inclusive economic growth by raising and channeling capital towards long-term projects in the real economy, including towards investments that promote the European Green Deal.

A key consideration during the ELTIF 2.0 review was the improvement of the ELTIF framework in relation to sustainability aspects. However, considering the rapid development of sustainable finance regulation, formal integration of such aspects has been postponed; the integration of sustainability remains a key objective of the European legislator and has been put at the core of the next ELTIF review cycle in 2030.

Sustainability aspects of ELTIF investments

ELTIFs and their managers are in scope of the EU Sustainable Finance Disclosure Regulation (SFDR)¹¹. The SFDR lays down requirements on transparency on the integration of sustainability risks, the consideration of adverse sustainability impacts and the provision of sustainability-related information.

In principle, any eligible investment of an ELTIF can contribute to the fund's sustainable investment strategy provided that it promotes environmental or social characteristics or that it is considered sustainable.

The ELTIF is considered particularly suitable for the integration of sustainability aspects due to its long-term objective and focus on investment in the real economy. Classic alternative investment strategies such as infrastructure or real estate often pursue an inherent positive contribution to environmental or social issues, encompassing for example renewable energy projects, CO₂ neutral construction or social housing.

Furthermore, the addition of Green bonds compliant with the European green bond standard¹² to the catalogue of ELTIF eligible investments encourages private capital flows towards more environmentally sustainable investments under the ELTIF 2.0 framework. Such bonds will not only qualify as ELTIF eligible, but also as environmentally sustainable investment¹³.

11 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as amended

12 Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds, as amended

13 In compliance with EU Taxonomy-regulation, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

ELTIF rules

Sustainability perspective

Investor sustainability preferences driving investment

As sustainability becomes a more mainstream consideration of investors, the ELTIF offers the possibility to market sustainable alternative investments to a broad investor base.

The ELTIF thus not only contributes to the broader objectives of the European Green Deal but could also meet the rising demand from all types of investors, both professional and retail, seeking sustainable investment opportunities.

This trend is also reinforced by the Markets in Financial Instruments Directive (MiFID¹⁴) measures which require banks and investment firms to assess the sustainability preferences of retail investors. Firms are required gather information on investors' preferences to assess whether a fund is suitable considering the individual sustainability preferences. This involves integrating questions into the investor suitability assessment related to sustainability exposure and environmental, social, and governance (ESG) factors. Similarly, insurers and insurance intermediaries are required to integrate the customer's sustainability preferences into the sales process when they provide advice on insurance-based investment products¹⁵.

14 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments, as amended, and in particular Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, as amended

15 Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products

ELTIF rules

Lifetime, redemptions and transfers of units or shares between investors

Lifetime

The life of an ELTIF must be consistent with its long-term nature and compatible with the life-cycles of each of its individual assets measured according to the illiquidity profile and economic life-cycle of the asset and the stated investment objective of the ELTIF.

Redemptions

ELTIFs may be closed-ended, semi-open or open-ended.

If no redemption right is granted during the life of the ELTIF's, redemptions upon the request of investors become possible from the day following the date of the end of the life of the ELTIF. The constitutive document of a closed-ended ELTIF must:

- Indicate the date of the end of the life of the ELTIF as well as any right to extend temporarily the life of the ELTIF and the conditions for exercising such a right;
- Lay down the procedures for the redemption of units and the disposal of assets;
- State clearly that unless otherwise provided in the fund documents, redemptions by investors will be allowed only on the day following the date of the end of life of the ELTIF.

If the ELTIF provides for the possibility of redemptions by investors before the end of the life of the ELTIF:

- Redemptions must not be granted before the end of a minimum holding period or before the date that the portfolio diversification requirements apply;
- At the time of authorisation and throughout the life of the ELTIF, the manager of the ELTIF must be able to demonstrate to the competent authority of the ELTIF that the ELTIF has in place an appropriate redemption policy and liquidity management tools that are compatible with the long-term investment strategy of the ELTIF;
- The redemption policy of the ELTIF must clearly indicate the procedures and conditions for redemptions;
- The redemption policy of the ELTIF must ensure that redemptions are limited to a percentage of the liquid assets of the ELTIF;
- The redemption policy of the ELTIF must ensure that investors are treated fairly and redemptions are granted on a pro rata basis if the requests for redemptions exceed the percentage of liquid assets of the ELTIF.

The Delegated Act¹⁶ clarifies certain aspects of ELTIF redemption rights, such as redemption policy, liquidity management, and minimum amount of liquid assets and calculation models.

Investors always have the option to be repaid in cash.

Repayment in kind out of an ELTIF's assets is possible only where all of the following conditions are met:

- The constitutive document of the ELTIF offer that possibility, provided that all investors are treated fairly;
- The investor asks in writing to be repaid through a share of the assets of the ELTIF;
- No specific rules restrict the transfer of those assets.

¹⁶ Commission Delegated Regulation (EU) 2024/2759 of 19 July 2024 supplementing Regulation (EU) 2015/760 of the European Parliament and of the Council with regard to regulatory technical standards specifying when derivatives will be used solely for hedging the risks inherent to other investments of the European long-term investment fund (ELTIF), the requirements for an ELTIF's redemption policy and liquidity management tools, the circumstances for the matching of transfer requests of units or shares of the ELTIF, certain criteria for the disposal of ELTIF assets, and certain elements of the costs disclosure

ELTIF rules

Lifetime, redemptions and secondary markets

Transfers of units or shares between investors

The units or shares of an ELTIF may be freely transferred by investors to third parties other than the manager of the ELTIF, subject to the applicable regulatory requirements (e.g. on anti-money laundering) and the conditions set out in the prospectus of the ELTIF.

A matching mechanism may be put in place allowing requests by investors wishing to exit the ELTIF to be matched with requests by potential investors wishing to acquire units or shares of the ELTIF.

Furthermore, the units or shares of ELTIFs may be admitted to trading on a stock exchange.

Matching mechanism

ELTIFs may provide for the possibility, during the life of the ELTIF, to fully or partially match requests by investors wishing to exit the ELTIF with requests by potential investors wishing to acquire units or shares of the ELTIF.

In essence, the matching mechanism can offer an additional potential source of liquidity for exiting investors and an opportunity for potential investors to invest in the fund (or a fast-track option in the case of open-ended ELTIFs). The matching mechanism aims to provide an institutionalised process for investors who may not necessarily have sufficient capacity to arrange secondary transfers on the market.

The ELTIF Regulation imposes specific conditions for ELTIFs that wish to implement a matching mechanism:

- The ELTIF must put in place a policy for matching requests which clearly sets out all of the following:
 - The transfer process for both existing and potential investors;
 - The role of the manager of the ELTIF or the fund administrator in conducting transfers and in matching requests;
 - The periods of time during which existing and potential investors are able to request the transfer of units or shares of the ELTIF;
 - The rules determining the execution price;
 - The rules determining the pro-ration conditions;
 - The timing and the nature of the disclosure of information with respect to the transfer process;
 - The fees, costs, and charges, if any, related to the transfer process;
- The policy and procedures for matching the requests of the ELTIF's exiting investors with those of potential investors must ensure that investors are treated fairly and that, where there is a mismatch between existing and potential investors, matching is carried out on a pro rata basis;
- The matching of requests must allow the manager of the ELTIF to monitor the

liquidity risk of the ELTIF and ensure that the matching is compatible with the long-term investment strategy of the ELTIF;

- Legal requirements must be respected (e.g., anti-money laundering requirements).

The Delegated Act clarifies certain aspects these rules.

The matching mechanism is without prejudice to the possibility of offering redemptions in open-ended ELTIFs or to the general secondary transfers (intra-group or within third parties), with the parties free to set rules for any such transfers between themselves and independently from the ELTIF or ELTIF Manager.

ELTIF rules

Lifetime, redemptions and secondary markets

Stock exchange listing

Listing or admission to trading on a stock exchange may help to increase a fund's potential investor base, by making the fund eligible investments and accessible via other distribution channels. For example:

- Institutional investors, such as pension funds and insurance companies, are subject to limitations on their investments in non-listed securities and so may prefer to invest in listed investment funds;
- Some funds of funds in certain jurisdiction are prevented from investing in funds which are not listed;
- Stock exchange listing may offer investors, including retail investors, an alternative channel to access the ELTIF.

For ELTIF managers, stock exchange listing may also be a cost-effective way to market the ELTIFs they manage.

Furthermore, with long-term investing becoming more attractive for investors at large, including retail investors, secondary markets will be a principal venue in which some investors can invest into or exit an ELTIF.

Stock Exchange Listing in Luxembourg

In Luxembourg, the Luxembourg Stock Exchange (LuxSE) operates both the regulated market (Bourse de Luxembourg, BDL), an EU-regulated market as defined under Directive 2014/65/EU (MiFID II), and the MTF (Euro MTF), an exchange-regulated market also defined under MiFID II.

In case of an admission to trading on the markets operated by LuxSE, Luxembourg's financial supervisory authority (the Commission de Surveillance du Secteur Financier, CSSF) is responsible for approving prospectuses in most cases:

- Prospectuses of open-ended ELTIFs already approved for marketing purposes by the CSSF are valid for the admission to trading on both markets;
- For closed-ended ELTIFs listed on:
 - The BDL: a prospectus has to be prepared in accordance with the Prospectus Regulation and approved by the CSSF;
 - The Euro MTF: the LuxSE is in charge of approving the prospectus in accordance with its rules and regulations.

In general, for ELTIFs with a prospectus already approved by the CSSF, the listing process takes 2-3 business days.

The LuxSE also offers two professional segments, available on the BDL and the Euro MTF markets. ELTIFs targeting professional or qualified/well-informed investors can now apply to have their units or shares admitted to trading in these segments. However, these will not be accessible to retail investors as trading on the professional segments is accessible only to professional or qualified/well-informed investors.

More details about the listing process and requirements can be found in the latest brochure available at <https://www.luxse.com/listing/Fund-listing>.

ELTIF rules

Disposal of assets and distribution of proceeds

An ELTIF must adopt an itemised schedule for the orderly disposal of its assets in order to redeem investors' units or shares after the end of the life of the ELTIF. It must inform the competent authority of such disposal at the latest one year before the end of life of the ELTIF. Upon the request of the competent authority of the ELTIF, the ELTIF must submit an itemised schedule for the orderly disposal of its assets.

An ELTIF may regularly distribute to investors the proceeds generated by the assets contained in its portfolio. Those proceeds may comprise:

- Proceeds that the assets are regularly producing;
- Capital appreciation realised after the disposal of an asset.

An ELTIF may reduce its capital on a *pro rata* basis in the event of a disposal of an asset during the life of the ELTIF, provided that such a disposal is duly considered by the manager to be in the investors' interests.

ELTIF rules

Transparency

A prospectus must be published for each ELTIF. The prospectus must include all information necessary to enable investors to make an informed assessment regarding the investment proposed to them and, in particular, the risks attached thereto.

The prospectus of the ELTIF must contain at least the following:

- A statement setting out how the ELTIF's investment objectives and strategy for achieving those objectives qualify the fund as long-term in nature;
- Information to be disclosed by closed-ended collective investment undertakings in accordance with the Prospectus Regulation;¹⁷
- Disclosures required for all AIFs under the AIFM Directive;
- Indication of the categories of assets in which the ELTIF is authorised to invest;
- An indication of the jurisdictions in which the ELTIF is allowed to invest; and
- Any other information required by the competent authority.

Additional disclosure requirements apply to feeder ELTIFs.

In addition, the prospectus and any other marketing documents must, inter alia:

- Prominently inform investors about the illiquid nature of the ELTIF;
- State the specific date for the end of the life of the ELTIF and any right to extend temporarily the life of the ELTIF;
- Inform investors about the long-term nature of the ELTIF's investments;
- Inform investors about the end of the life of the ELTIF as well as any option to extend the life of the ELTIF;
- State whether the ELTIF is intended to be marketed to retail investors;
- Explain the rights of investors to redeem their investment;
- State the frequency and the timing of any distributions of proceeds to investors during the life of the ELTIF;
- Advise investors that only a small proportion of their overall investment portfolio should be invested in an ELTIF.

Where the units of the ELTIF are marketed to retail investors, the ELTIF will be considered as a packaged retail investment product and required to publish a key information document (KID) under Regulation (EU) No 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

17 Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

ELTIF rules

Marketing to professional and retail investors

The manager of an ELTIF is permitted to market the units or shares of that ELTIF to professional and retail investors in its home Member State and in other Member States of the EEA upon notification of its competent authority in accordance with the AIFM Directive.

Where ELTIF may be marketed to retail investors, additional requirements apply.

The managers of ELTIFs may also engage in pre-marketing to professional investors. Pre-marketing is subject to a notification procedure.

Marketing to retail investors

Where ELTIF may be marketed to retail investors:

- The manager of the ELTIF is subject to MiFID product governance requirements;
- Additional requirements on distribution and marketing apply to the entity performing the distribution – i.e. the manager or the distributor;
- Additional requirements apply to the ELTIF and its manager.

The manager of the ELTIF is subject to MiFID product governance obligations requiring it to:

- Maintain, operate and review a process for the approval of each ELTIF and significant adaptations of existing ELTIFs before it is marketed or distributed to clients. The product approval process must specify an identified target market of end clients within the relevant category of clients for each ELTIF and ensure that all relevant risks to such identified target market are assessed and that the intended distribution strategy is consistent with the identified target market;

- Review the ELTIFs it offers or markets, considering any event that could materially affect the potential risk to the identified target market, to assess at least whether the ELTIFs remains consistent with the needs of the identified target market and whether the intended distribution strategy remains appropriate;
- Make available to any distributor all appropriate information on the ELTIFs and on the product approval process, including the identified target market of the ELTIFs;
- Ensure that the ELTIFs are designed to meet the needs of an identified target market of end clients within the relevant category of clients, the strategy for distribution of the ELTIFs is compatible with the identified target market, and take reasonable steps to ensure that the ELTIFs are distributed to the identified target market;
- Assess the compatibility of the ELTIFs with the needs of the clients to whom it provides discretionary portfolio management or investment advisory services, taking account of the identified target market of end clients, and ensure that the ELTIFs are offered or recommended only when this is in the interest of the client.

ELTIF rules

Marketing to professional and retail investors

When distributing and marketing ELTIFs to retail investors, the distributor or manager of the ELTIF distributing the ELTIF is required to:

- Perform an assessment of suitability of the ELTIF for the investor, carried out in accordance with the MiFID Directive, irrespective of whether the units or shares of the ELTIF are acquired by the retail investor from the distributor or the manager of the ELTIF, or via the secondary market;
- Provide a statement on suitability made to retail investors in accordance with the obligations under the MiFID Directive. However, it is possible to obtain the express consent of the retail investor indicating that he/she/it understands the risks of investing in an ELTIF where:
 - An assessment of suitability is not provided in the context of investment advice
 - The ELTIF is considered not suitable for the retail investor on the basis of the assessment of suitability
 - The retail investor wishes to proceed with the transaction despite the fact that the ELTIF is considered not suitable for that investor.
- Establish a record that includes the document or documents agreed between the distributor or, when directly offering or placing units or shares of an ELTIF to a retail investor, the manager of the ELTIF and the client that set out the rights and obligations of the parties, and the other terms on which the investment firm will provide services to the client.
- Issue a clear written alert informing the retail investor (except Directors and staff members who have sufficient knowledge about the ELTIF):
 - Where the life of an ELTIF exceeds 10 years, that the ELTIF product might not be fit for retail investors that are unable to sustain such a long-term and illiquid commitment
 - Where the rules or instruments of incorporation of an ELTIF provide for the possibility of the matching of units or shares of the ELTIF, that the availability of such a possibility does not guarantee or entitle the retail investor to exit or redeem its units or shares of the ELTIF concerned;
- For a feeder ELTIF, disclose in marketing communications that it permanently invests 85% or more of its assets in units or shares of the master ELTIF.

The following additional conditions apply:

- The rules or instruments of incorporation must provide that all investors in the relevant class of units or shares benefit from equal treatment and that no preferential treatment or specific economic benefit is granted to individual investors or groups of investors within the relevant class or classes;
- The legal form of an ELTIF marketed to retail investors must not lead to any further liability for the retail investor or require any additional commitments on behalf of such an investor, apart from the original capital commitment;
- Retail investors must be able, during the subscription period and during a period of two weeks after the signature of the initial commitment or subscription agreement of the units or shares of the ELTIF, to cancel their subscription and have the money returned without penalty;
- The manager of an ELTIF marketed to retail investors must establish appropriate procedures and arrangements to deal with retail investor complaints, which allow retail investors to file complaints in the official language or one of the official languages of their Member State.

ELTIF rules

Marketing to professional and retail investors

Pre-marketing to professional investors

The managers of ELTIFs are permitted to engage in pre-marketing of an ELTIF to professional investors in the EEA.

“Pre-marketing” refers to the provision of information or communication, direct or indirect, on investment strategies or investment ideas, to EEA potential professional investors domiciled in order to test their interest in an ELTIF.

The information presented to such professional investors must not:

- Be sufficient to allow investors to commit to acquiring units or shares of the ELTIF;
- Include subscription forms or similar documents whether in a draft or a final form;
- Include constitutional documents, a prospectus or offering documents of a not-yet-established ELTIF in a final form.

Where a draft prospectus is provided, it must not contain information sufficient to allow investors to take an investment decision and shall clearly state that:

- It does not constitute an offer or an invitation to subscribe to units or shares of an ELTIF;
- The information presented therein should not be relied upon because it is incomplete and may be subject to change.

Marketing notification

The marketing notification to the competent authority must specify whether or not the manager of an ELTIF intends to market the ELTIF to retail investors.

In addition to the documentation and information required under the AIFM Directive, the manager of the ELTIF must provide competent authorities with:

- The prospectus of the ELTIF;
- Where the ELTIF is marketed to retail investors the KID.

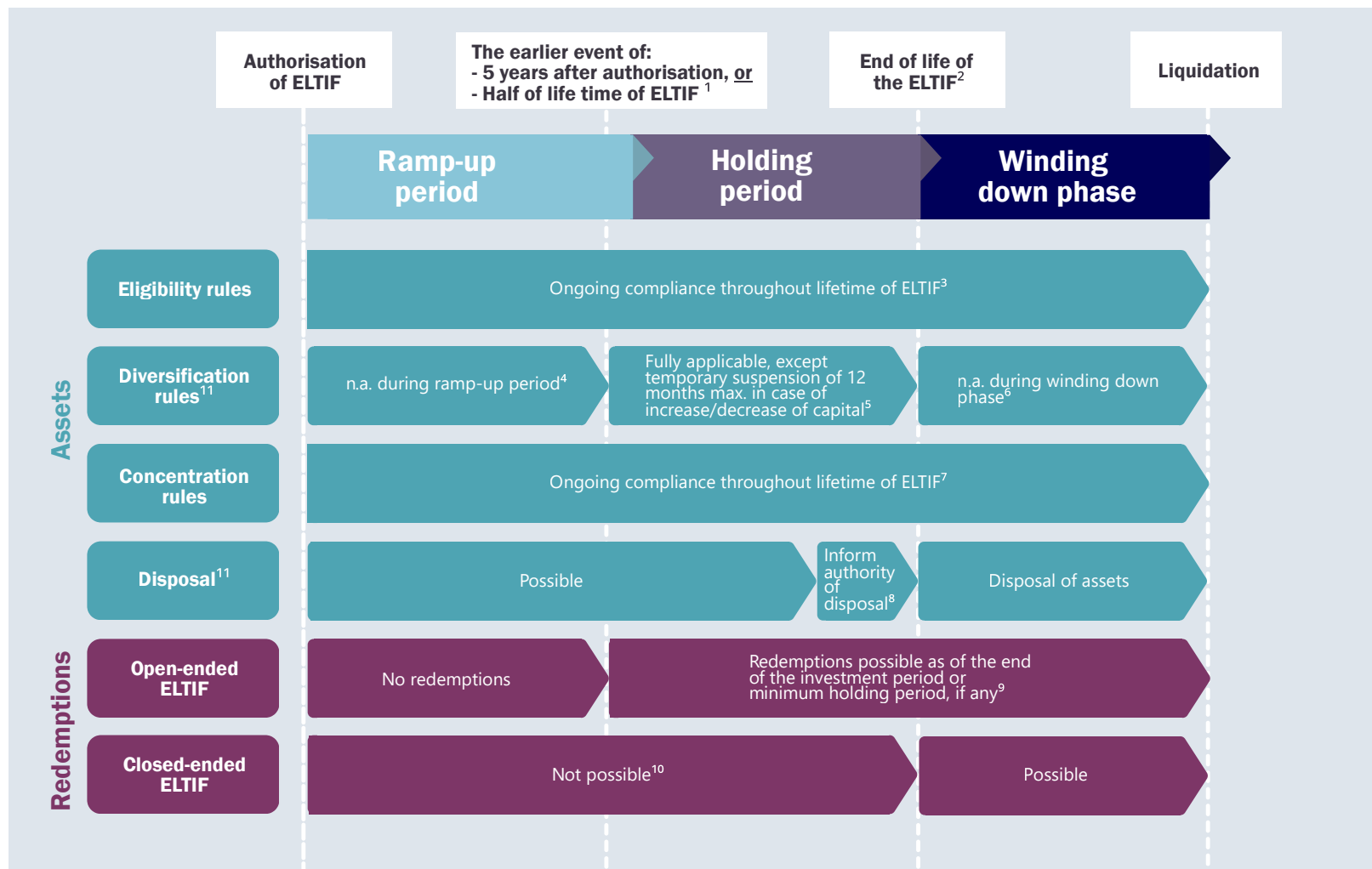
Pre-marketing notification

The manager of the ELTIF is required to send an informal letter, in paper form or by electronic means, to its Competent Authority, within two weeks of it having begun pre-marketing. The letter must specify:

- The Member States in which and the periods during which the pre-marketing is taking or has taken place;
- A brief description of the pre-marketing including information on the investment strategies presented and, where relevant, a list of the ELTIFs and compartments of ELTIFs which are or were the subject of pre-marketing.

ELTIF timelines

Retail ELTIFs



1. Article 17(1) second subparagraph. Possible extension of maximum one year with regulatory approval.

2. The lifetime of the ELTIF may be long, e.g. several decades. In accordance with constitutive document (fund rules or instruments of incorporation) must clearly indicate a specific date for the end of the life of the ELTIF and may provide for the right to extend temporarily the life of the ELTIF and the conditions for exercising such a right.

3. Article 10.

4. Article 17(1)(a).

5. Article 17(1)(c) May be temporarily suspended where the ELTIF raises additional capital or reduces its existing capital, so long as such a suspension lasts no longer than 12 months.

6. Article 17(1)(b).

7. Article 15.

8. The Manager must inform the competent authority of the orderly disposal of its assets in order to redeem investors' units or shares after the end of the life of the ELTIF, at the latest one year before the date of the end of the life of the ELTIF. The competent authority may require an itemised schedule for the orderly disposal of its assets.

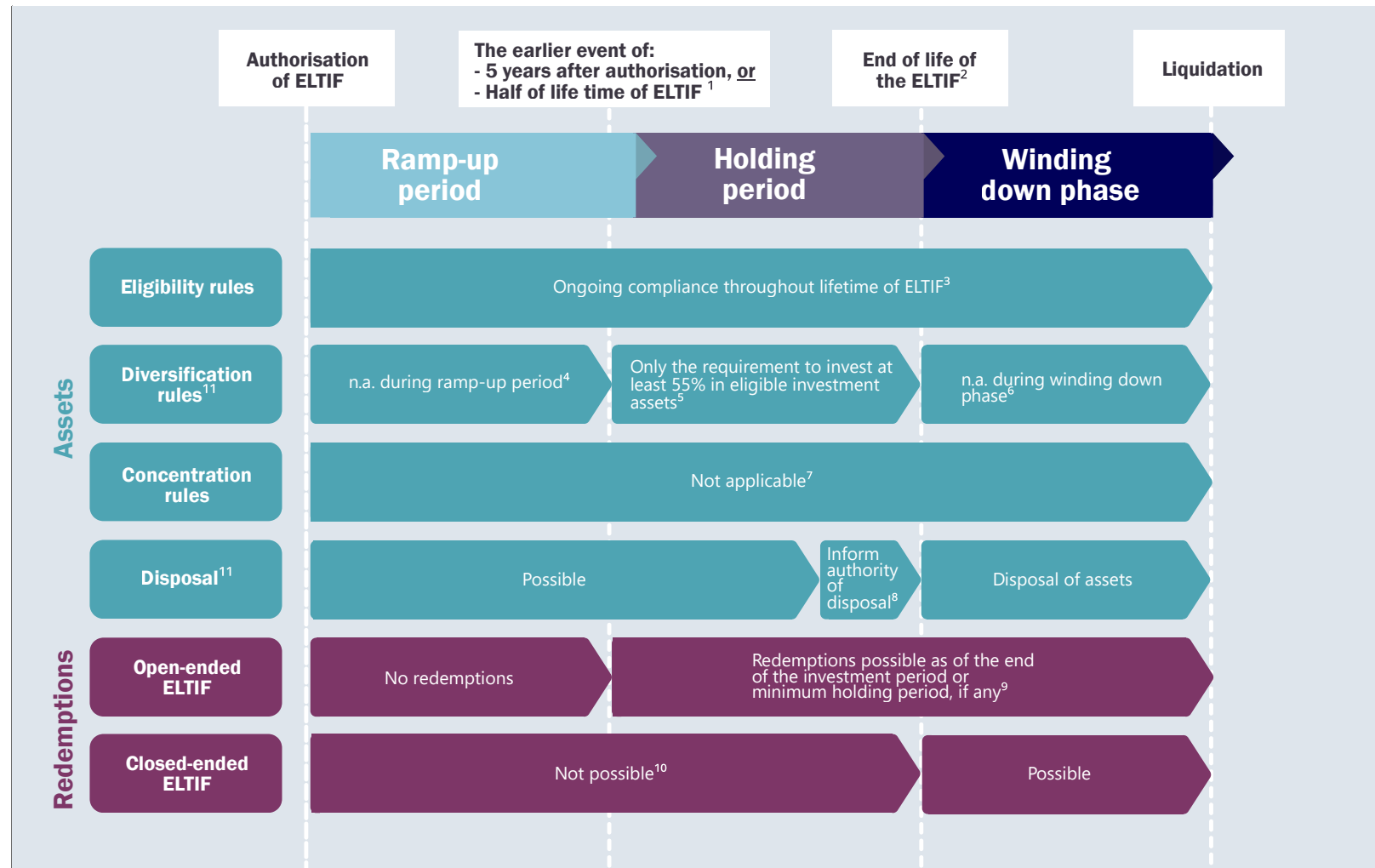
9. Article 18(2)(a).

10. Article 18(1).

11. Application depending on the type of ELTIF.

ELTIF timelines

Professional ELTIFs



1. Article 17(1) second subparagraph. Possible extension of maximum one year with regulatory approval.

2. The lifetime of the ELTIF may be long, e.g. several decades. In accordance with constitutive document (fund rules or instruments of incorporation) must clearly indicate a specific date for the end of the life of the ELTIF and may provide for the right to extend temporarily the life of the ELTIF and the conditions for exercising such a right.

3. Article 10.

4. Article 17(1)(a).

5. Article 13(1) and (7).

6. Article 17(1)(b).

7. Article 15.

8. The Manager must inform the competent authority of the orderly disposal of its assets in order to redeem investors' units or shares after the end of the life of the ELTIF, at the latest one year before the date of the end of the life of the ELTIF. The competent authority may require an itemised schedule for the orderly disposal of its assets.

9. Article 18(2)(a).

10. Article 18(1).

11. Application depending on the type of ELTIF.

Definition of professional and retail investors

Under the current MiFID rules, "Professional client" means a client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs.

Per se professional clients include:

(1) Entities which are required to be authorised or regulated to operate in the financial markets. The list below is understood as including all authorised entities carrying out the characteristic activities of the entities mentioned: entities authorised by a Member State under a Directive, entities authorised or regulated by a Member State without reference to a Directive, and entities authorised or regulated by a third country:

- Credit institutions
- Investment firms
- Other authorised or regulated financial institutions
- Insurance companies
- Collective investment schemes and management companies of such schemes
- Pension funds and management companies of such funds
- Commodity and commodity derivatives dealers
- Locals
- Other institutional investors

(2) Large undertakings meeting two of the following size requirements on a company basis:

- Balance sheet total: €20,000,000
- Net turnover: €40,000,000
- Own funds: €2,000,000

(3) National and regional governments, including public bodies that manage public debt at national or regional level, Central Banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organisations

(4) Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

Clients who may be treated as professionals on request:

Clients including public sector bodies, local public authorities, municipalities and private individual investors, may also be allowed to waive some of the protections afforded by the conduct of business rules.

Professional clients on request must, inter alia, satisfy, as a minimum, two of the following criteria:

- The client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters
- The size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments exceeds €500,000
- The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

"Retail client" means a client who is not a professional client.

About ALFI

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community, championing sustainable investing, mainstream and private assets. ALFI's mission is to promote Luxembourg as the world's leading cross-border investment fund centre, facilitate the transition towards more sustainable economies globally and empower investors to meet their goals.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

ALFI's mission is **lead industry efforts to provide solutions and make Luxembourg the most innovative international investment fund centre.**

Its main objectives are to:

Help members capitalise on industry trends

ALFI's many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond, to identify threats and opportunities for the Luxembourg fund industry.

Shape regulation

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg's competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision making through relevant input for changes to the regulatory framework, implementation of European directives and regulation of new products or services.

Foster dedication to professional standards, integrity and quality

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organising training at all levels, defining codes of conduct, transparency and good corporate governance, and supporting initiatives to combat money laundering.

Promote the Luxembourg investment fund industry

ALFI actively promotes the Luxembourg investment fund industry, its products and its services. It represents the sector in financial and in economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry. ALFI is an active member of the European Fund and Asset Management Association, of the European Federation for Retirement and of the International Investment Funds Association.

To keep up with all the news from ALFI and the fund industry in Luxembourg, follow us on [LinkedIn](#), [YouTube](#) and [Flickr](#).

For more information visit www.alfi.lu



This brochure does not constitute legal advice and is merely intended to provide information relating to the ELTIF Regulation. An ALFI working group dedicated to ELTIFs is working on practical guidance on this topic.

