



LUXEMBOURG FUND PARTNERS

RESERVED ALTERNATIVE INVESTMENT FUND

RAIF – Information Brochure

Based on the Law of 14 July 2016 on reserved alternative investment funds

Key Facts

The Reserved Alternative Investment Fund (RAIF) is an efficient and flexible alternative investment vehicle that is radically changing the AIF landscape by completing the existing set of Luxembourg-based alternative investment funds (AIFs).



Regulation

The legal characteristics of the RAIF are similar to those of specialized investment funds (SIFs) and SICARs. Despite being an AIF in the sense of the AIFM Directive and its transposition into national law, the RAIF is not subject to any direct product regulation by the financial regulatory authority, the *Commission de Surveillance du Secteur Financier* (CSSF). The legal representative bodies of the RAIF are nevertheless required to appoint an authorized Alternative Investment Fund Manager (AIFM) to manage the RAIF. Thus, the RAIF is combining a high level of flexibility with an unparalleled time-to-market.



Passporting

As Alternative Investment Fund with an appointed AIFM, the RAIF is benefitting from the EU passport and open for cross-border distribution.



Eligible Investors

Well informed, professional and institutional investors are eligible to invest in a RAIF.



Compulsory Service Providers

A RAIF must be managed by an authorized AIFM registered in a EU member state. Moreover, the RAIF will mandatorily appoint the following service providers:

- ✓ A depositary assigned to the custody of the RAIF's assets;
- ✓ A central administrator;
- ✓ An external auditor licensed in Luxembourg.



Tax Regime

By default, the RAIF is subject to a similar tax regime as the specialized investment fund (SIF). The RAIF is exempt from Luxembourg wealth and income taxes. In principle, RAIFs are subject to an annual subscription tax of 0,01% based on the net asset value calculated at the end of each quarter (lower than the subscription tax applied to most undertaking collective investments). Under certain circumstances the RAIF may also adopt the SICAR regime.

Introduction

The new legislation on Reserved Alternative Investment Funds ("RAIFs") was adopted by the Luxembourg Parliament on 14 July 2016 (the "RAIF Law"). The RAIF Law offers more flexibility to investors, as the RAIF is not subject to any product approval by the CSSF, but is required under the provisions of the RAIF Law to appoint an authorized AIFM. By adopting this new law, Luxembourg is about to revolutionize the international alternative investment sector by extending the existing range of structuring solutions for Private Equity, Real Estate, Hedge Funds and other AIF strategies. This innovation in the alternative investment industry strengthens the role of Luxembourg as global center of excellence for alternative investment funds.

This new type of investment vehicle will have similar characteristics to the already existing specialized investment fund (SIF). The major differences being that the RAIF is not subject to prior approval and supervision to the Luxembourg supervisory authority (*Commission de Surveillance du Secteur Financier*, the CSSF).



Drivers

Luxembourg is the leading jurisdiction in Europe for the structuring and setup of investment fund structures and is recognized as a center of excellence in the investment fund industry. The country has become the global leader for cross-border distribution of regulated investment vehicles and is the jurisdiction of choice for the structuring of alternative investment funds.

The primary driver for the RAIF Law was the strong demand from institutional and high net worth investors, along with their asset managers for faster time-to-market vehicle offering similar characteristics as the already existing SIF. The RAIF offers similar advantages while giving its managers enough flexibility in the choice of the investment strategies and eligible assets. Since the RAIF is not regulated by the CSSF, the Luxembourg regulator, investor protection is offered through the management of the RAIFs assets by a Regulated Alternative Investment Fund Manager ("AIFM").

Advantages

Due to the fact that the RAIF will not stand directly under the supervision of the CSSF, it offers more structuring flexibility than the SIF. Moreover, because only well-informed respectively qualified investors are able to invest, RAIFs underlie less restrictive requirements. The RAIF is exempt from prior approval by the CSSF which offers an attractive time-to-market and can reduce set up costs.

From an investment perspective, the RAIF benefits from a broader range of eligible fund strategies and structuring possibilities, as there are no restrictions imposed by the CSSF. However, the RAIF will need to comply with all valuation, risk and portfolio management requirements set out in the AIFM Directive.



***“ RAIF
the new Star among
alternative investment funds ”***

Legal Structures

The RAIF may be structured under different forms, notably as:

- An open-ended legal entity (SICAV);
- A fixed capital entity (SICAF);
- A contractual form (FCP).

However the RAIF is not limited to a legal setup, and therefore other legal forms may be possible (e.g. SCS or SCSp).

RAIFs can be structured as stand alone or umbrella funds with multiple fund compartments, where each compartment or sub-fund may follow a different investment strategy. Each fund or sub-fund may have an unlimited number of share classes depending on the needs of the investors to whom the fund or sub-fund shall be distributed.

A RAIF set up as a SICAV or SICAF can be set up under the following forms:

- Public limited company (SA);
- Partnership limited by shares (SCA);
- Private limited liability company (SARL);
- Cooperative in the form of a public limited company (SCSA).

Capital structure and dividend policy

The RAIF Law provides that the minimum capitalization of a RAIF shall be €1,250,000, a minimum amount that must be reached within 12 months from the date of authorization of the RAIF. In the case of an FCP, the reference point for this minimum amount is the subscribed capital plus any issue premium paid, rather than the net assets.

Issued shares of a RAIF organized as a SICAV must be fully subscribed, but only 5% of the value of each share must be paid up, in cash or in kind, upon subscription. This facilitates investment structures making use of capital calls such as private equity funds.

A RAIF is not required to maintain a legal reserve and the RAIF Law does not provide any specific restriction on the distribution of dividends. Nevertheless, the payment of dividends shall not result in the size of the RAIF falling below the minimum capitalization of €1,250,000.

Eligible Investors

Investment into RAIFs is limited to well-informed investors. By applying this limit, the law ensures that investors are able to adequately assess the risks associated with an investment in a RAIF.

According to the provisions set out in the RAIF Law, a well-informed is:

- An institutional investor;
- A professional investor;
- Any other type of investor who has confirmed in writing their status of well-informed investor and either,
 - ✓ Invests a minimum of €125,000;
 - ✓ Or has an appraisal from a bank, an investment firm or a management company certifying his expertise as an 'informed investor'.



Organization

The registered office of the RAIF must be located in the Grand Duchy of Luxembourg. The board of directors, which does not have to be approved by the CSSF, shall appoint the following service providers:

- The AIFM must be a regulated entity, duly supervised by its local Financial Authority and compliant with the prevailing AIFM Directive;
- Custodian Bank: Oversight and Safekeeping functions – The Custodian Bank must be a credit institution having its registered office or establishment in the Grand Duchy of Luxembourg. Its role comprises the general oversight function and the safekeeping of assets. In addition to the type of depositary described above, a new type of Luxembourg depositary has been introduced with the AIFM Law, namely the professional depositary of assets other than financial instruments;
- An External Auditor, based in Luxembourg must review the annual accounts of a RAIF. The auditor shall provide evidence that it has an appropriate level of professional experience in the investment strategy followed by the RAIF respectively the types of assets held in the portfolio;
- The Central Administration, with a PSF license must have its offices in Luxembourg. The meaning of the central administration in Luxembourg implies that accounting and administrative functions such as the calculation of the Net Asset Value must be effected in Luxembourg or initiated from Luxembourg.

Appoint an AIFM

RAIFs are required to be managed by an authorized Alternative Investment Fund Manager (AIFM). The AIFM may be established either in the Grand Duchy of Luxembourg, in a member state of the EU, or in a country located outside the EU, provided that the entity complies with the provisions set out in the AIFM Directive respectively the AIFM Law.

Investment flexibility

The RAIF Law offers a broad scope of eligible assets and investment strategies, as there are no prescribed investment restrictions for any type of assets or strategies. An RAIF may but is not required to invest in: equities, bonds, derivatives, structured products, real estate, hedge funds and private equity. There are no detailed investment or leverage restrictions. However, RAIFs are subject to the principles of risk diversification similar to the SIFs.

Under certain conditions, namely if the RAIF restricts its investment policy in its constitutive documents to investments in risk capital, then it will not be required to operate under the principle of risk spreading.

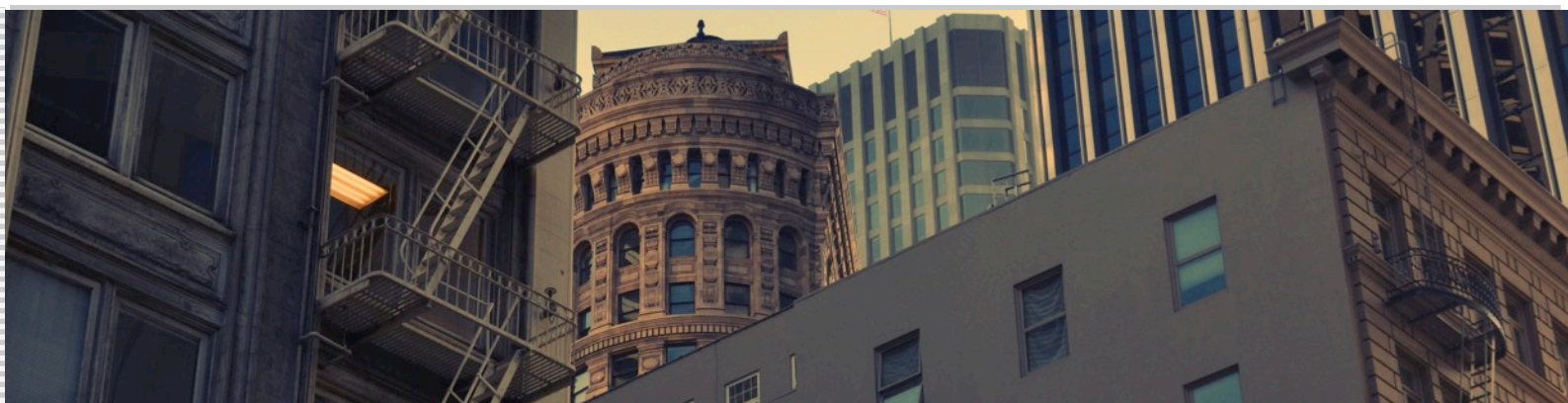
Marketing

RAIFs managed by an EU-authorized AIFM benefit from a marketing passport, which allows the AIFM to market the shares, units or partnership interests of the RAIF to professional investors within the EU through a regulator-to-regulator notification regime.

RAIFs managed by an AIFM that is not authorized within the EU, do not benefit from this passport. This means that the marketing of these shares, units or partnership interests in the EU is subject to national private placement rules in the countries where the entity will be marketed or distributed.

The marketing of RAIFs outside or within the EU to well-informed investors, which do not qualify as professional investors, requires compliance with the NPR (national private placement rules) of each country where such marketing distribution is done.





Efficient and flexible Tax Regime

There are many different tax regimes applicable to a RAIF. By default, the RAIF is subject to a similar tax regime as the specialized investment fund (SIF). As such, the RAIF is exempt from Luxembourg wealth and income taxes. Furthermore, no taxes are levied on the income received or the capital gains realized by a RAIF.

In principle RAIFs are subject to an annual subscription tax of 0,01% based on the net asset value calculated at the end of each quarter (lower than the subscription tax applied to most undertakings collective investments). The RAIF Law exempts however from the subscription tax the assets invested in other Luxembourg based UCIs subject to this tax, certain institutional cash funds, microfinance funds and pension pooling funds.

For RAIFs structured under the FCP or SCSp regimes, full tax transparency is applicable. For RAIFs that are not set up as FCPs and which are investing in risk capital, a tax regime similar to the one prevailing to SICARs will apply. In this case, the RAIF will be subject to corporate income tax/municipal business tax, but any income from transferable securities and income from temporary investments (<12months) is exempted. There is no withholding tax on distributions, no subscription tax and no tax on speculative capital gains for investors.

No Supervision

The RAIF itself is not subject to the supervision of the CSSF. With the RAIF, the Luxembourg government will introduce a new flexible investment vehicle combining an attractive tax regime with a considerably reduced time-to-market.

Other than the traditional SIF, the RAIF does not need to obtain a formal approval from the CSSF and the CSSF does not need to review and approve the constitutive documents, the choice of directors/managers, the AIFM and other service providers .

As an AIF, the RAIF must comply with the provisions set out in the AIFM Directive and the prevailing AIFM Law. Nevertheless, the latter will not stand under the supervision of the CSSF. Under the RAIF regime, investor protection is offered through the appointment of a duly regulated and authorized AIFM.

Valuation Function

The valuation function of a RAIF comprises the valuation of assets as well as the calculation of the NAV. The valuation task has to be performed either by the AIFM itself or by an external appraiser under the responsibility of the AIFM. The NAV calculation is in turn either performed by the AIFM itself or an appointed duly recognized central administrator which must have its registered office in Luxembourg. The external appraiser must be subject to the mandatory professional registration recognized by law. The appointed external valuer cannot delegate its function to third parties. The NAV must in turn be calculated at least once a year.

As per the AIFM Law, the valuation function must be independent from the portfolio management.

Valuation of assets

The RAIF Law states that, unless otherwise provided in the management regulations (FCP), Limited Partnership Agreement (SCS or SCSp) or articles of incorporation (SICAV), the assets of a RAIF must be valued at fair value. This value is to be determined in accordance with the rule set forth in the constitutive documents.

Furthermore, RAIFs are not required to calculate and publish their net asset value (NAV) on a regular basis, but the NAV must be computed at least once per year.



Depository Functions

According to the RAIF Law, the depository of a RAIF may either be a credit institution, an investment firm or a professional depository of assets other than financial instruments.

Depositories of RAIFs must comply with the depository regime as provided for by the AIFM Law. This regime imposes specific duties on the depository, which are:

- The obligation to safe-keep the assets of a RAIF;
- The obligation to monitor the cash flows of a RAIF;
- The obligation to perform specific oversight duties.

In addition, the AIFM Law has strengthened the liability regime of the depository. The depository is now strictly liable in the case of a loss of financial instruments held in custody. And, it must without immoderate delay, return financial instruments of an identical type or of a corresponding amount to the RAIF or the AIFM acting for the RAIF. The possibilities to avoid this consequences are very limited with the strengthened liability regime.

Any other losses caused by the depository's negligence or intentional failure to properly fulfill its obligation under the AIFM Law is under the depository's liability.

Delegation of AIFM functions

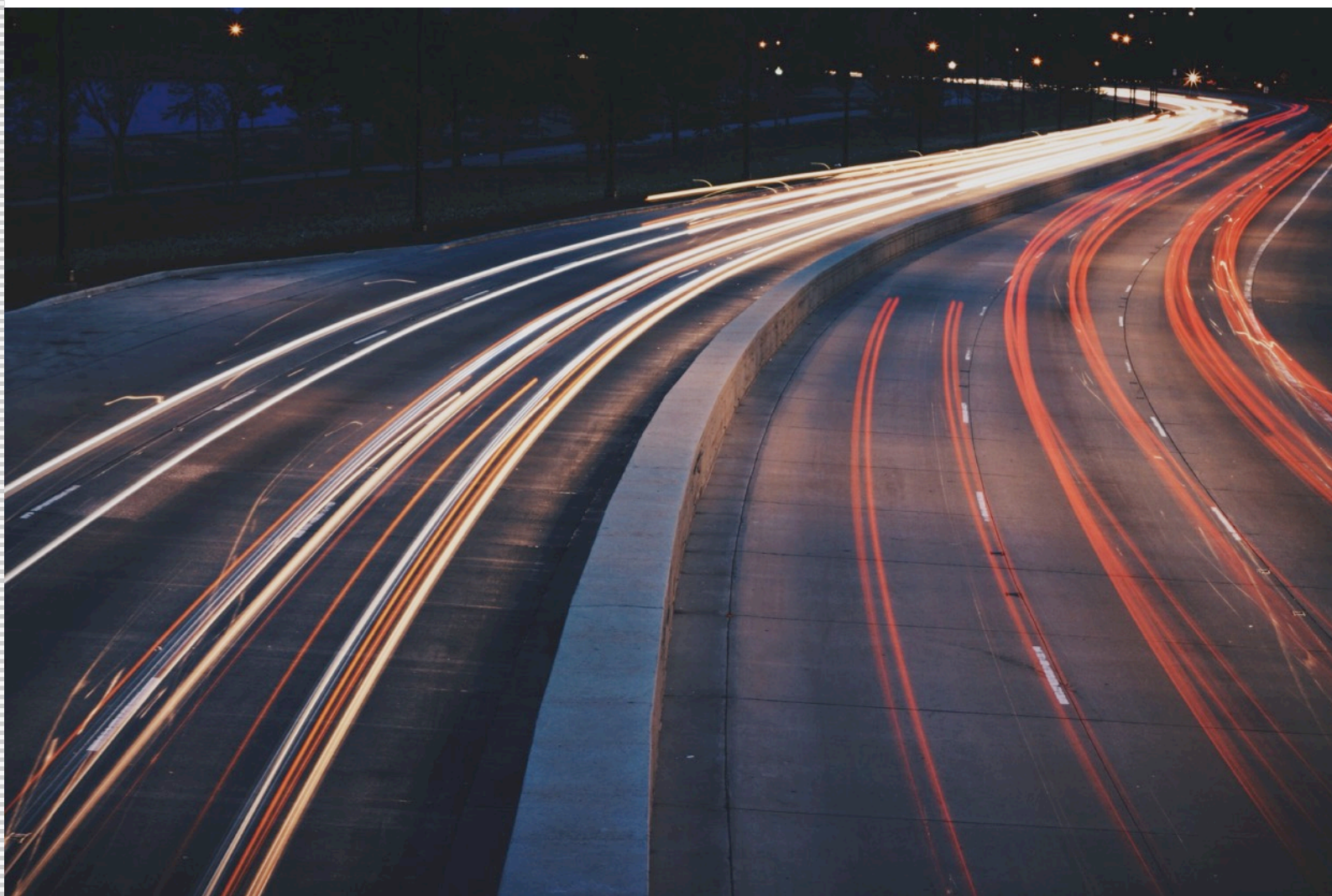
The AIFM may under certain conditions and in compliance with prevailing laws and regulations delegate one of the two core functions (i.e. portfolio management and risk management) to a duly regulated external party. However, the AIFM must be able to justify the entire delegation structure to the CSSF or the competent authority of their country. The AIFM shall also be able to demonstrate that the delegate is qualified and capable of undertaking the delegated functions.

The rules regarding the delegation of portfolio and risk management functions are similar to the rules applicable to existing business models of UCITS outsourcing the management function.

AIFMs shall at all time remain responsible for the proper performance of their functions and compliance with the rules set out in the AIFM Law. Their liability towards the RAIF and its investors may in no case be affected by the fact that the AIFM has delegated functions to a third party. The AIFM will therefore have to closely monitor at any time further instructions to the delegatee and to withdraw the delegation with immediate effect when this is in the interest of the RAIFs investors.

Summary of key advantages

- Not subject to the CSSF prior approval and supervision;
- Very attractive time-to-market, can be set up within a few days;
- Managed by an authorized AIFM to enjoy the benefits of AIFMD regime;
- Passporting through the use of the AIFM distribution passport;
- Offers an efficient and flexible tax regime;
- No limitations in terms of eligible assets and fund strategies;
- Allowed to create sub-funds;
- Access to the large set of Luxembourg double-taxation treaties.





About Us

Luxembourg Fund Partners is an independent UCITS management company (ManCo) and alternative investment fund manager (AIFM) offering comprehensive and bespoke investment solutions to asset managers, institutional and private investors.

Our team of investment professionals is a trusted partner to many investment managers and investors worldwide. We always strive to provide our customers with efficient solutions and offer them the possibility to concentrate on durable capital growth. The group is specialized in setting-up, administrating and managing regulated investment funds and other investment structures on behalf of private and institutional clients. The firm's management team is drawn from the executive ranks of global financial institutions and leading consulting firms. For well over two decades asset managers and investors have trusted them and rely on their entrepreneurial ideas about creating a world-class investment and advisory business.

Our customers come first and we always set their needs as a priority. The team is disciplined, independent and conflict-free, adhering to the highest ethical standards and driven to create long-term value for investors and our business partners. Through the diverse range of investment funds our specialists handle highly complex and critical transactions as well as global restructuring and re-organization assignments. All of these activities reflect the firm's durable partnership philosophy based on the solid foundations of intellectual capital, integrity and the commitment to excellence.

Luxembourg Fund Partners was founded by financial specialists with a successfully proven track record in managing globally listed securities portfolios, derivatives instruments and alternative investments such as private equity, real estate or commodities strategies. We developed international management expertise across all asset classes drawing on the knowledge and experience of our team members.

We are specialized in structuring, implementing and managing the following investment structures:

- Global Market Funds;
- Long Short Equity Funds;
- Derivatives Funds;
- Hedge Funds;
- Private Equity and Real Estate Funds;
- Mezzanine and Financing Funds;
- FX & Alternative investment Funds;
- Commodities Funds;
- Renewable and Clean Tech Funds;
- Sustainable Funds;
- Fund of Funds.

Our goal is to deliver long-term returns and capital preservation by following a rigorous investment management process. This approach has led the firm to pursue diverse investment opportunities on a global scale.



Fund and sub-fund set-up:

Luxembourg Fund Partners is specialized in fund structuration and incorporation. We offer fund promoters the setup of stand-alone investment vehicles or the creation of dedicated sub-funds within an existing 'white-labeled' fund structure.

Our experts take care of all legal and operational steps required to launch a RAIF structure:

- Issuing document (Prospectus);
- Term-sheets;
- Subscription form;
- Investment management/advisory agreements;
- Central administration, custodian bank and domiciliation services agreements;
- Risk profile identification;
- Measurement and monitoring;
- Liquidity management plan;
- Risk management process;
- Conflicts of interest procedures;
- Specific focus on counterparty risk and valuation;
- Preparation of the trading activities.

Sales & Marketing Support:

Luxembourg Fund Partners offers high quality third party sales services with a cost efficient solution for the promotion and distribution of financial products. Our services comprise:

- Advisory with respect to fund marketing;
- Conception of a marketing plan;
- Preparation of fund fact sheets;
- Coordination of Public Relations, press releases, conferences and fund fairs;
- Fund platform services;
- Connection to all common fund platforms;
- Coordination of price delivery and publications.



Investment controls:

Our professional team monitors and controls the activities and accuracy of the asset management accounts, ensuring high quality and performance in order to meet the clients' specific needs and reach their objectives.

- Pre-trade controls of the fund manager's investment proposals;
- Due diligence of specific products in support to the asset manager;
- Placement of orders as well as administration of trade and compliance systems;
- Review of the fund management structures with respect to investment guidelines and CSSF circulars.

Asset Management Services

Luxembourg Fund Partners is fully equipped to offer investment management functions to investment funds on behalf of our clients. The asset management team is ready to work with most brokers or counterparties and enters the play to facilitate our customers' tasks. Thus we provide our clients with elaborated investment strategies and opportunities in their area of expertise. The firm's investment management team swiftly implements our customers' advice into effective investments, ranging from money market and cash strategies to the most complex derivatives transactions.

Central Administration

As an AIFM we provide promoters and investors with fully integrated global fund accounting systems using high-speed and real-time processes which allow us to offer accurate financial information. Our fund accounting services include:

- NAV production and distribution;
- Daily reconciliation of cash balances and positions with prime broker(s);
- Automated upload of daily trading activity from the investment managers trading system or prime broker;
- Independent pricing and fund valuation;
- Processing of corporate actions and dividends;
- Expense accrual management;
- Series accounting and equalization support;
- Cash management and reconciliation;
- Calculation and timely payment of all management and performance fees in accordance with the key agreements;
- Preparation of interim and annual financial statements, including co-ordination of the annual audit;
- Daily return information and other performance indicators.



Risk Management in a nutshell:

Luxembourg Fund Partners has a highly skilled team of professionals that are in charge of complex risk management assignments that include:

- Measurement and monitoring of portfolio risk;
- Risk modeling and risk aggregation techniques;
- Regular control of asset evolution for AIFs;
- Independent supervision of the NAV;
- Performance assessment of the investment manager;
- Production of risk management reports;
- Computation of various risk measures for listed and non-listed AIF strategies;
- Commitment Approach and/or Value at Risk calculation.

Our risk reports are in compliance with all regulatory requirements and covering most listed and non-listed investment strategies.



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