



Q&A

FÈMY MOUFTAOU

Director, JTC



JTC's Fèmy Mouftaou outlines how GP expectations of fund jurisdictions have evolved, and explains how Luxembourg has developed its fund offering to meet these shifting requirements.

What are the key attributes that GPs look for in a fund jurisdiction, and how have these requirements changed over the last decade?

Perhaps one of the biggest changes we've seen is the shift towards investors calling the shots. Investors are much keener to be involved and play an active role in investments now and managers and jurisdictions are having to be alive to that dynamic, think more acutely about what investors want and where they are based, and tailor their structures and platforms accordingly.

From a jurisdiction perspective, there are certain consequences of this. There are reputational issues, for example, with investors opting for expert centres that are best in class and not wanting to be associated with certain centres.

There is also the question of market access and whether investors need blanket market access or access to certain markets, whilst the rise in importance of governance and compliance is continuing to play an increasingly important role in jurisdiction selection. These are all key issues for fund jurisdictions.

What steps has Luxembourg taken to meet these needs?

Luxembourg has been very aware to these shifting dynamics and overall has responded and adapted well.

To meet shifting investor expectations, Luxembourg has been active in broadening out its reach to tell our story as a jurisdiction to key markets beyond Europe, including Asia and the US, and has successfully brought new products and types of

structures to market, in particular to cater for the rapidly growing alternatives market. Whilst the UCITS brand has been a success story, for instance, Luxembourg has capitalised well on the growth we've seen in private equity to own the AIFMD brand too.

More recently, the Reserved Alternative Investment Fund (RAIF) structure and a GP/LP structure similar to the UK's are adding a set of excellent tools and options for the GP choosing Luxembourg to host their fund and product, and this goes very well with the increasing need of substance that Luxembourg is asking of all promoters.

We have also seen a jurisdiction-wide focus on enhancing service quality and streamlining processes to make Luxembourg attractive to a broad spectrum of managers and GPs wanting to access the European investor market.

Specifically, the introduction of the special limited partnership (SLP) has proven especially popular with GPs. How does the structure work and why has interest from the private equity community been so strong?

The introduction of the SLP was a strategic move by Luxembourg to coincide with the AIFMD and provide Luxembourg with a structuring solution for private equity funds that was familiar to managers, being based on the Anglo-Saxon limited partnership, and that provides an attractive degree of flexibility and tax transparency. Additionally, the legal framework is easy to understand to any GP or LP who has done similar investments in other jurisdictions.

There's no doubt that its introduction has played a key role in Luxembourg's ability to capture a growing amount of private equity business, and it's certainly JTC's experience that it is seen as the go-to structure for private equity funds.

Similarly, what was the thinking behind the launch of the RAIF structure?

It took fund managers some time to understand the RAIF but we have seen accelerated interest in it. It's particularly encouraging that, whilst there have been migrations from existing structures, most RAIFs have been new funds, and therefore new business for Luxembourg - particularly in the private equity and real estate asset classes. It's a reflection that it was the right product brought to market at the right time.

There are a number of drivers for this success. First and foremost, the RAIF is an indirectly regulated fund product, sitting neatly between Luxembourg's highly regulated and its unregulated fund regimes. That means that it can offer a good amount of investor protection, whilst also offering flexibility and fast incorporation.

There's no doubt the RAIF has been a real benefit to Luxembourg's private equity industry, adding to the range of options it can offer.

The number of funds choosing Luxembourg as a fund jurisdiction has increased significantly. Why is this?

The introduction of the AIFMD five years ago was at the time generally seen as something of a burden by the

alternatives community, but what Luxembourg has done well is transform that piece of regulation into an opportunity.

The AIFMD passport for instance has become popular amongst private equity managers wanting blanket EU coverage and investors wanting full compliance and regulatory reassurance. Luxembourg has been particularly successful in promoting the benefits of the passport and its alternatives sector has benefited considerably as a result.

Alongside that, the rise of the ManCo as the go-to solution for managers wanting to establish an EU presence has been incredibly helpful in attracting alternatives business. Luxembourg has really grasped the opportunities presented by ManCo and brought it to market as a core solution to the AIFMD challenge.

What impact is Brexit having on the fund domicile decision of managers? Are managers worried about it?

For some time now, we've sensed from managers that there has been some unease with how Brexit will play out and we're now at a pivotal point where some managers who were maybe just testing the water before are having to make some fundamental decisions about their operation and structure.

Managers are having to think about a whole range of areas that might impact them - market access, but also availability of expertise and stability. Certainty is the key commodity, and where Luxembourg can offer a compelling solution to that is that it can offer a certain, robust and future-proof solution right now, and we've seen that that is attractive to more and more managers with an EU focus.

The good news is that investors haven't been put off Europe as an investor destination as a result of Brexit, and we've seen sustained strong deal flow, particularly in the real estate, infrastructure and private equity asset classes. ●



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