UK Long-Term Asset Fund - Private Equity Perspective

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Introduction

The UK introduced the Long-Term Asset Fund (LTAF) regime in 2021. Private equity sponsors have shown increased interest in “evergreen” products with a broad investor base, and this note provides an overview for private fund sponsors of the regulatory framework, operational requirements and key considerations that apply to LTAFs.

LTAFs enable investment in long-term and less liquid assets while accommodating a broad investor base, including retail investors. They are FCA-authorised open-ended funds. Only sponsors which are authorised as UK full-scope alternative investment fund managers (AIFMs) may create LTAFs, using a UK investment vehicle. The UK does not permit closed-ended vehicles, in contrast to the EU’s European Long-Term Investment Fund (ELTIF). The UK revoked the retained EU law version of the ELTIF Regulation on 1 January 2024. As of September 2025, the FCA has registered 34 LTAFs.

Fund Structure and Authorisation

An LTAF may be structured as an authorised contractual scheme (ACS), an authorised unit trust (AUT) or an open-ended investment company (OEIC). The ACS can take the form of either a co-ownership scheme or a limited partnership, which means sponsors can establish an LTAF as a UK tax-transparent limited partnership. Of those registered with the FCA to date, most use ACS or OEIC structures.

Sponsors may structure an LTAF as an umbrella fund, with each sub-fund pursuing a different private markets strategy, where the legal form (OEIC, AUT or co-ownership ACS) permits umbrella structures.

Because all LTAFs must be open-ended, investors have the right to redeem their investment at a price linked to the fund’s net asset value. A UK AIFM must hold the relevant authorisation to manage an LTAF as part of its regulatory permissions. A UK private equity sponsor may also appoint a "host" UK AIFM to act as manager of the scheme, provided the host AIFM has the knowledge, skills and experience in the relevant asset class.

As an authorised fund, the LTAF must also appoint a depositary. The FCA applies the same authorisation process to LTAFs as to other authorised funds and sets out the requirements in COLL 2.1 in its Handbook. The FCA must process applications within six months and encourages applicants to engage with it before submission. COLL 15 contains the LTAF rules and guidance.

Permitted Assets

The FCA expects an LTAF to invest at least 50% of its property in unlisted securities and other long-term assets, such as interests in immovables or other collective investment schemes investing in such securities. It allows a broad range of assets, including private equity and venture capital, private credit and direct lending, infrastructure projects, real estate and property development, and other funds investing in illiquid assets. Managers may also hold liquid assets for liquidity management, but they must ensure the fund profile remains predominantly illiquid in line with the long-term strategy.

An LTAF may adopt a strategy that invests well above 50% in illiquid assets, provided the fund-level liquidity arrangements align with the liquidity of the underlying investments. Managers must also ensure the portfolio reflects a "prudent spread of risk." Private fund managers may design LTAFs as either direct investment funds or fund-of-funds vehicles.

Feeder Funds and Funds of Funds

Managers may also establish an LTAF as a feeder fund to invest in a "qualifying master LTAF", which is a collective investment scheme that applies the principle of prudent spread of risk and complies with the rules on investment in other schemes. Importantly, the master fund does not need to be authorised in the UK or structured as an LTAF, subject to the LTAF's manager carrying out due diligence on the underlying scheme, which gives sponsors flexibility to link the feeder to an existing private equity, private credit or multi-strategy vehicle. A feeder structure allows private fund sponsors to channel investors such as UK pension schemes into their existing "flagship" funds while offering the regulated wrapper of an FCA-authorised vehicle – although the feeder LTAF may well have a different liquidity profile to the underlying master fund.

Before the feeder invests, the AIFM must confirm that it can obtain all the information it needs from the master fund, and that the feeder's depositary can obtain the information it needs from the master fund, or its depositary, to carry out its oversight functions. The AIFM must also notify the master fund's manager of the date on which the feeder will begin investing as a feeder.

The FCA prohibits circular ownership, so that the master fund (or any scheme in which the master invests) cannot own units in the feeder. The AIFM must also ensure that any preliminary admission or redemption charges imposed at the master level are promptly reimbursed to the feeder fund, so investors are not disadvantaged.

Sponsors may structure LTAFs as fund-of-funds with a view to diversifying the fund's pool of assets. Complications that arise from this model include an additional layer of fees, delays in receiving valuations from underlying funds, and potential liquidity mismatches. The FCA imposes additional due diligence requirements where an LTAF invests more than 20% in unregulated schemes. Sponsors must therefore have robust diligence and monitoring processes, and should communicate clearly to investors how they will manage timing and liquidity issues.

Liquidity and Redemption Terms

Given the illiquid underlying assets, a sponsor will need to put in place a liquidity management framework to align the fund's assets, its liquidity profile and redemption policy, which the FCA will review in the authorisation process. Under the FCA rules, LTAFs cannot permit redemptions more frequently than monthly, and must apply a notice period for redemptions of at least 90 days. Otherwise, the FCA does not impose a standard redemption frequency or notice period, stating that it will depend on the reasonable expectation of the target investor group, and has signalled that significantly longer periods may be appropriate. The FCA has emphasised that it expects authorised funds to provide unitholders or shareholders with redemption rights, and that if a strategy is only suited to a closed-ended vehicle, the manager should not seek LTAF authorisation. In general, a shorter notice period will make the LTAF more attractive to retail investors and intermediaries such as independent financial advisers.

In case of periods of high net redemptions, in addition to the minimum notice period, LTAFs can adopt liquidity management tools such as initial lock-in periods, minimum holding periods, redemption deferrals, limits or caps on redemption volumes, and side pockets. Although the expectation is that these tools will only be used on an exceptional basis, typically in stressed market conditions, there are open questions as to how managers will use these tools to meet the FCA principles that interests of all investors are protected, and that redemptions should be met from the sale of a representative sample of the investment portfolio.

In practice, while private equity-style drawdown arrangements are not prohibited, operating capital calls is unlikely to be suitable for investors such as defined contribution (DC) pension schemes, which will expect to make fully paid-in commitments. Terms such as investor clawback, allowing return of distributions in certain circumstances, are unlikely to be accepted by pension scheme investors.

Valuation and Pricing

The AIFM must appoint an external valuer unless it can demonstrate competence and experience to value the relevant assets, as well as functional independence of the valuation task from the portfolio management. In addition, the depositary must confirm it has the resources and procedures to oversee the valuation function. In practice, AIFMs generally avoid appointing external valuers, partly because of uncertainty around the liability provisions in AIFMD. The depositary oversees valuations.

The FCA requires monthly valuations of LTAF assets, which exceeds the quarterly cycle standard in private equity funds. For fund-of-funds LTAFs, this creates challenges, as managers must adjust or roll forward quarterly valuations received from underlying funds to meet the monthly valuation requirement for the LTAF.

Borrowing Restrictions

An LTAF may borrow up to 30% of its net asset value (NAV), including for liquidity management. This cap applies at the LTAF level but does not restrict leverage within underlying assets, including portfolio company or underlying fund borrowing. The FCA defines borrowing broadly to include any arrangement that injects temporary liquidity into the scheme property with the expectation of repayment. The AIFM must monitor borrowing and reduce it if the fund would otherwise breach the cap. Managers may borrow for liquidity, efficient portfolio management or investment purposes.

Pension Scheme Investors

As above, the FCA in part proposed the LTAF in response to lobby for a long-term private equity investment vehicle to market to defined contribution (DC) pension schemes. Defined benefit schemes are pension plans that provide employees with retirement benefits generally linked to salary and years of service, and funded by the employer. Defined contribution schemes provide benefits based on contributions made by the employee and employer into an account established for the employee, with the value of the pension fund depending on the performance of the underlying investments. Whilst defined benefit pension schemes, such as those run by local authorities, have invested in private equity for a long period, there is a long-term shift in pension saving from defined benefit to DC pension schemes.

The UK government has encouraged DC scheme trustees to consider illiquid allocations through LTAFs, linked to the government's ambition to increase retail investors exposure to private markets.

Many employers are required to arrange for their staff to invest in DC pension schemes through the UK's "auto-enrolment" rules. The scheme is provided by a trustee or, for a contract-based scheme, an FCA authorised provider, which decides on the investments, including the choice available for staff who "self-select", and the "default" arrangement for staff who do not wish to select their own investments. Charges are subject to a cap of 0.75% per year. Both "self-select" and default schemes can invest in LTAFs, although there are protections to ensure that self-select investors do not over-expose themselves to LTAFs.

UK pension savers may open self-invested personal pensions (SIPPs), often to complement their pension savings in employee schemes. A SIPP is established through a "platform" provider, which both administers the scheme and offers a wide range of investments. SIPPs may invest in LTAFs. In practice, platforms have been slow to offer access to LTAFs, with one of the UK's largest self-select investment providers first offering access to an LTAF in September 2025.

Contract based DC pension schemes are typically entered into with insurers, and subject to "permitted links" rules which historically restricted the pension fund's assets to liquid assets. The FCA has amended the permitted links rules to make the LTAF a type of permitted link and remove the 35% limit on illiquid investments.

A DC pension scheme provider or trustee will select an LTAF to increase diversification and returns, with the additional return linked to the illiquidity premium frequently cited. ESG considerations may also be important. The DC pension scheme provider will have its own liquidity management framework, reflecting that scheme members regularly participate and withdraw from the scheme, with scheme providers said to be considering long term allocations to less liquid assets of between 5% and 20% of default arrangements.

The Productive Finance Working Group's Guide to Liquidity Management provides an overview of the different liquidity considerations for investors in illiquid assets and information on liquidity management tools that may be employed by LTAF managers. It also provides DC pension scheme trustees, their sponsoring employers and investment consultants guidance on investment in assets such as closed and open-ended funds, as well as guidance on liquidity management at the scheme level.

Providers of DC pension schemes must be confident that the product can be integrated into the default strategy (the funds into which a member is automatically enrolled unless they make an investment choice) without breaching regulatory requirements such as the cap of 0.75% on charges (including costs of administering the scheme and underlying investment management fees) and the Pension Regulator's guidance on investment governance requirements for DC pension schemes. DC pension scheme providers typically offer daily dealing for members. In practice, DC pension schemes have mainly incorporated LTAFs as a small part of the portfolio constituting their default arrangements, with limited access to date for self-select members, in part due to the infrequent dealing offered by LTAFs.

Performance Fees

In response to lobbying by the private equity industry, the UK Government excluded performance fees from the DC charge cap, provided managers structure them appropriately. Under the FCA's rules, performance fees must link to performance against a benchmark or hurdle, use a clearly defined measurement period, and not reward short-term volatility (such as through use of high water marks).

Marketing

For the purpose of the FCA's financial promotion rules for marketing to retail investors, units in LTAFs are classified as Restricted Mass Market Investments (RMMIs). Firms marketing LTAFs to retail investors must provide risk warnings and summaries and conduct an "appropriateness" assessment. Retail investors which are not investing on the basis of investment advice must confirm that their exposure to all investments subject to the RMMI rules (including LTAFs) is limited to 10% of their investable assets.

When LTAFs are marketed to providers of DC pension schemes as part of the default portfolio, the provider will be generally be treated as a professional client. By contrast, marketing to DC self-select schemes will generally involve marketing to the underling investor, engaging the RMMI rules for retail investors and raising operational challenges for managers and scheme providers to comply with the rules on risk warnings and appropriateness tests, and the 10% rule at the member level.

Similarly, when LTAFs are offered within SIPPs, they will be marketed to the SIPP holder, usually a retail client, requiring the SIPP provider to comply with the RMMI rules. The RMMI classification enables access to LTAFs to a broad range of investors, but managers must tailor their approach depending on whether they are marketing to professional clients or to retail investors through self-select and SIPP channels.

In EU terms, an LTAF is a type of alternative investment fund, and can only be marketed to professional investors and limited types of other investors through EU states' national private placement regimes.

It remains uncertain whether private fund sponsors will make LTAFs directly available to retail investors, which will require the sponsor to secure a listing of the fund on major investment platforms for retail distribution. Unlike daily-dealing UCITS funds, LTAFs' infrequent dealing windows and classification as RMMI pose operational and compliance challenges for platforms. Sponsors seeking access to investment access will need to demonstrate robust governance, valuation methodologies and investor protections.

The FCA's Consumer Duty applies to UK AIFMs managing LTAFs and to LTAF distributors, including investment platforms. This requires both the manager and the distributor to ensure that LTAFs are distributed in a responsible manner to an identified type of investor, provides fair value, with the product's features clearly communicated to the consumer and that the appropriate ongoing support is provided.

Conclusion

The LTAF regime creates opportunities and challenges for private fund sponsors. The LTAF is a regulated wrapper through which sponsors can channel new sources of capital into existing private markets strategies. Private equity funds have not historically accessed DC pension schemes, SIPPs and other retail distribution channels. By structuring LTAFs as direct investment funds, funds of funds or feeder structures, sponsors can tap these pools, provided they implement the operational, governance and disclosure safeguards required under FCA rules.

Sponsors who can navigate the regulatory requirements, align their liquidity and valuation frameworks, and demonstrate compliance with the Consumer Duty (where relevant) will capture a growing demand for long-term and illiquid investments among UK DC pension schemes and, potentially, in time, a broader retail investor base.

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