

A GUIDE TO EUROPEAN FUND STRUCTURES



Alternative asset managers in Europe and the UK have several options to provide retail investors with access to nontraditional investments.

Options for Europe include ELTIFs (European Long-Term Investment Funds), which are promoted in Ireland and Luxembourg for pan-European distribution, Luxembourg SICAV (Société D'investissement À Capital Variable) Part II funds, and LTAFs (Long-Term Asset Funds), which offer a UK product to access private markets. In addition, other jurisdictions have more local ELTIF products.

ELTIF (EUROPEAN LONG-TERM INVESTMENT FUNDS)

An ELTIF is a regulated EU investment fund that focuses specifically on long-term investments in private equity, infrastructure, credit, real estate, and small and medium-sized enterprises (SMEs). It aims to provide retail and institutional investors access to illiquid assets while promoting long-term capital growth and economic development within the EU.

Potential Advantages

- Provide a stable pool of capital for long-term investments
- Democratize illiquid assets typically reserved for institutional investors
- Accessible to a broader investor base (pan-European marketing and distribution)
- Allow managers to diversify and productize within infrastructure, real estate, and private equity
- Subject to EU Alternative Investment Fund (AIF) regulations aimed at protecting investors and in line with the Markets in Financial Instruments Directive (MiFID) II rules

Considerations

- Complex portfolio construction and fund management
- Require sophisticated portfolio management due to the diversity and illiquidity of investments
- Limited redemption rights and constrained liquidity
- High regulatory and compliance costs
- Requires robust operational frameworks associated with infrastructure and real estate

Trends and Developments

ELTIF was introduced in 2015. ELTIF “2.0,” in effect as of January 2024, supports retail participants by broadening the scope of investments and lowering portfolio constraints, operating under updated European Securities and Markets Authority (ESMA) technical standards. These amendments make ELTIF a more flexible platform that offers investors easier access to private assets. Research from Scope projects the ELTIF market may grow to as much as €50 billion by 2028.¹ Markets such as Ireland and Luxembourg are increasingly focused on this structure.

SICAV (SOCIÉTÉ D'INVESTISSEMENT À CAPITAL VARIABLE) PART II

A SICAV Part II is a Luxembourg-domiciled investment fund offering broad flexibility in asset allocation, including a wide range of alternative investments like private equity, private credit, infrastructure and real estate. It is intended for sophisticated investors. Luxembourg's regulatory and tax regime enables diverse and innovative investment strategies.

Potential Advantages

- Suitable for a range of investors from institutional to retail
- Allow for a wide range of alternatives, including real assets and synthetic instruments
- Allows a high level of flexibility and sophistication in investment strategies
- Applicable for many uses for saving and retirement planning, not limited to alternatives
- Tailored to Luxembourg regulatory and tax regimes
- Benefit from Luxembourg's well-established financial ecosystem
- Subject to Luxembourg regulations aimed at protecting investors

Considerations

- Require a high degree of discipline in portfolio construction
- Demand deep multi-asset operational systems and workflows
- Care is required to manage the fund's operational complexity
- May be unsuitable for unsophisticated retail investors
- May require additional tax compliance burdens for international distribution (primarily aimed at the Luxembourg market)

Trends and Developments

Introduced in 2010. In 2023, SICAVs (modernized as part of broader regulatory changes for fund products) began to allow for greater investor access, new legal entity forms, and flexibility for valuation, pricing and capital requirements. Given the structure's long-standing availability, it has become a widespread option within Europe.

LTAf (LONG TERM ASSET FUND)

An LTAf is a UK-regulated investment fund that provides retail and institutional investors access to long-term and illiquid private market assets, such as private equity, credit, infrastructure and real estate. It offers investment flexibility while ensuring investor protection and aiming for higher long-term returns.

Potential Advantages

- Designed for both institutional and retail investors
- Allow managers to diversify and productize within infrastructure, real estate, private equity, debt instruments, and commodities

Considerations

- Complex portfolio construction and fund management
- Limited redemption rights and constrained liquidity

- Offer strategic options, including direct investments, co-investments and fund-of-funds approaches
- Provide stable, predictable income streams, enhancing overall risk-return profiles
- Subject to FCA regulations aimed at protecting investors
- Specific regulatory and compliance requirements
- Need to provide greater education to investors
- Requires robust operational frameworks associated with multi-asset strategies

Trends and Developments

Rules came into force in November 2021, with the first authorized LTAF in March 2023. In June 2023, the Financial Conduct Authority (FCA) officially published a policy statement announcing that LTAF units are Restricted Mass Market Investments (RMMI), making them accessible to retail investors and defined contribution schemes. The first LTAF with a dedicated private debt strategy launched with FCA authorization in June 2024. Interest continues to grow with additional managers seeking approval and launching LTAFs. A report from the Defined Contribution Investment Forum (DCIF) found that absent other constraints, 61% of trusts would prefer to invest in private market assets via an LTAF.²

¹ Scope Fund Analysis GmbH, “European ELTIF Study: Market survey and outlook” 31 March 2023

² See “The low down on LTAFs,” Corporate Adviser. 30 May 2024.

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