

# Removing barriers for distributing and accessing private markets strategies for all investors



# Introduction

The opening up of the European market for private markets via European Long Term Investment Funds (ELTIFs) to retail investors will bring a wealth of opportunities for investors, distributors and asset managers and should provide welcome efficiencies for intermediaries, fund administrators and transfer agents.

Below, we highlight key aspects of the Alternative Investment Fund market, and in particular the rise of the ELTIF market, following the recent ELTIF 2.0 regulation, which paves the way for the long-anticipated “retailisation” trend. The introduction of this new regulation illustrates how there is political will to support the financing of capital markets outside the traditional banking sector.

We outline how this will bring growth opportunities across the board and how Clearstream is perfectly positioned to support the expected surge in volume

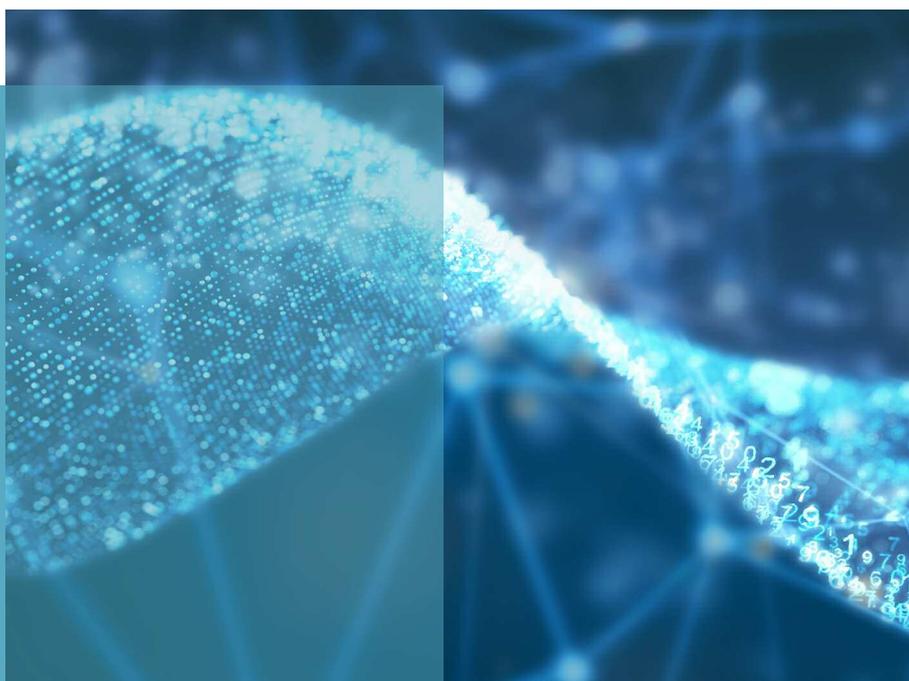
of ELTIFs, thanks to its leading European distribution platform Fund Centre together with its Vestima franchise, the world’s largest fund processing platform.

Retail investors are looking for better returns. For investors, ELTIFs, with their lower minimum investment thresholds, provide wider access to long-term investments into companies and projects that are not accessible through public markets, thereby complementing their existing investment strategy. Centralised access via existing channels will be key to achieving efficiency across the market for these new products.

Distributors are looking for products and unique ways they can differentiate these products for investors. For distributors, ELTIFs are a way to integrate private market offerings into their existing customer portfolios. This will enhance their marketability, allow risk and return diversification and follow the trend of liquid and illiquid allocations, making them more attractive.

Asset managers are looking for alternative sources of growth, especially where institutional investors have already achieved maximum allocation in alternative funds. For both traditional or alternative asset managers, designing tailored ELTIFs will attract a much broader base of distributors and underlying retail customers.

For intermediaries, fund administrators and transfer agents, key considerations are streamlined operations, reporting and the inherent and increasing needs for transparency that are expected from targeting retail investors.



# Background

In 2022, the global private market experienced relative turmoil due to the deteriorating macroeconomic environment, primarily linked to inflation and the subsequent hike in interest rates globally. Directly related to this macro-economic environment, traditional or "liquid" fund markets faced noticeable instability and fluctuations, previously only witnessed over a decade earlier during the financial crisis of 2008. However, private market strategies have demonstrated better than average resilience to these internal pressures, offering protection to investors exposed to these asset classes. Even though the relative performance of the asset class has decreased compared to 2021, in terms of valuation and capital raise ("dry powder"), private market investment strategies have continued to outperform public market equivalents. This has been a trend for the past two decades (Source – McKinsey Global Private Markets Review 2023).

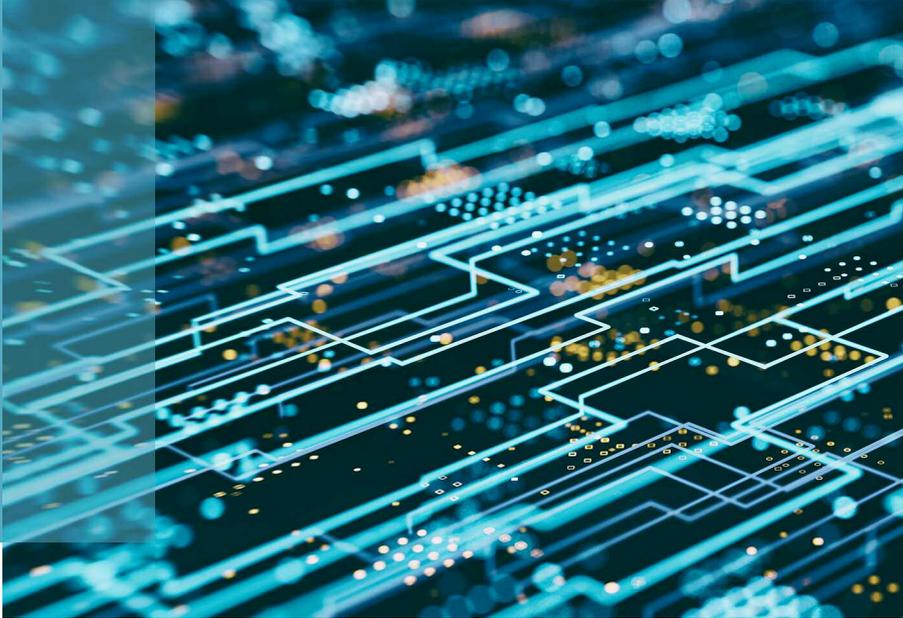
Within this private market segment, the ELTIF market grew by more than 50% year-on-year to reach more than €11bn in 2022, with €4bn of net new flows (Source – Research by Scope). Thanks to the recent adoption of the ELTIF 2.0 regulation in various EU jurisdictions (notably Luxembourg), we foresee continuous and increased growth opportunities for ELTIFs from 2023 onwards.



With the acquisition of the financial institution hedge fund custody processing business of Citco Global Securities Services in 2014 coupled with the successful integration of Swisscanto Funds Centre and UBS Fondcenter, Clearstream has been a leading private market custody and distribution platform in Europe for a decade with more than €150bn assets under custody. Over recent years, Clearstream has supported the growth of private market funds with best-in-class services and has witnessed substantial growth in ELTIFs on its Vestima platform. The total AuM of ELTIFs has grown

almost 10-fold since 2021 to more than €1.5bn (as per March 2023). Clearstream is committed to continuously supporting the increasing volume of ELTIFs for its institutional clients to meet the needs of their underlying retail investors. In addition, Clearstream is perfectly equipped with its unequalled capability for processing complexity such as for international feeder funds, ELTIFs, German special funds, real estate funds and more.

# Market development



Private market investment strategies are expected to offer higher investment returns, more diversification and protections against volatility when compared to the public sector. However, private funds are also known for their inherent illiquidity, complexity, and high investment barriers due to their close-end nature.

## Regulatory push for ELTIF 2.0 & simplified structure

In April 2023, the European Parliament announced a new regulation for ELTIF 2.0, specifically designed to facilitate exposure to alternative long-term investments for retail investors. This new product should further facilitate investment, with a lower minimum investment threshold and simplified requirements on portfolio composition and diversification, effectively making ELTIFs much more attractive to retail investors.

Global asset managers are already working on simplified fund structure to render ELTIFs more attractive and accessible to the retail market, with for example the removal of capital calls and drawdowns in some of their products. According to Justina Deveikyte, director of Cerulli's European institutional asset management research, half of German private banks and around 40% of Swiss and UK private banks and wealth managers plan to increase their allocations to private equity growth strategies over the next 12 to 24 months.

The continuing success of this asset class – with more than \$2.3tn in AuM – has led to increased compliance and reporting requirements – and therefore cost – for the fund management industry, via the Alternative Investment Fund Managers Directive (AIFMD), which regulates the private market industry in Europe.

Recent proposals for AIFMD II are likely to further reinforce these requirements and consequently also the underlying cost.

## Clearstream's understanding of market needs:

- **Investors** are looking for more transparent and cost-efficient access to private market opportunities, to complement their current investment strategy in traditional funds. They ideally also want this access via their existing channels.
- **Distributors** are looking for solutions to navigate the private market offering and integrate private market strategies into their customer portfolios.
- **Asset managers** are looking for support to find the best way to access and enlarge their distribution network. They also aim to design ELTIFs with more competitive pricing to attract the retail mass. One area of focus is reducing complexity around processing.
- **Intermediaries**, fund administrators, TAs and other market participants are looking to streamline operations and reporting via automation to strengthen their operational controls.

# Clearstream's perfect positioning

Over the past decade, Clearstream has made significant strides in the alternative funds processing and custody market, starting with the successful acquisition and integration of Citco fund processing unit a decade ago. By establishing and expanding its Vestima franchise, Clearstream has managed to stay ahead of its competitors in the industry. Additionally, Clearstream has further enhanced its position through the merger of Swisscanto Funds Centre and UBS Fondcenter, as well as through the acquisition of Kneip.

These strategic moves have allowed Clearstream to develop a comprehensive and efficient one-stop-shop solution for fund services. This integrated offering covers a wide range of aspects from distribution, order execution and processing through to asset servicing, and top-notch data management solutions. Clearstream's services cater to all types of fund classes – including private market products – across the entire service chain.

Although, historically, institutional clients have always established and maintained strong direct connections with prominent asset managers and family offices, there has been a recent but noticeable shift as institutional clients strive to diversify their investment strategies and offerings to their end customers. This has resulted in an increased investment into ELTIFs and feeder funds sourced from private market platform providers through Clearstream.

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As of Q1 2023, Clearstream has accumulated a substantial portfolio of feeder funds, ELTIF products, and other alternative assets, amounting to nearly €150bn in private assets on a global scale.

assets on a global scale. Consequently, Clearstream has emerged as one of the largest and most prominent platforms for alternative fund processing in Europe.

Administration for alternative funds is traditionally regarded as being more costly for end-investors because of historical manual fund processing and more complex structures that include capital calls and drawdowns. Clearstream is committed to continuously enhancing private market administration efficiency and lowering investment barriers for alternative funds:

- We are actively collaborating with fund administrators and private market platforms to establish operational efficiencies that facilitate access to manager strategies in a highly competitive manner.
- We are supporting asset managers in product creation and design, and providing key advice on optimising product attributes to ensure:

- investors benefit from the operational efficiencies implemented by Clearstream;
- investors can access all investment opportunities under our fully integrated solution;
- asset managers can sell their funds through the Clearstream distribution network in the most effective way.

- We are diligently involved in the implementation of the ELTIF 2.0 regulation, aiming to empower all market participants to maximise the value potential offered by the new regulatory framework.

Clearstream has proven skills and experience in bringing complex products to distributors and wealth managers. We can support asset managers in designing new products including – but not exclusive to – ELTIFs. Through expert guidance, we can ensure these products are easily “Vestible” and can be effortlessly adopted by distributors, resulting in lower overall transaction costs.

# Key attributes on Vestima

Clearstream has already established support for ELTIF products through its Vestima platform. Recognising the growing demand for onboarding ELTIF structures, our aim is to assist asset managers to bring their ELTIFs, as well as other private equity alternative products, to the market efficiently and expeditiously. We strive to ensure that these products are readily available to clients in the most efficient manner possible.

Clearstream Banking classifies funds into Fund Market Groups (FMG) depending on the fund complexity

- FMG A (simple investment funds),
- FMG B (complex mutual funds)
- FMG C (alternative investment instruments)

The operational processing of our platforms is influenced by key fund attributes. At Clearstream, we place special emphasis on these attributes when evaluating funds to determine their eligibility for Vestima and

to establish whether to provide straight-through processing or offer specialised operational processing with dedicated professionals overseeing the process.

A pre-requisite is that the fund meets our regulatory and compliance standards and is domiciled in a jurisdiction that is supported in our market coverage.

Below are some key attributes that help define the best operational processing platform:

Straight-through processing	Specialised operational processing
<ul style="list-style-type: none"> <li>- Simplified account opening – Master application</li> <li>- Order Handling Agent (OHA) is CFF participant</li> <li>- Standardised trading rules</li> <li>- Predominant use of STP channel – Paperless transaction flow</li> <li>- Capital commitment with 100% upfront drawdown</li> </ul>	<ul style="list-style-type: none"> <li>- Limited or no STP connectivity</li> <li>- Original documents are required for each trade.</li> <li>- Lock up period and series issuance</li> <li>- Equalisation related to performance fee</li> <li>- Upfront commitment and multiple subsequent drawdowns</li> <li>- Account declarations such as FINRA rule that require frequent recertification over the lifecycle of the fund</li> </ul>

Please note that this is NOT an exhaustive list, and each fund is reviewed on its own merits. The assigned platform will be officially confirmed only after full assessment is completed by our in-house experts.



With its established proficiency in alternative funds processing and custody, combined with a comprehensive understanding of the intricate requirements and regulations governing the private market, Clearstream is fully equipped and poised to provide unwavering support to private markets in Europe. Drawing upon its in-depth

knowledge and expertise, Clearstream is committed to delivering highly specialised solutions and tailored assistance to meet the specific demands of private markets.

**For more information, visit [Clearstream.com](https://www.clearstream.com) or get in touch with our team.**

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