association of the luxembourg fund industry

LUXEMBOURG:
Special limited partnerships

10 reasons for a Luxembourg special limited partnership

Why establish a Luxembourg special limited partnership?

From its introduction in 2013, the Luxembourg special limited partnership ("SLP") has rapidly expanded to become one of the leading corporate forms in Luxembourg and in Europe for fund structuring.

Among several factors explaining this success, the Luxembourg SLP is fostered by the large contractual flexibility offered by the Luxembourg law of 10 August 1915 on commercial companies ("1915 Law"), which only contains very limited mandatory provisions with respect to the SLP.

Several European jurisdictions have seized on that success story and have passed reforms of their partnerships rules.

You will find hereafter 10 key reasons for establishing a Luxembourg special limited partnership, which underpin the SLP as the go-to vehicle in the European funds industry.

10 key reasons for establishing a Luxembourg special limited partnership

From its introduction in 2013, the Luxembourg special limited partnership ("SLP") has rapidly expanded to become one of the leading corporate forms in Luxembourg and in Europe for fund structuring.

1. Contractual freedom

The Luxembourg SLP benefits from enhanced contractual freedom and only a limited number of mandatory rules under the 1915 Law apply to it.

As a result, a fund initiator may freely determine most of the content of the SLP's limited partnership agreement ("LPA") and in doing so, it has ample flexibility to duplicate the relevant provisions from a predecessor or parallel non-Luxembourg fund.

In particular, the LPA is virtually unrestricted in setting out the partners' rights and obligations, the governance model of the SLP as well as the following key topics: the distribution waterfall (including carried interest and claw back mechanisms), the redemption rights, the procedure and conditions of liquidation, the quorum and majority rules as well as the voting thresholds and the LPA amendment procedure.

As a result of more stringent mandatory legal rules applicable, partnerships established in certain other jurisdictions may lack such flexibility on key structuring aspects.

2. No authorisation requirements

Most structuring options available to the Luxembourg SLPs do not require regulatory authorisation by the *Luxembourg Commission de Surveillance du Secteur Financier* ("CSSF").

The SLP may be structured as a mere corporate entity/holding company, in which case it will not qualify as an AIF and, of course, will not require any authorisation nor regulation by the CSSF.

The SLP is frequently structured as an unregulated alternative investment fund ("AIF") or a reserved alternative investment fund ("RAIF"), which are neither authorised nor regulated by the CSSF. As a result, the typical Luxembourg AIF or RAIF structured as a SLP will not be subject to a green light from the regulator to be launched into existence.

Where it is managed by an authorised AIFM, the SLP will be impacted by the rules applying to its AIFM as per the AIFM Directive, as any and all such AIFs through Europe.

3. Full flexibility for additional vehicles

The Luxembourg SLP has proven to be an efficient corporate form in a wide variety of set-ups, as an AIF or as a non-AIF, as a regulated or as an unregulated entity, for any investment strategy, in each case benefiting from its distinctive contractual flexibility.

The SLP can be used to structure all the additional vehicles that are customary in a fund set up, such as feeder fund vehicle, a co-investment vehicle, a carry vehicle, an alternative investment vehicle or even a special purpose/holding vehicle (regardless of the AIF qualification).

4. No obligation to appoint a depositary

As all AIFs through Europe, Luxembourg AIFs managed by an authorised AIFM are required to appoint a depositary.

It is however not per se mandatory for a Luxembourg SLP to appoint a depositary. As a result, an SLP that does not qualify as an AIF, or that qualifies as an AIF but is managed by a registered AIFM or by a non-EU AIFM, will not be required to appoint a depositary.

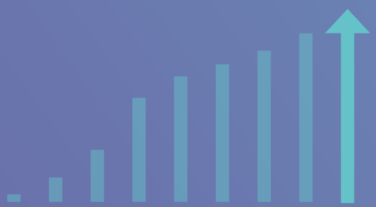
5. Structuring an umbrella fund

Sponsors intending to set up an umbrella fund may opt for a Luxembourg SLP qualifying as a RAIF, which can be structured with multiple compartments (each corresponding to a distinct part of the assets and liabilities of the SLP) without having to obtain the authorisation of the CSSF.

A Luxembourg SLP may also be structured, outside of the RAIF label, with tracking interests in order to distinguish the assets and liabilities that are allocated to each class of interest, which is allowed by the enhanced contractual flexibility of the 1915 Law and does not require any authorisation from the CSSF nor to be managed by an AIFM.

5,746

Number of SLPs since 2013*



*Source: RCSL – Deposit statistics, PwC analysis, Status at 31 October 2021

6. Straightforward LPA drafting

With only very few mandatory rules applying, the Luxembourg SLP opposes virtually no restrictions (nor added structuring complexities) where partnerships established in other jurisdictions may be subject to more stringent mandatory local rules, restricting certain set-ups or requiring careful and time consuming structuring/drafting.

In particular, the Luxembourg SLP is not subject to risk spreading/diversification requirements, clawback/escrow mandatory mechanisms, it does not prohibit returns on capital, nor is subject to any particular restrictions regarding the redemption of partnership interests.

7. Flexible management

The Luxembourg SLP may be managed (from a corporate law perspective) by its general partner acting as managing general partner *(associé commandité gérant)* **or may alternatively be managed by one (or more) manager(s)** *(gérants)* **who need(s) not be general partners.**

This flexibility for instance allows to appoint the AIFM as corporate *gérant* of the SLP.

8. A jurisdiction already trusted by the major investment funds players

A quick time-to-market is key: using Luxembourg-based SLPs in particular, asset managers can establish structures extremely quickly, due to the fact that the CSSF does not need to review and approve their documentation upfront.

Luxembourg is ideally positioned to help funds deal with the complexity of European financial market rules and regulations. The country has more than 30 years of experience in supporting and servicing funds, with highly experienced fund administration, depositary, financial and tax reporting, that enable asset managers to rely on their chosen partners and to focus on value creation.

Luxembourg is the leading fund jurisdiction in the EU. 9 of the top 10 private equity houses, 14 of the top 15 real estate fund managers, more than half of the top 20 (by size) hedge fund managers and 8 of the top 10 fund of hedge funds managers are already present in Luxembourg.

9. Stable jurisdiction

Asset managers value certainty and predictability. In this, Luxembourg:

- Is a founding EU Member State with sound public finances and fiscal stability;
- Benefits from an AAA credit rating;
- Benefits from a political ambition and support to grow Luxembourg into a leading alternative fund centre;
- Has an influential investment fund industry association (ALFI) collaborating with a number of industry bodies to foster the development of alternative investments in Luxembourg;
- Has excellent public and cultural infrastructure, social services and a low crime rate.

10. An international and multilingual environment

As a central location in Europe, Luxembourg has the ability and track record for attracting a highly educated talent pool from neighbouring countries, the rest of the EU and the world, with a multitude of nationalities (170) and languages spoken in Luxembourg.

About 49,000 professionals are employed in over 265 regulated financial services companies, with 349 management companies and 888 authorised and registered AIFMs and 126 banks from 26 countries (as at October 2021).

Luxembourg is the leading fund jurisdiction in the EU. Already present are:

18 of the 20 biggest private equity houses

14 of the top 15 real estate fund managers

+10 of the top 20 hedge fund managers

8 of the top 10 fund of hedge funds managers

About ALFI

Est: 1988

Represents:
+1,500 members

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community, championing **sustainable investing, mainstream** and **private assets.**

ALFI's mission is to promote Luxembourg as the **world's leading cross-border investment fund centre,** facilitate the transition towards more sustainable economies globally and empower investors to meet their goals.

Mission

To lead industry efforts to provide solutions and make Luxembourg the most **innovative international** investment fund centre.

Objectives

01 Help members capitalise on industry trends

02 Shape regulation

03 Foster dedication to professional standards, integrity and quality

04 Promote the Luxembourg fund industry

Ambitions

01 Lead the development of innovative cross-border saving and pension products

02 Create a framework that helps sustainable products flourish

03 Extend the global reach of UCITS as a multi purpose solution

04 Broaden access to private assets

05 Drive innovation and the digital transformation of the Luxembourg fund industry

Our 2025 ambition

To empower investors in their financial journey to allow them to meet their life goals.

Building on the strength of three pillars:

Sustainable Finance — **Private Assets** — **UCITS**

For more information

Visit our website at **www.alfi.lu** and **follow ALFI** on: