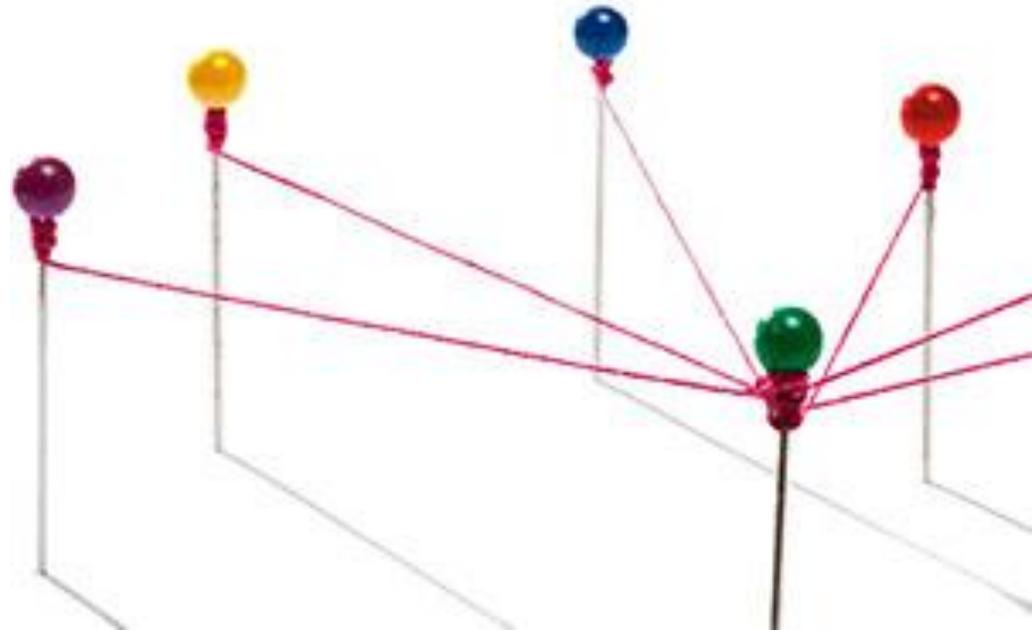


**Deloitte.**

Link'n Learn  
Loan Funds

Leading Business Advisors



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# Agenda

1. Background to Loan Funds

2. Ireland's Loan QIAIF

3. European Long Term Investment Fund

4. Comparison between the Loan QIAIF and the Loan ELTIF

5. April webinars

6. Q&A

# Background to Loan Funds

## A quick glance

European Commission adopted a green paper on the long-term financing of the European economy on 25 March 2013

- improve the supply of long-term financing
- improve and diversify the system of financial intermediation for long-term investment in Europe.
- confirmed the need for measures on investment funds.

Discussing the ELTIF in June 2013, Michel Barnier, Internal Market and Services Commissioner, explained

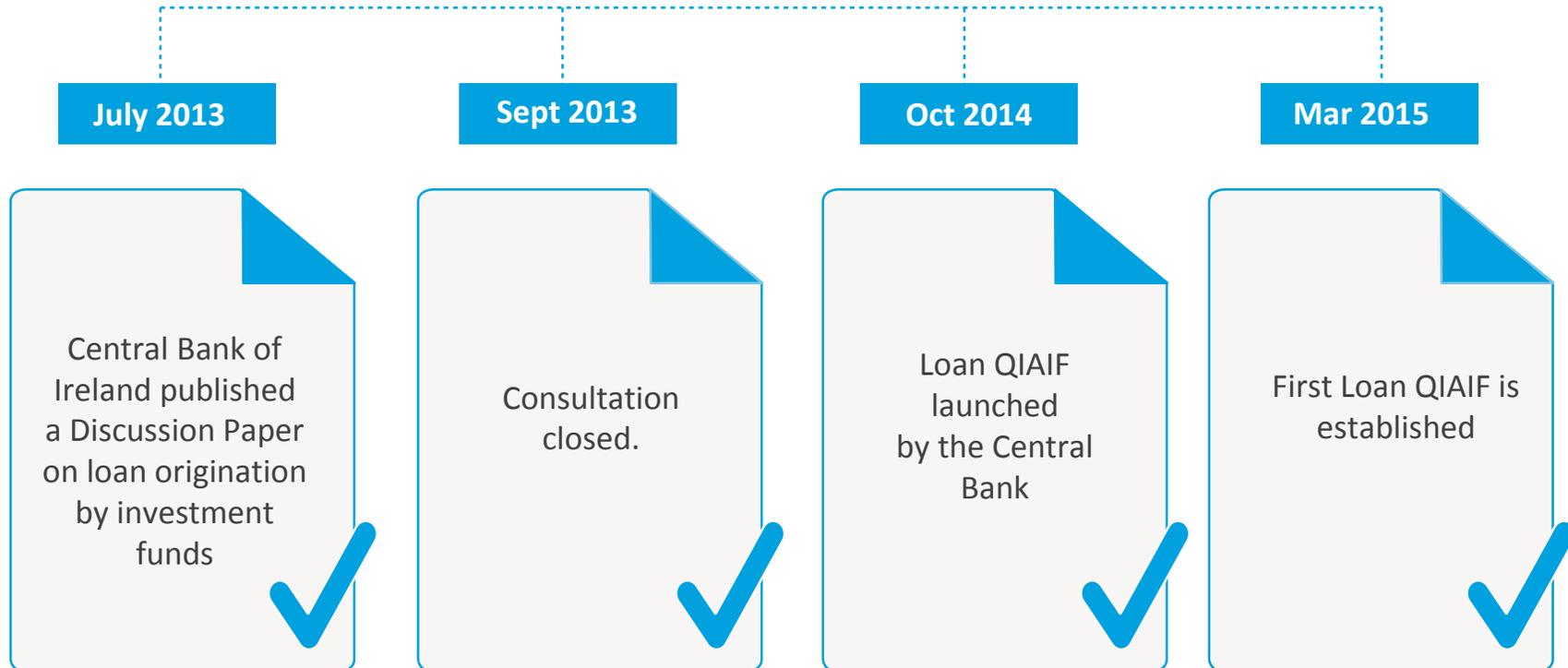
*'We need to secure long-term financing for Europe's real economy. Currently financing is often scarce and where it exists, too focused on short-term goals. The ELTIF is an investment vehicle that will allow professional investors and individuals to invest long-term in European non-listed companies and in long-term assets such as real estate and infrastructure projects. Making ELTIFs available to all types of investors across the European Union is vital to maximise the pool of capital available to European companies. I hope that creating a new EU investment brand will gain the confidence of investors and companies alike'*

Central Bank of Ireland published a Discussion Paper on loan origination by investment funds July 2013

**Following the launch of the Loan QIAIF, the Irish Funds Industry Association commented that** *'The development of the [Loan QIAIF] structure is a direct result of an increase in demand for an alternative to bank finance. An estimated funding gap in Europe over the next five years of \$2-4 trillion has emerged due to restricted access to bank credit and deleveraging in the aftermath of the financial crisis'.*

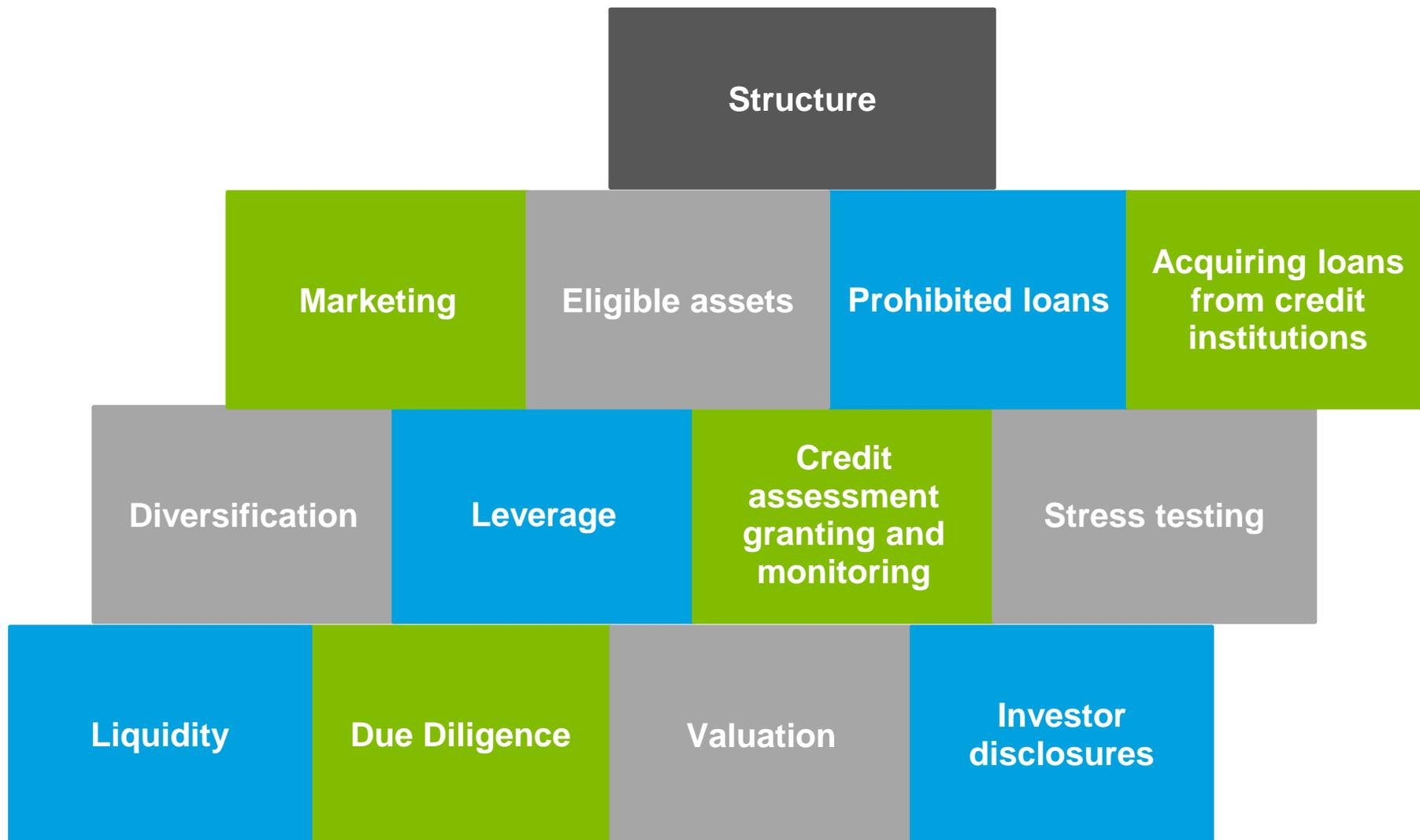
# Loan originating QIAIF

## Timeline



# Loan Origination by investment fund

Loan originating QIAIFs



# Loan Origination by investment fund

Loan originating QIAIFs

1

## Structure

- ✓ closed-ended
- ✓ most likely be established as a corporate vehicle
- ✓ must have an authorised AIFM rather than a registered AIFM.

# Loan Origination by investment fund

Loan originating QIAIFs

**2**

## Marketing

- ✓ professional investors
- ✓ the exclusion of retail investors
- ✓ be marketed across Europe under the AIFMD passport

# Loan Origination by investment fund

Loan originating QIAIFs

**3**

## Eligible assets

- ✓ originating loans
- ✓ participate in loans
- ✓ participate in lending
- ✓ operations directly arising from lending
- ✓ prohibited from engaging in other types of commercial business, or from investing in other funds.

# Loan Origination by investment fund

Loan originating QIAIFs

## 4

## Prohibited loans

- ✓ natural persons
- ✓ other funds
- ✓ funds' service providers
- ✓ financial institutions
- ✓ nor to persons intending to invest in equities or other traded investments

# 5

## Acquiring loans from credit institutions

A LOQIAIF shall not acquire a loan from a credit institution where the credit institution or a member of its group:

- retains an exposure correlated to the performance of the loan; or
- provides an administration, credit assessment or credit monitoring service regarding the loan

unless the LOQIAIF is satisfied that its policies and procedures are sufficient and it has received warranties from the vendor that the vendor will retain a material net economic interest of 5% of the nominal value of the loan as measured at origination; the exposure will not be subject to any credit risk mitigation techniques and the LOQIAIF will have access to materially relevant data on the credit quality and performance of the underlying exposures and on cash flows relating to the collateral supporting the exposures to enable it to produce comprehensive and well informed stress tests on the cash flows and collateral values supporting the exposures.

# Loan Origination by investment fund

Loan originating QIAIFs

**6**

## **Diversification**

- ✓ Exposure to one group or issuer is limited to 25% of net assets

# Loan Origination by investment fund

Loan originating QIAIFs

7

## Leverage

✓ debt to equity ratio of 1:1.

# Loan Origination by investment fund

Loan originating QIAIFs

8

## Credit assessment granting and monitoring

- ✓ of policies and processes for activities
- ✓ Central Bank's Code of Conduct for Business Lending to Small and Medium Enterprises.

# Loan Origination by investment fund

Loan originating QIAIFs

9

## Stress testing

- ✓ a comprehensive stress testing programme
- ✓ report the results testing to the board of the AIFM

# Loan Origination by investment fund

Loan originating QIAIFs

**10**

## Liquidity

- ✓ determined termination
- ✓ may
- ✓ specify pre-determined interim redemption dates
- ✓ distributions

# Loan Origination by investment fund

Loan originating QIAIFs

11

## Due Diligence

- ✓ that investors be treated fairly
- ✓ access to information for due diligence must be non-discriminatory.

# Loan Origination by investment fund

Loan originating QIAIFs

**12**

## Valuation

- ✓ AIFMD's valuation rules are sufficient

# Loan Origination by investment fund

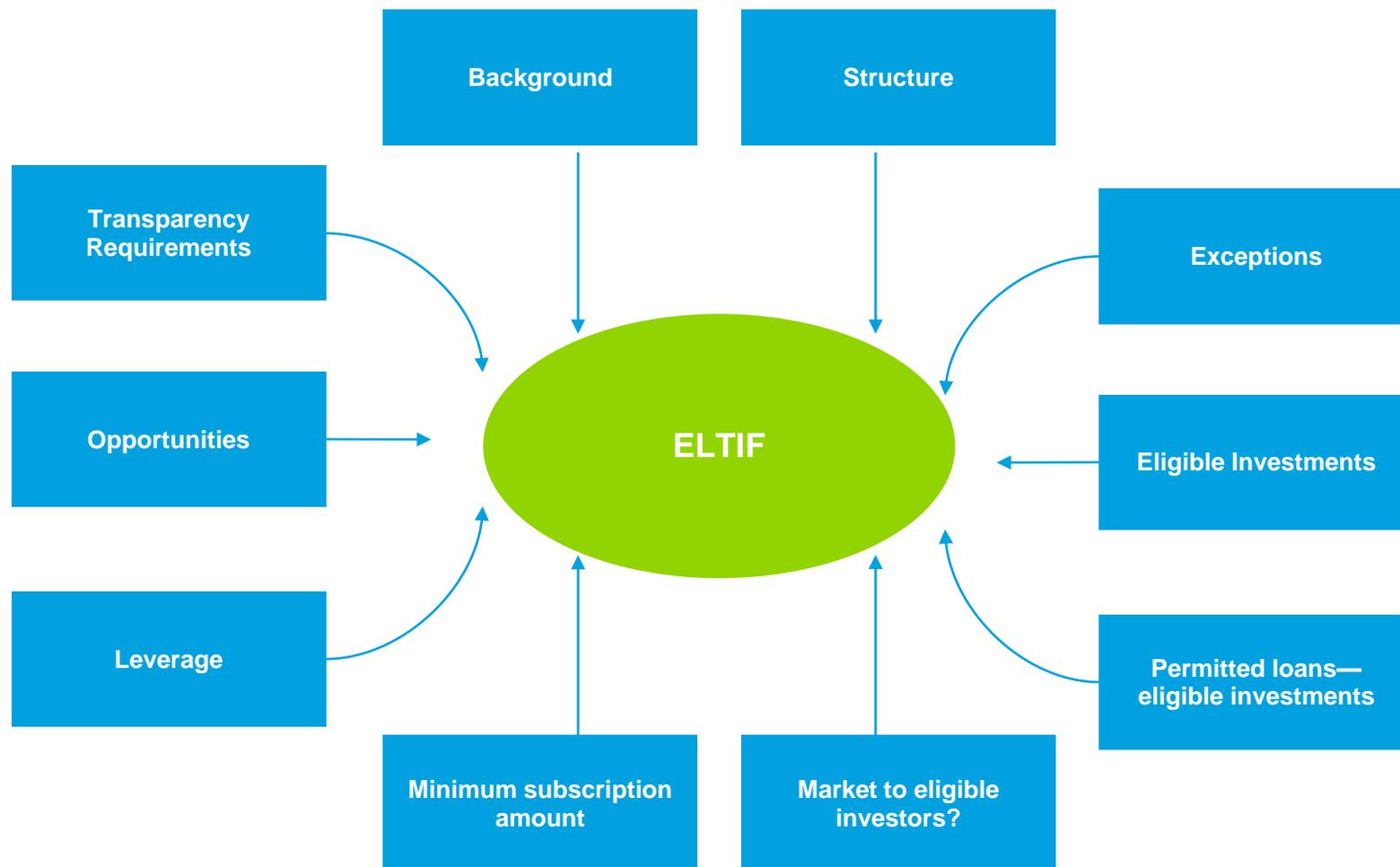
Loan originating QIAIFs

## 13 Investor disclosures

- ✓ a prominent risk warning
- ✓ credit monitoring process
- ✓ information on the fund's risk/reward profile

# European Long-term Investment Fund

Advent of a two-tier Europe?



# European Long-term Investment Fund

Advent of a two-tier Europe?

## Background

- ✓ UCITS VI
- ✓ stand-alone fund product regulated by the Alternative Investment Fund Managers Directive (AIFMD).
- ✓ Ireland launched the Irish Loan Fund in October 2014.

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Structure

- ✓ May be authorised in their home member state
- ✓ Can form part of an umbrella fund
- ✓ Must be closed-ended
- ✓ Must have an AIFMD authorised investment manager.

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Exceptions

- ✓ Prohibiting open-ended structures
- ✓ ELTIFs cannot be structured as partnerships

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Eligible Investments

- ✓ Permitted loan recipient

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Permitted loans—eligible investments

- ✓ At least 70% of its capital must be invested in eligible assets
- ✓ Qualifying portfolio undertakings are portfolio undertakings (excluding funds, financial undertakings, organised trading facilities and listed entities) and listed Small and Medium Enterprises (SMEs).
- ✓ Nonfinancial unlisted entities that were established to invest in infrastructure
- ✓ Listed small and medium-sized enterprises
- ✓ European Social Entrepreneurship Funds
- ✓ European Venture Capital Funds

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Market to eligible investors?

- ✓ AIFMD-regulated entities - passported across the EU under the AIFMD passport.

# European Long-term Investment Fund

Advent of a two-tier Europe?

**Minimum subscription amount**

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Leverage

- ✓ ELTIF permits leverage of only 30%
- ✓ ILF permits 200%

# European Long-term Investment Fund

Advent of a two-tier Europe?

## Opportunities

- ✓ Infrastructure transaction volumes at between €100 - €150 billion a year
- ✓ €1,500 to €2,000 billion will be needed to finance infrastructure project needs in Europe up to 2020. Approved channel for EIB funding.

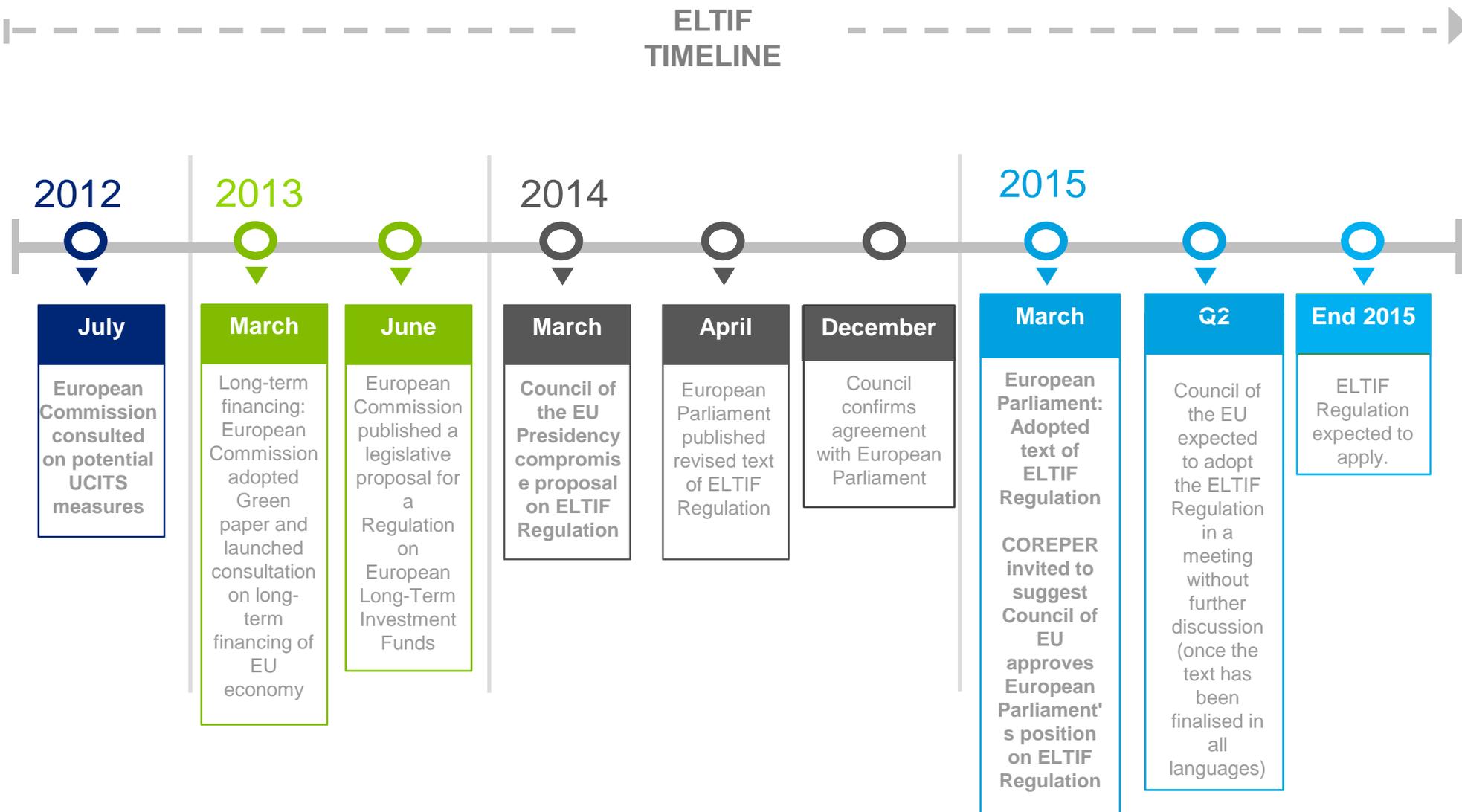
# European Long-term Investment Fund

Advent of a two-tier Europe?

## Transparency Requirements

- ✓ Publish a KID.

# European Long Term Investment Fund



# Comparison between the ELTIF and the Loan QIAIF

	ELTIF	Loan QIAIF
UCITS or AIF?	AIF only	AIF only
Legal structure	Cannot be a partnership	Any
Umbrella - funds?	Yes	Yes
Authorised or Registered AIFM	Authorised only	Authorised only
Regulated?	Yes	Yes
Open/closed ended	Closed ended, has the option to include redemption rights.	Closed ended, with predetermined redemption dates throughout the life of the fund
Marketing passport	Yes	Yes
Can investors transfer their interests?	Yes, they can sell their interests in the secondary market	No restrictions on transfer
Minimum investment	€10,000	€100,000
Retail/Professional investors	Retail & professional	Professional only
Diversity requirements	<ul style="list-style-type: none"> <li>➤ Max 10% of capital can be loaned to a single qualifying portfolio undertaking (20%, if the aggregate value of assets held by the ELTIF in QPUs in which it invests more than 15% is capped at 40% of the value of its capital.)</li> <li>➤ Max 10% of capital in units of a single ELTIF, EuVECA or EuSEF.</li> </ul>	Max exposure of 25% of net assets to a single issuer during a specific time-frame
Eligible assets	<p>At least 70% must be invested in 'eligible assets', including equity/ debt/loans or infrastructure projects issued to QPUs. This limit is disapplied during a start-up period of 5 years to build up this portfolio, and also during the end of the life of the fund when positions are being closed</p> <p>Up to 30% can be invested in the assets referred to in Article 50(1) of Directive 2009/65/EC of the European Parliament and of the Council. (UCITS)</p>	<p>Loans only.</p> <p>The AIF Rulebook prohibits the Loan QIAIF from engaging in other businesses. However, it can be structured as a subfund within an umbrella fund, where the other sub-funds invest in non-loan assets, eg. Equities.</p>

# Comparison between the ELTIF and the Loan QIAIF (contd.)

	ELTIF	Loan QIAIF
<b>Loans available to whom?</b>	<ul style="list-style-type: none"> <li>➤ non-financial unlisted entities established to invest in infrastructure, property, ships, aircraft, rolling stock</li> <li>➤ listed small and medium enterprises</li> <li>➤ European Social</li> <li>➤ Entrepreneurship Fund</li> <li>➤ European Venture Capital Fund</li> </ul>	Businesses ('non-financial')
<b>Leverage?</b>	Up to 30% of the capital of the ELTIF can be used to purchase eligible investment assets. Not available for loan funding.	Gross assets must not exceed 200% of the net asset value
<b>Transparency requirements</b>	<ul style="list-style-type: none"> <li>➤ Details of how the ELTIF's investment objectives and strategy qualify the fund as long-term in nature.</li> <li>➤ Prospectus Directive disclosure requirements</li> <li>➤ AIFMD disclosure requirements.</li> <li>➤ Prominent description of eligible assets.</li> <li>➤ Prominent warning of the illiquid nature of the fund.</li> <li>➤ All costs attached to the fund.</li> <li>➤ KID disclosure requirements (if marketed to retail investors)</li> </ul>	<ul style="list-style-type: none"> <li>➤ a prominent risk warning highlighting the unique risks inherent in loan origination, how investment in a loan originating fund is not guaranteed and is subject to the possibility of investment losses and illiquidity</li> <li>➤ information on the fund's risk/reward profile</li> <li>➤ anticipated concentration levels</li> <li>➤ credit assessment and monitoring processes</li> <li>➤ confirmation on whether the manager will allow access to records and staff for due diligence</li> <li>➤ a risk warning that the Central Bank may tighten lending standards and leverage limits</li> <li>➤ Information that a reasonable investor would consider important in considering investing in the fund.</li> <li>➤ The implications of the Central Bank's Code of Conduct for Business Lending to Small and Medium Enterprises where loans are made to SMEs.</li> <li>➤ Details of the fund's loan book must be disclosed periodically to unitholders</li> <li>➤ Details of the fund's undrawn commitments must be disclosed periodically to the CBI</li> <li>➤ AIFMD disclosure requirements</li> </ul>

# Link'n Learn webinar – April

## Anti-money laundering

1. Overview of developments on AML & financial crime over last 12 months
2. The 4th EU Money Laundering Directive
3. Expected major effects on Irish legislation
4. Focus of Irish regulator on AML
5. UK perspective on the 4th EU Money Laundering Directive
6. 4<sup>th</sup> Directive – building on solid foundations
7. Focus of the UK regulator on AML
8. Next steps for Funds and Administrators

## European Fund Distribution

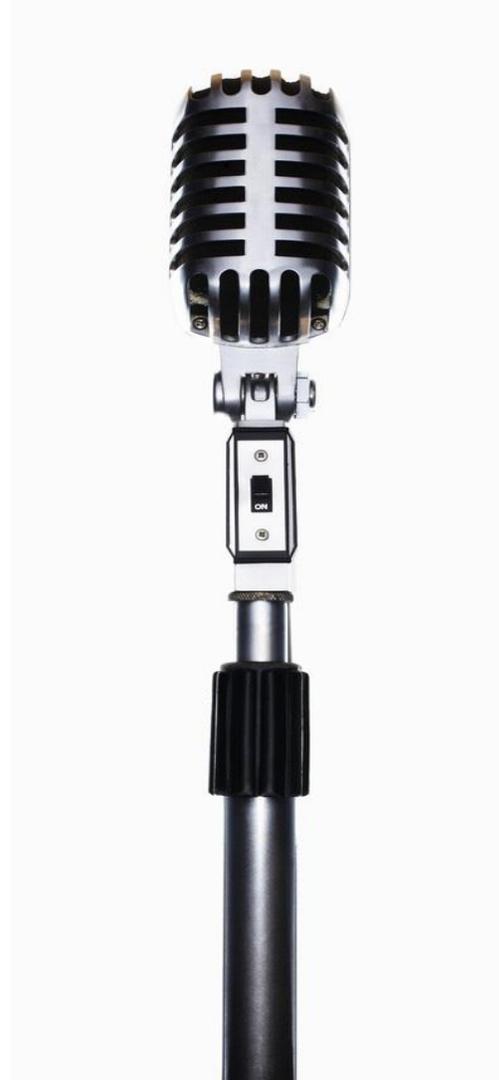
### Market overview

#### EEA region:

- UCITS & PRIIPS - KID & KIID
- ELTIF – retail & professional passporting
- AIFMD passport – ‘Commission Delegated Regulation’ & ESMA ‘Call for evidence’

### Swiss funds distribution regime

**Q&A**





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