CAPITAL MARKETS

REPORT

CFA Institute
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# Private Market Investment in the EU: Prudent Access for Retail Investors

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*This paper is one of several by the CFA Institute Research and Policy Center to address the risks and opportunities from the growth of private asset markets.*

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## Executive Summary

European financial markets are belatedly caught up in the global growth of private asset funds. Such funds make long-term and illiquid assets such as private equity, private credit, and infrastructure widely available to investors, and they have rapidly gained ground relative to securities and funds in public markets since the Global Financial Crisis.[1] The EU has recognized the potential of this asset class since at least the 2008 Global Financial Crisis, when the risks of relying solely on Europe's dominant banking system became painfully clear. Since then, the investment shortfall, including in the areas of digital or sustainable infrastructure, has raised the need for private asset finance.

In 2015, the EU defined a novel format of European long-term investment funds (ELTIFs) in an attempt to create a common regulated vehicle that would make private asset funds recognizable and marketable across the EU's 27 countries and beyond. Although the initial format failed to capture the interest of the fund management industry and end-investors, a 2024 revision considerably relaxed

[1]For an overview of the growth of private markets, see Preece and Wilson (2026).

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rules for asset eligibility and portfolio composition. The industry has been enthusiastic about the changed rules, and a record number of funds launched in 2024 and 2025.

The EU's new long-term funds remain a small niche sector, however, with about EUR34 billion in assets under management (AUM) at the end of 2025. For comparison, the total EU alternative funds sector has roughly EUR8.2 trillion in assets. Greater scale of the fund segment and of individual funds is essential to widen recognition among investors and reduce what are typically very high management costs of private asset funds. The transparency of the common fund format could ultimately establish a global standard similar to that of EU retail funds (i.e., Undertakings for Collective Investment in Transferable Securities, UCITS), which have defined a global benchmark for investor protection.

Key questions concern the role of retail investors in private markets and in the EU's ELTIF structures. Traditionally, private asset funds are the preserve of professional investors who are well equipped to scrutinize fund managers and assess assets that are subject to considerably lower disclosure standards than in public markets. Mirroring recent reforms in the United Kingdom and an ongoing initiative in Singapore, most of the EU's long-term funds can now be marketed to retail investors. Unlike in those jurisdictions, however, the EU's revised regulation lifts additional restrictions on investor suitability. Because the asset class is in effect wide open to retail investors, and because the investment industry defines its own eligibility criteria, key questions on investor protection need to be addressed.

In this paper aimed at national and EU regulators, we will assess the potential of private asset funds within the EU's broader agenda for capital market development. As one of several papers by CFA Institute on private markets, we explore to what extent retail investors can become a meaningful investor base for these funds and how the objectives of investor protection and market integrity can be safeguarded in this arena. We also outline why further reform of the EU's alternative funds market is needed to allow the sustained growth of long-term funds.

Our conclusions should guide regulatory and industry developments as a relatively new fund class is established. Ultimately, these developments could underpin the long-standing EU policy objectives of expanding funding opportunities for the corporate sector and providing a more integrated and efficient funds sector across the EU market.

To this end, our key recommendations are as follows:

- **The 2024 ELTIF reform represents a welcome liberalization, but its significance should not be overstated.** Although both the number of funds and AUM are now growing quickly, this remains a niche sector unlikely to transform investor allocations or real economy funding opportunities. Because of their high costs and limited scale, ELTIFs should not be seen as an instrument for the broad retail market, let alone for inexperienced investors.
- **Opening up private market asset classes to retail investors is sensible.** Given the diversification benefits and enhancement to expected returns from holding illiquid assets, broadening access to this asset class makes sense. Funds containing a small number of long-term and illiquid assets are inherently more suitable for institutional investors because the greater bargaining power of such investors better enables them to negotiate fees and mitigate fund managers' conflicts of interest. Guidance by EU supervisors should therefore strengthen safeguards for retail investors, including by adapting Markets in Financial Instruments Directive (MiFID) rules for investor suitability to the specific risks and characteristics of private asset funds. Individual investors are more likely to be protected in funds of funds, including regulated insurance products, as long as costs resulting from layered fees can be contained.
- **The ongoing revision rules for occupational pension funds should also facilitate the inclusion of ELTIFs and other illiquid assets in pension portfolios.** Plan sponsors would have a direct fiduciary duty to act in the best interest of beneficiaries by conducting rigorous due diligence on proposed investment vehicles, including their underlying assets, valuation, fees, and other product or market risks.
- **Addressing the fragmentation of EU capital markets will be essential for the further growth of the ELTIF sector.** In late 2025, the European Commission proposed reforms aimed at the integration of national markets and a level playing field across the still different supervisory regimes. This should be swiftly translated into law. For their part, individual EU states should streamline the tax treatment of funds and limit so-called gold-plating, whereby EU rules are enhanced, typically becoming more onerous or complex. Overall, this would bring about a more uniform treatment of fund managers by national authorities, would make pan-EU marketing nearly automatic, and could result in the much-needed consolidation of the EU's roughly 35,000 alternative investment funds. These reforms would be particularly important for closed-end or semiliquid

funds composed of a small number of privately held assets that require much greater scale.

- **Long-standing problems in the EU's market for retail investment should be addressed in parallel.** To date, high costs, ineffective disclosures, and misaligned incentives of advisers have held back investment and undermined investor trust in the broader market. These long-standing problems will be particularly problematic for the retail distribution of ELTIFs because these funds are inherently complex and charge fees commensurate with high management costs. EU efforts to streamline retail investor communications and further limit distortionary inducements should therefore be redoubled.
- **The European fund management industry should market the long-term funds cautiously and should initially focus on experienced investors only.** Certain types of asset managers already assess investor suitability for this asset class in ways that are stricter than regulatory minima, although best practice is far from clear and will vary among EU countries. Because financial assets are in any case highly concentrated among the wealthiest EU households, access limitations by investor wealth or transaction size are unlikely to damage the broader growth of the sector. In essence, retail distribution and ownership of long-term private asset funds will remain focused on the upper tiers of the wealth pyramid.
- **Fund managers' potential conflicts of interest and other governance issues should also be tackled in light of greater retail investor engagement.** As the industry begins to introduce this novel and complex asset type to retail investors, it will need to revisit high charges and develop models of disclosure that make unlisted portfolio assets more transparent. The rules in the EU's main capital markets act, MiFID II, that govern the design of investment funds, investor target markets, and communication will need to be adapted to minimize the risk of mis-selling.
- **Broader reforms in the EU agenda for a savings and investments union need to be supportive.** The EU's new capital market strategy aims to stimulate less conservative portfolio allocations by institutional investors, particularly for Europe's sizable pension and insurance funds, which could further benefit the growth of long-term funds. Support for private market asset classes could result from reforms that have targeted the supply of novel asset types (e.g., based on the harmonized treatment of private debt within alternative investment funds) and incentives for institutional investors (in a revision of the Solvency II Directive that governs insurance funds or the interpretation of the prudent-person rule that governs pension fund portfolios).

## Introduction

The shift of investor interest from public to private markets presents regulators with an acute dilemma. On the one hand, private equity, credit from non-banks, infrastructure assets, and real estate assets offer investors diversification and, based on past history, attractive expected returns. These opportunities result from an illiquidity premium, as well as from the close investor control over the investee or borrower, which are subject to lower standards of disclosure. In principle, superior risk–return properties should be attractive for both institutional and retail investors. Indeed, access to private market asset classes for this latter group is rapidly expanding. On the other hand, as financial activity shifts into a lightly regulated and somewhat opaque sector, traditional notions of market integrity and investor protection may be hard to safeguard. Regulatory arbitrage is a key risk.[2] The case for regulation that enables retail investor access will therefore depend on the right safeguards.

In the EU, private asset markets are now growing strongly from a low base. The bulk of the assets consists of private equity, to which policy approaches and public attitudes vary sharply across the EU's 27 markets. Because of the expanding linkages between the broader non-bank financial sector and the regulated banking sector, the EU's financial supervisors now scrutinize alternative asset managers closely, focusing in particular on risks in private equity and credit funds.

The EU's latest plan for capital markets development aims at using the non-bank sector to further some key policy goals, such as capital market deepening or the funding of growth companies or infrastructure. According to this strategy, private asset markets could play a role in overcoming some long-standing barriers in the functioning of European equity markets, corporate finance, and infrastructure finance (Directorate-General for Financial Stability, Financial Services and Capital Markets 2025c). Because the funding needs of innovative firms and start-ups are not being met by either the EU's dominant banking system or markets for listed equity, this agenda has only become more urgent.

This financing problem already motivated the liberalization of two existing EU fund formats in 2024:

- Managers of EU professional (alternative) investment funds (AIFs) can now market private debt funds that extend credit to enterprises outside the formal banking system.
- Moreover, the format for ELTIFs, which were previously minnows among EU-regulated funds, was liberalized to accommodate a broader range of strategies and assets. This EU policy shift mirrors similar initiatives in jurisdictions where illiquid private asset funds became accessible to retail investors. The United Kingdom introduced a retail accessible private markets product in 2024 (long-term asset funds), and similar fund formats are under consideration in Singapore. This discussion is most advanced in the United States, where legal hurdles for private assets becoming accessible in individual retirement accounts such as 401(k)s are set to be removed in late 2026 (Clayton and de Fontenay 2026).

[2]These risks were first set out in IOSCO (2023). More recently, the same issues were assessed in House of Lords (2026).

Although the new EU regulation has considerably liberalized the provisions that define private asset funds and investor access to such funds, supervisors and the industry will need to tackle some key risks. By definition, private assets lack transparency and cannot be priced easily within an inherently illiquid secondary market. Models instead drive valuations. Loss of investor confidence could result in runs on individual funds that may struggle to meet a high volume of redemption requests because of the underlying illiquidity of the investments. Market stress could spread more widely across the non-bank part of the financial system and possibly to banks that benefit from public guarantees. These risks are especially pertinent for retail investors for which the EU traditionally adopts very high standards of protection.

Our paper is one of several projects by CFA Institute to examine private asset markets and their implications for market integrity and investor protection. It is the first to focus on the implications of private markets for retail investment in the EU.

After briefly setting out the landscape of private asset markets in the EU, we then address three key issues:

- First, given the new format for EU long-term investment funds, what has been the early industry response to date, and does the industry already offer new options in cross-border portfolios of illiquid assets to retail investors?
- Second, are safeguards in place for the traditional policy objectives of market integrity and retail investor protection? And, what trade-offs have been made between those objectives?
- Third, what additional EU reforms are needed so that the new fund's format can make a meaningful contribution to the goals of the mobilization of capital, in particular in infrastructure?

Although EU-level rules were finalized in late 2024, many issues now loom for EU capital market reform, for EU countries, and for the industry. We conclude by examining these broader policy issues and next steps for implementing the EU's long-term funds regime.

## Private Market Funds in the EU

The financing of the EU's enterprises remains dominated by commercial banks, with listed equity and corporate bonds representing a much more limited role than in other advanced markets, such as the United Kingdom or United States.[3]

[3]See European Union (2025). In the euro area, now composed of 21 of the EU's 27 countries, year-end 2024 assets of the banking sector amounted to 268% of EU GDP, compared with 67% for listed equity and 146% for bonds, with only about one-sixth of bond market capitalization funding nonfinancial entities.

Private market funds, including private equity, private credit, and real asset funds (e.g., infrastructure and real estate), operate outside the public markets or the well-regulated banking system. As a component of what supervisors generally call non-bank financial intermediaries (NBFIs or, less generously, "shadow banks"), these funds have grown rapidly since the 2008 Global Financial Crisis, although they remain considerably smaller in the EU than in the United States.

Even though capital from outside the well-regulated banking system or formal exchanges could mobilize significant additional finance, Europe's long-standing problems with market fragmentation, national prerogatives over business laws, and restrictions on institutional investor allocations have constrained growth and efficiency of investment funds, in particular of alternative funds that bundle nonlisted assets.[4]

Yet, private assets in Europe are now rapidly gaining ground over banking assets, mirroring a global trend. At year-end 2024, assets under management in Europe (including the United Kingdom and Switzerland) stood at EUR1.4 trillion for private equity and approximately EUR430 million in private credit, with the United Kingdom alone accounting for nearly half in each case (Moura 2026; Buch 2025). Private credit stocks had roughly tripled in nominal terms over the preceding 10 years in both cases, easily outstripping the growth in banking assets. According to a recent European Central Bank (ECB) study, compound annual growth rates stood at 10% for private equity and 14% for private credit in the euro area, which accounts for the bulk of the EU single market. From the perspective of corporate financing, private credit is no doubt small compared with bank credit, although by no means insignificant, amounting to roughly 8% of loans to companies extended by banks in the euro area (Buch 2025).

The manner in which these private market assets are bundled into funds determines how investors access them, their costs, and the distribution channels. Four general categories of funds are marketed in the EU:

- **Alternative investment funds (AIFs).** These professional funds form the backbone of private market assets. More than 35,000 AIFs now account for EUR8.2 trillion in AUM (EFAMA 2025). Because AIF managers are governed by an EU directive, authorized funds in principle have the right to be marketed throughout the EU, also called "passporting."[5]
- **Retail AIFs.** Unlike for pure retail funds (UCITS), the EU rules for alternative funds allow national agencies significant discretion. Several EU nations have developed AIF formats aimed specifically toward retail investors

[4]European Union (2025), Annex 9.

[5]Alternative Fund Managers Directive (Directive 2011/61): "European Union Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and Amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010," EUR-Lex (1 July 2011), https://eur-lex.europa.eu/eli/dir/2011/61/oj/eng. Venture capital funds (EUVeCA) and social enterprise funds (EUSEF) are subforms of alternative funds with the same rights of cross-border marketing.

(called retail AIFs). These funds have grown into a significant market subsegment: approximately 13% of the EUR8.2 trillion AIF market, according to European Securities and Markets Authority (ESMA) data (Ireland and Luxembourg are largest domiciles).[6] Asset composition, investment strategies, and investor protections vary greatly among EU countries, however, and managers do not have the "passporting" right that they have for marketing to professional investors (Directorate-General for Financial Stability, Financial Services and Capital Markets Union 2025b).

- **ELTIFs.** This custom EU fund format for illiquid assets has allowed the sale of funds to both professional and retail investors throughout the EU. Our data in the section "Fund Providers' Response" show that this segment is still very small, about EUR34 billion in AUM at year-end 2025.
- **Non-EU funds.** Such funds are sold by fund managers outside the EU directly to EU investors under national private placement regimes. Consequently, transparency and investor protection vary greatly.

## ELTIFs: A "Wrapper" for Private Assets

The potential of private asset markets has not been lost on EU regulators. Soon after the 2008 Global Financial Crisis, an objective emerged to mobilize investors with lower liquidity needs into long-term instruments, whether they are defined by longer original maturities of debt instruments or resulting from the closed-end nature of a particular fund.

ELTIFs were first defined in 2015 as a common format for illiquid assets held in closed-end funds. Long-term investments emerged as the European catchall term for what market participants would generally describe as "private assets": essentially, private equity, private credit, and real assets, such as infrastructure, mainly held in the form of closed-end funds. At the time, the new alternative fund formats coincided with the EU's ambition to direct capital market portfolios into sustainable energy and other infrastructure. Recent ECB data indeed underline that European pension funds exhibit the highest shares of sustainable assets compared with other investor types (Ushchev and Wolff 2026).

The original ELTIF regulation attempted to channel additional investment into nonlisted small and midsize enterprises (SMEs), transport infrastructure, and other real assets. A well-defined EU-regulated fund format was designed to preempt rival national formats that were emerging at the time.[7] As for any other EU fund format, authorization by one EU state would be "passported" elsewhere in the EU (and the broader European Economic Area): Other EU states would be obligated to permit the marketing of the fund in their jurisdiction. In this way, EU fund formats—such as the widely used UCITS label for retail

[6]Overall asset size as of year-end 2024 is from EFAMA (2025), and the estimate of the share of retail AIFs is from ESMA (2023).

[7]"Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European Long-Term Investment Funds," EUR-Lex (29 April 2015), https://eur-lex.europa.eu/eli/reg/2015/760/oj/eng.

funds—had established scale and international recognition, and similar success was targeted for ELTIFs.[8] The potential for a new fund type for retail investors was acknowledged, even though it was by no means a policy priority at the time. In an attempt to provide protections similar to those in UCITS retail funds, a number of specific safeguards were introduced, including dedicated suitability tests and risk warnings, investment limits, and commitment rules.[9]

## Problems with the Original ELTIF Design

Because of the many restrictions on portfolio composition and eligible assets, however, the original long-term funds remained miniscule relative to the broader alternative funds market. By October 2021, only 57 ELTIFs had been launched, with AUM of only EUR2.4 billion (European Commission 2021).

With the benefit of hindsight, the European Commission has acknowledged that the many limitations on portfolio composition made ELTIFs unattractive to the industry and investors. Part of the problem was that a new fund format would need to be rapidly adopted to sustain itself in the funds market alongside the two better-known fund formats: UCITS (aimed at retail investors) and AIFs with lighter standards of protection, (aimed at professional investors). The other two alternative EU fund formats, for venture capital (European Venture Capital Fund, EUVeCA) and social enterprises (European Social Entrepreneurship Funds, EUSEF), faced similar scepticism as the original ELTIFs.

## A New and More Liberal Fund Format

Initiated in 2021, the revision of the ELTIF format was motivated by the disappointing industry uptake and came at a time of growing funding shortfalls following the COVID-19 pandemic. Once adopted in early 2024, the revised regulation showed greater realism with respect to the nature of private markets.[10] On the basis of the final implementation details released in late 2024, fund managers now have considerable flexibility in structuring funds and marketing, including to retail investors:

- A much wider set of assets is now eligible to be included in ELTIF portfolios. Core to an ELTIF are individual equity stakes in private companies and debt instruments not traded on an exchange. Although the bulk of fund holdings needs to be in these long-term assets, up to 45% of fund holdings can be

[8]In the section on private market assets and the EU agenda for its Savings and Investments Union, we explore the many problems that have plagued cross-border marketing of funds within the EU.

[9]Regulation 2015/760, recital 43.

[10]"Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 Amending Regulation (EU) 2015/760 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," EUR-Lex (20 March 2023), https://eur-lex.europa.eu/eli/reg/2023/606/oj/eng. Regulation 2023/606 was followed by the later implementing acts that clarified redemption policies. See in particular ESMA, "Opinion: ELTIF Regulatory Technical Standards Under the Revised ELTIF Regulation," ESMA34-1300023242-167 (19 April 2024), https://finance.ec.europa.eu/document/download/b882433c-2da9-48ce-a57a-e34b59c51600_en?filename=240419-opinion-eltif-rts_en.pdf.

in listed shares, bonds, and funds, such as retail funds under the UCITS format. At the cost of slightly muddying the true nature of these funds, this revision of asset eligibility rules and investment limits considerably eases the funds' inherent liquidity management problem.

- ELTIFs can also be composed of other funds, including alternative funds ordinarily marketed only to professional investors (as long as these are mainly composed of illiquid assets). Retail investors will now have access to funds of funds, even though these are more costly on an aggregate basis.
- ELTIFs can be designated for professional investors only or, alternatively, for both retail and professional investors. In the former case, they can use a higher degree of leverage, and the diversification requirements designed for retail investors do not apply.
- Fund managers structuring such ELTIFs, and their staff, can coinvest in portfolio entities alongside the ELTIF, a common practice in the industry. Because close control by fund managers over a small number of portfolio assets may easily result in conflicts of interest, these changes represented significant concessions to professional fund managers. Under the new regulation, any conflicts of interests should be preempted through the internal organization of the fund and, if they arise, must be disclosed.
- For funds marketed to retail investors, the diversification requirement is now less onerous and the ability to apply leverage has greater scope than under the previous ELTIF format. A key change is that specific requirements in terms of investor advice or suitability no longer apply, other than those already defined in the investor suitability assessments mandated under MiFID II. Nevertheless, these funds must have clear upfront risk warnings and disclosure of redemption limits.
- Crucially, the new format expands the scope for open-end semiliquid funds. Ordinarily, private asset funds offer redemption only once the underlying holdings are liquidated at the end of the fund's specified lifespan. This closed-end construction remains the default option under the new rules. But ELTIFs now make it possible for fund managers to allow investor exits under certain conditions by structuring as either semiliquid funds, which offer periodic redemption windows, or as "evergreen" funds, which have no fixed end date. Fund managers need to disclose procedures for redemptions and any constraints, even though investors have no right to demand full redemption. The true meaning of this limited liquidity will be a key aspect of fund design that will need to be communicated to investors. The option to make ongoing subscriptions or request redemptions at certain points in time depending on the liquidity arrangements should be particularly relevant for retail investors.

These changes have made the ELTIF format vastly more attractive, as many of the more restrictive features of the original ELTIF concept have been scaled back. The ELTIF is in essence an alternative (professional) fund, albeit one that can be widely marketed to retail investors. The nature of a "wrapper" is such that both private and public asset types can be included and ample scope exists to include cash or money market instruments, not least to meet liquidity needs.

Additionally, the requirement that retail investors commit a minimum amount has been abolished, and a threshold no longer applies to a client's minimum investable assets. This change could open up additional distribution channels and investor segments.

The suitability of ELTIFs for retail investors is now evaluated along the same lines as for other fund types, based on the MiFID rules. In 2016, MiFID II defined classifications for professional investors based on their experience, knowledge, and expertise to make their own investment decisions and to properly assess risks they incur.[11] Distribution and marketing of ELTIFs can essentially comply with these rules because specific investment restrictions were abandoned under the revised regulation.

It is a long-standing premise of EU rules that retail investors require a higher level of protection, largely awarded through the UCITS format for investment funds, whereas more complex alternative funds would be reserved for professional investors with greater risk tolerance, made available primarily through AIFs. The AIFs open to retail investors that were authorized by individual country authorities met a demand by retail investors but risked fragmentation of markets and uneven standards of investor protection. ELTIFs now offer consistent asset definitions, investment strategies, and a certain degree of transparency within a uniform product. To what extent investor protection has been compromised in the process is an issue to which we return in the section "Trade-Offs with Retail Investor Protection and Market Integrity."

## Fund Providers' Response

The revision of the EU's rules for long-term investment funds, finalized in 2024, has set off a dynamic supply-side response. Any assessment of this rapidly evolving fund segment is necessarily preliminary. Yet, a number of stylized facts about asset composition, retail investor engagement, costs, and liquidity in this emerging segment of alternative funds are already clear.[12]

### Buoyant Growth in Fund Offerings

In 2024 and 2025, 182 new long-term investment funds were launched, accounting for the bulk (by number) of the 262 ELTIFs in the market at year-end 2025. **Exhibit 1** illustrates the trend over 10 years.

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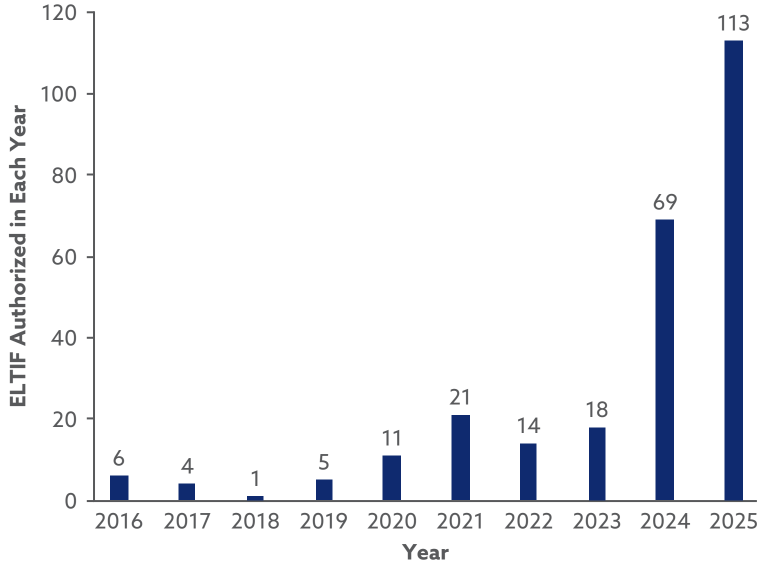
[11]Article 25 in MiFID II, "Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and Amending Directive 2002/92/EC and Directive 2011/61/EU (recast) Text with EEA Relevance," EUR-Lex (15 May 2014), https://eur-lex.europa.eu/eli/dir/2014/65/oj/eng.

[12]We draw on data from the register of ELTIFs at the European Securities and Markets Authority (ESMA), the EU-level supervisor: See "Register of Authorised European Long-Term Investment Funds (ELTIFs)," ESMA34-46-101, www.esma.europa.eu/document/register-authorised-european-long-term-investment-funds-eltifs; as well as publicly available data from rating agency Scope (www.scopeexplorer.com/en) and its analysis (Scope 2025, 2026).

## Exhibit 1. Number of New ELTIFs Authorized in Each Calendar Year, 2016–2025



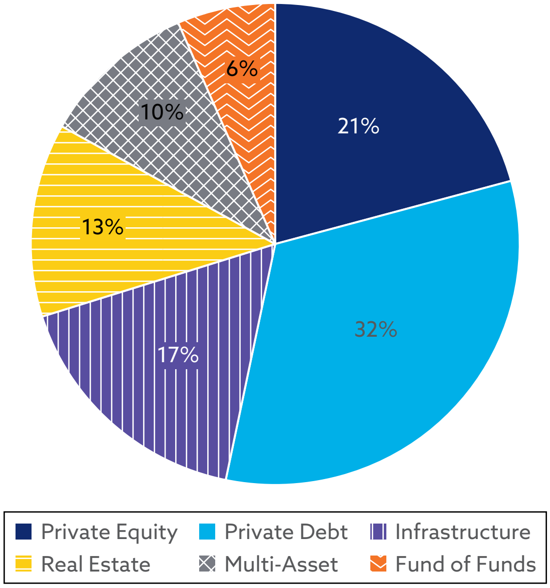

*Source:* ESMA Register of ELTIFs.

Overall, AUM within the ELTIF segment amounted to EUR34 billion at year-end 2025, with many funds still in the fundraising phase. This amount is small relative to the broader AIF market, which includes ELTIFs and which stood at roughly EUR8.2 trillion at year-end 2024 (EFAMA 2025).

In terms of the scope, costs, and concentration of funds, a number of trends are apparent:

- **Overall, the funds have indeed widened investor access.** More than half of the funds in the market in late 2025 were open for retail investors, including some for both retail and professional investors. Some of the previously authorized funds still operate under the original and more restrictive ELTIF format and, once reclassified, may further widen access.
- **Naturally, recently launched funds are still small, and the sector was relatively concentrated within older and larger funds.** Some 41% of assets were in the top 10 funds. The largest fund—klimaVest, offered by Germany's Commerzbank, primarily to retail investors—has attracted EUR1.7 billion alone in funds for sustainable energy investments from a largely German investor base.
- **Private debt is the dominant asset class, with roughly one-third of ELTIF AUM.** Market participants underlined the need for lower volatility and income-generating private assets in funds distributed to retail clients. **Exhibit 2** summarizes our analysis of asset class distribution using a subset of 81 funds for which more detailed data were available.

## Exhibit 2. ELTIFs by Asset Class (subset of 81 funds with detailed data), October 2025




*Source:* Calculations based on ESMA Register of ELTIFs and available data on Scope Explorer database up to October 2025, www.scopeexplorer.com/en.

- **Costs are high.** Management fees ranged from 0.75%–3.3% and averaged 1.9%, making ELTIFs a relatively costly product. On average, fees were higher for private equity ELTIFs (more than 2.1%) and lower for private debt funds (about 1.5%).[13] Most vehicles also levied a performance fee of 10%–20% above a hurdle return rate of 7%–8%. Although these costs compress potential returns, the fund industry notes that the average expense ratios across alternative-investment vehicles have been slowly decreasing because of scale efficiencies and competition (European Commission 2025).

## Some Long-Standing Problems Also Plague This Segment of the Fund Industry

As with other types of EU funds, the domiciles where long-term investment funds are initially authorized are heavily concentrated. All but 23 ELTIFs are registered in one of three countries: Luxembourg, Ireland, or France. As a domicile for nearly two-thirds of the funds launched to date, Luxembourg dominates this emerging fund segment, as it does other fund products. Funds domiciled in jurisdictions such as France tend to be larger and predominantly target institutional investors with larger average volumes.

[13]As in all other averages, these figures are not weighted by assets and are limited to the small subsample for which more detailed data were available.

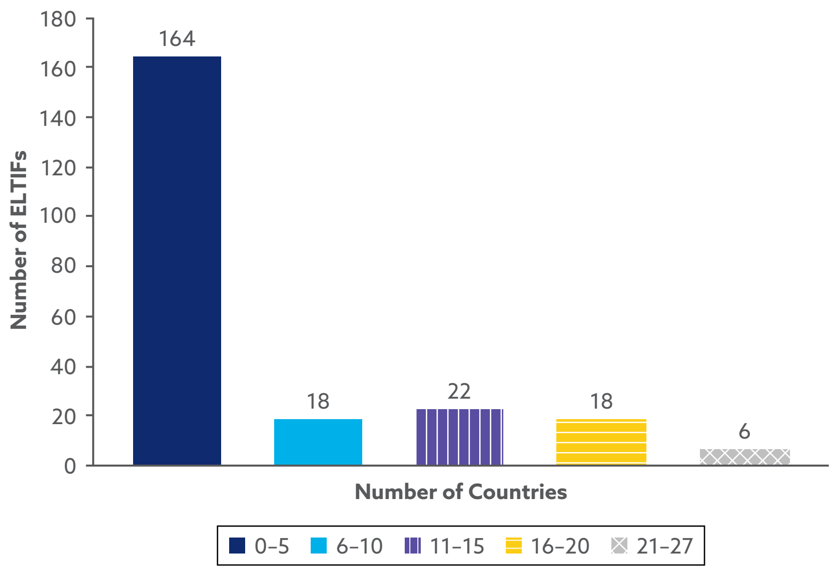
The data show that the most frequent cross-border target markets for ELTIF distribution are Italy, Germany, Spain, Belgium, and France. Yet, cross-border marketing remains a challenge for the ELTIF managers. Despite the EU passporting regime, which allows funds authorized in one country to be marketed across the EU, ELTIFs continue to be highly localized, with 70% of funds marketed in five or fewer EU countries (illustrated in **Exhibit 3**). This concentration presents a broader problem because data from industry association EFAMA show that only 38% of European AIF AUM is sold cross-border, compared with 79% for UCITS.

## As a Very Small Segment, ELTIFs Will Not Move the Needle in EU Retail Investment

Overall, these data underline that ELTIF funds are as yet a small segment within the broader alternative funds market, although they are rapidly expanding in number, scale, and reach. Growth in the number of funds and sponsoring managers has been particularly strong since the adoption of the revised fund format in late 2024. In terms of asset allocation, private debt strategies account for the largest share of both fund launches and AUM, followed by private equity and infrastructure.

The investor base for these funds is slowly broadening beyond its institutional origins, with more than two-thirds of active ELTIFs now accessible to retail investors. Furthermore, the market remains highly concentrated by domicile and marketing channels. Funds that are open to retail investors primarily

### Exhibit 3. Cross-Border Marketing Reach of ELTIFs




*Source:* Calculations based on the 2025 subset of funds in the ESMA ELTIF Register and Scope Explorer database for which country distribution was disclosed.

target a small number of countries where tax incentives and insurance-linked distribution have created early retail demand for private market products.

## Trade-Offs with Retail Investor Protection and Market Integrity

The participation of individual retail investors in private asset markets, which is further liberalized by the EU's ELTIF regime, is indicative of a global trend. This development is driven by supply factors, as the industry searches for a broader pool of capital to fund investments, and by demand factors, such as pension reforms that expand access, or the fraying of vertically integrated distribution models.

The EU has traditionally adopted a very high standard of retail investor protection in its fund industry. For retail (UCITS) funds, a robust set of EU legislation has established safeguards for smaller and less experienced investors, such as rules for key product information disclosures and prospectuses, liquidity of investments, portfolio diversification and investment limits, safekeeping of client assets, and avoidance of conflicts of interest. The UCITS format is globally recognized as offering high standards of investor protection. Principles of investor protection and disclosure are also set out in the EU's markets law (MiFID II) and in Solvency II (which regulates insurance firms). These rules have undergone periodic revisions as the understanding of investor transparency requirements and costs in fund distribution has evolved.

Private asset investment is based on a business model that is very different from that of mutual funds marketed to retail investors, however. Fund managers raise capital from institutional investors, such as pension and insurance funds, which are required to commit significant capital tranches over extended periods, typically without an early redemption right. Crucially, funds are invested only gradually in the underlying portfolio assets, as funds may retain "dry powder" of investable funds for several years. Investment in, and exit from, the underlying assets will evolve on a timeline that may well be inconsistent with the liquidity needs of a retail investor. Transparency of the underlying portfolio companies is, by definition, limited (Aramonte and Avalos 2021). Given this more complex investment process and the privileged position of the fund manager, containing costs, ensuring good transparency, and keeping conflicts of interest in check will be key considerations for retail investors.

The EU's new fund format for private assets requires a new approach to safeguard traditional objectives of retail investor protection and market integrity. We next examine four central aspects of investor protection, each of which seems somewhat compromised under the ELTIF rules: transparency, market integrity, liquidity preferences, and investor suitability and advice.

## Transparency: Dealing with Limited Disclosure

EU retail investment funds adopt a fairly high level of transparency given that they are required to offer disclosure documents (the Key Information Document) that set out the costs, risks, expected returns, and sustainability features of a fund product.[14] The EU's regulatory framework for managers of AIFs (the Alternative Investment Fund Managers Directive, AIFMD) stipulates a number of disclosure requirements by managers to investors, although these are generally weaker than in the case of retail investment funds.[15]

Private asset markets are opaque by nature. In fact, avoiding some of the costs associated with the public market reporting requirements of listed companies often influences previously listed entities in their decision to go private. When an enterprise draws down credit from a bilateral private placement rather than in an established banking relationship, this move is often motivated by more limited disclosure requirements (Aramonte and Avalos 2021). Because alternative asset managers (general partners, GPs) issue only a small number of shares to their investors (limited partners, LPs), interactions are close, rely on investors' expertise, and may not entail formal disclosures.

The new ELTIF regime attempts to raise ELTIF disclosure standards beyond common practice in professional funds. However, it still falls well short of standards in retail investment funds.[16]

Asset managers are now required to disclose fees and charges. Investors are to be explicitly warned about the illiquid nature of the products and must receive regular updates, including for asset disposals and liquidity events. The ELTIF market is now required to become more open through a central register of fund providers and cost ratios.[17]

It is hard to see how relatively complex private asset funds can be easily compared in terms of fund manager costs or liquidity arrangements. The quality of portfolio information, relating largely to unlisted entities, is necessarily limited. It seems unlikely that retail investors can have as much insight into portfolios and their individual components as has been the case for retail funds. Inherent problems in retail investment, such as inertia and failure to overcome information barriers, will weigh more heavily in private funds.

[14]See the PRIIPs regulation, "Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on Key Information Documents for Packaged Retail and Insurance-Based Investment Products (PRIIPs)," EUR-Lex (26 November 2014), https://eur-lex.europa.eu/eli/reg/2014/1286/oj/eng.

[15]Alternative Investment Fund Managers Directive 2011/61, https://eur-lex.europa.eu/eli/dir/2011/61/oj/eng.

[16]These are, for instance, set out in the 2014 PRIIPs regulation.

[17]Revised ELTIF Regulation of 2024, recital 11.

## Market Integrity: Dealing With Conflicts of Interest

A key tenet of the regulation of listed entities, markets, and hence of retail investment funds is that management is incentivized in line with a broad common shareholder class. Conflicts of interest can arise when corporate insiders seek financial gains at the expense of other investors or when certain types of investors enjoy preferential treatment. In an attempt to address misaligned incentives, the EU's Market Abuse Regulation bans insider trading and forces disclosure of privileged positions. The latest revision of the UCITS directive further strengthens transparency of fund managers and mandates the disclosure of potential conflicts of interest.[18]

In the private asset world, both GPs and LPs typically invest in the same fund, which aligns their incentives. Conflicts of interest arise in cases in which a large investor, such as a pension fund, invests directly in individual portfolio holdings alongside the fund manager. Similar conflicts arise where asset managers hold parallel debt and equity relationships in individual portfolio companies.

In their position as LPs, institutional investors may gain sufficient insight into the conduct of individual portfolio companies and exert control over the fund manager. Retail investors are in a very different position, because they have access only to limited and intermittent information. Broader problems emerge in private markets because of the control and information advantages of the fund manager. For instance, a fund manager may select weaker assets for retail funds, leaving other assets for funds aimed at more sophisticated professional investors, because LPs would typically deploy stronger due diligence and investor engagement than retail investors (Canderle 2025).

The new ELTIF regime acknowledges that such conflicts of interest are inevitable in the private asset space and adopts a generally more permissive approach than would be the case for assets and portfolios in public markets. For instance, conflicts of interest should not prevent a manager from coinvesting in an ELTIF. The regulation only requires disclosure of parallel ownership stakes in portfolio companies, falling well short of the standard in the UCITS regime.[19] Such compromises seem inevitable.

## Liquidity Preferences: Plausible Redemption Regimes

In terms of liquidity and fund valuation, ELTIFs offer an inevitably less protective framework.

UCITS managers are required to offer daily redemption based on the net asset value of the fund, which is determined by observable public market prices. Exceptions to the redemption policy may arise in times of market stress,

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[18]Directive 2024/927 extensively amended requirements for information provision, supervisory reporting, liquidity management, and fee disclosures for both AIF and UCITS managers.

[19]ELTIF Regulation of 2024, recitals 19–20.

allowing a manager to deploy a number of liquidity management tools such as redemption gates, swing pricing, or the separation of less-liquid assets from the main fund. Risks in NBFIs increasingly scrutinized by European supervisors and liquidity management tools, and fund manager transparency requirements were updated in 2025 for both UCITS and AIFs.[20]

Liquidity risk and its management is very different in the world of private assets, which are generally held in closed-end structures that are not tradable and have limited secondary market opportunities. Investor funds are typically committed for five to seven years ahead of a fixed redemption date.

Under the new ELTIF regime, funds are generally assumed to be locked in (i.e., closed-end) without redemption rights, although they can be constructed in a semiliquid open-end format. In that case, redemptions are possible, subject to extensive small print: The fund manager can stipulate minimum holding periods or a minimum notice period, prescribe a cap on total redemptions in a given period, or accept redemption requests only intermittently. Liquidity buffers can take the form of money market instruments or liquid public market instruments, which could amount up to 45% of the net asset value of the fund. To preempt a run on a fund, however, managers can define extensive safeguards that could easily forestall investors' redemption requests. Valuation of net assets would be conducted on the basis of rules applied for AIFs (e.g., through the use of third-party valuers), although information asymmetry can work against the interests of retail investors in many ways. In cases in which an ELTIF is marketed to retail investors, certain more restrictive fund characteristics trigger additional alerts to the investor.[21]

The inherent illiquidity of the fund and the various tools the manager is allowed to use in times of market stress are integral in assessing the quality and risks of ELTIFs in the retail investment market. It is this extensive detail that defines liquidity arrangements, which ultimately make it very difficult to assess the true risk of or compare costs for this type of fund.

## Investor Suitability and Advice: The Role of the Industry

Matching investment products with suitable clients is a key tenet of EU market regulation. This objective is achieved through rules on fund manufacturers, which need to document that the fund is compatible with the target market, and through rules on investor suitability.

Since 2016, MiFID II has defined a classification for professional investors based on their experience, knowledge, and expertise to make their own investment decisions and to properly assess risks they incur. Under MiFID rules, certain retail investors can elect to be treated as professional investors, benefitting from wider access to products but in the process giving up certain protections.

[20]Directive 2024/927.

[21]ELTIF Regulation of 2024, Articles 18 and 30. This includes transparency on restrictions on redemptions.

National interpretations of this latter provision vary significantly among EU countries.[22]

In its motivation for revising the ELTIF regime, the European Commission was clear that professional investors, who are the typical investor base for private assets, tend to have longer time horizons, distinct financial return objectives, more expertise, higher risk tolerance of adverse market conditions, and higher capacity to absorb losses.[23] Nevertheless, the ELTIF regime seeks to reconcile the world of alternative funds with the much lower financial expertise of retail investors.

The new ELTIF regime defines certain types of funds marketed only to professional investors, which benefit from lighter rules on portfolio construction or leverage.[24] ELTIFs sold to retail clients are not necessarily less complex, although such clients need to undergo a suitability test as defined in the MiFID rules. Limitations set in the earlier ELTIF regulation, consisting of a minimum individual investment and a 10% cap on the share of the portfolio invested, were abolished in the 2024 revision, as was the requirement to obtain specific investment advice. Retail investors now receive only an upfront warning about the nature of the fund and communications, and further updates by the fund manager should be more proactive and in non-technical terms.[25]

Given the experience to date with manager disclosures and documents, it is hard to see how these provisions will elicit more interest in long-term investment funds, let alone investor understanding.

The industry has met this suspension of checks and limitations with some unease. Evidence from a number of EU countries suggests that standards in sales are more restrictive than set out in the regulation, and many managers set minimum investment amounts or wealth (over and above what the regulation requires) to identify suitable investors.

## Private Market Assets and the EU Agenda for a Savings and Investments Union

The EU's 2025 program for a Savings and Investments Union could promote both the future development of private markets and the more efficient functioning of retail investment in the private market asset classes. Reforms may well be essential if private asset markets are to thrive. Even though retail investment in long-term assets is as yet very small, the further development of the ELTIF market could give additional support to the EU's overarching objective

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[22]Article 25 in MiFID II (Directive 2014/65/EU).

[23]ELTIF regulation of 2024, recitals 21 and 24.

[24]For example, see Article 13 of the amended ELTIF regulation (Commission Delegated Regulation (EU) 2024/2759, 19 July 2024).

[25]ELTIF regulation of 2024, recital 33.

of engaging more households in capital market products. Three ongoing reforms are particularly relevant.

## Liberalizing Institutional Investor Allocations in Private Asset Markets

With respect to private markets, the EU strategy seeks to address the relatively limited allocations to private equity, venture capital, and infrastructure by the EU's sizable pension and insurance funds (Directorate-General for Financial Stability, Financial Services and Capital Markets 2025c). EU regulators have a clear expectation that increasing these allocations would also benefit the funding of innovative and growth companies. Evidence for this link came, for instance, in a 2025 ECB study that showed that private market investors tend to fund companies that are riskier, smaller, and more innovative than those in a typical banking loan book. In addition, once private market funding is obtained, companies tend to display increases in intangible assets, which are a key stepping stone toward further innovations and productivity increases (Cera et al. 2024).

The EU has already begun to recalibrate a number of prudential requirements that could facilitate institutional investment in private markets. The securitization framework was liberalized in the summer of 2025, and capital requirements for pension and insurance firms in the Solvency II Directive were revised at year-end 2025. In November 2025, the Commission also proposed a reform of the prudent-person rule, which translates the concept of fiduciary duty into investment conduct principles and portfolio allocation limits under the EU's occupational pensions directive (Directorate-General for Financial Stability, Financial Services and Capital Markets Union 2025a). The EU's pension fund investment rules are often made more restrictive than intended because national authorities implement restrictions or quotas for different asset classes.[26] According to the recent EU proposal, pension fund managers should have more scope to design portfolios in line with the long-term interest of beneficiaries in defined contribution plans, and private equity and venture capital should receive larger allocations.[27]

[26]The EU IORP 2 Directive stipulates a number of investment rules in Article 19. See "Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs)," EUR-Lex (14 December 2016), https://eur-lex.europa.eu/eli/dir/2016/2341/oj/eng). The Commission proposes that the prudent-person rule of that article become more flexible, emphasizing the long-term interests of pension savers, to scale back allocations that are overly conservative.

[27]See also the comparison of realized returns on different asset classes over a 20-year period: Commission Staff Working Document, "Enhancing the Capacity of the EU Supplementary Pension Sector to Improve Retirement Income and Supply Long-Term Capital to the EU Economy," EUR-Lex (20 November 2025), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52025SC0367.

## Overcoming the Fragmentation of the Asset Management Industry

Belatedly, the EU is also addressing the many forms of market fragmentation in its fund management industry. Its asset management sector is the second largest in the world, and at year-end 2024, it managed more than EUR20 trillion in assets (European Commission 2025). Because of a number of barriers to establishing a cross-border value chain and gaining authorization for fund marketing outside the home base, the number of European retail and professional funds is extremely high: The EU has more than 65,000 funds, compared with roughly 7,500 funds in the United States (where net assets are nearly twice those of the EU) and with about 3,300 funds in the United Kingdom. Only three EU countries (Luxembourg and Ireland—the predominant fund domiciles—and Lithuania) distribute locally established funds in more than four other EU countries on average (as Exhibit 3 shows, this problem also affects ELTIFs). Therefore, because individual funds are relatively small, the fixed costs of fund administration translate into relatively high fund charges for investors (ESMA 2025).

To bring about a more efficient asset management sector, a package of measures launched by the European Commission in December 2025 has been designed to address these barriers and create a more level playing field in national supervision. The measures are fairly comprehensive in touching on several pieces of legislation and also are quite ambitious in shifting powers away from the authorities of individual EU states. Ultimately, these changes should make the sector more efficient and facilitate greater fund management scale and distribution across the entire EU.

Fragmentation between national markets and fund managers is likely a particular problem for private asset funds. These funds typically hold a small number of relatively concentrated illiquid assets, which raises the fund's fixed costs (as documented earlier in the discussion of the high management costs of ELTIFs, most of which remain very small). Consolidation and the benefits of scale economies will therefore be key in making fund products attractive.

## Reforming the Retail Investment Market

Several long-standing problems have held back the expansion of the retail investment sector in the EU. These issues will weigh particularly heavily for the more complex and illiquid long-term investment funds, irrespective of investor sophistication.

In its 2023 Retail Investment Initiative, the European Commission (2023) identified four main problems:

- Investors regard investment products as too complex. They struggle to understand and compare different options based on disclosure documents.

- Investor behavior is unduly influenced by marketing and digital distribution channels.
- High levels of management fees and product costs lead to poor value for money (see also, ESMA 2025).
- The industry confronts a widespread lack of trust around conflicts of interest and the use of inducements and commissions paid to distributors. Inducements that reward an adviser promoting certain products are still widespread and may lead to conflicted advice.

In addition, barriers remain from taxation, which remains a national competence; from a lack of tax-incentivized long-term savings instruments; and from inadequate financial literacy in a large number of countries. The Retail Investment Initiative attempted to impose more consistent and transparent information requirements across all key pieces of legislation and to limit conflicts of interest. This was designed to raise the quality of disclosures and reduce costs in fund distribution. At the time of writing, a continuation of past practice looked likely (Directorate-General for Financial Stability, Financial Services and Capital Markets Union 2023).

The expansion and distribution of ELTIFs will be particularly exposed to these same problems and barriers. Comparison of costs across funds with different liquidity arrangements or portfolio strategies will be particularly difficult. Any reports of mis-selling or poor communication of redemption restrictions to investors proclaiming to have been poorly advised would further erode trust in the industry. In an unreformed framework for retail investment, the rapid expansion of the ELTIF market and their potential sale to inexperienced investors may in fact further complicate the lack of trust and investor perceptions of poor value for money.

## Significance of Private Asset Funds for Retail Investor Mobilization

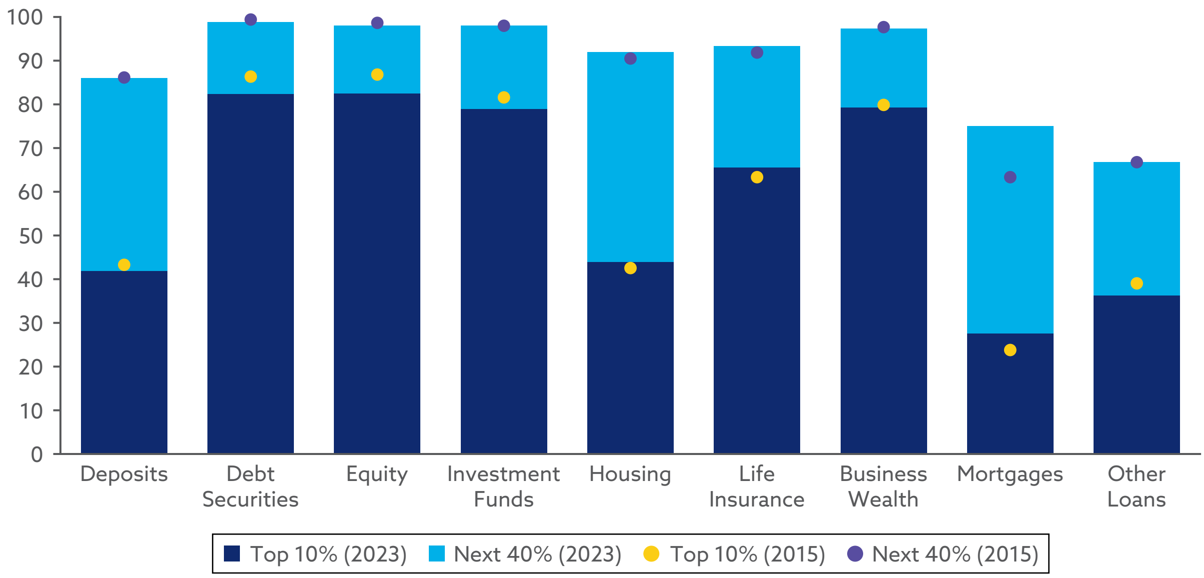
EU savings rates are high, at just under 15% of disposable income, which has resulted in substantial wealth, including in financial assets of EU households (more than EUR43 trillion at year-end 2024). But low levels of retail investor engagement in risk-bearing instruments have long plagued EU capital markets. Deposits amount to roughly 28% of household financial assets, compared with only about 10% in the case of the United States (European Commission 2025). A key question is to what extent measures to develop private asset markets will mobilize retail investors.

The EU's capital market strategy does not present the new ELTIF format or the expansion of other alternative asset funds as a step toward mobilizing retail investors. Making this link would indeed be a stretch. The earlier section on the fund providers' response showed that private asset funds accessible for retail investors are very small in aggregate, with EUR34 billion in ELTIFs and a roughly similar amount in locally authorized funds of other alternative assets. In any case, only more-sophisticated investors are likely to be deemed suitable for illiquid retail investment funds, so a more accessible fund product will not attract investors previously disengaged from capital markets.

That said, wealthy and more experienced investors are likely to be the primary retail investor group interested in long-term funds and are already targeted by asset managers. The potential of this group alone could be substantial. The share of net wealth held by the top layer of the EU households made a big jump at the time of the eurozone debt crisis in 2009–2013 and remains at an all-time high. A 2024 ECB study showed that 57% of total EU net wealth is owned by the wealthiest 10% of households, with about 22% held in the form of financial instruments and deposits.[28] A striking share of around 80% of equities, investment funds, and bond holdings in the euro area is held by these wealthiest households in the top decile of the distribution. **Exhibit 4** illustrates the shift in these holdings.

These wealthier investors may prefer to invest in the EU or in sustainable assets, such as energy infrastructure. The EU's recently stepped-up ambition for the green transition and a more competitive digital economy has further raised

## Exhibit 4. Instrument Holdings by Net Wealth Group as a Share of Total Corresponding Instrument Amounts, 2015 and 2023




*Source:* ECB Distributional Wealth Accounts.

[28]Data based on ECB Distributional Wealth Accounts. See Nina Blatnik, Alina Bobasu, Georgi Krustev, and Mika Tujula, "Introducing the Distributional Wealth Accounts for Euro Area Households" (May 2024), www.ecb.europa.eu/press/economic-bulletin/articles/2024/html/ecb.ebart202405_02~50a620f16b.en.html. See the summary, "Wealth Inequality in the Eurozone—in 8 Charts," *Positive Money* (blog), 19 March 2025, https://positivemoney.org/eu/update/wealth-inequality-in-the-eurozone-in-8-charts.

the need for investment in long-term infrastructure assets.[29] Fund managers indeed target this sector with a substantial number of long-term funds with sustainability objectives under the EU's classification scheme.[30]

The implication of this skewed distribution of financial assets is that focusing the marketing of ELTIFs on the group of wealthiest investors would not only target the more experienced investors but also be entirely sufficient to achieve a meaningful shift of investor portfolio allocations.

## Conclusion and Next Steps

ELTIFs create a fairly flexible fund format for making private assets accessible to both professional and retail investors. They are, in essence, AIFs that should be attractive to institutional investors, including the sizable pension funds in some EU states. Together with the recent recognition of debt funds within the AIF format, and given the imminent revision of the EUVeCA, EU-regulated funds have become more open to private or unlisted assets.

EU regulators expect that ELTIFs will establish themselves as a common benchmark for long-term funds across the EU's single market, based on passporting rights that facilitate cross-border marketing. This scenario seems realistic only once various other barriers to cross-border marketing of alternative funds are eliminated. Measures tabled by the EU in December 2025 and aimed at strengthening common supervision and greater cross-border marketing of funds should be supportive of market integration and greater efficiency in the asset management sector.

The expansion of retail investment has been plagued by poor communication between the industry and investors and by a fragmented fund management sector that has kept costs relatively high. These broad and long-standing barriers could pose problems for private asset funds.

Long-term illiquid and semiliquid funds will be especially relevant in wealth management, for which the United Kingdom and Switzerland remain the key European centers. Ideally, these countries will grant regulatory equivalence so that EU funds could be marketed without additional approval, as the United Kingdom has already done for EU UCITS under its Overseas Funds Regime (no such option exists on the EU side).

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[29]For the most recent estimates for spending on green, digital, and defense commitments, see Othman Bouabdallah, Ettore Dorrucci, Carolin Nerlich, Christiane Nickel, and Aurelian Vlad, "Time to Be Strategic: How Public Money Could Power Europe's Green, Digital and Defence Transitions," *The ECG Blog* (blog), European Central Bank, 25 July 2025, www.ecb.europa.eu/press/blog/date/2025/html/ecb.blog20250725~f26b4ef0f3.en.html.

[30]For instance, Europe's largest ELTIF, Klimavest, issued in Germany by Commerzbank, focuses solely on sustainable energy. The link between investor wealth and ESG preferences was demonstrated, for instance, in Amel-Zadeh et al. (2020).

Although EU rules for long-term investment funds are now fleshed out, national authorities in EU countries will need to support the implementation of the new ELTIF regime. The following areas should be prioritized:

- **Harmonizing tax treatment.** The tax treatment of investment funds remains highly uneven across the EU. In several EU countries, such as Finland, tax exemptions are limited to open-end funds. Fiscal authorities should work toward tax neutrality—that is, not biasing investor decisions because of the fund's structure or domicile or because of where its portfolio companies are located.
- **Scaling back "gold-plating."** Even though ELTIFs are based on a regulation, which requires immediate and direct application across all EU countries, each nation has multiple options to impose additional requirements. For instance, a country might have additional investor suitability criteria or could delay the pan-EU passport of a fund domiciled in another EU country. Such "gold-plating" EU rules should be scrutinized by the EU agencies.[31]
- **Consolidating competing formats for retail AIFs.** Several locally regulated comparable formats for semiliquid funds and other alternative assets are aimed at retail investors. National regulators should gradually phase out these competing formats in the interest of building up a more liquid ELTIF asset class. Experience with other EU fund formats suggests that economies of scale will arise as sizable fund types become more widely adopted, including outside the EU.
- **Strengthening transparency.** EU countries will also be in charge of enforcing transparency in fund valuation (including with external verification) and of commissions and compensation structures for which common principles need to be established by ESMA.

Much will depend on the marketing and advice by the fund management industry.

Although the new long-term investment funds will in principle be open to all retail investors, most industry players have sensibly set additional criteria to identify suitable retail investors. Due diligence by retail investors may be less effective if they lack the expertise to properly assess complex portfolios and investment strategies.

More-established fund managers base investor access on level of wealth or experience, whereas newer firms and digital platforms are less restrictive. In countries such as Italy, for example, fund distribution platforms have already imposed safeguards on their own, including minimum subscription thresholds and limits on asset concentration, mandatory questionnaires and minimum experience, and a requirement for investors to have obtained professional and regulated advice.

[31]Suchta et al. (2024) document national exemption and additional requirements that complicate implementation of the MiFID, UCITS, and AIFMD rules.

A rapid growth of semiliquid assets may well challenge not only retail investors but also advisers and their resources. Semiliquid products are inherently more complex than liquid ones, including in the redemption arrangements, in cost structures and fees, and in fund pricing and administration. For instance, they need to periodically report on the portfolio to a wider group of investors. Transparency concerning the underlying assets and their valuation, presentation of returns net of fees, and disclosure of benchmarks or performance targets will build investor confidence. As in other areas of retail investment, however, these aspects may suffer from inconsistent quality of reporting in the typical disclosure formats. Firms with an established liquidity management system and distribution channels may well be at an advantage.

These practices are likely to evolve and could intensify competition in the fund management industry. Limiting illiquid funds to sufficiently experienced investors and suitable portfolios should take priority over marketing logic. Retail investors, for their part, should rely on professional advisers when evaluating private asset funds, especially if they lack sufficient knowledge or familiarity with the asset class.

European long-term funds are an important innovation that will give greater consistency to collective investment in private assets. This asset class could be particularly relevant for experienced retail investors, in particular those seeking thematic or impact investment, for instance in sustainable assets. Because of the complexity, costs, and inherent conflicts of interest in private asset funds, the EU rules make inevitable compromises. For experienced investors, ongoing scrutiny of market practices and education with support of their advisers will be key.

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