



Alternative Investment Funds
Luxembourg – grow your
business in ideal conditions

Introduction

Alternative investment has for many years been a pillar of the Luxembourg investment management industry. Particularly, with the introduction of the Specialised Investment Fund (SIF) regime in 2007 and its subsequent success, Luxembourg demonstrated its pioneering role within this thriving industry by creating a favourable environment for the structuring of funds, including alternative vehicles like hedge funds, private equity or real estate funds.

The Luxembourg law implementing the European Directive on Alternative Investment Fund Managers (AIFMD) entered into force in July 2013. While regulating fund managers (AIFMs), this law has had significant effects on Alternative Investment Funds (AIF) themselves, thereby reshaping dramatically the alternative investment industry as a whole.

An important change introduced by the law relates to the definition of an AIF. The traditional understanding that AIFs are funds investing in alternative strategies and are reserved for qualified investors no longer prevails. The term AIF now refers broadly to all funds outside the Undertaking for Collective Investment in Transferable Securities (UCITS) regime. This includes investment funds exposed to traditional mainstream strategies and, in some cases, funds available to retail investors.

Broadly speaking, Luxembourg AIFs now comprise the following categories of funds: SIFs, investment funds governed by Part II of the Luxembourg law of 17 December 2010 (Part II UCIs) and investment funds in risk capital (SICAR).

Luxembourg AIFs benefited from a pre-existing combination of high levels of flexibility and strong levels of protection offered to investors. As a matter of fact, the number (in numbers of sub-funds where applicable) of Luxembourg Part II UCIs, SIFs and SICAR has grown by more than 400% in the last 10 years.

One of the most important opportunities presented by the adoption of AIFMD is the possibility for Luxembourg AIFs to be distributed to professional investors under an EU passport, provided they are managed by fund managers authorised under the AIFMD, located in Luxembourg or abroad.

The prospect of potential international distribution through AIFMD is about to make AIF a widely-recognised label in the global investment management community.

Luxembourg has a lot to offer in terms of taking advantage of this new paradigm as it benefits from a strong legal environment as well as from a multinational, multilingual, professional workforce which has developed sophisticated expertise covering the full range of fund services. All the key players in the global fund industry, such as administrators, authorised third-party management companies or custodian banks have a well-established presence in Luxembourg.

With its accumulated know-how and its drive towards product development and technological innovation, Luxembourg is a leading fund centre and the domicile of choice for the structuring and cross-border distribution of investment funds. In particular, Luxembourg has continuously demonstrated clear leadership in the pan-European UCITS market, which will directly benefit Luxembourg AIFs.

Luxembourg regulated AIFs – An overview

The range of Luxembourg regulated AIFs is designed to respond to the specific needs of their initiators and investors:

While Part II UCIs are available not only to professional/institutional investors but also to retail investors, they are subject to some investment strategy limitations, specifically due to the requirement for them to offer monthly liquidity.

SIFs on another hand, offer the widest flexibility in terms of investment strategy, making them the perfect vehicle to pursue investments in asset classes such as private equity and real estate. In practice, SIFs are also commonly used for mainstream strategies as they are submitted to fewer reporting requirements compared to Part II UCIs. They are however reserved for qualified investors.

SICARs are dedicated to investment in risk capital and, like SIFs, are reserved for qualified investors.

Regulated AIFs may either appoint an Alternative Investment Fund Manager (AIFM) or elect to be self-managed, in which case the AIF itself will be considered as the AIFM. Any Luxembourg AIFM meeting the thresholds defined in the Luxembourg law of July 12, 2013 (EUR 100 million / EUR 500 million if underlying AIFs are unleveraged and have no redemption rights exercisable during a period of five years) is required to be authorized by the CSSF (Commission de Surveillance du Secteur Financier) under this law. Any AIFM not meeting such thresholds is subject to a lighter registration regime.

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Main characteristics of Luxembourg regulated AIFs

	Part II UCI ¹	SIF ¹	SICAR ¹
 Eligible investors	<ul style="list-style-type: none"> Institutional or professional investors Private individuals 	<ul style="list-style-type: none"> Well-informed investors 	<ul style="list-style-type: none"> Well-informed investors
Marketing	<ul style="list-style-type: none"> Marketing possible through AIFMD passport if managed by an authorised AIFM Private placement regimes may transitionally apply depending on target country 		
Listing	Listing possible		
 Segregated portfolios	Possibility to have an umbrella structure with separate portfolios that can have distinct investment policies and management charges under the same umbrella structure		
Investment limits	Borrowing limitation (25% threshold) ² Risk spreading principle (10% threshold) ²	No borrowing limitations Risk spreading principle (30% threshold)	Investments in risk capital only ³ No diversification rule No borrowing limitations No long-term cash management
Financial reporting	Annual and semi-annual report are required. Publication of net asset value is required. Report on the activity (long form report) of the UCI to be made available within six months of the financial year-end	Annual report is required Publication of net asset value not required	Annual report is required Publication of net asset value not required
Legal Form	Corporate form: <ul style="list-style-type: none"> SICAV: public limited company (S.A.) SICAF: S.A., private limited liability company (S.à R.L.), partnership limited by shares (S.C.A.), common limited partnership (S.C.S.), special limited partnership (S.C.Sp.), cooperative company organised as a public limited company (S.Co.S.A.) Contractual form: common funds (FCP) represented by a management company 	Corporate form: <ul style="list-style-type: none"> SICAV/SICAF: S.A., S.à R.L., S.C.A., S.C.S., S.C.Sp., S.Co.S.A. Contractual form: common funds (FCP) represented by a management company 	Corporate form: S.A., S.à R.L., S.C.A., S.C.S., S.C.Sp. , S.Co.S.A. No contractual form available
Depository	Depository must be a Luxembourg credit institution or a Luxembourg branch of a credit institution registered in another EU member state, or an investment firm if authorised by the CSSF, or a professional depository of assets other than financial instruments under certain conditions.		
Corporate governance	Directors of the AIF or of the management company (if FCP) must provide all guarantees of integrity and professional skills in relation to the UCI /SIF / SICAR profile Domicile and central administration must be located in Luxembourg		
 Authorisation & supervision	Subject to authorisation and supervision by the Luxembourg regulatory authority (CSSF)		
Audit	Independent auditor required Audited financial statements to be made available within 6 months of the financial year-end Exemption from the legal obligation of drafting consolidation accounts Lux GAAP and IFRS accepted		
 Capital requirement	Minimum capital (net assets for an FCP) of €1,250,000 to be reached within a period of 12 months following receipt of authorisation from the CSSF	Minimum capital (net assets for an FCP) of €1,250,000 to be reached within a period of 12 months following receipt of authorisation from the CSSF	Minimum capital of €1,000,000 to be reached within a period of 12 months following receipt of authorisation from the CSSF (share premium included in the computation) – Variable capital is possible
Taxation	Annual subscription tax of 0.05% of net assets, reduced to 0.01% in certain cases. Certain investment or types of shares may be exempted (e.g. Luxembourg fund of funds, microfinance funds, money market funds) No withholding tax upon distribution to investors unless EU Savings Directive applies No taxation on capital gains (nor on income from transit funds for SICAR) Not subject to net worth tax VAT exemption on management services Possibility if corporate form to benefit from double tax treaties between Luxembourg and other countries.	Annual subscription tax of 0.01% of net assets. Certain investments may be exempted (e.g. Luxembourg fund of funds, microfinance funds, money market funds) No withholding tax upon distribution to investors unless EU Savings Directive applies	No subscription tax Corporate income tax applies No withholding tax upon distribution to investors unless EU Savings Directive applies
NAV calculation	Minimum of one net asset value calculation per month	Minimum of one net asset value calculation per year	Minimum of one net asset value calculation per year

¹Internally-managed AIFs are subject to additional requirements under the terms of the Luxembourg law of July 12, 2013 on AIFM

²Separate rules apply for funds pursuing alternative strategies and funds the principal object of which is the investment in venture capital, in futures options or in real estate

³Investment in real estate is possible but must have a specific objective of development of the underlying real estate assets amongst other requirements

Our services

Deloitte is the only multidisciplinary firm to have retained significant advisory capacity, particularly in investment management. This unique combination of talent and experience plus our local knowledge allied to our worldwide reach enable us to help you take up the challenges of today and prepare for those of tomorrow.

Summarised below is a list of the range of services Deloitte can deliver throughout the life-cycle of your AIF:

Preliminary analysis

- Ascertain the choice of the most appropriate structure and form of your AIF
- Establish investment and distribution goals
- Determine AIF characteristics and tax structuring
- Assist in the organisation of the due diligence process for the selection of the main service providers

Fund set-up and maintenance

- Assist in the preparation and updating of the AIF documentation

- Assist in preparing and/or reviewing your risk management procedures and conflicts of interest policies
- Registration and maintenance services for distribution and passporting
- Analysis of private placement possibilities
- Coordinate contacts with the CSSF or foreign regulators as the case may be
- Prepare/ coordinate foreign tax reporting
- Provide audit services
- Prepare/review local tax filings, including VAT

Specific services for specific needs

- Assist in stock exchange listing
- Support your due diligence on any acquisitions envisaged
- Assist in the valuation of assets
- Agreed-upon procedures in the context of change of service providers
- Restructuring services
- Implementation and verification of performance standards (GIPS)

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