



CHRISTIAN EDELMAUNN

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How blockchain technology can kickstart ELTIF investing

The European Long-Term Investment Fund was supposed to throw open the doors of the cloistered kingdom of unlisted companies and real assets to ordinary investors. Six years later, the rush hasn't happened.

This should be a golden era of ELTIF investing for institutional and retail investors alike. The pandemic has prompted governments to tap taxpayer money to keep the economy afloat. Still more is needed to fund innovation and infrastructure to achieve a broad-based recovery and deliver on the climate agenda European governments have promised. At the same time, low interest rates and much easier access to public markets have pushed investors further out on the risk curve.

Yet retail investors have been reluctant so far to dive into ELTIF portfolios. At the end of 2020 assets under management of ELTIF funds across the EU stood at just €1.5 billion.

What's the holdup? A lot has been written about fairly technical details such as the authorisation process, prospectuses and disclosures, and specific details on portfolio composition. Yet in our view, the biggest stumbling block is liquidity.

ELTIF assets are long-term in nature but the lack of modern technology and standardisation increases the liquidity challenges in several ways. First, selling assets requires material legal resources; it can take months for contracts to be finalized, and cross-border transactions present still more challenges. Likewise, the registration process typically costs €300,000 in legal expenses, compared with roughly €30,000 to €40,000 for a typical European mutual fund.

What's more, each private debt loan is a bilateral contract often spanning 100 or more pages, requiring manual intervention in administration. And ELTIF funds also suffer from a lack of a standardised template for regulatory reporting and communication between manufacturers and distributors.

Blockchain technology can help. It would allow for real-time distribution of everything from the most current asset valuations to legal information needed for an asset transfer. Hours and days could turn into fractions of a second. It would also help the EU create and distribute the lingua franca needed to standardise these products and underlying investments across firms and borders.

A blockchain-driven platform for secondary trading might also attract a new cadre of retail investors concerned about liquidity. Private assets are often viewed as an insular world of asymmetric information, and blockchain could help lift the veil.

That would help democratize markets that have traditionally been dominated by the largest firms and wealthiest investors. For retail investors, it could provide access to true alternative investments. For advisors and distributors, it could provide a differentiated value proposition.

Blockchain technology won't turn ELTIFs into the hottest retail investments overnight. But it could help to create buzz for an investment product that, so far, hasn't lived up to its potential.