

Is European Long-Term Investment Fund (ELTIF), not a good product from the investors' perspective?

By Fabrice GODEFROID, Executive Director, Fuchs Asset Management SA

The introduction of European Long-Term Investment Funds (ELTIFs), a pan-European regime for Alternative Investment Funds (AIFs), in December 2015, provides for a new type of investment fund, available to both "retail" (i.e. non-professional investors) and professional investors. The Regulation (EU) 2015/760 on European Long-Term Investment Funds (the ELTIF Regulation) henceforward implemented harmonized European Union (EU) rules relating to the authorization, investment policies and operating conditions for ELTIFs.

It is anticipated that ELTIFs will channel investments 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 European citizens, investors and managers.

Unfortunately, and as of yet, we can only observe that limited progress has been made to support the development of EU capital markets, and as a result it shows a very limited number only of ELTIFs being launched and active within the EU. A strong assumption exists here which is that there is a significant market gap, which could be exploited, as to reach more diverse European capital markets. As there is a specific and recent regulatory framework in place (i.e. the ELTIF Regulation)

within this context, and as it seems not to be optimal, one recommends its reform as to increase the attractiveness of this particular vehicle... and that is what's being discussed at the European level right now.

What is ELTIF?

An ELTIF is a regulated investment vehicle, which must be managed by an authorized Alternative Investment Fund Managers (AIFM), as per its regulation, and more importantly it can raise capital from institutional and "retail" (i.e. "non-professional") investors across the Member States of the European Union and the European Economic Area. Also, it 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. Hence, ELTIFs will in principle be closed-ended investment vehicles.

Their "eligible investment assets" are defined as:

- Equity or quasi-equity instruments which are issued by a "qualifying portfolio undertaking" (broadly speaking, unlisted companies or listed companies with market capitalisation of less than 500 million) or the parent of a qualifying portfolio undertaking which is a majority owner of the qualifying portfolio undertaking;
- Debt instruments issued by a qualifying portfolio undertaking;
- Loans granted by the ELTIF to a qualifying portfolio undertaking which mature within the life of the ELTIF;
- Units or shares of one or several ELTIFs, European Venture Capital Funds (EuVE-CAs) and European Social Entrepreneur-

ship Funds (EuSEFs), provided that those funds have not themselves invested more than 10% of their capital in ELTIFs;

- Direct or indirect holdings via qualifying portfolio undertakings of individual real assets with a minimum value of 10 million or the equivalent in another currency.

The ELTIF Regulation requires that an ELTIF invests at least 70% of its capital in eligible investment assets and some specific diversification rules and requirements apply too. It results that ELTIFs could be established as usually called Real Estate Funds, Debt Funds, Real Assets, Infrastructure Funds, Private Equity Funds and Umbrella Funds (investing in units or shares of one or several ELTIFs, European Venture Capital Funds (EuVE-CAs) and/or European Social Entrepreneurship Funds (EuSEFs)).

It is also to be noted that the ELTIF regulation imposes some investment restrictions not allowing short selling, investing directly or indirectly into commodities, and limiting securities lending and borrowing as well as the use of derivatives. Additionally, there are some concentration and borrowing limits which specifically apply to ELTIFs.

What was the perspective?

It was expected that ELTIFs would be attractive to pension funds, large insurance companies and institutional investors which would have longer-term liabilities, looking to generate long-term returns within a regulated fund structure. It is to be noted that Under Solvency II, insurance undertakings' investments in ELTIFs will be subject to beneficial capital treatment.

Retail (i.e. "non-professional") investors (under some conditions) would also be welcomed in these structures as long as they would be willing to "lock up" their investment in the long term. The European Union, in line with its disclosed growth strategy, announced massive investments into infrastructure.

Where do we stand?

Now that there is a recent and specific regulatory framework for such investments (i.e. the ELTIF regulation), we shall see some 'traction'. Unfortunately, and at this stage, we do not see these investments being materialized within ELTIF structures.

According to EFAMA, there are 27 ELTIFs within the EU (including 5 ELTIFs which are not yet being marketed), which have Home Member States as follows:

- France: 11 (marketed primarily in France)
- Spain: 2 (marketed in Spain only)
- Luxembourg: 9 (marketed in various countries, and 1 not yet marketed)
- Italy: 5 (including 4 not yet marketed)

The results are quite disappointing as per the limited progress made.

What's coming next?

The Capital Markets Union (CMU) has issued its final report, including a series of recommendations aimed at progressing the EU's capital markets. In its report,

it is recommended a reform to the regulatory framework of the European Long-Term Investment Fund (ELTIF). The recommendations for revamping the ELTIF are based on the proposals set out in the ELTIF position paper published by the Alternative Credit Council (ACC) in March 2020.

The recommendations are to simplifying tax rules and apply preferential tax treatment for ELTIFs, to reducing barriers to investment by investors (focusing on retail but also institutional investors) and also to broadening the scope of eligible assets and investments. This formal invitation as to make a proposal on a revamped ELTIF framework contemplates end of 2020 as a deadline, and has called on legislators to reach a political compromise by mid-2022 at the latest. While we do not know at this stage if there will be a reform or not, it would be fair to assume that the recommendations issued would not be entirely ignored.

What's the conclusion?

We, as independent Luxembourg domiciled AIFM, originated from the wealth management space, firmly believe that there must be an appropriate way to implement EU growth strategy as well as to efficiently finance European SMEs, while evolving the regulatory framework as appropriate.

*fabrice.godefroid@fuchsgroup.com

LuxSE welcomes Saxo Bank as Trading Member

The Danish fintech leader Saxo Bank A/S and the Luxembourg Stock Exchange (LuxSE) celebrated Saxo Bank's new status as a Trading Member of LuxSE.

The announcement marks an important step forward for both institutions, as the door to LuxSE's more than 37,000 securities is now open to Saxo Bank's 620,000 international clients, including all sustainable securities displayed on the Luxembourg Green Exchange (LGX).

Unlocking diverse investments

This news brings an exciting new addition to Saxo Bank's already extensive offering by unlocking further possibilities of portfolio diversification for its clients. As the world's leading exchange for the listing of international debt securities, LuxSE

gives investors access to a wealth of international instruments and unrivalled entry to the world's sustainable securities.

"It is with great pleasure that we welcome Saxo Bank as a new trading member. Investors are one of the driving forces behind the economic recovery from COVID-19, and our role is to facilitate transparent trading through secure and reliable platforms on our regulated markets.

Saxo Bank's client-centric approach and advanced technological capabilities make it a strong addition to our list of trading members," commented Robert Scharfe, CEO of LuxSE.

Investing in the future

Founded in 1992, Saxo Bank A/S is Denmark's leading, regulated bank for

online trading and investment, with a strong global footprint. The bank's trading platforms, SaxoTraderGO, SaxoTraderPRO and SaxoInvestor process around 125,000 trades per day. Saxo Bank is LuxSE's first Scandinavian-based trading member.

Henrik Juel Villberg, Global Head of Trading & Market Access at Saxo Bank added: "We aim to be the best facilitator in global capital markets for our clients. By joining the Luxembourg Stock Exchange, we expand our international multi-asset offering, particularly in bonds and equities. We look forward to offering our clients better prices and deeper liquidity as a result. Over the past years and particularly in 2020, we have had significant growth in the number of clients looking to take control over their investments. This is an important trend that we hope to support by also joining the Luxembourg Stock Exchange."

WeInvest Capital Partners :

Premium lève ses premiers millions

Le fonds d'investissement immobilier, géré par Philippe Barthelemy et Pierre Thomas, a procédé à son premier closing.

Avec un positionnement de niche, basé sur la recherche d'emplacements numéro 1 exclusifs, le fonds offre un accès à du foncier de premier rang offrant une bonne protection du capital investi.

Attractif et dynamique, le produit a été structuré autour de frais réduits et d'une redistribution de la performance optimisée, mix particulièrement recherché par les investisseurs. La stratégie d'acquisition repose notamment sur l'accès à des zones privilégiées, garantes à la fois de niveaux de marge supérieurs, et limitant naturelle-

ment le risque de liquidité grâce à une exposition plus large des actifs aux acquéreurs potentiels.

Le déploiement des premiers capitaux a été réalisé à Luxembourg via la participation au tour de table finançant le rachat du centre commercial le plus fréquenté du pays : Belval Plaza.

Le fonds Premium Real Estate a également réalisé durant l'été ses 2 premiers investissements aux Etats-Unis. Ce sont plus de 21,000 sq. feet de terrain qui ont été acquis sur 2 adresses de prestige situées sur les plus belles îles de Miami, pour un montant avoisinant les 6 millions de dollars :

- 10,500 sq. feet sur le 1370 S Venetian Drive, ouvrant la réalisation d'un bien d'environ 6,500 sq. feet, et

- 10,500 sq. feet sur le 79N Hibiscus, sur lequel une villa de 6,500 sq. feet sera également développée.

Ces 2 projets de prestige réalisés juste après que les premiers investisseurs aient rejoint le fonds, témoignent de la stratégie de déploiement de l'équipe de WeInvest Capital Partners, qui a réalisé un sourcing de qualité permettant d'être extrêmement réactif sur la phase d'investissement.

Avec l'objectif de développer un portefeuille diversifié exclusivement sur des emplacements numéro 1, le fonds va maintenant se focaliser sur ses développements européens, prévus pour la fin de cette année et sur le premier semestre 2021, tels que Monaco, Courchevel 1850 ou encore Paris.



Actions luxembourgeoises	Devise	au 31/08	au 31/07	Var	Plus haut	Plus bas
Aperam	EUR	24,77	24,04	3,04 %	32,50	15,26
ArcelorMittal	EUR	10,61	9,34	13,55 %	16,77	5,99
BlueMarHoldings	EUR	1,12	-	-	7,15	1,12
Brederode	EUR	74,40	74,40	-	84,80	59,00
EDIFY act. ord.	EUR	49,00	46,00	6,52 %	54,00	40,40
Luxempart	EUR	47,40	47,80	-0,84 %	54,00	35,40
ReinetInvest	EUR	15,39	16,02	-3,93 %	20,60	12,10
RTLGroup	EUR	27,82	28,00	-0,64 %	46,20	26,98
SEO .prvB	EUR	222,00	234,00	-5,13 %	280,00	220,00
SEO 1/5prvB	EUR	48,00	51,00	-5,88 %	60,00	42,20
SES FDR	EUR	5,95	6,00	-0,77 %	13,70	4,88
Socfinaf	EUR	8,45	8,40	0,60 %	13,00	7,00
Socfinasia	EUR	14,60	13,80	5,80 %	17,80	10,50
SocFinCaoutchcs	EUR	21,20	20,20	4,95 %	27,00	18,20
Actions étrangères	Devise	au 31/08	au 31/07	Var	Plus haut	Plus bas
Brait ord	EUR	0,14	0,14	1,45 %	0,89	0,13
Brait ord	EUR	0,14	0,14	1,45 %	0,89	0,12
Engie	EUR	11,64	11,29	3,06 %	16,80	8,67
FidRealEstate	EUR	172,00	172,00	-	199,00	163,00
FiducOffSolut	EUR	28,20	27,60	2,17 %	28,40	27,40
HellaGmbHKGA	EUR	41,00	36,98	10,87 %	50,45	20,26
Prosiebensat1Me	EUR	9,48	8,73	8,66 %	14,13	5,73
RobSGloStEqFd cat A	EUR	49,40	46,60	6,01 %	50,00	35,00
Rolinco ord A	EUR	49,40	47,60	3,78 %	51,50	34,80
Vonovia	EUR	60,00	55,18	8,74 %	60,26	36,91
GDRs	Devise	au 31/08	au 31/07	Var	Plus haut	Plus bas
AsustekComputer Reg S GDS	USD	41,40	36,80	12,50 %	43,20	28,00
ChinaSteelCorp GDS	USD	13,50	13,50	-	16,10	12,20
Hindalcolnd GDR	USD	2,52	2,18	15,60 %	3,08	1,14
HTC Corporation GDR	USD	4,10	4,08	0,49 %	5,10	3,54
HyundaiMotor ord GDS	USD	74,50	53,00	40,57 %	75,50	32,20
RelianceInd GDS	USD	56,70	55,20	2,72 %	58,50	23,15
SamsungElec GDS	USD	1002,00	1040,00	-3,65 %	1126,00	799,00
SKHyinxInc. 05 GDS	USD	63,50	69,50	-8,63 %	90,50	56,00
OPC	Devise	au 31/08	au 31/07	Var	Plus haut	Plus bas
BlackRock Global Funds	USD	45,52	44,24	2,89 %	46,94	24,86
Candriam Bonds Global	EUR	139,12	138,02	0,80 %	139,12	132,22
Lumyna Funds Lumyna -	GBP	144,80	145,14	-0,23 %	145,58	129,04
Xtrackers S&P 500 Swap UCITS	USD	65,16	60,61	7,51 %	65,16	41,52
Obligations		au 31/08	au 31/07	Var	Plus haut	Plus bas
EUR Luxembourg 2,125% 10/07/2023		107,967	108,206	-0,22 %	109,778	107,967
EUR Luxembourg 2,25% 19/03/2028		120,032	121,027	-0,82 %	123,191	118,968
EUR Luxembourg 2,25% 21/03/2022		104,502	104,722	-0,21 %	106,422	104,502
EUR Luxembourg 2,75% 20/08/2043		143,669	-	-	-	-
Rendements obligataires		au 31/08	au 31/07	Var	Plus haut	Plus bas
EUR AAA-BBB SSA 3-5 yield Index		-0,452	-0,486	-6,98 %	-0,251	-0,677
EUR AAA-BBB Corporate 3-5 yield		0,026	0,037	-29,81 %	1,417	-0,041
EUR AAA-BBB Financial 3-5 yield Index		-0,056	-0,034	68,35 %	0,210	-0,482
USD AAA-BBB SSA 3-5 yield Index		0,570	0,568	0,37 %	1,862	0,512
USD AAA-BBB Corporate 3-5 yield		2,770	3,082	-10,11 %	6,708	2,733
USD AAA-BBB Financial 3-5 yield Index		1,885	1,972	-4,41 %	5,159	1,579
Indices		au 31/08	au 31/07	Var	Plus haut	Plus bas
LuxX Price Index		1007,52	986,26	2,16 %	1454,05	786,16
LuxX Return Index		1750,98	1702,53	2,85 %	2471,94	1339,01
Lux RI Fund Index		1790,32	1732,89	3,31 %	1856,34	1332,55