

ATTRACTIVENESS OF LUXEMBOURG FOR RAISING CAPITAL IN EUROPE

PIERRE WEIMERSKIRCH, OF LUXEMBOURG INVESTMENT SOLUTIONS, DISCUSSES THE VARIOUS ADVANTAGES AND RECENT DEVELOPMENTS CONTINUING THE APPEAL OF DOMICILING FUNDS IN LUXEMBOURG



Pierre Weimerskirch is co-founder and managing partner at Luxembourg Investment Solutions SA, a leading Luxembourg-based third-party fund management company and AIFM. Pierre has more than 25 years of experience in the investment fund business and is a board member of the Luxembourg Private Equity Association (LPEA). He also serves on the board of a number of private equity and real estate funds.

According to a recent report published by the European Fund and Asset Management Association (EFAMA)*, with more than €19trn of assets under management (AuM), Europe is the second largest market in the global asset management industry behind the US. The AuM in Europe is fairly concentrated. Not only this, but the combined AuM of the UK, France and Germany amount to approximately two thirds of the AuM within Europe. Coming immediately after is the Netherlands and Italy, followed by the Nordics and Switzerland. Interestingly, the split between discretionary mandates and investment funds is appropriately balanced. Institutional investors are the largest category of investors, with 74% of the total AuM. Insurance companies and pension funds are the main types of investors in this category. These numbers show the relative importance of certain countries and the strong influence of certain types of investors when it comes to raising capital in Europe.

THE ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

The introduction of the Alternative Investment Fund Managers Directive (AIFMD) term in 2013 has fundamentally changed the conditions of raising capital from European investors. The AIFMD has created a harmonised environment and a level playing field for the management and marketing of investment funds to professional investors in Europe. Reverse solicitation and private placement are problematic and are a thing of the past. Investment managers and fund sponsors have to develop an adequate marketing strategy and set-up in order to be able to raise capital from European investors.

This raises the question for the EU as well as for non-EU managers and sponsors of the fund domicile, regarding where the optimal location to launch their funds is. EU managers raising capital on a pan-European basis now very often opt for the domicile of their funds to be in a European jurisdiction, which is favoured by their investors. A recent trend shows that non-EU managers and sponsors chose to set up a regulated parallel fund in a recognised EU fund jurisdiction for their EU fundraising, which co-

invests alongside the original offshore fund. The recent Brexit decision forces UK-based managers to also review their strategy and adapt their set-up to the new reality facing them.

“ A TESTAMENT TO THE ATTRACTIVENESS OF LUXEMBOURG FOR ALTERNATIVE FUND MANAGERS CAN BE SEEN WITH SOME HIGH-PROFILE NAMES HAVING SET UP THEIR AIFM IN LUXEMBOURG ”

UCITS AND AIFs
As in the Ucits space, where Luxembourg is by far the largest European fund hub, Luxembourg also has the objective to become the leading domicile for AIFs, and to globally promote the AIFMD as a quality label for alternative funds, akin to the Ucits label for public funds. In this respect, Luxembourg can leverage on a well-developed fund infrastructure. A testament to the attractiveness of Luxembourg for alternative fund managers can be seen recently with some high-profile names such as Blackstone and Oaktree

having set up their AIFM in Luxembourg. Furthermore, leading European alternative fund managers Ardian and EQT are already in Luxembourg with their European fund ranges.

In this respect, Luxembourg is regularly reviewing and modernising its legal framework and devising new investment structures in order to cope with the needs of managers, sponsors and investors, too. The most recent addition is the Raif. Introduced in July 2016, the Raif combines the



features of the regulated investment fund Sif, yet keeps the flexibility and speed to market of an unregulated vehicle. Currently more than 50 Raifs have been set up.

ALTERNATIVE INVESTMENT FUNDS IN LUXEMBOURG

Another recent success story is the reform of the limited partnership known as the SCS and the introduction of the special limited partnership SCSp in 2013. The SCSp is one of several measures which have been introduced to promote alternative investment funds in Luxembourg. More than 1,600 of these partnerships have been set up since its introduction, many of which as unregulated AIFs.

The wide range of available investment vehicles and legal structures in Luxembourg enables investment managers and investors to find the appropriate instrument to cope with their specific structuring and tax requirements. All of these fund structures have access to the marketing passport and can be marketed to professional investors throughout Europe. An increasing number of investment managers and sponsors are not just limiting the marketing to European investors but are raising capital on a global scale with Luxembourg incorporated AIFs. 2016 was a

record year in fundraising globally and for Luxembourg AIFs. At the end of the third quarter in 2016, net assets in AIFs reached €570bn in Luxembourg. In the current low interest yielding environment, institutional capital will continue to flow into alternative investments. However, as the fundraising environment is extremely competitive, the investment managers and fund sponsors have to make sure their offering is an attractive package to investors, not only in terms of investment strategy and potential returns, but also with regards to the fund vehicle and domicile.

As a result of its well-developed investment fund infrastructure and its competitive legal and tax regime, Luxembourg is a growing domicile for AIFs. The challenge at hand with Beps is to have enough substance in the governance of an AIF. Hence being able to demonstrate adequate substance, and the fact that the effective place of management is there where the fund is domiciled, becomes a matter of critical importance. The promotion of proper governance models is at the heart of Luxembourg's financial centre in order to allow the managers and the funds domiciled in Luxembourg further access to its vast network of double tax treaties. ■