GLOBAL FUND SERVICES

Liquidity in Semi-Liquid LTAFs

Introduction to Semi-Liquid Assets and LTAFs
The session explored liquidity requirements in semi-liquid asset classes within Long-Term Asset Funds (LTAFs), emphasizing the complexity of these products as they evolve from institutional markets into broader retail and wealth management sectors. The importance of liquidity was underscored, with the point that assets cannot be traded without it, regardless of settlement efficiency.

The Growth and Evolution of Long-Term Funds
Panellists highlighted considerable growth in the sector, noting the increasing appetite for semi-liquid products in key European jurisdictions. Semi-liquid funds were described as hybrids of public and private assets with specific liquidity and redemption features. The revised European Long-Term Investment Fund (ELTIF 2.0) regulations were cited as enabling greater flexibility for retail investors and offering new avenues for capital deployment into areas like infrastructure and healthcare.

Retail Market Barriers and Liquidity Concerns
It was observed that LTAFs have not yet achieved extensive market success and face particular challenges in retail adoption. Retail investors have liquidity dynamics that differ from institutions, linked to life events requiring sudden access to funds. Regulatory measures such as self-testing and investment limits aim to address these concerns, but standard fund structures often cap liquidity, sometimes complicating urgent redemptions.

Operational Hurdles and the Need for Standardization
Technical and operational issues were identified as key barriers to scaling semi-liquid products for retail markets. Varied and sometimes unconventional approaches to managing liquidity and gating make standardization challenging. The lack of uniform methods across fund platforms and administrators hinders efficiency. Technological solutions such as smart contracts or blockchain were acknowledged, but widespread use is still considered remote.

Costs and Regulatory Responsibilities
The discussion addressed the relatively high total expense ratios (TERs) of LTAFs, sometimes reaching or exceeding 6% with performance fees. Regulatory

requirements such as Consumer Duty were debated, with scepticism expressed over the effectiveness of standard compliance checks in truly safeguarding retail investors. It was concluded that until the market achieves better standardization in distribution and service models, true mass adoption in retail channels will remain difficult