BlackRock, Neuberger Boost Europe's Advisor Market Alts Funds

By Tom Stabile
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BlackRock and **Neuberger Berman** have jumped into a European product set aimed at delivering alternative strategies to individual investors, with four new funds in the past year. And that's even before regulators are set to finalize regulatory updates designed to make the European Long Term Investment Fund, or ELTIF, format even more appealing for alts managers to launch new products.

The ELTIF regime has been around since 2015, but had gotten limited traction with only a handful of vehicles formed until last year, when it started to take off. Now, there are several dozen funds active or set to launch, both from large U.S. players joining the market, as well as recent offerings from big traditional and alts managers in Europe such as **Amundi**, **Natixis**, **BNP Paribas**, **Azimut Investments**, **Generali**, **Partners Group**, **Tikehau Capital**, **Eurazeo** and **Pictet Group**.

While not a direct parallel to the burgeoning U.S. market for non-traded real estate investment trusts, business development companies, and interval or tender offer funds, the general idea for ELTIFs is similar: to create structures that give advisors for individuals or professional investors access to illiquid alts strategies at relatively low investment minimums. The demand case for European individual investors – seeking alts to diversify portfolios and find higher returns – mirrors U.S. market drivers.

The ELTIF designation essentially offers a product marketing passport for alternative strategies, primarily private equity, private debt and infrastructure. If the products – typically domiciled in Luxembourg – meet specific criteria in terms of structuring, disclosures and investor protection, managers can distribute them across all nations governed by the European Commission without needing individual country approvals, similar to the UCITS regime for mutual funds.

"We see more general partners want to offer new [ELTIF] strategies and more wealth managers that want to distribute these strategies," said **West Lockhart**, head of wealth and family offices in the alternatives specialist group at BlackRock in its Europe, Middle East and Africa, or EMEA, region. "It's an important and growing market."

BlackRock was an early adopter of the ELTIF format, launching its first private equity co-investment strategy in 2019 and then closing it last year at $600 million, above its target and among the largest vehicles in the product format to date. The manager followed up last year with the launch of an infrastructure-focused ELTIF and has more on the way, Lockhart said.

Neuberger launched its private equity co-investment ELTIF strategy with a pair of parallel funds last April, and earlier this month launched an additional "2022" fund following a similar investment strategy.

This year is already shaping up to be big for the ELTIF format, with many new managers seeking advice on how to launch products, said **Richard Bruyère**, managing partner at **Indefi**, a Paris-based strategic consultant.

"It is accelerating fast," he said. "If I look at our book of business, what we've been doing the last 18 months, ELTIFs are the number one topic for us, supporting private asset specialists and traditional managers creating strategies."

ELTIFs are particularly appealing to traditional fund managers that see a fragmented private markets landscape in Europe divided up by country and region, Bruyère said.

"They missed the boat on the institutional private market trend, but retail is their chance to catch up," he said. "They have all of these advantages they can harness – they have the distribution networks, they know how to talk to investors – and that's a game changer. It's going to be a scramble for market share."

But the real opportunity for growth may be in the near future, when the **European Securities and Markets Authority**, or ESMA, moves ahead on a set of expected updates that will liberalize certain aspects of the ELTIF regime, said **Adrian Whelan**, global head of regulatory intelligence at **Brown Brothers Harriman**. The regulators sought market feedback on a package of proposed changes late last year, but the updates would likely not come online until at least 2023, he said.

"They're looking at allowing a wider range of eligible assets, more flexible portfolio concentration limits, making the use of leverage easier," he said. "That's the more exciting part of all of this."

The hurdle for U.S. firms eyeing the ELTIF market is still high initially, with a requirement for firms to first obtain an Alternative Investment Fund Managers Directive, or **AIFMD**, designation as a manager, and then to launch European-domiciled fund structures that win approval from ESMA. But once a manager has an approved ELTIF vehicle, it can market across the region, Whelan said.

"The big managers think they can get these ELTIF fund structures up on the larger European fund platforms like Allfunds," he said, referring to a large **distribution platform** that spans several country markets.

ELTIFs are the logical target for alts fund managers seeking European retail distribution, said **Alex Cunningham**, director of the global product group in EMEA at BlackRock. "It's still the only way you can benefit from a cross-border retail passport," he said.

For now, the early advantage has gone to larger players, Bruyère said.

"One condition of success has been this ability to deploy marketing and commercial resources and boots on the ground to support distribution networks," he said.

But the doors may open wider with the upcoming changes for ELTIFs. The proposals are mostly addressing restrictive features of the original format, and for the most part have not generated controversy, Whelan said.

"There's a wider economic imperative that everyone is on board with, and they realize [ELTIFs] needed a recalibration," he said.

But BlackRock has seen plenty of opportunity even with the existing format, and is mapping new paths to improve product offerings, Lockhart said. It expects to deliver versions that address concerns in certain markets, including a "fully funded" format that doesn't rely on capital calls, he said.

"We were early adopters," Lockhart added. "We were a believer that more and more investors would want to have exposure to private markets... We see this demand across Europe."

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