About ALFI

luxembourg
fund industry

The Association of the Luxembourg Fund Industry (ALFI), the representative body for the Luxembourg investment fund community, was founded in 1988. Today it represents over a thousand Luxembourg-domiciled investment funds, asset management companies and a wide variety of service providers including depositary banks, fund administrators, transfer agents, distributors, law firms, consultants, tax advisers, auditors and accountants, specialist IT providers and communications agencies.

Luxembourg is the largest fund domicile in Europe and its investment fund industry is a worldwide leader in cross-border fund distribution. Luxembourg-domiciled investment structures are distributed in more than 75 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

ALFI defines its mission as to **"Lead industry efforts to make Luxembourg the most attractive international investment fund centre".**
Its main objectives are to:

- **Help members capitalise on industry trends**
  ALFI's many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond to identify threats and opportunities for the Luxembourg fund industry.
- **Shape regulation**
  An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg's competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, the implementation of European directives and the regulation of new products or services.
- **Foster dedication to professional standards, integrity and quality**
  Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organizing training at all levels, defining codes of conduct, transparency and good corporate governance and supporting initiatives to combat money laundering.
- **Promote the Luxembourg investment fund industry**
  ALFI actively promotes the Luxembourg investment fund industry, its products and services. It represents the sector in financial and economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

ALFI is an active member of the European Fund and Asset Management Association, of the International Investment Funds Association, of Pensions Europe, of the International Association of Pension Funds Administrators and of the Global Impact Investing Network.

For more information, visit our website at www.alfi.lu and follow ALFI on

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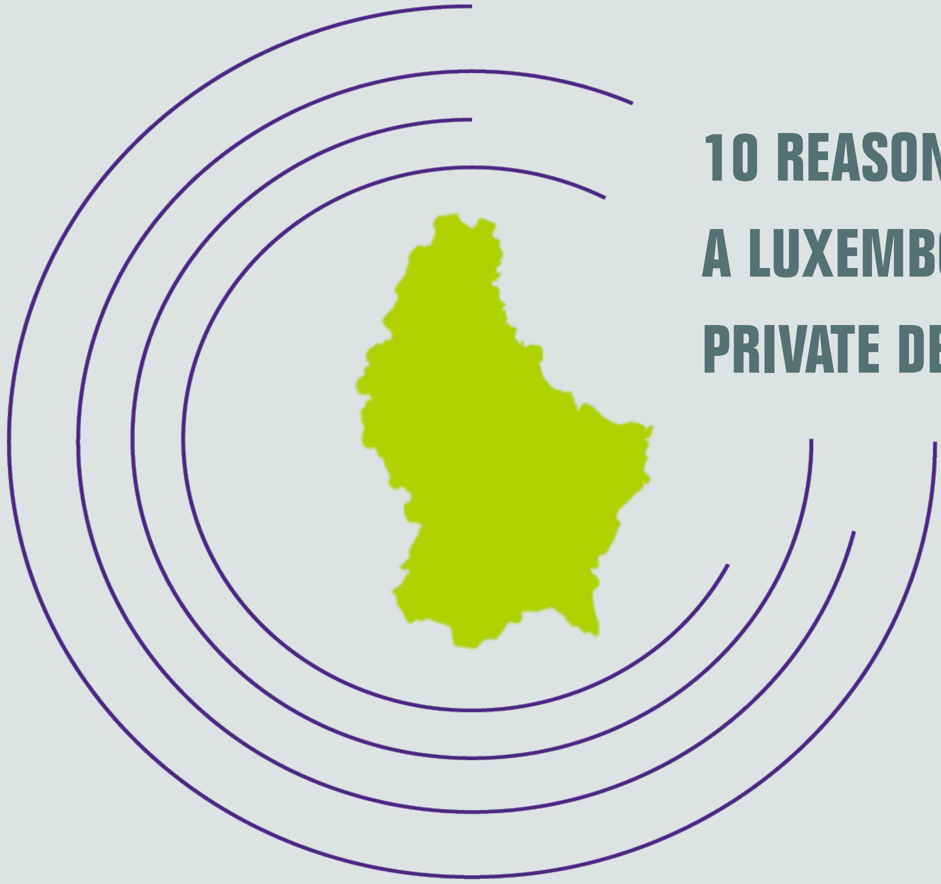

10 REASONS FOR A LUXEMBOURG PRIVATE DEBT FUND

Why establish a Luxembourg private debt fund?

Over the last decade, the private debt fund industry in Luxembourg has witnessed significant development and evolution. In the last two years alone, the assets under management of the Luxembourg private debt fund industry has increased by 40% from EUR 40 billion in 2017 to EUR 56 billion in 2019, according to the ALFI private debt fund survey 2019 of regulated funds. It should be noted that there is a significant part of the segment in Luxembourg that is structured as unregulated entities.

You will find hereafter 10 of the key reasons for establishing a debt fund in Luxembourg which underpins this success.

[1] Association of the Luxembourg Fund Industry (ALFI), Debt Funds - An Alternative Source of Financing for the European Economy, June 2015.
[2] No loans may be made to retail borrowers.
[3] Using open-ended funds may however trigger queries with respect to maturity transformation.
[4] Using semi open-ended funds may however trigger queries with respect to maturity transformation.
[5] Page 9 of ALFI private debt fund survey 2019.
[6] Page 24 of ALFI private debt funds survey 2019.
[7] Page 25 of ALFI private debt funds survey 2019.

10 reasons for a Luxembourg private debt fund

1 Luxembourg, your gateway to Europe and beyond

Establishing a Luxembourg debt fund managed by an authorised AIFM provides access to the management and marketing passports which facilitates growth via investment by EU professional investors and a variety of non-EU investors.

Luxembourg is the leading platform for pan-European and global fund distribution, both in terms of assets under management and considering Luxembourg's share in the world's cross-border funds.

2 Stable and trusted 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.

3 Established experience in servicing debt funds

Luxembourg is ideally positioned to help debt 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 debt 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.

4 A jurisdiction already trusted by the major debt funds players

Luxembourg is the leading fund jurisdiction in the EU.

Over 70% of the top 30 loan fund managers worldwide are present in Luxembourg[1]. Luxembourg offers an unparalleled breadth of solutions for debt funds including debt origination and direct lending funds.

A quick time-to-market is key: using Luxembourg-based unregulated funds 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. Furthermore, the use of a Luxembourg AIFM will save time for the onboarding / regulatory clearance at AIFM level (since non-Luxembourg AIFMs would need to complete a passporting procedure to exercise their activities in Luxembourg, which can take up to one month).

5 Full range of investment possibilities

Luxembourg fund vehicles cater for the broadest possible spectrum of investments, from senior to mezzanine loans, whole loans or syndicated loans, distressed debt, and convertible loans. The loans can finance any assets (real estate assets, infrastructure, private equity investments, etc.) and the operational infrastructure within Luxembourg provides a robust framework for all such investments.

6 Loan origination

Luxembourg funds have an established framework to enable loan origination and loan participation, while meeting the appropriate risk management and asset management oversight and supervision.

Luxembourg debt funds can originate[2], participate or syndicate loans and accommodate all types of debt strategies, including loan origination investments in secondaries, mezzanine, and distressed debt.

7 Unique and innovative toolkit of investment products

Debt funds may be regulated or unregulated and may take any legal form permissible in Luxembourg, as a stand-alone fund or with compartments, whether they are open-ended[3], semi open-ended[4] or closed-ended.

Today, the following structures are used by debt funds*:

- 71% are specialised investment funds (SIFs);
- 20% are reserved alternative investment funds (RAIFs)[5];
- 9% of debt funds are Part II funds subject to part two of the Luxembourg law of 17 December 2010 on undertakings for collective investment, as amended.

Within these structures, the legal framework has developed well, and in particular, the Luxembourg limited partnership is a functioning, well-established and well-recognised framework for international credit fund sponsors.

While Luxembourg GAAP is the predominant accounting standard used for financial statements of Luxembourg debt funds, IFRS is used by 25% of the segment[6]. The most popular reporting valuation methodology used is fair value (46%), followed by IFRS (31%) and amortised cost less impairments (21%)[7].

* For the avoidance of doubt, these numbers do not include any fixed-income UCITS and take into account only those funds which are subject to a "product law". A large number of additional Luxembourg debt funds are established as partnerships and are not necessarily subject to such specific laws.

8 A pragmatic legal and supervisory framework

Luxembourg is understandably proud of its flexible and clear legal framework for structuring and operating alternative investment funds. A critical component of this is the established relationship between the authorities and the alternative investment industry which work together to design an efficient and first-class operating framework.

This is further reinforced by the longstanding and trusted relationships that exist between the Luxembourg regulator and regulators from other countries.

Accessible and multilingual regulator (application files and all communication accepted in English, French and German; e-filing) with dedicated teams of professionals in the alternative sector.

9 A transparent and predictable tax environment

Asset managers can rely on Luxembourg's reputation for its stable tax environment, with:

- Tax neutral fund vehicles;
- Full access to EU tax directives;
- EU fundamental rights and freedoms protection ensured under the control of the Court of Justice of the EU;
- Full support and participation to OECD tax initiatives (early adopter of the Common Reporting Standard);
- Double tax treaties network focusing on key target jurisdictions for alternative asset managers;
- Lowest VAT rate in the EU and comprehensive VAT exemption on management services and
- Attractive individual tax regime for qualifying senior expatriate employees.

10 An international and multilingual environment

As a central location in Europe, Luxembourg has the ability to 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 300 regulated financial services companies, with 355 management companies and 862 authorised and registered AIFMs and 127 banks from 29 countries (as at June 2020).