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The number of RAIFs hits the 200 mark

Since the introduction of the Alternative Investment Fund Managers Directive (the "AIFMD"), fund managers deciding to set-up their alternative investment funds in Luxembourg have been confronted with a double regulatory regime whereby both the fund manager and the respective alternative investment fund were subject to authorization and ongoing supervision by the Luxembourg regulator (*Commission de Surveillance du Secteur Financier or the CSSF*).

On 23 July 2016 an innovative response to the regulatory overlap was presented - the Reserved Alternative Investment Fund or the "RAIF", providing for all benefits of a well-settled and accepted specialized investment fund (*fonds d'investissement specialisé or SIF*) or an investment company in risk capital (*société d'investissement en capital à risque or SICAR*), as

the case may be, though without running into the related CSSF authorization or supervision constraints.

In summary, the new RAIF (i) is able to offer its units to institutional, professional investors and/or other well-informed investors, being those who elect to be treated as well-informed investors and either (a) invest at least EUR 125,000 or (b) have a certificate from a credit institution, investment firm or a management company attesting their suitability to invest in a RAIF; (ii) be either open-ended or closed-ended; (iii) invest in an unlimited variety of assets and pursue numerous of investment policies including transferable securities, financial instruments, private equity, real estate, commodities, funds of funds, etc.; and (iv) established in any legal form permitted under Luxembourg law, namely as an investment company (with either fixed or variable share capital (*société d'investissement à capital variable - SICAV* or *société d'investissement à capital fixe – SICAF*, respectively) or as a common fund (*fonds commun de placement* or *FCP*). A RAIF in the form of a company may further be established as a public or private limited company as well as a limited partnership.

Another major advantage of a RAIF consists in a possibility to distribute shares/units of a RAIF to professional investors in the EU on the basis of a pan-European passport under the AIFMD, a right which is usually unavailable to unregulated alternative investment funds.

A RAIF benefits as well from a favorable taxation regime. In practice, a RAIF is subject only to a subscription tax (*taxe d'abonnement*) of 0.01% p.a. of its net asset value (subject to certain exemptions). A RAIF investing exclusively in risk capital (in the legal form of a SICAV or SICAF) is subject to the same tax regime as a SICAR, meaning (i) it is not subject to a subscription tax; (ii) it pays ordinary income tax, unless a tax exemption applies.

Since its inception, RAIF has seen a steep rise in the number of established investment vehicles, such popularity mostly due to RAIF's bespoke advantages in terms of time-to-market, operational features as well as EU distribution opportunities. Thus, as of 21 September 2017 the absolute number of RAIFs spiked at 201 entities (the number of sub-funds is not included in the overall figure), compared to sheer 62 at the beginning of 2017. In light of the increased interest in RAIF, as evidenced by the numbers, it is expected that the demand for RAIFs will continue to grow even further, with such demand coming mostly from fund managers pursuing private equity and real estate strategies.