



# ALTERNATIVE INVESTMENT VEHICLES IN LUXEMBOURG

## WHICH WAY FORWARD ?







## FOREWORD



In just a few decades, Luxembourg has become the largest fund centre in Europe and its second largest private banking centre. Its unique legal framework, combined with a concentration of expertise, makes it the place of choice for UCITS funds distribution.

At the same time, Luxembourg has developed a strong track record in the alternative investments business starting from the creation of the Specialised Investment Fund in 2007 to the recently launched Reserved Alternative Investment Funds eligible for a EU passport. The country is also recognised for its know-how in terms of securitisation vehicles and venture capital investment companies.

Will Luxembourg's alternative tool box allow the country to take the lead and drive alternative investments in Europe as it already does in the UCITS market? To what extent does it offer a better alternative to other jurisdictions such as the UK or Ireland? The report you are about to read has been built around a survey in which over 120 professionals from the Alternative Investment Fund Industry participated.

It aims to give an overview of the state of the alternative investment industry in Luxembourg along with key indicators for future growth. It is split into five sections, each of which concerns a key point for the future of alternative investment in Luxembourg: distribution, new technologies, Luxembourg as the place of choice, what we can expect from the RAIF and the state of securitisation in Luxembourg.

Major players from the asset management sector, new technologies and securitisation world share their views on the present and future of the alternative investment sphere to give our readers a quick, yet comprehensive, view of what it will take for Luxembourg to become the place of choice in alternative investment in the coming years.

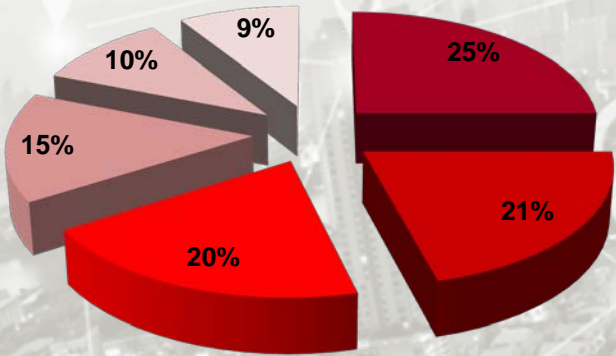
**Olivier Renault**  
Country Manager SGSS Luxembourg



EXECUTIVE SUMMARY

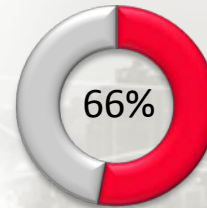
This survey has been performed in November 2016 by SGSS on **120 professionals** from the Luxembourg financial marketplace.

RESPONDENTS



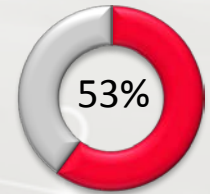
- Management Companies
- Asset Managers
- Consultants
- Asset Servicers
- Lawyers
- Others (IT...)

✂ Easy set up



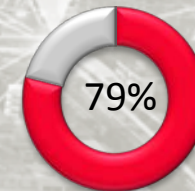
replied that the advantage of RAIF is an **easy set up** and liquidation process

🌐 Big Data



said that **Big Data** is the new technology that will impact AIFs

👤 Wide range of vehicles



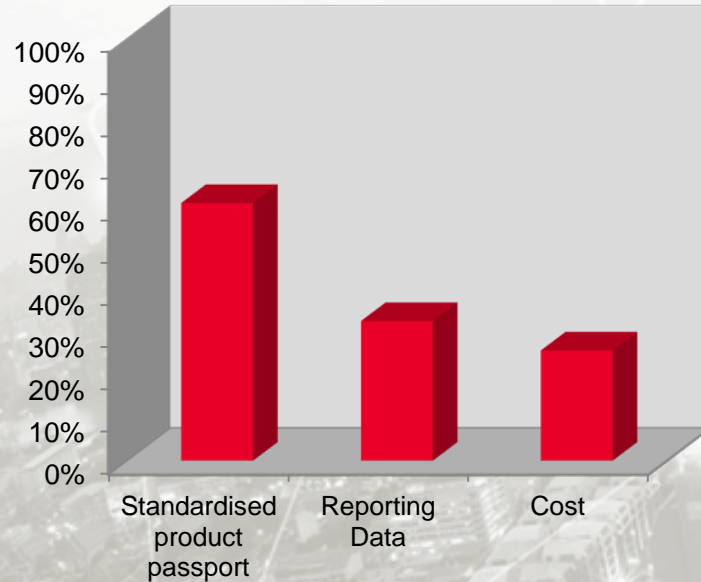
said that a **large choice** of vehicles is the main strength of AIFs in Luxembourg





## DISTRIBUTION & PASSPORTING

### What would be top of your wish list for AIFMD II ?



#### AMBITION

AIFMD introduced a new passport regime, governing the marketing of AIFs to professional investors across Europe.

In the run-up to its implementation, the distribution passport was widely lauded as the ‘spoonful of sugar’ destined to help swallow the rather bitter pill of reporting and depositary requirements.

This new passport aimed to emulate the unparalleled success of UCITS as a cross-border brand, an area in which Luxembourg has excelled as a cross-border fund domicile. Where UCITS + Luxembourg is a winning combination, AIFMD + Luxembourg promised the opportunity to deliver similar successes.

#### COST

After initial optimism, it became apparent that the AIFMD fund distribution passport fell somewhat short of expectations. The application of a passport regime to AIFs highlighted some of the weaknesses inherent in the UCITS passporting framework. The requirement to register funds in each country, to pay registration and ongoing maintenance fees, to appoint local agents and comply with local marketing rules are more easily borne by UCITS with wide distribution and significant assets under management. As soon as this structure was applied to smaller, more specialised AIFs with a more select investor base, the costs associated with cross-border distribution became prohibitive. In addition, the AIFMD requirements were ‘gold-plated’ in certain markets, further raising the bar for AIFs.

*“Harmonisation of requirements could bring more certainty and lower costs to AIFs”*

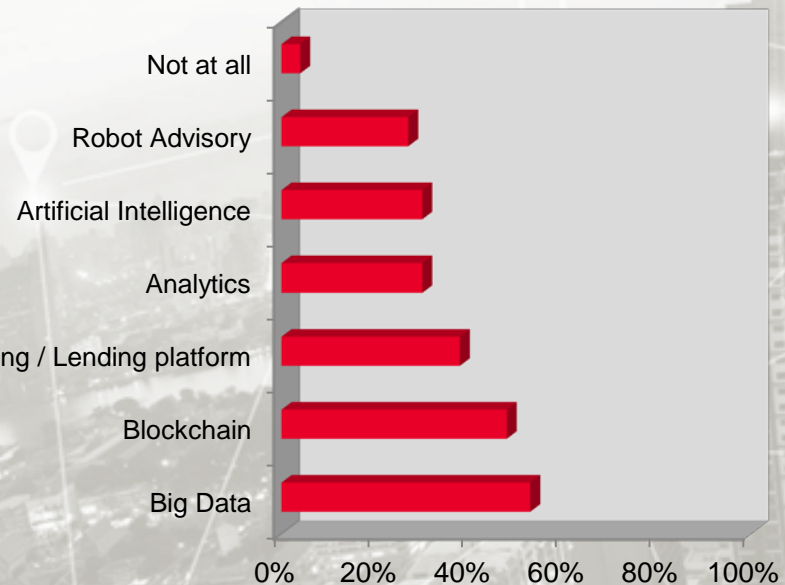
All of this is set to change however, as the European Capital Markets Union action plan is assessing whether potential obstacles to cross-border distribution of investment funds continue to exist. Following a public consultation by the European Commission, it is anticipated that harmonisation of requirements could bring more certainty and lower costs to AIFs and UCITS alike. This should put fresh wind in the sails of AIF cross-border distribution across Europe and - if the success of UCITS can be emulated - then also beyond.

**Elaine Kiggins**  
SGSS Product Manager

Survey of 120 professionals from the Luxembourg financial marketplace in November 2016. by SGSS Marketing Department

NEW TECH  
& AIF

## According to you, which of the following technologies will impact the AIF industry ?



**Nazir Zubairi**, CEO at the **LHoFT**, the Luxembourg House of Financial Technology gave us his views on the natural link that exists in Luxembourg between alternative investment, venture capital, private equity and financial technologies.

## In your opinion, what benefits could Fintech bring to the AIF industry?

Significantly better customer and market insights through big data platforms and the use of machine learning can drive productivity in product management and investments. Algorithmic hedge funds have already demonstrated the benefits that a competitive advantage in technology can deliver in the fund management process. The adoption of technology will fundamentally enhance decision-making and ensure competitiveness in the years to come.

## What are the three main technologies that will impact the AIF industry, and how will they do so ?

Big Data platforms will deliver better insights for decisions and control. Machine learning will drive efficiency and consistency in decision making. Blockchain will drive cost savings in settlement, reconciliation and reporting.

## Do you think that Luxembourg is the place where Fintech could be a catalyst for the AIF industry?

Absolutely. Luxembourg has a strong track record of agility and adaptability in its history. Changes in AIFs, driven by technology, are inevitable and I am confident that the Luxembourg industry will choose to take control of these changes rather than let others take the lead and wait for the likely negative impact. The community here has the spirit, the capability and will receive the support they need to ensure their future competitiveness.

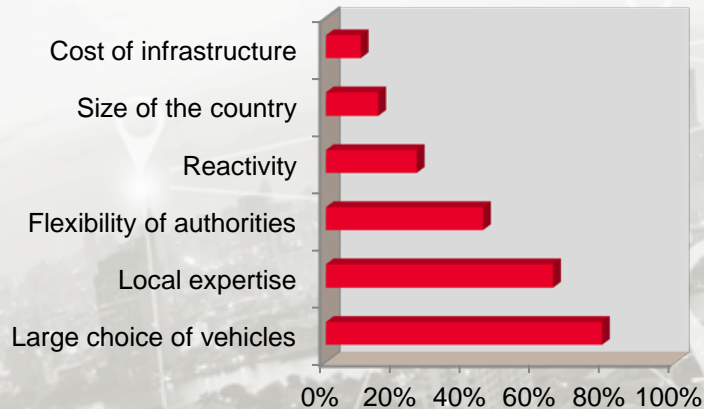
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## LUXEMBOURG : A PLACE OF CHOICE

### What are the strengths of Luxembourg's AIF industry ?



### AIF assets in Luxembourg

**11%** annual growth rate 2006-2016 \*

\* EFAMA statistics

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In the alternative sphere, Luxembourg represents 10,5% of the European market with 585 billion euros. It is the fourth largest European market for the domiciliation of AIFs after Germany, France and the Netherlands. Non-UCITS assets in the Luxembourg market have grown by over 10% a year for the last 10 years (EFAMA statistics).

**235 AIF managers** have been authorised by the country's regulator (the CSSF : the *Commission de Surveillance du Secteur Financier*) and **610 AIFMs** have registered with the CSSF, as of May 2017.

#### Globally speaking, what is the strategy of your clients Asset Managers in terms of AIF in Luxembourg?

Since 2013 Asset managers intend to use as much as they can the AIFM passport whether by using a Management Company in Luxembourg and/or through the creation of Luxembourg-based AIF.

However, those Luxembourg management companies must have the real and appropriate substance for operating in Luxembourg, meaning that they have to perform either risk management activities or portfolio management.

Setting up its own AIFM represents a considerable investment in time and resources, this is the reason why most of small or medium size asset managers do prefer having a third management company in Luxembourg, which is an interesting and cost-effective alternative. In addition it facilitates discussion with the Luxembourg regulator.

The management company has the AIFM license and it can help to speed up the fund approval process.

#### How can Luxembourg be the winner on the AIF European market?

Luxembourg has a very long track record with the administration of UCITS that can be a real asset if we want to build the AIF Brand.

Luxembourg expertise and know-how is definitely recognized all over the fund industry world and has been increasing since the introduction of AIFM as a jurisdiction of choice for alternative/real assets.

#### Why did you decide to set up a Management Company in Luxembourg?

We set up our Management Company in early 2011 with a UCITS license. However our target was already at that time to be one of the first AIFMs in Luxembourg. Indeed, we saw early the opportunity to transpose the UCITS model that we know well into AIFM, using in particular our Group expertise in Real Assets. Luxembourg was the obvious jurisdiction, given its reputation and track-record as the leading Fund jurisdiction in Europe.

#### Is the RAIF the expected solution?

The RAIF is a useful addition to the Luxembourg product "toolbox". Time to market is an essential element for asset managers when choosing a jurisdiction. As the RAIF doesn't require CSSF approval, the process is now quicker, and is attractive to non-EU managers wanting to use the AIFM passport to enter the EU market. This increases the attraction of Luxembourg as a jurisdiction of choice, competing easily with other unregulated vehicles or offshore funds.

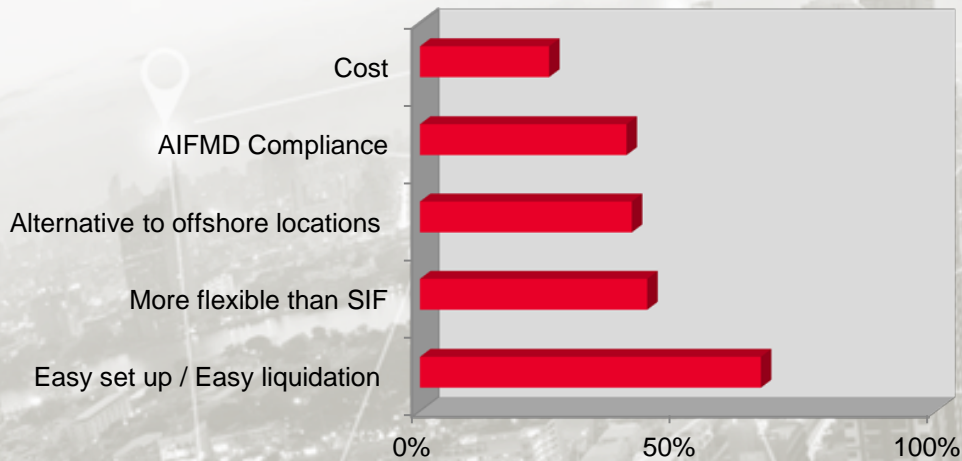
**Daniela Klasén-Martin**  
Managing Director & Country Head  
Crestbridge





RAIF

What are the advantages of the RAIF ?



The RAIF offers an attractive solution for the implementation of all types of alternative investment strategies for the benefit of well-informed investors, specifically institutional investors and professional investors.

In practical terms, the RAIF can invest in any asset class: private equity, real estate, hedge funds, infrastructure, debt acquisition and loan origination, as well as listed securities of any type.

**No direct supervision**

In addition to this broad scope of application, the RAIF provides an effective solution to time-to-market issues. Indeed, the absence of CSSF prior authorization as well as a flexible legal framework for structure incorporation are the attractive features of the new regime.

In this context, the absence of direct supervision by the CSSF is offset by indirect supervision, notably through the supervision of the AIFM, depositary or auditor, in order to ensure the

protection of investors.

Based on both the SICAR regime and the SIF regime, the RAIF law combines both regimes into a single legal text. Thus, such as for the SIF and the SICAR, all forms of Luxembourg company, partnership and contractual arrangement are eligible for setting up a RAIF.

A RAIF may also adopt a variable (e.g., SICAV) or fixed capital (e.g., SICAF) structure. Furthermore, the RAIF may be organized as an umbrella structure, which means that each sub-fund may have a specific investment policy, its own investors, cost structures and distribution policy.

**Global reach**

Luxembourg offers a truly global reach combined with an environment characterized by an ability to connect managers and investors, stability and predictability, as well as a solid and flexible, legal, regulatory and fiscal framework.

**“True alternative to regulated and unregulated funds”**

The new RAIF regime reflects Luxembourg’s desire to improve the supervision of alternative investment. Initially, the adoption of the AIF directive led to a dual supervision regime (at the asset manager level on the one hand, and at the AIF level on the other hand).

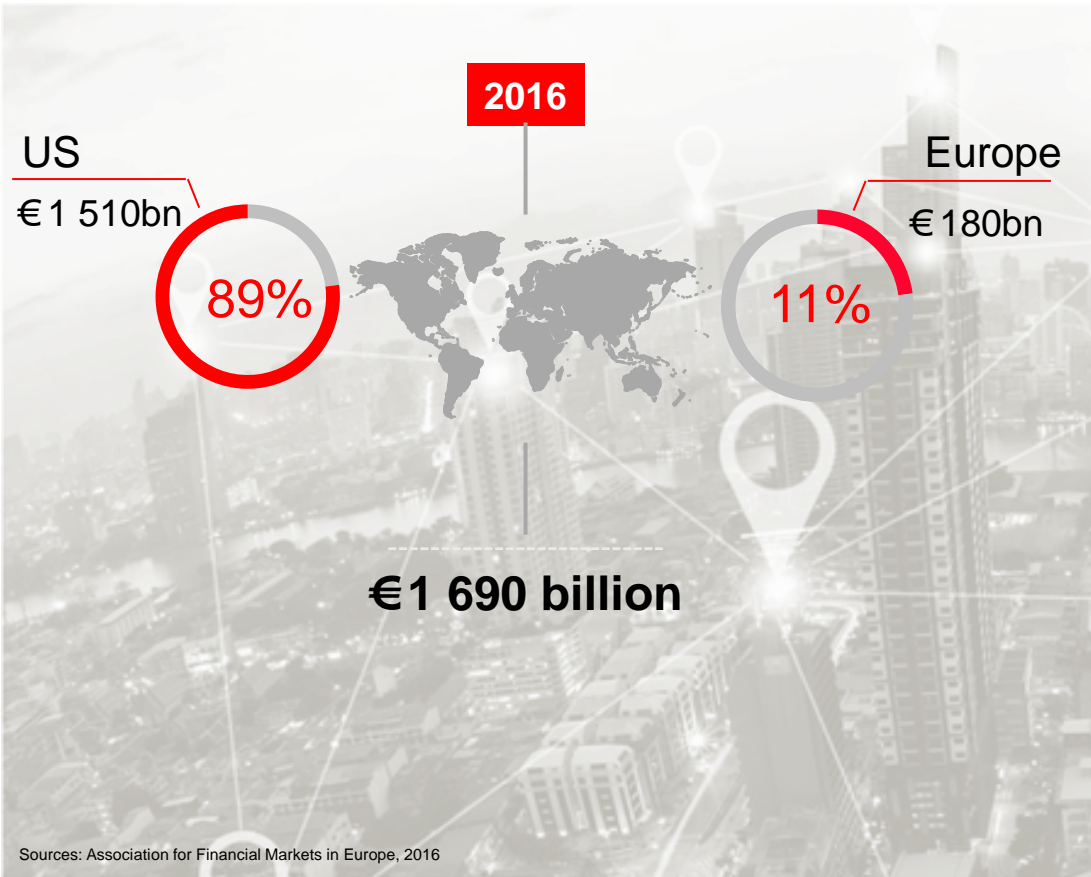
Luxembourg RAIFs are positioning themselves to be true alternatives to both regulated and unregulated funds. Full compatibility with EU regulations, truly global marketing reach and swift time-to-market are all contributing to make Luxembourg an essential marketplace.

**Marine Roy**  
SGSS Head of Legal

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## SECURITISATION



Luxembourg enacted the securitisation law in March 2004 and since then over 1,000 securitisation vehicles have been created. These securitisation vehicles are outside the scope of AIFMD, although there was some debate as to whether securitisation vehicles should be subject to the AIFM directive. Only securitisation vehicles that issue securities on a continuous basis to the public are subject to regulation by the CSSF. As of **May 2017**, there were **34 regulated securitisation vehicles** in Luxembourg.

**What are the advantages of securitisation ?**

*In an increasingly regulated financial market with punitive charges related to balance sheet usage, the merits of securitisation as an instrument that transfers title together with the risks of an asset from one party to another, have become increasingly important. In addition, distribution/reallocation of risk, liquidity, more favourable cost of financing for the originator and a potential higher rating of debt issued by an SPV are advantages that are still relevant for SPV issuances.*

**What are the strengths of Luxembourg for this kind of vehicle?**

*The securitisation Law of 2004 laid out a solid and secure platform for securitised vehicles. The ring-fenced compartmentalised structures with non-recourse and non-petition provisions treating each compartment as a separate part of the balance sheet of the SPV, wide range of assets allowed to be securitised, VAT exemption on management of these vehicles, extensive network of DTTs for the reduction of WHT and ease of communication with the regulator are all strong points worth considering when deciding on Luxembourg as the jurisdiction for an SPV.*

**What is your outlook on securitisation for the coming years?**

*Given a historically low interest rate environment, combined with pressure to improve the ratio of capital set aside for loans the lenders - especially in Europe - will continue to suffer in the near term. Securitisation is one solution that could help in trimming loan portfolios by repackaging and selling them to yield-hungry investors such as asset managers, insurance companies or pension funds. Furthermore, with increased distribution and enhanced post-crisis regulations, I expect the retail segment of the market to become more active investors in securitised products that offer higher yields.*

**Natalia Caldare**  
Commerzbank





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AIFs DISTRIBUTION  
AND PASSPORTING

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NATURAL COMBINATION

LUXEMBOURG THE PLACE  
OF CHOICE FOR AIFs ?

THE RAIF : WHAT  
CAN WE EXPECT ?

SECURITISATION IN  
LUXEMBOURG

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## CONTRIBUTORS

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Crestbridge is a leading multi-jurisdictional, independent provider of administration, management and corporate governance services to fund managers, institutions, corporate clients, and UHNW families. What they offer above all is peace of mind; the knowledge that your assets are being administered to the highest standards.

### Natalia Caldare

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Commerzbank is an international commercial bank with branches and offices in almost 50 countries. With the two business segments Private and Small-Business Customers, as well as Corporate Clients, the Bank offers a comprehensive portfolio of financial services to its clients.

### Nazir Zubairi

CEO of the LHoFT (Luxembourg House of Financial Technology)  
The LHoFT is Luxembourg's dedicated FinTech platform where finance and technology interact to foster innovation and develop solutions to shape the future of financial services.

### Elaine Kiggins

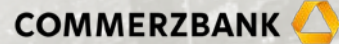
Product Manager SGSS

Elaine Kiggins is Product Manager for Fund Distribution Services at SGSS, responsible for the development of SGSS services supporting clients in the worldwide distribution of their funds. Based in Luxembourg, Elaine joined Societe Generale Securities Services in 2006 as Head of Organisation and Projects in Transfer Agency before moving to Product Management in the Asset Managers & Asset Owners segment in 2012 with responsibility for Fund Distribution Services.

### Marine Roy

Head of Legal SGSS

Marine began her career within Société Générale in France in 2000. She contributed actively to the implementation of regulation such as AIFM, UCITS 5, MIFID II, Dodd Frank, EMIR, FATCA and their transposition in the regulation of France and Luxembourg. In 2015, she is appointed Head of SGSS Legal department.  
She was an active member of the Association Française des Professionnels des Titres and the Association Française de la Gestion financière in France and is, since 2013, part of the Association of the Luxembourg Fund Industry regulatory Committee.


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