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Luxembourg: Trends & Developments

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LUXEMBOURG

Trends and Developments

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Private equity has played an important role within the Luxembourg finance and fund industry in recent years, with Luxembourg becoming more and more attractive for institutional and professional investors. This asset class has recently become accessible to retail investors, to a certain extent via Part II Fund structures but especially through the introduction of the amendments to the the Alternative Investment Fund Managers Directive (AIFMD II), European Long-Term Investment Fund (ELTIF) 2.0, and EU Retail Investment Strategy, together with the modernisation of the Luxembourg fund toolbox.

Luxembourg is a well-recognised financial centre and the number one domicile for investment funds within Europe. Sponsors, investment managers and investors from Europe, the USA and Asia use Luxembourg to structure their investments and vehicles.

As of end of May 2025, the net assets of regulated Luxembourg investment funds, including alternative investment funds (AIFs) and undertakings for collective investments in transferable securities (UCITS), amounted to more than EUR5,765 billion, which is an increase of 5.35% compared to May 2024. Assets under the management (AuM) of all Luxembourg funds (regulated and unregulated) grew to EUR5.96 trillion by the end of February 2025, which represents a new record.

Around a quarter of Luxembourg's AIF market is made up of private equity funds. This market share is steadily growing; in 2024 in particular, growth in private equity funds of 20% was noted by the Luxembourg financial supervisory authority (*Commission de Surveillance du Secteur Financier* CSSF), such that private equity leads the market share of AIFs in Luxembourg based on the assets under management (AuM). According to Preqin, Luxembourg is the domicile of 51.5% of all European private equity and venture capital funds. It is expected that private equity will even be the primary driver of growth with regard to managed asset classes from the perspective of Luxembourg alternative investment fund managers (AIFMs) and management companies. One has to be aware that, until around 15 years ago, private equity involved the acquisition of participation in unlisted industry groups, and their development and on-sale after a few years. However, in the last 15 years, private equity providers have also established other business lines like credit funds, infrastructure funds, real estate funds and other alternative asset classes. Hence, the term "private equity" in a broader sense refers to all these business lines.

The Merits of Luxembourg

The growth of private equity investments in Luxembourg is a consequence of several key advantages of Luxembourg compared to other jurisdictions.

Flexible company law and fund structures

Luxembourg offers a wide range of fund and company structures to the private equity industry. The flexible company and investment fund laws in Luxembourg allow private equity funds and investments to be structured in accordance with investors' needs. The most important fund structures (regulated and non-regulated) for private equity funds are:

- the specialised investment fund (SIF);
- the investment company in risk capital (*société d'investissement à capital risque* SICAR); and
- the reserved alternative investment fund (RAIF).

All three fund types enable investments in different asset classes like private equity.

The SIF, as the standard structure, is authorised and supervised by the Luxembourg financial supervisory authority (*Commission de Surveillance du Secteur Financier* CSSF) in the context of private equity investments, in accordance with diversification rules.

The SICAR is especially intended for private equity investments, as it requires an investment in risk capital. It celebrated its 20th birthday in 2024. The purpose of the SICAR is to collect funds from well-informed investors who are aware of the risks in order to develop the acquired target company. Risk diversification rules do not apply to SICARs.

The RAIF is structurally similar to the SIF but is not authorised or supervised by the CSSF. This enables a simplified process and a shorter time to market in comparison with the SIF and SICAR. However, a RAIF needs to appoint a fully authorised AIFM for its super-

vision. Due to the swift and more cost-efficient launch, the RAIF has been among the preferred fund structure types for the setup of AIFs since its introduction in 2016, and is also well-known by foreign fund promoters and investors.

The Luxembourg legislator regularly reviews the applicable provisions for fund structures and aims to adapt them to the current market situation. Accordingly, the Luxembourg fund toolbox has been modernised by the law of 21 July 2023. The amendments include, among others, a decrease in the minimum investment threshold for well-informed investors in RAIFs and SIFs to EUR100,000 (previously EUR125,000) which lowers the barrier to access for these fund products.

Limited partnerships and other regimes/forms

In addition to the different AIF fund types, Luxembourg company law offers company forms that can be organised in accordance with the specific needs of the parties involved (general partners, limited partners, etc).

Private equity investors and managers have a strong preference for unregulated partnerships, namely the limited partnership (*société en commandite simple* SCS) and the specialised limited partnership (*société en commandite spéciale* SCSp). Both company types refer to the organisation of partners, with the general partner managing the company as well as the limited partners. The SCSp has no legal personality, is very popular and attracts UK and US investors – as it is similar to the English limited partnership. These company types are tax transparent and can be interesting for tax-exempted investors.

AIFs can only be set up in the form of an SCS or SCSp, without the RAIF or SIF structure. In this form, they are more straightforward to set up for private equity fund structures, which have been preferred by private equity investors of late. The SCS and SCSp benefit from the flexible Luxembourg company law, as there are only a few mandatory provisions applicable to these partnerships. Additionally, the SCS and SCSp can be set up under private seal without the involvement of a notary. If the partnership shall have several compartments and different investment strategies, the SCS or SCSp can also be combined with a RAIF or SIF fund structure.

As a specific fund type, the European long-term investment fund (ELTIF), based on Regulation (EU) 2015/60, was introduced in 2015. Recently, the ELTIF regime was amended by Regulation (EU) 2023/606 ("ELTIF 2.0"). ELTIFs create opportunities for retail investors to invest in alternative asset classes on a long-term basis, like private equity, venture capital and other real assets. ELTIFs can be combined with either the SIF or RAIF framework, as well as with the Part II Fund structure, which is accessible to all retail investors. The ELTIF 2.0 framework, applicable since January 2024, has made the ELTIF regime more attractive and accessible to investors because the previously applicable provisions have been made more practical. Luxembourg plays an important role in the set-up of ELTIF structures: Luxembourg ELTIFs account for around 64% of the market share of European ELTIFs. As of June 2025, there were around 124 ELTIFs registered in Luxembourg, and more ELTIF projects are in the pipeline.

Besides ELTIFs, the European venture capital fund (EuVECA) framework is interesting for venture capital/private equity investments. European Venture Capital Funds Regulation (EU) No 345/2013 (the "EuVECA Regulation") provides harmonised requirements for qualified venture capital funds that intend to invest at least 70% of their aggregate capital contributions and uncalled committed capital in assets that are "qualifying investments" (EuVECA funds). Luxembourg also hosts several EuVECA funds and EuVECA fund managers.

Moreover, the SOPARFI (*sociétés de participations financières* financial holding company), which is non-regulated, is also used for the holding and financing of private equity investments.

Special purpose vehicles that are created and owned by an AIF and hold the target assets are also established in Luxembourg.

International and experienced staff

The Grand Duchy of Luxembourg has a population of around 680,000 residents, and an international envi-

ronment where English has become the predominant working language in the financial industry. Investors and market players have a diverse choice of service providers with particular expertise in private equity structuring, transaction advice, funds administration and depositary and audit services. Corporate documents and fund documentation can be prepared in English, German or French.

Other benefits of Luxembourg

Another advantage of Luxembourg is the European passport. Luxembourg AIFMs can manage Luxembourg funds as well as AIFs established in other EU countries. Therefore, several UK entities transferred their headquarters or offices to Luxembourg during Brexit (like M&G Investments) in order to retain the benefit of the European passporting regime. During the last few years, and especially due to Brexit, several large private equity firms have opened an office in Luxembourg or even established their headquarters there. This has typically been followed by the moving of private equity funds to Luxembourg and/or the launching of new fund structures in line with Luxembourg fund types. In total, 18 of the 20 largest private equity houses have operations in Luxembourg, and 63% of Luxembourg private equity firms also hold an AIFM licence in the country.

Luxembourg boasts a stable political and economic situation and has retained its triple-A rating. Investors and firms also benefit from a flexible and attractive tax regime that complies with EU regulations and directives.

Private Equity/Investment via Luxembourg Structures

Private equity target acquisitions are also carried out via Luxembourg structures. Here, the advantage is that Luxembourg service providers are experienced in the structuring of private equity investments. The laws and the applicable tax regime can also favour such transactions. Nowadays, market private equity firms prefer to have the entire private equity acquisition structure in Luxembourg, as opposed to it being distributed over several countries, to avoid any influence of European supervisory mechanisms.

Private equity investments in Luxembourg firms and by Luxembourg private equity firms

While many private equity firms that have moved to Luxembourg appreciate its advantages, it is also noteworthy that private equity investments into Luxembourg-based target groups, or by private equity Luxembourg companies into other companies, take place from time to time.

Despite the reduction in deal flow, major Luxembourg deals have been seen

In February 2025, IQ-EQ, a leading global investor service provider headquartered in Luxembourg and owned by the private equity company Astorg, completed the acquisition of Agama, a French-Luxembourg specialist in regulatory compliance and advisory services for financial institutions. This move strengthens IQ-EQ's European regulatory offering and broadens its integrated compliance capabilities.

The European private equity firm Blackfin Capital Partners, which focuses on financial services investments within Europe, has acquired Lemanik Asset Management, a Luxembourg-based third-party management company and AIFM that manages EUR30 million of assets. The transaction was approved by the CSSF and finalised in February 2025.

Temenos AG, a Swiss banking software company, announced in February 2025 that it had signed an agreement to sell Multifonds, its fund administration software business, to Montagu Private Equity, a leading European private equity firm, for about USD400 million, including an earn-out. Multifonds has been part of Temenos since 2015 and is one of the few leading pure-play software companies in the space, with broad coverage of jurisdictions across the Asia–Pacific (APAC), Europe and Latin America. The company is headquartered in Luxembourg, with a presence in 15 other countries.

In March 2025, AnaCap Financial Partners, a London-based private equity investor specialising in partnering with founders and entrepreneurial management teams focused on financial services, acquired a majority stake of Fiduciaire Jean Marc Faber, a Luxembourg-based provider of trust, fund and fiduciary services. Fiduciare Jean Marc-Faber has 70 employees and

is a member of the *Ordre des Experts-Comptable* in Luxembourg.

In July 2025, SES SA, the Luxembourg-based satellite operator, completed its USD3.1 billion acquisition of Intelsat, a major US satellite communications provider. Following prior UK clearance, the transaction is expected to close in the second half of 2025, creating one of the world's largest satellite service companies combining geostationary and medium-Earth orbit technologies.

Influence of global conflicts

The war in Ukraine, other global conflicts and the resulting inflation have influenced the international economic situation, although the private equity market has remained quite stable so far. The exposure of Luxembourg private equity asset managers to Russian assets has been very limited for a number of years.

Reporting requirements

Investor reporting can be considered an upcoming trend that is increasingly important in Luxembourg. As relevant data is requested by investors, transparency and daily reporting to investors becomes more important and needs to be considered by private equity market players in Luxembourg.

Importance of sustainability

Reporting and investment need to take greater account of ESG and sustainability criteria. Since Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR) became effective on 11 March 2021, investment fund managers and private equity firms have to consider ESG criteria when making investments. If they do not intend to consider such criteria, they need to explain their reasons and all related risks. Since 1 January 2023, the level 2 technical and formal guidelines (the Regulatory Technical Standards; RTS) have applied, providing for additional disclosure and reporting obligations for financial market participants.

In June 2024, after reviewing the existing SFDR provisions, the European Supervisory Authorities published a joint opinion with proposals for changes to the SFDR including, amongst others, a new financial product classification system. It is expected that a first draft of the amended SFDR will be published in 2025, and that existing provisions will be adapted to make sustainability investments more comprehensive for investors and to support further the green transition, etc.

In addition, the EU's Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS), which contain a framework for large companies in the EU to report their sustainability data, entered into force in January 2023. Such reporting obligations can also concern large private equity firms. In February 2025, the "Omnibus" package was published in order to amend the CSRD, and to simplify existing rules, render processes less burdensome and boost the competitiveness of the European market.

Investors must consider ESG criteria on an ongoing basis. Companies have become more accountable to shareholders and customers, and shareholders pay significantly more attention to how their money is invested and whether their investment has any positive or negative impact on the environment. For example, institutional investors like pension funds focus on funds that promote or target sustainable investments (Articles 8 and 9 under the SFDR). This is a challenge for private equity firms as there are more things to take into account when choosing an appropriate investment. Such firms need to review the impact and value of investments. Nevertheless, private equity funds represent the AIF asset class with the largest share of AuM focusing on ESG or sustainable strategies, based on the latest studies.

Furthermore, banks are more frequently asking about ESG when providing a loan facility. The attractiveness of investee companies could increasingly depend on the implementation of reliable and effective ESG policies and strategies by the target companies.

The SFDR, CSRD and other EU regulations that are expected to follow will become more and more important, and will influence private equity investments and investment funds in Luxembourg and elsewhere in the future.

Digitalisation and technology

Digitalisation and technology play a significant role in Luxembourg and represent potential investment opportunities and targets for private equity transactions. Private equity companies in Luxembourg now focus on technology-related companies, artificial intelligence (AI), machine learning, fintech, tokenisation and blockchain. According to a survey (the S&P Global Market Intelligence Private Equity and Venture Capital Outlook), 54% of general partner investment professionals expect AI to influence deal sourcing and target selection in the future. Luxembourg pioneered this trend with the establishment of the Luxembourg House of Financial Technology (LHoFT) early in 2017. The LHoFT is the country's fintech centre, supporting the digital transformation of Luxembourg's financial sector by connecting financial institutions, investors, the IT industry and authorities.

Forecast

The Luxembourg private equity sector is expected to grow continuously over the coming years, and to adapt to upcoming regulatory and investor demands. As a well-known platform for private equity business, Luxembourg will develop with the market and support the growth of private investments in companies.

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