CLIFFORD CHANCE

ALTERNATIVE INVESTMENT FUNDS
THE LUXEMBOURG TOOLBOX

CONTENTS

“ The Luxembourg toolbox for alternative investment funds offers tailored solutions for fund managers and investors, allowing a combination of features from different jurisdictions. Notably, thanks to its limited partnership regime, the needs of clients from both common law and civil law jurisdictions can be accommodated.”

WHY LUXEMBOURG?

1. Luxembourg, your gateway to Europe and beyond
2. Steady growth in alternative investment sectors
3. A unique and innovative toolkit of investment products
4. Flexible structuring options for operating AIFMs
5. A stable and trusted jurisdiction
6. Established experience in servicing alternative assets
7. An international and multilingual environment
8. A pragmatic legal and supervisory framework
9. A favourable and predictable tax environment
10. A forward-looking and innovative global player

CONTENTS

LUXEMBOURG'S FUND INDUSTRY

In recent years, Luxembourg has become an overachiever when it comes to the alternative investment fund industry. As of 2022, the net assets under management in Luxembourg funds amounted to EUR 5,028 billion. As this only reflects regulated funds – while most alternative funds in Luxembourg are unregulated – this is a remarkable success.

This places the Grand Duchy of Luxembourg in the top league, qualifying as the second largest fund centre worldwide, following the United States.

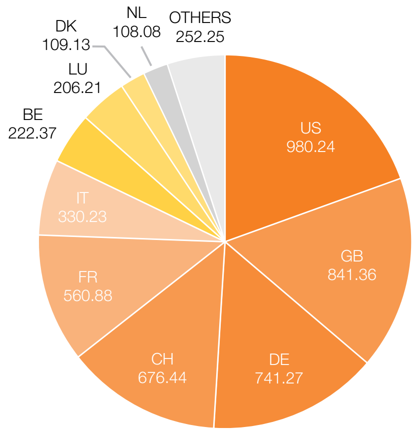
The Luxembourg market is attractive to a wide number of fund sponsors from various jurisdictions. The top three (in terms of assets under management) as of end of 2022 were the United States, the United Kingdom and Germany.

Luxembourg has been a first mover in the implementation of European fund regulation since 1988, including the European Union's Alternative Investment Fund Managers Directive (AIFMD).

The country has played a pivotal role in opening up markets for international fund distribution due to its long history of creating products that enable firms to develop their businesses.

Luxembourg is characterised by a highly flexible regulatory framework and has constantly adapted its legislation to the needs of the market. This particularly innovative legal framework gives a real advantage in the development of new products and investment vehicles.

Origin of sponsors of Luxembourg funds (net assets in bn EUR*)



NUMBER 1 INVESTMENT FUND CENTRE IN EUROPE

NUMBER 1 IN CROSS-BORDER FUND DISTRIBUTION

* data as of December 2022

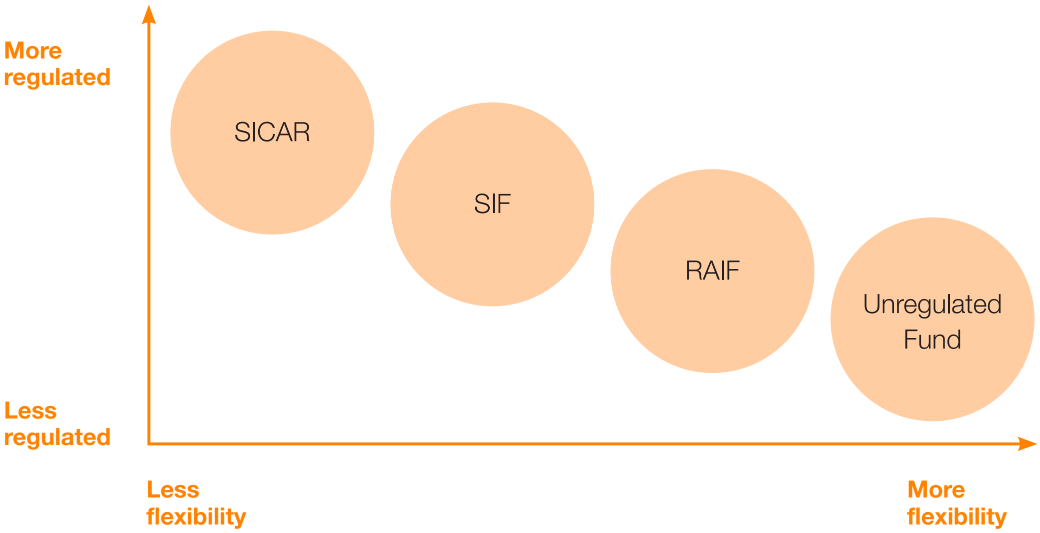
AIFMD

The AIFMD, implemented in Luxembourg in 2013, has created the first regulated environment for alternative investment funds worldwide – and has considerably transformed the way the global alternatives industry operates.

The Luxembourg legislator and its supervisory authority (Commission de Surveillance et du Secteur Financier or CSSF) has developed extensive expertise in alternative investment funds (AIFs) and alternative strategies, and achieved a strong competitive position, contributing to strengthening its role as a global platform for alternative investments whose regulatory quality is internationally recognised.

The Directive aims to create a harmonised and stringent regulatory and supervisory framework for the activities of all alternative investment fund managers (AIFMs) within the European Union (EU). For the first time, AIFMs were allowed to benefit from a "passport" to provide management services to AIFs in order to market them to professional investors in the EU on the basis of one single authorisation.

This brochure intends to provide an overview of the AIFs available for fund managers in Luxembourg, but does not address in detail all level and tax aspects.



CONTENTS

UNREGULATED FUNDS
OVERVIEW

Unregulated investment vehicles are mainly governed by the law of 10 August 1915 on commercial companies (the Company Law). Various types of vehicle are available, with limited partnership regimes being the most popular.

An unregulated vehicle qualifies as an AIF if its activities fall within the scope of the AIFM Law and if no exemption is available.

Unregulated vehicles are useful for private equity, venture capital, infrastructure and real estate investment structuring, as well as for a holding and financing activity.

Key Features

Legal form

An unregulated fund is typically organised in the form of a special or common limited partnership (SCSp or SCS). It can be open or closed-ended but cannot be set up as an umbrella fund.

Capital

No minimum capital requirement for SCSs or SCSps.

Supervision

An unregulated fund is not subject to the approval of the CSSF.

Investment restrictions

An unregulated fund may invest in any asset class and according to any investment policy or strategy.

Key Restrictions

AIFM

An unregulated fund qualifying as AIFs and not benefiting from an exemption contained in the AIFM Law must appoint an AIFM.

Eligible investors

No restrictions in relation to the eligible investors.

Marketing

AIFMs may market an unregulated fund to investors within the EU through a regulator-to-regulator notification regime, if the unregulated fund qualifies as an AIF.

Taxation

Tax treatment dependent on the legal form of the vehicle.

RAIF
OVERVIEW

The reserved alternative investment fund (RAIF) was introduced by the law of 23 July 2016 (the RAIF Law). The RAIF regime was introduced to allow fund sponsors to structure a type of alternative investment fund that combines the legal and tax features of the well-known SIF and SICAR regimes but one that remains unregulated.

The RAIF regime aims to minimise the planning uncertainty that may arise during fund launches, by eliminating the need for prior authorisation and the ongoing direct prudential oversight by the CSSF.

Key Features

Legal form

A RAIF may be constituted as contractual-type mutual funds (FCP) or as investment companies with variable capital (SICAV) or fixed capital (SICAF).

A RAIF can be open or closed-ended and may be set up as a stand-alone fund or as an umbrella structure consisting of multiple sub-funds or compartments.

Capital

A RAIF's net assets must reach EUR 1.25 million within 12 months following its launch.

Supervision

A RAIF is not subject to approval by the CSSF. As it must be managed by an authorised external AIFM, the CSSF is informed about the RAIF's activities via its manager.

Investment restrictions

A RAIF may invest in any asset class and according to any investment policy or strategy, except when opting for the SICAR's tax regime, in which case it is restricted to investing in risk capital.

Disclosure requirements

A RAIF must prepare a prospectus, a PRIIP Key Investor Information Document (KIID) if open to retail-type investors, and an annual report. There is no obligation to prepare a semi-annual report.

Specific aspects: EuVECA and EuSEF

A RAIF that qualifies a European Venture Capital fund (EuVECA) or European Social Entrepreneurship Fund (EuSEF) has the option of being subject to the EuVECA or EuSEF regulation, respectively.

Key Restrictions

AIFM

A RAIF is required to appoint an authorised external AIFM. The AIFM can be established in Luxembourg, in another EU Member State or in a third country.

Risk diversification

A RAIF is subject to mandatory risk-spreading, meaning that:

1. A RAIF may not invest more than 30% of its assets or commitments in securities of the same kind issued by the same issuer.

RAIF
OVERVIEW (CONTINUED)

2. Short sales may not result in a RAIF holding a short position in securities of the same kind issued by the same body, which represents more than 30% of the assets.
3. Where financial derivative instruments are invested in, a RAIF must ensure a comparable spread of risk by an appropriate diversification of the underlying assets. With the same objective, the counterparty risk in an OTC transaction must be limited depending on the quality and the qualification of the counterparty.

The risk diversification rules do, however, not apply to any RAIF that has opted for the SICAR tax regime and is therefore restricted to investing in risk capital.

Eligible investors

A RAIF is limited to "well-informed" investors that are able to adequately assess the risks associated with an investment in such a vehicle.

Marketing

A RAIF can be marketed to professional investors within the EU through a regulator-to-regulator notification regime.

Specific aspects: EuVECA and EuSEF

Both regimes provide a passport that permits the marketing of the fund to EU-based eligible investors.

Taxation

By default, A RAIF has the same tax-exempted status as a SIF but is subject to an annual subscription tax of 1 bps based on net assets. However, if the RAIF is investing in risk capital only, then it can opt for the tax treatment of a SICAR (see below)

SIF
OVERVIEW

The exclusive object of Luxembourg specialised investment funds (SIF) governed by the law of 13 February 2007 (the SIF Law) is the collective investment in assets to ensure the spreading of investment risk and to provide investors with the benefits resulting from the management of their assets.

Key Features

Legal form

A SIF may be constituted as FCP, SICAV or SICAF.

A SIF can be open or closed-ended and may be set up as a stand-alone fund or as an umbrella structure consisting of multiple sub-funds or compartments.

Capital

A SIF's net assets must reach EUR 1.25 million within 12 months following the CSSF's approval.

Investment restrictions

Other than the risk diversification requirement, the SIF Law does not impose particular investment restrictions or borrowing limits, which allows for significant flexibility with regard to the assets in which a SIF may invest.

Disclosure requirements

A SIF must prepare a prospectus, a PRIIP Key Investor Information Document (KIID) if open to retail-type investors, and an annual report. There is no obligation to prepare a semi-annual report.

Specific aspects: EuVECA and EuSEF

A SIF that qualifies as a EuVECA or EuSEF fund has the option of being subject to the EuVECA or EuSEF regulation, respectively.

Key Restrictions

Supervision

Prior to commencing its activities, a SIF must be authorised by the CSSF. Mandatory ongoing supervision comes at the price of a small annual fee.

AIFM

A SIF that qualifies as AIF and does not benefit from an exemption contained in the AIFM Law is required to appoint an AIFM.

Risk diversification

A SIF is subject to mandatory risk-spreading, meaning that:

1. A SIF may not invest more than 30% of its assets or commitments in securities of the same type issued by the same issuer.
2. Short sales may not result in a SIF holding a short position in securities of the same type issued by the same body, which represents more than 30% of the assets.
3. Where financial derivative instruments are invested, a SIF must ensure a comparable spread of risk by an appropriate diversification of the underlying assets. With the same objective, the counterparty risk in an OTC transaction must be limited depending on the quality and the qualification of the counterparty.

Eligible investors

A SIF is limited to "well-informed" investors that are able to adequately assess the risks associated with an investment in such a vehicle.

SIF
OVERVIEW (CONTINUED)

Marketing

A SIF qualifying as AIF and managed by an authorised EU AIFM benefits from a passport allowing the AIFM to market the SIF's shares or partnership interests to professional investors within the EU through a regulator-to-regulator notification regime.

Specific aspects: EuVECA and EuSEF

Both regimes provide a passport that permits the marketing of the fund to EU-based eligible investors.

Taxation

A SIF has a tax-exempt status but is subject to an annual subscription tax of 1 bps based on net assets. It only has limited entitlement to double taxation treaties if established as an investment company.

SICAR
OVERVIEW

The Luxembourg investment company in risk capital (SICAR) was specifically designed for investments in private equity and venture capital. The regime is to promote raising funds from investors that accept the increased risks associated with investments in risk capital (i.e. lower liquidity, higher price volatility and lower credit quality) in expectation of a better return.

The SICAR is governed by the law of 15 June 2004 (the SICAR Law).

Key Features

Legal form

A SICAR must always be constituted as a corporate entity with fixed or variable share capital. The SICAR may be set up as a stand-alone fund or as an umbrella structure with multiple compartments.

Capital

The share capital (including share premiums, if any) must reach EUR 1 million within 12 months following the CSSF's approval.

Investment restrictions

Other than the requirement to invest in risk capital only, the SICAR Law does not contain investment rules or restrictions and does not impose borrowing limits. Furthermore, a SICAR is not required to comply with the principle of risk diversification.

Disclosure requirements

A SICAR must prepare a prospectus, a PRIIP Key Investment Information Document (KIID) if open to retail-type iinvestors, and an annual report. There is no obligation to prepare a semi-annual report.

Specific aspects: EuVECA and EuSEF

A SICAR that qualifies as a EuVECA or EuSEF fund has the option of being subject to the EuVECA or EuSEF regulation, respectively.

Key Restrictions

Supervision

Prior to commencing its activities, the SICAR must be authorised by the CSSF. Mandatory ongoing supervision comes at the price of a small annual fee.

AIFM

A SICAR that qualifies as AIFs and does not benefit from an exemption contained in the AIFM Law is required to appoint an AIFM.

Eligible assets

A SICAR must invest in risk capital.

The notion of risk capital is characterised by the following elements:

- a high risk associated with the relevant assets;
- an intention to develop target entities; and
- an exit strategy.

A SICAR may also marginally hold financial derivative instruments on an exceptional basis.

Eligible Investors

A SICAR is limited to "well-informed" investors that are able to adequately assess the risks associated with an investment in such a vehicle.

SICAR
OVERVIEW (CONTINUED)

Marketing

A SICAR qualifying as AIF and managed by an authorised EU AIFM benefits from a passport allowing the AIFM to market the SICAR's shares or partnership interests to professional investors within the EU through a regulator-to-regulator notification regime.

Specific aspects: EuVECA and EuSEF

Both regimes provide a passport that permits the marketing of the fund to EU-based eligible investors.

Taxation

A SICAR is a fully taxable entity if established as a company but exempt from income tax and capital gains tax derived from risk capital securities and are entitled to double taxation treaty benefits.

CONTENTS

WHY CLIFFORD CHANCE?

Our Luxembourg team offers a full legal, regulatory and tax service based on specialist knowledge of the local and international dynamics of this unique location.

Our 40+ investment fund specialists excel in cross-border fund structuring and work seamlessly across jurisdictions and continents. They work on a daily basis with clients and colleagues in all major financial centres of the world, giving our investment funds practice an unrivalled geographical footprint.

Fund managers benefit from our corporate, regulatory and tax expertise needed throughout a fund's life cycle, including fund structuring, establishment, marketing and capital raising, as well as on ongoing operational issues, fund financing and restructuring mandates.

We also advise retail and institutional investors on the full range of Luxembourg funds investing in all asset classes. Our knowledge of local markets means we can tailor transactions effectively from both a tax and marketing position.

Clifford Chance is often involved in regulatory discussions concerning Luxembourg investment funds with the CSSF and maintains a strong professional relationship with regulatory authorities.

> **“The Clifford Chance team provides exceptional legal and commercial input, delivers exceptional client service and is very disciplined to keep costs within budget – they clearly stand out in the market.”**
>
> Chambers Global 2022: Investment Funds

> **“Clifford Chance are leaders in the field of funds law and are well connected with the regulator and the market.”**
>
> Chambers Global 2023: Investment Funds

1 BAND

“INVESTMENT FUNDS LUXEMBOURG”

Chambers Europe & Global 2022

“TIER 1: INVESTMENT FUNDS LUXEMBOURG”

Legal 500 EMEA 2022

“TIER 1: INVESTMENT FUNDS LUXEMBOURG”

IFLR1000 2022

IFLR LUXEMBOURG LAW FIRM OF THE YEAR 2022

Chambers TOP RANKED Europe 2023 Clifford Chance LLP

Chambers TOP RANKED Global 2023 Clifford Chance LLP

IFLR AWARDS 2022 EUROPE WINNER

CONTENTS

LUXEMBOURG AIF COMPARISON TABLE

	Regulated Investment Vehicles		Unregulated Investment Vehicles	
	SIF	**SICAR**	**RAIF**	**Unregulated Fund**
CSSF Prior Authorisation and Supervision	Yes	Yes	No	No
Full Scope AIFMD Vehicle	Yes (requiring appointment of authorised AIFM), unless specific exemption under AIFMD	Yes (requiring appointment of authorised AIFM), unless specific exemption under AIFMD	Yes (requiring appointment of authorised AIFM)	Yes (requiring appointment of authorised AIFM), unless specific exemption under AIFMD
Eligible Investors	Well-informed investors only, i.e. institutional investors, professional investors as well as any other sophisticated retail or private investor that: a) has declared in writing his/her status as a well-informed investor; and (i) invests a minimum of EUR 125,000 in the SIF/SICAR/RAIF; or (ii) has obtained an assessment from a credit institution, a MiFID investment firm or a UCITS management company certifying his or her expertise, his or her experience and his or her knowledge in appraising in an appropriate manner an investment in a SIF/SICAR/RAIF			Unrestricted
Eligible Assets	Unrestricted, but prior approval of investment objective and strategy by CSSF	Risk capital only and prior approval of investment objective and strategy by CSSF	Unrestricted, unless for RAIFs opting for special tax regime (investment in risk capital only like SICAR)	Unrestricted
Risk Diversification	30% investment limit of its net assets in securities of the same type issued by the same issuer	Not required	Same risk diversification rules as SIFs, unless for RAIFs opting for special tax regime (no risk diversification like SICAR)	Not required
Legal Form	FCP SICAV/SICAF (SA, SCA, S.à r.l., SCSA, SCS, SCSp)	SA, SCA, Sàrl, SCSA, SCS, SCSp (fixed or variable capital)	FCP (unless for RAIFs opting for special tax regime) SICAV/SICAF (SA, SCA, Sàrl, SCSA, SCS, SCSp)	Most commonly SCS and SCSp, but other legal forms are available
Open or Closed-Ended	Open or closed-ended			

LUXEMBOURG AIF COMPARISON TABLE
(CONTINUED)

<table>
<tr><th></th><th colspan="2">Regulated Investment Vehicles</th><th colspan="2">Unregulated Investment Vehicles</th></tr>
<tr><th></th><th>SIF</th><th>SICAR</th><th>RAIF</th><th>Unregulated Fund</th></tr>
<tr><td>Multiple Sub-Funds</td><td>Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Cross Sub-Fund Investments</td><td>Yes</td><td>No</td><td>Yes</td><td>N/A</td></tr>
<tr><td>Multiple Share Classes</td><td colspan="4">Yes</td></tr>
<tr><td>Minimum Capital Requirements</td><td>EUR 1,250,000 to be reached within 12 months from CSSF authorisation</td><td>EUR 1,000,000 to be reached within 12 months from CSSF authorisation</td><td>EUR 1,250,000 to be reached within 12 months from launch</td><td>No minimum capital requirement for SCSs and SCSps</td></tr>
<tr><td rowspan="4">Required Service Providers</td><td>Luxembourg management company in case of FCP</td><td>N/A</td><td>Luxembourg management company in case of FCP</td><td>N/A</td></tr>
<tr><td colspan="3">Depositary (Luxembourg credit institution or Luxembourg branch of EU credit institution, Luxembourg MiFID investment firm or Luxembourg branch of a EU MiFID investment firm (subject to specific requirements) or Luxembourg professional depositary of assets other than financial instruments if the SIF/SICAR/RAIF (i) is closed-ended for a period of five years from the date of its initial investment and (ii) does generally not invest in assets to be held in custody or generally seeks to acquire control over the issuers or non-listed companies</td><td>Depositary (being one of the entities also eligible to act as depositary of a SIF/SICAR/RAIF) if qualifying as AIF</td></tr>
<tr><td colspan="3">Central administration in Luxembourg</td><td>No central administration expressly required</td></tr>
<tr><td colspan="3">Luxembourg-approved statutory auditor (réviseur d’entreprise agréé)</td><td>Luxembourg-approved statutory auditor if qualifying as AIF</td></tr>
<tr><td>EU Marketing Passport</td><td colspan="4">If Full Scope AIF: AIFMD passport for marketing to professional investors in the EU</td></tr>
</table>

LUXEMBOURG AIF COMPARISON TABLE
(CONTINUED)

	Regulated Investment Vehicles		Unregulated Investment Vehicles	
	SIF	**SICAR**	**RAIF**	**Unregulated Fund**
Taxation	No income tax	Subject to income tax except if incorporated as an SCS/SCSp (tax transparent), but income from securities held by the SICAR are exempt	Same tax regime as a SIF, unless for RAIFs opting for special tax regime that are subject to SICAR tax regime	Tax treatment dependent on the legal form of the company
	No wealth tax	No wealth tax		
	Annual subscription tax at a rate of 0.01% of the NAV, but SIFs investing in other funds already subject to the subscription tax, money market SIFs, SIFs set up as a pension pool vehicle for a group and microfinance SIFs are exempted under certain conditions	No subscription tax		
	No withholding tax on dividends/capital gains			
	VAT exemption on management services			

CONTENTS

KEY CONTACTS

For further information on how we can assist you, please contact:

Emmanuel-Frédéric Henrion
Partner
Investment Funds
T: +352 48 50 50 491
E: emmanuelfrederic.henrion@cliffordchance.com

Kristof Meynaerts
Partner
Investment Funds
T: +352 48 50 50 226
E: kristof.meynaerts@cliffordchance.com

Maren Stadler-Tjan
Partner
Investment Funds
T: +352 48 50 50 472
E: maren.stadlertjan@cliffordchance.com

Paul Van den Abeele
Partner
Investment Funds
T: +352 48 50 50 478
E: paul.vandenabeele@cliffordchance.com

Oliver Zwick
Partner
Investment Funds
T: +352 48 50 50 476
E: oliver.zwick@cliffordchance.com

Bart Denys
Counsel
Investment Funds
T: +352 48 50 50 453
E: bart.denys@cliffordchance.com

Christian Lennig
Counsel
Investment Funds
T: +352 48 50 50 459
E: christian.lennig@cliffordchance.com

CLIFFORD CHANCE

Clifford Chance, 10 boulevard G.D. Charlotte, B.P. 1147, L-1011
Luxembourg, Grand-Duché de Luxembourg

WWW.CLIFFORDCHANCE.COM

2205-001188