

# Private Equity ELTIFs

Why  
Luxembourg?



# IN A NUTSHELL

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- European Long-Term Investment Funds (**ELTIFs**) are one of the recent success stories in Europe, and since the latest revision in January 2024, they are broadly recognised as having great potential for future growth. The number of ELTIFs has grown substantially since ELTIF 2.0, and continues to rise.
- This document, jointly produced by LPEA and ALFI, focuses on ELTIFs investing in Private Equity (**PE ELTIFs**), particularly in the context of Luxembourg domiciled funds.
- The brochure offers valuable insights into the current state of PE ELTIFs, some comparable vehicles in other non-EU jurisdictions, legal case studies, and regulatory considerations impacting these funds.

## OVERVIEW OF ELTIFs

ELTIFs are designed to provide investors, including the retail segment, with access to long-term investment opportunities. They benefit from an EU-wide marketing passport, enabling seamless distribution across Member States to both professional and retail clients. The document underscores Luxembourg's position as a leading hub for ELTIFs, highlighting that, according to the latest official data, 161 ELTIFs are currently registered in Luxembourg ([link](#)), accounting for over half of the 286 ELTIFs currently available in Europe ([link](#)). These funds are marketed in 25 different jurisdictions, which demonstrates the wide reach and appeal of Luxembourg-based ELTIFs.

## COMPARATIVE ANALYSIS

The brochure includes an extract from the current ESMA Register of ELTIFs providing an overview of the ELTIF market across the EU. This comparison illustrates the varying levels of acceptance and market penetration of ELTIFs across Europe, with Luxembourg holding a strong market share. However, other countries are also emerging as ELTIF domiciles.

## LEGAL CASE STUDIES

The document details several legal case studies relating to PE ELTIFs, including fund of funds (**FoF**) structures and master-feeder arrangements. It highlights the growing popularity of FoFs in the private equity space, which provide diversified access to high quality funds and help to reduce operational complexity for investors.

## DISTRIBUTION AND MARKETING

The document also looks at distribution models for PE ELTIFs, noting that they can be marketed to both professional and retail investors throughout the EEA, in reliance on the EEA marketing passport. A key distinction is made between professional-only ELTIFs and retail ELTIFs in terms of investment limits and suitability assessments, which are only required when targeting retail investors, emphasising the need for AIFMs to comply with MiFID<sup>1</sup> product governance rules.

## GROWING TRACTION FOR INSURANCE COMPANIES

The regulatory framework for PE ELTIFs is also being discussed, particularly in the context of the Solvency II changes aimed at encouraging insurers to invest in private equity and venture capital. The revised Solvency II regime, which came into force in January 2026, notably reduces the capital charge for long-term equity investments, making PE ELTIFs more attractive for insurance companies.

## CSSF APPROVAL

- The process with the CSSF is smooth thanks to its dedicated ELTIF team, streamlined procedures, and long-standing expertise, allowing for fast approvals in Luxembourg.
- For details regarding the application process, please visit [www.cssf.lu](http://www.cssf.lu)

## COMPARISON WITH OTHER INVESTMENT VEHICLES

The brochure also compares ELTIFs with selected non-EEA investment vehicles, such as US Business Development Companies.

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The brochure presents an overview of PE ELTIFs, highlighting Luxembourg's in-depth expertise and advantages, as well as the ongoing developments in the regulatory landscape that enhance the attractiveness of Luxembourg for PE ELTIFs. The insights offered are intended to help stakeholders looking to navigate the complexities of establishing PE ELTIFs to understand their potential within the broader investment framework.

For a general overview of the ELTIF regime, reference is made to the [ALFI Brochure](#).

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<sup>1</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast) Text with EEA relevance

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## ELTIFs Across EEA: A Comparative Country Overview

The brochure provides a general background, including extracts from the ESMA ELTIF register that reflect the number and status of funds across the EEA, with a particular focus on the leading ELTIF jurisdictions: Luxembourg, France, Italy, and Spain (See **Annex I**). Out of the total number of ELTIFs in existence, a majority are Luxembourg-domiciled. Most of the Luxembourg-domiciled ELTIFs are marketed across 25 jurisdictions, showcasing the extensive reach and appeal of Luxembourg-based ELTIFs.

This comparison illustrates the varying levels of adoption and market penetration of ELTIFs across the EEA. Other countries are emerging as well as ELTIFs domiciles, such as Germany and Ireland.

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## General observations on ELTIFs

ELTIFs are a special European fund vehicle that is designed to channel investments into long-term assets while benefitting from a pan-European marketing passport for both professional and retail investors. ELTIFs must be EEA AIFs managed by a fully authorised EEA AIFM. The ELTIF approval is granted by the National Competent Authority (NCA) of the fund's home Member State; in Luxembourg, this is the CSSF.

Any ELTIF must invest at least 55% of its capital in so-called "eligible investment assets". This category includes a broad range of eligible investments, specifically accommodating various PE type strategies (see case studies below). Such allocation, as the applicable risk diversification rules, must be met by the conclusion of a defined ramp-up period.

Portfolio composition and diversification requirements cease to apply once the ELTIF starts selling its assets to repay its investors at the end of the fund life and may be temporarily suspended, for a maximum period of 12 months, in the event of additional capital being raised or existing capital being reduced. The ramp-up period must be defined in the prospectus and cannot exceed 5 years after the date of authorization of the ELTIF. This period may be extended by one year with NCA approval, or if shorter, after the date corresponding to half of its life.

For a general overview of the ELTIF regime, reference is made to the [ALFI brochure](#).

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## Navigating Legal Landscapes: Case Studies of PE ELTIFs<sup>2</sup>

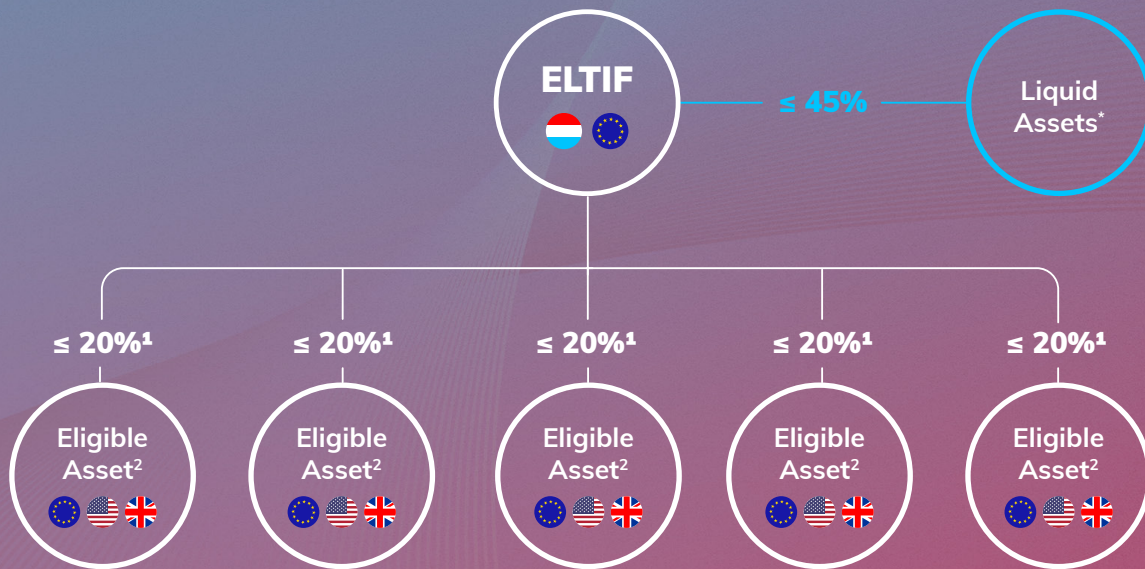
### 1. SCENARIO 1: DIRECT INVESTMENTS IN PRIVATE EQUITY ASSETS

The base case for a PE ELTIF would be direct investments in unlisted (or, if listed, small to mid-cap) portfolio companies. The main features of such direct PE strategy would be:

- Portfolio companies qualifying as Qualifying Portfolio Undertakings (QPU);
- QPU either unlisted or, if listed, with a market capitalisation of no more than 1,5bn€;
- No financial undertakings (broadly speaking financial services companies such as banks, investment firms, re/insurance firms and fund managers);
- Not located in a high-risk or non-cooperative country, but there is no minimum exposure requirement for investments into European QPUs;
- Risk diversification of no more than 20% of capital into one single QPU (or single EEA funds for FoFs).

As for any ELTIF a minimum of 55% of the capital shall be invested in eligible investment assets, but up to 45% can be invested into liquid (UCITS-eligible) assets – this is of particular importance to open-ended and evergreen ELTIFs and their ongoing liquidity management.

SCENARIO 1 • DIRECT INVESTMENT IN PRIVATE EQUITY ASSETS



<sup>1</sup> **Diversification limit:** no more than 20% of the ELTIF's capital can be invested into one single target private equity asset

<sup>2</sup> **Eligible private equity assets** can be located in non-EU/EEA countries which are **not** (i) an EU AML/KYC high-risk third country and (ii) not an EU non-cooperative jurisdiction for tax purposes

\*A maximum of 45% of the investment can be made in liquid assets (and minimum 55% in eligible investment assets) and should be calculated in aggregate of the investments of the ELTIF and all the underlying investments  
**Diversification limit:** no more than 10% of the ELTIF's capital can be invested in a single issuing body

<sup>2</sup> In the following scenarios, the 20% diversification limit only applies to retail ELTIFs and, the minimum 55% allocation applies at the end of the initial ramp up period.

## 2. SCENARIO 2: INDIRECT INVESTMENTS IN PRIVATE EQUITY ASSETS

Recital 12 of the ELTIF 2.0 Regulation and the ESMA Q&A on ELTIFs, clarify that investments can be made indirectly through intermediary vehicles (such as SPVs or HoldCos), provided the ultimate investment meets all eligibility criteria. As there are no geographical restrictions for intermediary structures, investments into GP-led single asset secondary deals can, in principle, be structured via onshore or offshore intermediate vehicles. This is subject to two conditions: the vehicle itself do not qualify as a target AIFs and the underlying asset must qualify as a QPU.

Typically, these intermediary vehicles would be pass-through (“plumbing”) vehicles and would be looked through for eligibility and risk diversification purposes. Leverage would be calculated in accordance with the rules laid down in the AIFMR<sup>3</sup>, while cash borrowing limits under the ELTIF 2.0 Regulation also apply.

### SCENARIO 2 • INDIRECT INVESTMENT IN PRIVATE EQUITY ASSETS



<sup>1</sup> **Diversification limit:** no more than 20% of the ELTIF's capital can be invested into one single target private equity asset (calculated on a look-through basis)

<sup>2</sup> **Indirect investment** through different intermediary vehicles such as special purpose vehicles, holding vehicles or securitisation vehicle

<sup>3</sup> **Eligible private equity assets** can be located in non - EU/EEA countries which are not (i) an EU AML/KYC high - risk third country and (ii) not an EU non-cooperative jurisdiction for tax purposes

\*A maximum of 45% of the investment can be made in liquid assets (and minimum 55% in eligible investment assets) and should be calculated in aggregate of the investments of the ELTIF and all the underlying investments

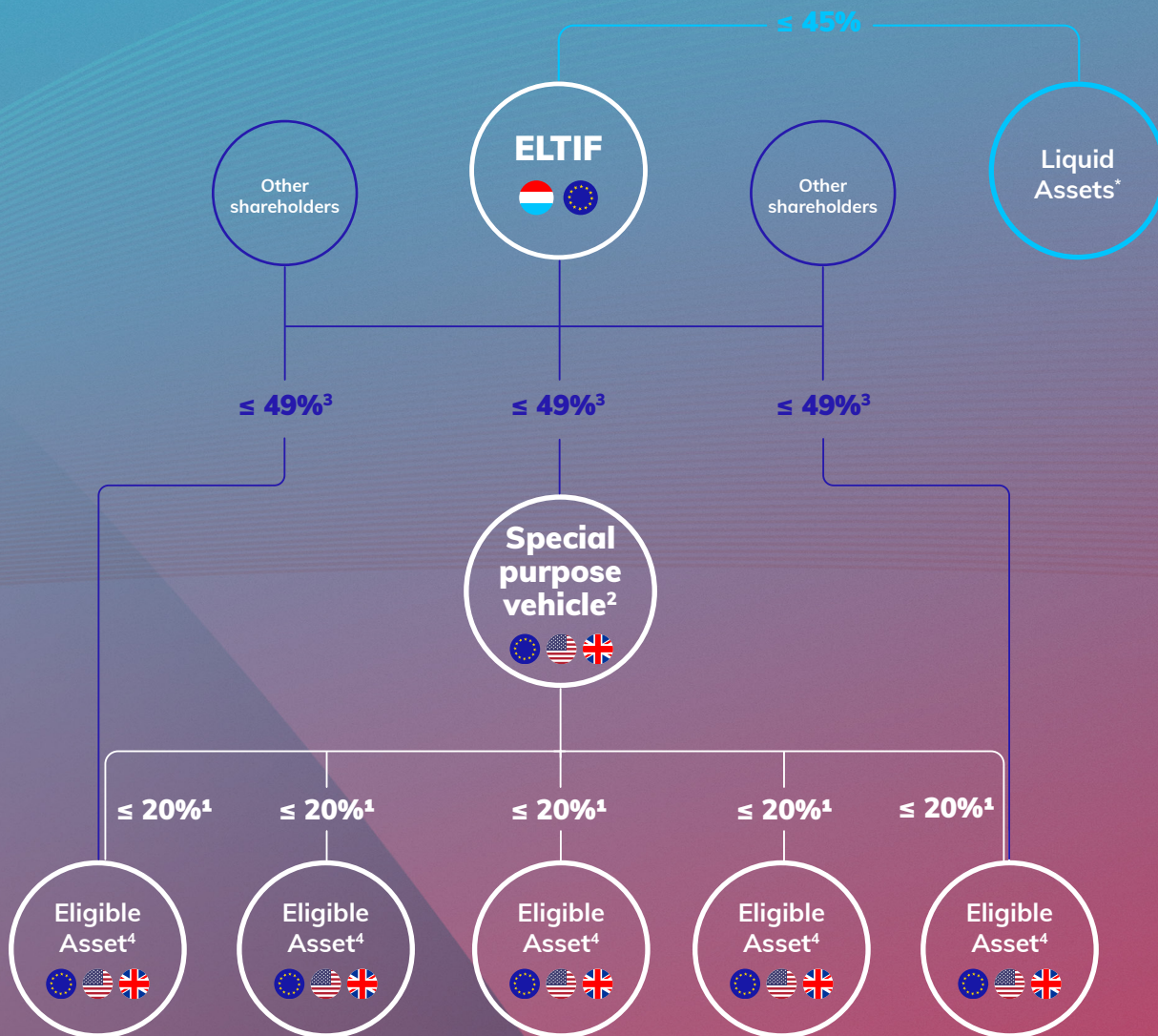
**Diversification limit:** no more than 10% of the ELTIF's capital can be invested in a single issuing body

<sup>3</sup> Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision Text with EEA relevance

### 3. SCENARIO 3: (IN)-DIRECT CO-INVESTMENTS IN PRIVATE EQUITY ASSETS

The ELTIF 2.0 Regulation clarifies that co-investments are eligible for PE ELTIFs, whether internal to a group or with external partners. This applies to both minority positions and controlling co-investment positions. Specific conflicts of interest rules apply to group-internal or affiliated co-investment structures, particularly regarding organizational and administrative safeguards.

SCENARIO 3 • (IN)DIRECT CO-INVESTMENT IN PRIVATE EQUITY ASSETS



<sup>1</sup> **Diversification limit:** no more than 20% of the ELTIF's capital can be invested into one single target private equity asset (on a look-through basis)

<sup>2</sup> **Indirect investment** through different intermediary vehicles such as special purpose vehicles, holding vehicles or securitisation vehicle

<sup>3</sup> **Co-investments** in private equity assets may be made directly or indirectly (via SPVs) with entities of the same group and/ or third parties. Minority co -investments are possible

<sup>4</sup> **Eligible private equity assets** can be located in non - EU/EEA countries wick are not (i) an EU AML/KYC high - risk third country and (ii) not an EU non-cooperative jurisdiction for tax purposes

\*A maximum of 45% of the investment can be made in liquid assets (and minimum 55% in eligible investment assets) and should be calculated in aggregate of the investments of the ELTIF and all the underlying investments  
**Diversification limit:** no more than 10% of the ELTIF's capital can be invested in a single issuing body

## 4. SCENARIO 4: FUND-OF-FUND PE ELTIFS

As ELTIFs are reshaping the investment landscape by providing a broader range of investors with access to diversified portfolios of long-term assets, FoF are gaining traction as a strategic investment vehicle. A FoF is a managed pooled investment vehicle that raises capital from multiple investors for the purpose of obtaining diversified exposure to an underlying portfolio of target funds. Several factors contribute to the rapid growth of FoFs:

- **The PE FoF Boom:** FoFs are thriving in the private equity space by offering diversified access to top-tier PE funds and their managers, reducing operational complexity for investors (e.g. via ability to aggregate hundreds of potential underlying portfolio capital calls into just a few).
- **The Rise of Secondaries:** Secondaries have emerged as a critical driver of FoFs' popularity. Secondary strategies allow for quicker capital deployment, liquidity, and mitigated J-curve effects<sup>4</sup>. By incorporating second hand fund stakes and continuation vehicles, FoFs benefit from enhanced diversification and cash flow predictability, appealing in particular to retail investors.
- **Retailisation of Private Markets:** As fund managers are actively seeking to attract retail capital into their private funds, FoF may appear as one of the most effective strategies. By raising a FoF, fund managers can efficiently route retail capital into their institutional funds, providing retail investors with access to high-quality, previously hard-to-access investment opportunities.

### *ELTIF Rules for FoF:*

A FoF ELTIF is permitted to invest in the following eligible underlying, provided that such underlying funds do not invest more than 10% of their assets into other funds:

- EEA-based AIFs managed by an authorized EEA AIFM
- Other ELTIFs
- European Venture Capital Funds (EuVECA)
- European Social Entrepreneurship Funds (EuSEF)
- UCITS

Direct Investments into offshore underlying funds are not permitted.

The underlying assets of target underlying funds must meet ELTIF eligibility criteria.

### *A FoF PE ELTIF is further subject to the following diversification and concentration limits when marketed to retail investors<sup>5</sup>:*

- no more than 20% of the fund's capital may be allocated to a single eligible fund;
- FoF ELTIF may not acquire more than 30% of the units or shares of any single eligible underlying fund.

Any breaches must be reported and remedied in accordance with CSSF Circular 24/856.

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<sup>4</sup>Subject to cascade prohibition, see below

<sup>5</sup>See below re: master-feeder structures

## **A few points of attention when structuring a Luxembourg ELTIF PE FoF:**

An ELTIF FoF serves as a very efficient fundraising tool, particularly as secondary strategies continue to show strong pace and momentum, a trend that is expected to continue in the coming year. A few points of attention should be taken into account when structuring a Luxembourg FoF PE ELTIF, particularly when the strategy is intended for marketing to retail investors.

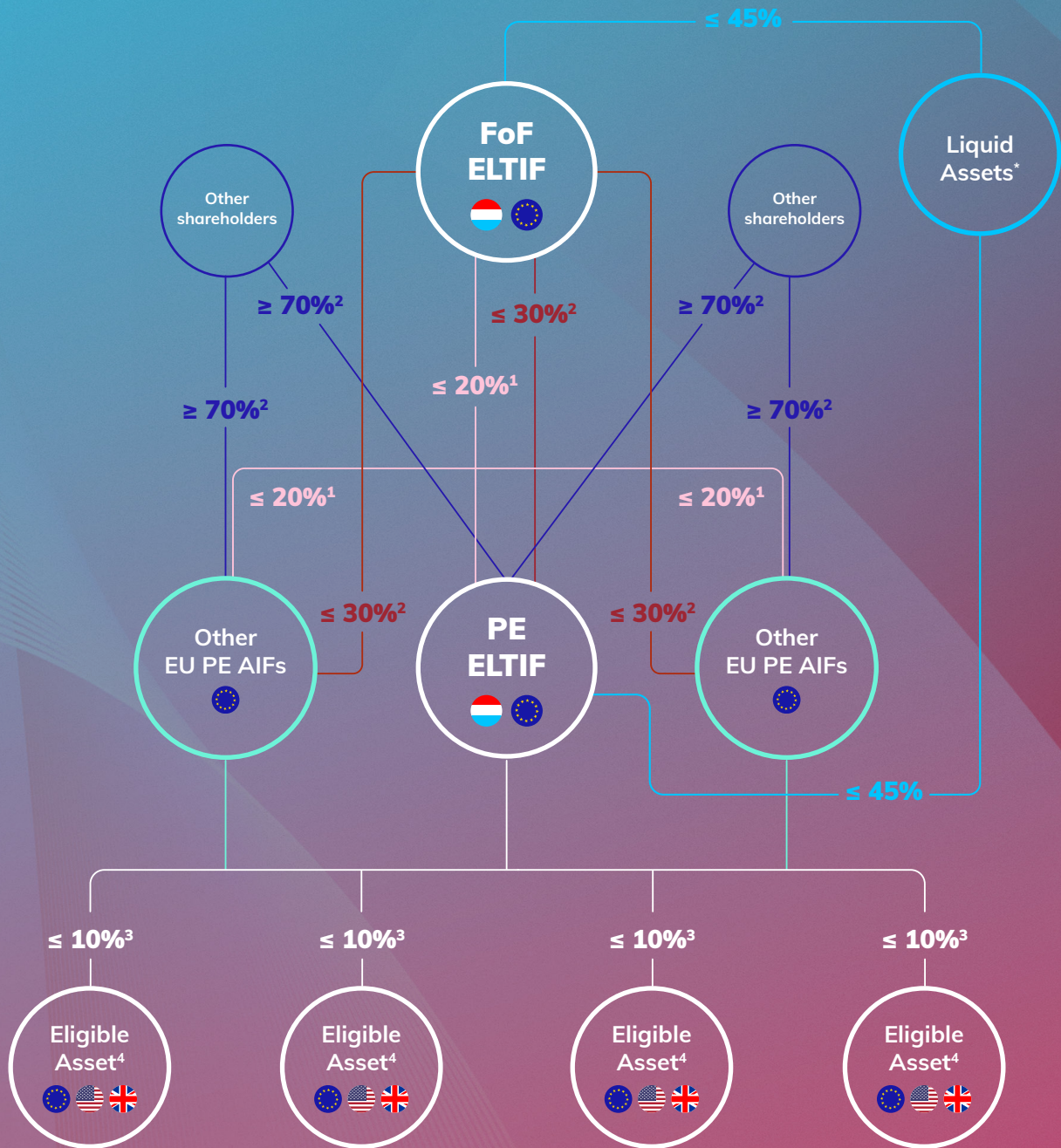
- **AIFM license:** while Luxembourg third-party AIFMs typically offer a comprehensive range investment strategies services and hold the necessary authorizations to manage FoFs, it is essential to verify that the AIFM's license covers the relevant strategy. Where necessary, an application for a relevant license extension should be submitted well in advance of the fund launch.
- **Valuation methodology:** A Luxembourg Retail PE FoF ELTIF must be structured as a Part II UCI and, therefore, is restricted to using Lux GAAP or IFRS as its accounting principles. While underlying funds may utilize foreign accounting principles such as US GAAP, the ELTIF itself is not permitted to adopt these standards for its own statutory reporting and valuation methodologies.
- **Liquidity asymmetry and clawback provisions:** The CSSF has, in its recent publication on key concepts and terms used in the field of investment funds other than UCITS and Money Market Funds, drawn attention to potential risks arising from liquidity mismatches between a fund's redemption terms and the liquidity profile of its underlying investments. In this context, ELTIF sponsors are encouraged to remain mindful of the potential effects that such mismatches may have, particularly where an open-ended/evergreen FoF PE ELTIF invests in underlying funds that include LP clawback provisions and offers periodic liquidity windows.

LP clawback provisions can introduce liquidity and valuation considerations. These include the possibility of cash outflows that may not align with investor redemption requests, alongside retroactive performance adjustments from underlying funds that could impact the NAV of the FoF PE ELTIF.

ELTIF sponsors are expected to remain attentive to the design and ongoing monitoring of their liquidity management framework and NAV determination processes, taking into account relevant regulatory guidance and supervisory expectations.

- **Look-through to underlying assets:** Fund managers must ensure transparency across the underlying portfolio to perform accurate combined assessments. Where an underlying fund invests in ELTIF-eligible assets, the FoF PE ELTIF must perform a combined calculation of its indirect exposures to ensure compliance with its own diversification limits.
- **The FoF PE ELTIF** must combine its own borrowings with those employed by underlying funds (proportionate to its ownership stake in those funds). If an underlying fund itself employs leverage, this leverage must be considered and taken into account when computing the ELTIF's borrowing position. Double-leverage structures need to be carefully managed to avoid breaching the borrowing limit. In cases where data is unavailable, the FoF PE ELTIF may be limited in its investment allocation to the relevant underlying fund.

SCENARIO 4 • FUND OF FUNDS INVESTMENT IN OTHER PRIVATE EQUITY FUNDS



<sup>1</sup> **Diversification limit:** no more than 20% of the ELTIF's capital can be invested into one single target fund

<sup>2</sup> **Concentration limit:** ELTIF shall not acquire more than 30% of the capital of the EU AIF

<sup>3</sup> **FoF Cascade prohibition:** no more than 10% of each target fund's asset shall be invested in eligible assets which are other investment fund

<sup>4</sup> **Eligible underlying private equity assets** can be located in non -EU/EEA countries which are not (i) an EU AML/KYC high - risk third country and (ii) not an EU non - cooperative jurisdiction for tax purposes

\*A maximum of 45% of the investment can be made in liquid assets (and minimum 55% in eligible investment assets) and should be calculated in aggregate of the investments of the ELTIF and all the underlying investments  
**Diversification limit:** no more than 10% of the ELTIF's capital can be invested in a single issuing body

## 5. SCENARIO 5: MASTER-FEEDER PE ELTIFS

In accordance with the ELTIF 2.0 Regulation, the establishment of ELTIF feeder funds is permitted, provided that both the feeder and the master fund qualify as ELTIFs. By definition, a feeder ELTIF or its investment compartment must allocate at least 85% of its assets into a Master ELTIF. Conversely, the master ELTIF is characterized as an ELTIF, or an investment compartment thereof, in which another ELTIF invests at least 85% of its assets in units or shares. It is important to note that while a non-ELTIF AIF can act as a feeder fund into a master ELTIF, a feeder ELTIF may not invest in a non-ELTIF master.

### CONCEIVABLE USE CASES:

- **Cross-border distribution:** The ELTIF label facilitates access to retail investors with respect to alternative products. For example, in certain countries retail investors have certain benefits (e.g. tax) when investing into a local ELTIF, which may potentially feed into a non-local EEA master ELTIF.
- **Combination of different capital models:** The structure might accommodate investors with different liquidity features and investment horizons by allowing for capital models tailored to distinct investor types. For instance, retail investors might benefit from a paid-in subscription-based mechanism at the feeder level, providing flexibility for those with shorter-term liquidity needs. Meanwhile, institutional investors could commit to a capital call master ELTIF, which is well-suited for those with longer-term investment horizons.
- **Inclusive access to long-term opportunities:** Through a dual-layer structure, investors with different levels of knowledge, expertise, regulatory constraints, liquidity restrictions, and investment horizons can invest into products that are tailored to their needs whilst accessing the same underlying portfolio of long-term investments. This inclusive approach allows different investor groups to benefit from the potential high returns generated by the master fund's portfolio, irrespective of their individual expertise or constraints.
- **Liquidity management:** While the feeder fund has the option to operate as an open-ended fund, it is not required to do so.

### REGULATORY CONSIDERATIONS:

Under the ELTIF 2.0 Regulation, feeder ELTIFs are exempt from the usual concentration limits that apply to investments in other funds. However, where the feeder is established as a retail ELTIF, the master ELTIF must comply with the investment rules applicable to retail ELTIFs, including the risk-diversification requirements. In such cases, the concentration limits are applied at the level of the master ELTIF.

The ESMA Q&A on ELTIFs clarifies that Article 1(3) of the ELTIF 2.0 Regulation prohibits Member States from introducing requirements regarding the domiciliation or establishment of master and feeder ELTIFs. This means feeder ELTIFs may in principle be established in another Member State than the home Member State of the master ELTIF.

Furthermore, to meet ELTIF 2.0 requirements, a master ELTIF is required to provide the feeder ELTIF with all documentation and information necessary for regulatory compliance. For that purpose, the feeder ELTIF shall enter into an agreement with the master ELTIF. Additionally, if the master and feeder funds have different depositaries, an information-sharing agreement is mandatory to facilitate effective communication and regulatory adherence.

### PROSPECTUS REQUIREMENTS

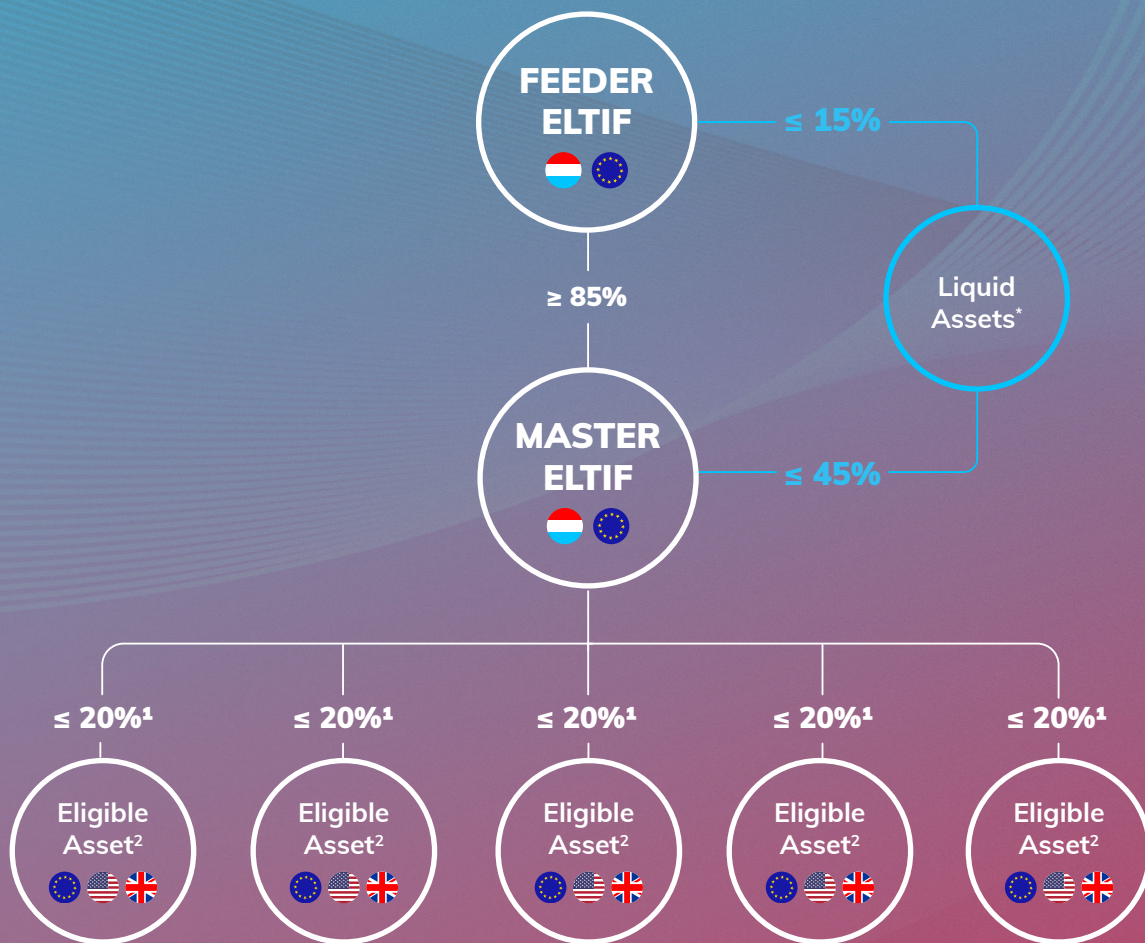
**The prospectus of a feeder ELTIF must include the following key elements, in addition to other regulatory requirements:**

- the investment objective and policy of the feeder ELTIF, including the risk profile and whether the performance of the feeder ELTIF and the master ELTIF are identical, or to what extent and for which reasons they differ;
- a brief description of the master ELTIF, its organisation, its investment objective and policy, including the risk profile, and an indication of how the prospectus of the master ELTIF can be obtained;
- other relevant information.

## MARKETING AND REPORTING

A feeder ELTIF must explicitly disclose in all marketing communications its policy of permanently investing 85% or more of its assets in units or shares of the master ELTIF. Where the ELTIF is marketed to retail investors, the manager of the ELTIF must include in the annual report of the feeder ELTIF a statement on the aggregate charges of the feeder ELTIF and the master ELTIF. In addition, the report must provide clear instructions for investors on how to obtain a copy of the Master ELTIF's annual report.

### SCENARIO 5 • MASTER / FEEDER STRUCTURE



<sup>1</sup> **Diversification limit:** no more than 20% of the ELTIF's capital can be invested into one single target fund

<sup>2</sup> **Eligible private equity assets** can be located in non -EU/EEA countries which are not (i) an EU AML/KYC high - risk third country and (ii) not an EU non - cooperative jurisdiction for tax purposes

\*A maximum of 45% of the investment can be made in liquid assets (and minimum 55% in eligible investment assets) and should be calculated in aggregate of the investments of the ELTIF and all the underlying investments  
**Diversification limit:** no more than 10% of the ELTIF's capital can be invested in a single issuing body

## 6. SCENARIO 6: PE ELTIFS IN THE CONTEXT OF UMBRELLA FUNDS

The ELTIF is categorised as an AIF, and the ELTIF regime can be applied on top of the Products Laws (as defined below) applicable to the umbrella fund. In Luxembourg, the underlying fund vehicle can, for example, be a Part II UCI governed by the law of 17 December 2010 on undertakings for collective investment (the **UCI Law**), a specialised investment fund governed by the law of 13 February 2007 on specialised investment funds (the **SIF Law**), an investment company in risk capital governed by the law of 15 June 2004 on the investment company in risk capital (the **SICAR Law**) or a reserved alternative investment fund governed by the law of 23 July 2016 on reserved alternative investment funds (the **RAIF Law** and together, the **Product Laws**). An ELTIF can also be an unregulated SCSp that qualifies as an AIF and is managed by a fully authorized EEA AIFM, provided it fulfils all ELTIF requirements.

Under those Product Laws it is possible to establish umbrella funds, i.e., funds with one or more sub-funds or compartments, the assets of which are exclusively available to satisfy the rights of investors or of creditors whose claims have arisen in connection with the creation, operation or liquidation of that compartment.

The ELTIF Regulation does not require an entire umbrella fund, including all current and future sub-funds, to qualify as an ELTIF. Instead, the ELTIF regime can be applied on a compartment-by-compartment basis within the overall umbrella structure. **This flexibility offered by the ELTIF Regulation allows initiators to use Luxembourg umbrella funds in different ways:**

- A new umbrella fund can be established and some or all of its compartments can use the ELTIF overlay.
- A new compartment that is ELTIF-compliant can be established under an existing umbrella fund, whether or not any other compartment under that umbrella fund complies with the ELTIF regime. In that case, the additional restrictions and requirements provided by the ELTIF Regulation will only apply to the relevant compartment, but not to the non-ELTIF sub-funds.

If it is not intended that all compartments of the same umbrella fund will use the ELTIF regime, it is possible to draft the prospectus or issue document as well as the agreements with the fund's service provider in a flexible manner that allows the establishment of ELTIF compartments in the future.

The AIFM is appointed at the level of the umbrella structure for all compartments including the ELTIF compartments.

The AIFM of an umbrella fund can appoint an investment adviser or delegate the portfolio management to an external manager with respect to each ELTIF compartment separately.

The Product Laws allow compartments of an umbrella fund to invest in one or more other compartments of the same umbrella fund. In case of an ELTIF-compliant compartment, the restrictions of the ELTIF 2.0 Regulation concerning investments in target funds need to be complied with in the context of such cross-compartment investments.



<sup>1</sup> **Umbrella fund level:** To structure umbrella funds with multiple compartments, Luxembourg AIFs must comply with one of the designated product laws (UCI Part II, SIF, SICAR or RAIF). At the umbrella level, qualification as an ELTIF is not mandatory

<sup>2</sup> **Compartments level** not all compartments within the umbrella fund need to qualify as ELTIF

<sup>3</sup> **Investment strategies:** ELTIF-compliant compartments must adhere to all the provisions set out in the ELTIF Regulation, e.g. including in terms investment policy or diversification rules. Each ELTIF-compliant compartment can individually choose from one of the five investment scenarios mentioned above

## 1. PRE-MARKETING OF PE ELTIFs

The ELTIF 2.0 Regulation does not amend the current EEA rules on pre-marketing. Therefore, PE ELTIFs will be subject to the rules set out under the AIFM Directive.

For EEA AIFMs obtaining ELTIF authorisation for their AIFs, it is important to keep in mind several regulatory nuances. Pre-marketing is not generally permitted towards retail investors (unless otherwise permitted in a given Member State in accordance with local law), so this will be an important consideration when planning which types of investors can receive information during the pre-marketing and marketing phases. The ELTIF label is a reserved term and product label that may only be used by AIFs that have been authorised. Consequently, managers must exercise careful monitoring to ensure the term is not misused prior to the ELTIF's authorisation.

## 2. PASSPORTING RIGHTS FOR PE ELTIFs (COVERS PROFESSIONAL AND RETAIL INVESTORS)

"ELTIF" is a regulated product label for AIFs which offers AIFMs the ability to market PE ELTIFs not only to professional investors, but also to retail investors (irrespective of their portfolio size or intended investment amount) across the EEA – essentially extending the AIFMD marketing passport to retail investors. This in theory opens up PE ELTIFs to the entire EEA market (professional and retail) on a passporting basis. The ESMA Q&A on ELTIFs clearly underline the pan-European marketing passport for ELTIFs and consider that local rules prohibiting and restricting the ELTIF passport are not allowed by article 1 (3) of the ELTIF Regulation.

A key difference between a professional-investor-only PE ELTIF and one accessible to retail investors is that the latter is subject to additional investment and concentration limits<sup>7</sup>.

When marketing PE ELTIFs to retail investors, AIFMs and their distributors also need to comply with certain MiFID product governance, organisational, and investor suitability rules (**MiFID Product Rules**). EEA MiFID distributors will already be familiar with the MiFID Product Rules but EEA AIFMs marketing their PE ELTIF directly to retail investors will need to build out their product approval and investor assessment processes to comply with the MiFID Product Rules.

Where the AIFM or distributor has determined that the PE ELTIF is not suitable for a given retail investor and the retail investor has not received investment advice but still wishes to invest in the PE ELTIF, the AIFM or distributor will need to obtain the express consent from the retail investor indicating that the investor understands the risks of investing in a PE ELTIF.

Assessing suitability is a key component of the distribution process, especially in a PE context which may be less familiar to retail investors, and has become an important focus area for various NCAs. In the EEA, the latest proposals relating to the so-called Retail Investment Strategy are attempting to focus on reforms that could empower retail investors to make investment decisions that are aligned with their overall needs and investment preferences. To assist with the suitability assessment process, distributors are increasingly integrating artificial intelligence into their systems to help with some of the challenges that arise when considering private market strategies such as private equity and private credit as potential investments for their mass-affluent client base.

<sup>6</sup> Reference is also made to the ALFI [considerations](#) and [Q&A](#) on marketing and distribution

<sup>7</sup> (i) No more than 20% exposure to any single undertaking, fund or real asset; (ii) no more than 10% exposure to UCITS issued by a single body; (iii) no more than 20% exposure to securitisation vehicles as a whole; (iv) the aggregate exposure to a counterparty of the ELTIF stemming from OTC derivative transactions, repos and reverse repos must not exceed 10% of the value of the capital of the ELTIF and (vi) no more than 30% of the units or shares of a single ELTIF, EuVECA, EuSEF, UCITS or of an EU AIF managed by an EU AIFM.

For example, traditional investments such as publicly traded shares or bonds have an array of more easily digestible data that distributors can leverage as part of their suitability assessments, whereas private equity investments may involve more variability in their structure, minimum investment amount and other risk considerations relating to illiquidity, lock-up periods, and capital call requirements. Therefore, we will likely continue to see the increased use by distributors utilizing digital tools to meet their obligations under the MiFID Product Rules.

## Minimum subscription/ holding requirements

There is no longer a prescribed minimum investment requirement or limit on aggregate investments for retail investors that wish to invest into PE ELTIFs (like there was under ELTIF 1.0). The minimum investment will therefore be the amount specified in the ELTIF prospectus or as otherwise required under law.

The ELTIF 2.0 Regulation does restrict when an ELTIF may grant redemptions during the life of the PE ELTIF. For open-ended PE ELTIFs, redemptions may be granted during the life of the PE ELTIF either by reference to a minimum holding period (**MHP**) or after the end of the ELTIF's one-off ramp up period (essentially an initial lock-in period, the **ILP**). When structuring open-ended PE ELTIFs, sponsors will need to decide whether to set an ongoing MHP for investors or have a one-off ILP.

## Disapplication of certain requirements under CBDF

Under ELTIF 2.0, AIFMs are no longer required to set up local facilities in each EEA Member State where the AIFM intends to market PE ELTIFs to retail investors. Previously AIFMs would need these facilities in place for making subscriptions, making payments to investors, repurchases and redemptions, and making available information required to be provided to retail investors. These local facilities created additional costs and frictions for the marketing and distribution of PE ELTIFs.

AIFMs will still need to consider whether their ELTIFs may be subject to any member state specific requirements (i.e., based on how a given member state has implemented AIFMD and Cross-Border Distribution of Funds regulation (**CBDF**) requirements.

## Prospectus content and disclosure requirements

ELTIFs are required to publish a prospectus. All AIFs (including PE ELTIFs) are required to provide investors with prescribed pre-contractual disclosures under Article 23 of the AIFMD so these are typically set out in the PE ELTIF's prospectus. PE ELTIF are also subject to a series of additional transparency requirements.

For closed-ended PE ELTIFs, the prospectus will also need to contain the relevant information required under the Prospectus Regulation.

Upon request, investors will also be entitled to receive copies of the prospectus (and its amendments) and the annual reports free of charge. A paper copy of the annual report must be provided to retail investors free of charge if requested.

Retail investors will also be able to request additional information on the quantitative limits that apply to the risk management of the PE ELTIF, the methods chosen to that end, and the recent evolution of the main risks and yields of the categories of assets.

An ELTIF's annual report will require additional disclosures including a cash flow statement, information on any participation in EEA budget funding, information on the value of ELTIF's assets and the countries in which ELTIF assets are located.

## PRIIPs KID

PE ELTIFs marketed to retail investors must publish a PRIIPS KID. Sponsors should prepare the PRIIPS KID ahead in time as the PRIIPS KID need to be submitted to the regulator as part of the passporting application. This means the PRIIPS KID need to be prepared before marketing can commence. The ELTIF Regulation does not set out additional information to be disclosed in the PRIIPS KID but given the PRIIPS KID contains information on costs, sponsors should ensure the cost disclosures in the PRIIPS KID are broadly consistent (where possible) to the additional cost disclosures required under the ELTIF Prospectus.

## Institutional investors

There is increasing interest amongst institutional investors in allocating exposures to private market fund structures that invest into a mix of long term and more liquid assets and / or that offer some potential ongoing liquidity (e.g. like evergreen ELTIFs). However, there are also significant reforms in the EU insurance sector capital regulation (Solvency II) that will mean PE ELTIFs and certain AIFs will benefit from more attractive capital treatment, as follows:

### I. WHAT IS SOLVENCY II?

Solvency II is the EU's regulatory framework for EU domiciled insurance and reinsurance companies, introduced in 2016 to ensure insurers maintain sufficient capital to meet their obligations. It establishes risk-based capital requirements, governance standards, and reporting obligations to enhance policyholder protection and financial stability. The regime includes the Solvency Capital Requirement (**SCR**), which requires an insurance company to treat each investment as a risk asset and to reserve a specified amount of capital on its balance sheet against taking into account the expected return.

### II. AMENDMENT TO SOLVENCY II

The Council of the EU published amendments to Solvency II on January 19, 2024, introducing a revised framework for long-term equity investments (**LTEIs**) with a favorable 22% capital charge. The changes particularly will affect ELTIFs and low-risk AIFs, aiming to encourage insurers to invest more in private equity and venture capital. The amended Solvency II regime applies from January 2026.

### III. KEY RELEVANT UPDATES FOR ELTIFs

- **Reduced Capital Charge:** Capital requirements for LTEIs are reduced from 39% to 22%, encouraging insurers to allocate more funds to ELTIFs and other low risk AIFs.
- **Flexible Investment Rules:** Insurers must meet certain eligibility criteria, such as holding investments for over five years, ensuring diversification, and demonstrating resilience against forced selling.
- **Simplified Look-Through Requirements:** ELTIFs and some low-risk AIFs can now assess eligibility at the fund level, removing the need for insurers to «look through» complex multi-tiered fund structures to assess the capital requirements at the level of the underlying investments of the fund.

## Marketing outside of the EEA

Under EU regulations, the ELTIF label offers distribution benefits as it enables AIFMs and EEA distributors to market to retail investors across the EEA. Given the recent ELTIF reforms and increased focus on the democratisation of PE funds, the ELTIF label alongside other well-established structures like Part II UCIs are increasingly becoming more popular with retail investor distribution channels both in and outside of the EEA.

## CSSF approval

The Luxembourg Regulator, the Commission de Surveillance du Secteur Financier (**CSSF**) has built and trained a dedicated team which has acquired a deep expertise on the nuances of the ELTIF Regulation and related Regulatory and Technical Standards, notably with respect to PE and private equity strategies in ELTIFs.

They have also created tailored processes and a dedicated application form for ELTIF applications. These have proven very efficient in focusing on the crucial items in an ELTIF approval process and accelerating the process to a very fast approval time.

The deep expertise of the CSSF on ELTIFs since the first retail ELTIFs launched in 2016 is a big advantage and facilitating element for ELTIFs set-up in Luxembourg.

## 05 US BDC and UK LTAF: Equivalent Investment Vehicles

ELTIFs have similarities and differences with the US Business Development Companies (**BDCs**) and the UK Long-Term Asset Funds (**LTAFs**). Both investment vehicles serve as alternatives to ELTIFs, providing unique opportunities for investors in their respective regions. For a detailed comparison, reference is made to **Annex II**.

# ANNEX

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# Annex I

The below table contains information from ESMA's official list of ELTIFs<sup>8</sup>. The information was extracted on **31 March 2026** and content is evolving constantly and rapidly. Reference is made to the link in the footnote to obtain the most recent number of ELTIFs registered across all European countries.

| Country        | Number of ELTIFs registered to date | Target investors (retail vs professional)  |
|----------------|-------------------------------------|--|
| Luxembourg     | 161                                 | 27 only professional investors, 15 only retail investors, 97 targeting both, 22 not marketed |
| France         | 73                                  | 24 only professional investors, 49 only retail investors                                     |
| Italy          | 13                                  | 13 no information available  |
| Ireland        | 27                                  | 18 only professional investors, 9 only retail investors                                      |
| Germany        | 3                                   |  |
| Spain          | 7                                   | 3 only professional investors, 4 only retail investors                                       |
| Liechtenstein  | 1                                   | 1 professional and retail investors  |
| The Netherland | 1                                   | 1 professional and retail investors  |

<sup>8</sup> <https://www.esma.europa.eu/document/register-authorized-european-long-term-investment-funds-eltifs>

**1. BUSINESS DEVELOPMENT COMPANIES "AT A GLANCE"**

A business development company (**BDC**) is a U.S. investment vehicle designed to make investments in smaller U.S. businesses, typically in the form of private credit. BDCs are subject to the U.S. federal securities laws and supervision by the Securities and Exchange Commission, and their shares may be exchange-listed or unlisted, and publicly offered or privately offered. As regulated investment companies, BDCs are managed by a majority independent board of directors, and subject to restrictions on leverage, affiliated transactions, and portfolio construction, but enjoy the benefits of pass-through tax treatment (and Form 1099 tax reporting), and may be offered to a wide range of investors, which allows retail investors access to private credit strategies. BDCs have seen a significant uptick in assets under management ("AUM") in recent years. As of July 2024, there were 48 publicly traded BDCs, which have raised a total \$141 billion U.S. dollars' worth of AUM. Combined with private and non-traded BDCs, this amount rises to over \$300 billion US dollars.

## Objective / Strategy

**BDC**

- Generally seek to generate income and capital appreciation
- Invest in private credit assets, including direct loans to portfolio companies
- May also make equity investments in portfolio companies (typically holding minority stakes) and other investments

**EEA ELTIF**

- Long-term investments in the real economy, including towards investments that promote the European Green Deal and other priority areas, in line with the Union objective of smart, sustainable and inclusive growth.
- Invest in broad categories of real assets, provided that those real assets have value due to their nature or substance, or the capacity of such assets to contribute to the objective of smart, sustainable and inclusive growth.
- May also invest in green bonds issued by qualifying portfolio companies

## Eligible Investments

**BDC**

- At least 70% of assets must be invested in "qualifying assets," including small and mid-size U.S. businesses that qualify as "eligible portfolio companies" under the 1940 Act
- Qualifying assets also includes cash, gov't / high quality debt, and certain other investments

**EEA ELTIF**

- At least 55% in Eligible Investments provided that investments in any single entity (AIF, real assets unlisted business) do not exceed 20%
- Up to 45% in UCITS-eligible assets, provided that investments in any single entity do not exceed 10%

## Leverage

- BDC**
  - Minimum asset coverage ratio of 200% (total assets to total debt)
  - However, most BDCs utilize recent legislation to effectively lower the asset coverage requirement to 150%
- EEA ELTIF**
  - Max. 50% of NAV / 100% for ELTIFs marketed solely to Professional Investors
  - Borrowing fully covered by investor commitments does not count towards the leverage limits.

## Distribution (of Income/Capital)

- BDC**
  - US Tax (RIC) Requirement: Generally, BDC must annually distribute at least 90% of its income (including certain short term capital gains) to shareholders, and may face excise taxes if it does not distribute at least 98%
- EEA ELTIF**
  - Flexible (Distribution vs. Recycling of Income);
  - Redemptions on pro rata basis possible in the event that ELTIF disposes of assets during term, provided that the manager deems such disposal to be in the interest of the investors.

## Eligible Investors

- BDC**
  - *Listed BDC*: no specific investor qualification standards; IPO registered with SEC
  - *Non-Traded BDC*: investors must meet U.S. state-level qualifications; public offering registered with SEC and states
  - *Private BDC*: limited to accredited investors; private offering not registered with SEC, but BDC must be registered under Exchange Act
- EEA ELTIF**
  - EEA Retail Investors (no minimum net worth test) & Professional Investors
  - EEA Marketing Passport

## Liquidity (to Investors)

- **BDC**
- Listed BDC: shares trade freely on exchange
- Non-Traded BDC: limited liquidity offered through periodic repurchases (typically 5% of BDC net asset value per quarter)
- Private BDC: often no liquidity prior to IPO or other liquidity event; some offer periodic repurchases (typically 5% of BDC net asset value per quarter)

- **EEA ELTIF**
- Closed-Ended vs. "Open Ended"
- May offer redemption facilities under certain conditions:
  - Minimum holding / no redemption during ramp up period;
  - Overall redemptions limited to percentage of liquid (i.e. UCITS-eligible) assets, determined as a function of either:
    - Redemption frequency and notice period; or
    - Redemption frequency and minimum percentage of liquid assets
- Secondary Market / "Matching Mechanism"

## Reporting

- **BDC**
- Public company (annual, quarterly, and current reports on Form 10-K, 10-Q, 8-K)

- **EEA ELTIF**
- AIFMD Reporting, including semi-annual/annual report
- Annual report must include cash flow statement and information on EEA budget funding, value of underlying assets and the countries in which the ELTIF is invested.

## **2. UK LONG-TERM ASSET FUND "AT A GLANCE"**

In response to the increasing need for investment in long-term, illiquid assets, the United Kingdom has been actively developing a regulatory framework similar to the ELTIF. This initiative has led to the creation of the Long-Term Asset Fund (**LTAF**), a new category of FCA-authorized funds designed to facilitate investments in venture capital, private equity, private debt, real estate, and infrastructure.

When analysing the key attributes of ELTIFs and LTAFs, several distinctions are evident. ELTIFs benefit from a faster, streamlined authorisation process, with applicants receiving approval within two months, compared to the six months required for LTAFs. From a distribution standpoint, ELTIFs can be marketed to both institutional and retail investors, whereas LTAFs are primarily intended for professional investors, with additional protections in place for retail investors. Furthermore, ELTIFs enjoy the advantage of an EEA marketing passport, allowing them to be marketed across the EEA. In contrast, LTAFs cannot be distributed in the EEA unless permitted by the private placement regime.

Regarding liquidity, ELTIFs have specific rules in place, whereas the FCA's regulations for LTAFs allow for more flexibility. Redemptions for LTAFs may occur no more frequently than monthly, providing some adaptability in managing liquidity.

Major asset managers are at the forefront of the market for LTAF launches. It includes companies like Aegon, Aviva, BlackRock, Fidelity, Legal & General, and Willis Towers Watson. The FCA registry currently lists approximately 23 approved LTAF sub-funds, and this number is anticipated to increase in the coming years.

## ELTIFs vs LTAFs : summary of key points

|                               | ELTIF   | LTAF  |
|-------------------------------|---|---|
| <b>Legal basis</b>            | Regime under Regulation (EU) 2015/760 as amended by Regulation (EU) 2023/606 ("ELTIF 2.0"), applied from 10 January 2024; RTS adopted in Commission Delegated Regulation (EU) 2024/2759 (in force 26 October 2024). ELTIF is an EU AIF managed by an authorised EU AIFM under AIFMD.  | FCA-authorized open-ended AIF type governed by FCA Handbook COLL 15. Managed by a full-scope UK AIFM under the UK AIFM regime.  |
| <b>Legal Forms</b>            | Product "overlay" available across common EU fund forms; e.g., Luxembourg Part II, SIF, RAIF.   | Structures include an Authorised Contractual Scheme (ACS), an Investment Company with Variable Capital (ICVC), or an Authorised Unit Trust (AUT).   |
| <b>Authorisation</b>          | ELTIFs must be authorised by the NCA in its home Member State, in addition to the manager's AIFM authorization. Decision within 2 months after a complete file.   | FCA is competent authority; statutory 6-month timeline; procedures per COLL 2.1.  |
| <b>Cross-border marketing</b> | <b>EU-wide distribution passport.</b> UK access via NPPR only.  | UK distribution only; EEA marketing depends on local NPPRs (no passport).   |
| <b>Eligible assets</b>        | Broadened under ELTIF 2.0: equity/quasi-equity/debt of qualifying portfolio undertakings (now including listed up to €1.5bn mkt cap), loans, "real assets" (simplified definition), EU green bonds, and STS securitisations; fund-of-funds into ELTIF/UCITS/EU AIFs (subject to conditions). At least 55% in ELTIF-eligible assets (down from 70%). | Principle-based list focused on long-term/unlisted assets such as , private equity, private debt/loans (with some conditions) infrastructure or real estate. At least 50% in unlisted/other long-term assets.   |
| <b>Diversification</b>        | Detailed issuer/asset limits, substantially relaxed by ELTIF 2.0. Limits disapplied if marketed solely to professionals.  | "Prudent spread of risk" principle; managers assess market/credit/liquidity/counterparty risk alignment.  |
| <b>Borrowing</b>              | Retail ELTIFs: up to 50% of NAV; professional-only ELTIFs: up to 100% of NAV.   | Borrowing capped at 30% of NAV at the LTAF level.   |
| <b>Liquidity/redemptions</b>  | ELTIF 2.0 allows redemptions during life, subject to minimum holding period and robust redemption policy. Further details provided in the RTS.  | Open-ended with restricted liquidity: at least 90 days' notice and dealing no more frequently than monthly.   |
| <b>Retail investor access</b> | ELTIF 2.0 removed the prior €10,000 minimum and 10% portfolio cap; MiFID II-style suitability, product governance, and retail facilities updated; cooling-off and disclosures apply.  | LTAFs may also be promoted to mass-market retail investors in the UK but only under the "Restricted Mass Market Investment" regime. Must comply with the appropriateness, risk warnings, 10% investable assets cap for non-advised retail; no cooling-off period. |