
INVESTING IN EUROPEAN ASSETS

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Stéphane Karolczuk

Partner, Head of Hong Kong Office,
Arendt & Medernach



Michel Feider

Partner,
EY



Marine Tarditi

Lawyer,
Allen & Overy

LUXEMBOURG - GATEWAY TO EUROPE

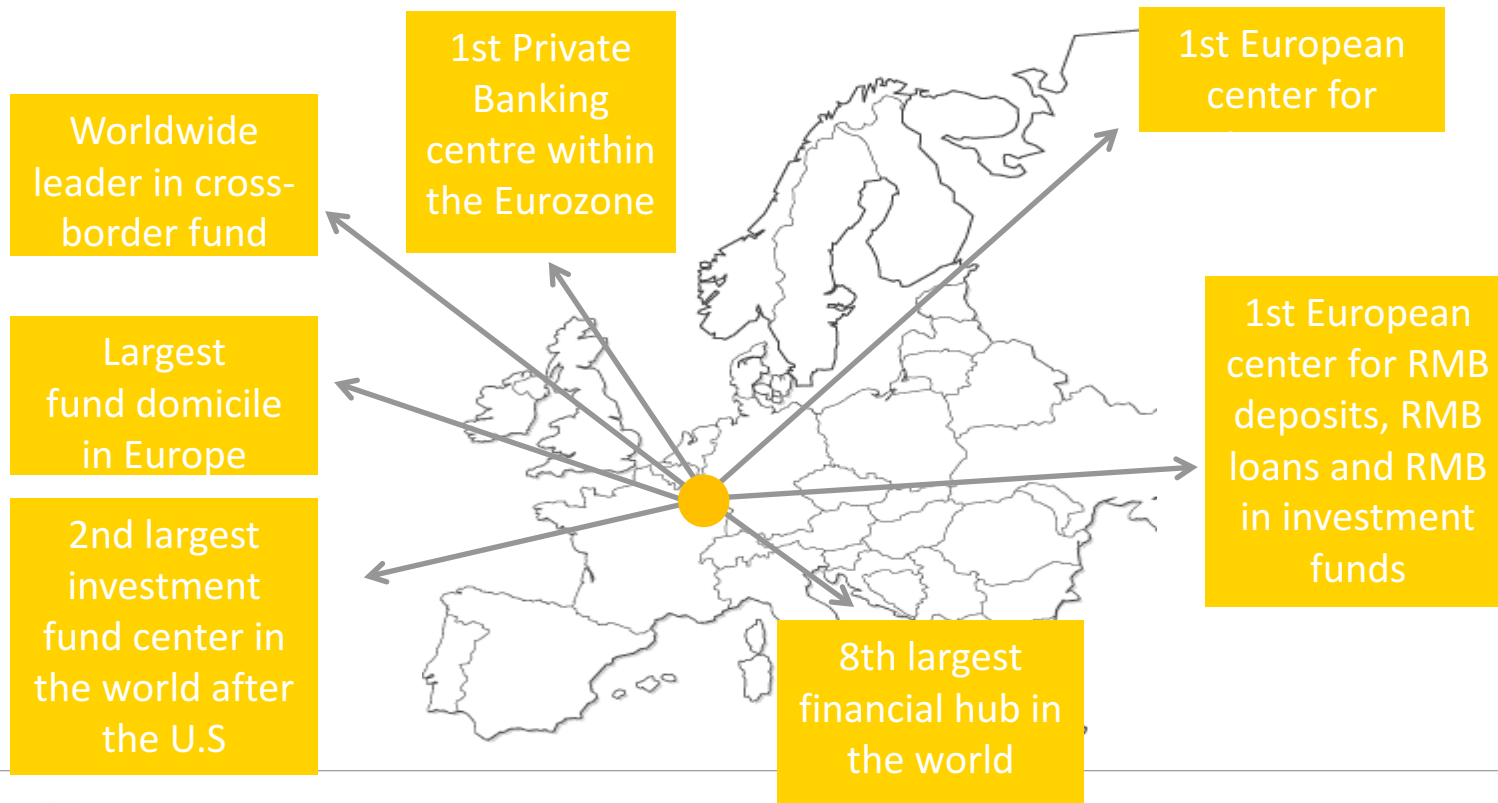
Area:	2,586 km ²
Population:	556,939
Gross Domestic Product per capita:	104.103\$ (2017)
Administrative languages:	



- ▶ International and multilingual environment.
- ▶ Proven central gateway to EU market with more than 500 million consumers.
- ▶ Some 40% of the EU's GDP is concentrated within a 500km radius of Luxembourg (Extended to 700km, this figure even reaches 70%).
- ▶ Outward orientation of business: >80% of total production of goods and services are exported.
- ▶ Presence of multiple European Institutions (European Investment Bank, European Investment Fund, European Court of Justice...).



LUXEMBOURG FINANCIAL CENTER – AT THE HEART OF EUROPE



THE KEY SUCCESS FACTORS OF AN INVESTMENT DOMICILE

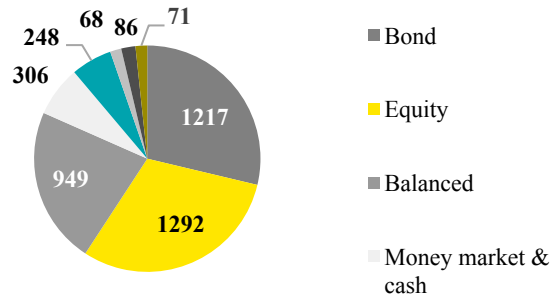
Key success factors	Description
Attractive tax system	<ul style="list-style-type: none">• Low tax rates• Double taxation treaties
Suitable legal environment	<ul style="list-style-type: none">• Stable and trusted jurisdiction• Flexible structuring options available (ie limited partnership regimes, fund structures)• Established and effective co-operations with international supervisory authorities• Adherence and alignment with international standards• Legal environment adhering to investor protection rights
Quality of local service providers	<ul style="list-style-type: none">• High number of locally present custodians with global footprint• Skilled and available labour
Consideration of investor requirements	<ul style="list-style-type: none">• Easy process for re-domiciliation• Quick registration period• Low registration fees
Responsive authorities	<ul style="list-style-type: none">• Pragmatic legal and supervisory framework• Flexible, open and approachable• Following “no-nonsense” approach

by Oliver Wyman: *Domiciles of Alternative Investment Funds*,
2014

WHY LUXEMBOURG?

Key advantages of setting up your fund in Luxembourg

Investment policy of UCIs (€bn)

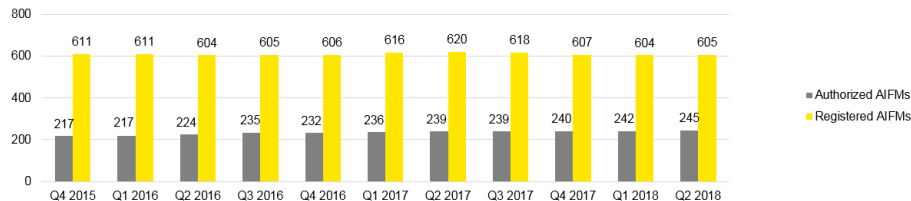


Market scale and composition

The case for Luxembourg as a hub market for investment funds

- ▶ Luxembourg is the **second largest investment fund centre in the world** after the US
- ▶ 14,762 funds with over €4.2 trillion in assets that are serviced by 149 administration companies and 67 custodians located in Luxembourg
- ▶ Luxembourg is first in cross-border fund distribution, followed by Ireland
- ▶ Luxembourg offers a one stop shop for fund and acquisition structures
- ▶ Luxembourg-domiciled investment structures are distributed in more than 70 countries around the globe
- ▶ Luxembourg has a national competent authority with strong fund industry focus
- ▶ Luxembourg has favourable regulatory and tax rules

Alternative Investment Fund Managers

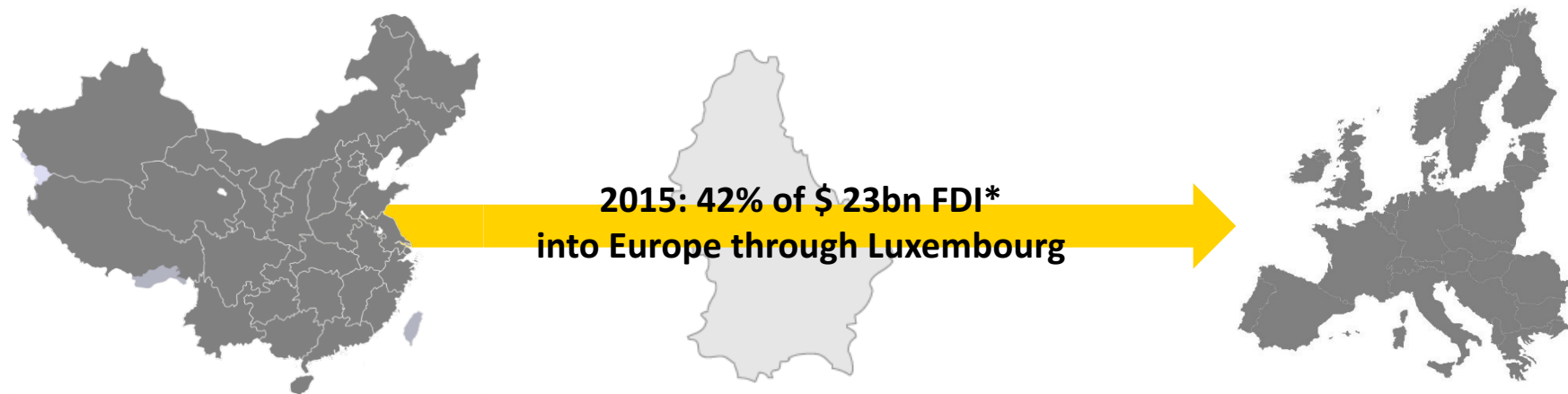


Established and innovative infrastructure

- ▶ Luxembourg has a stable political and social environment;
- ▶ It leads the way in investor protection and has a highly experienced and responsive regulator;
- ▶ It has a unique concentration of investment fund experts specialized in all aspects of product development, administration and distribution.

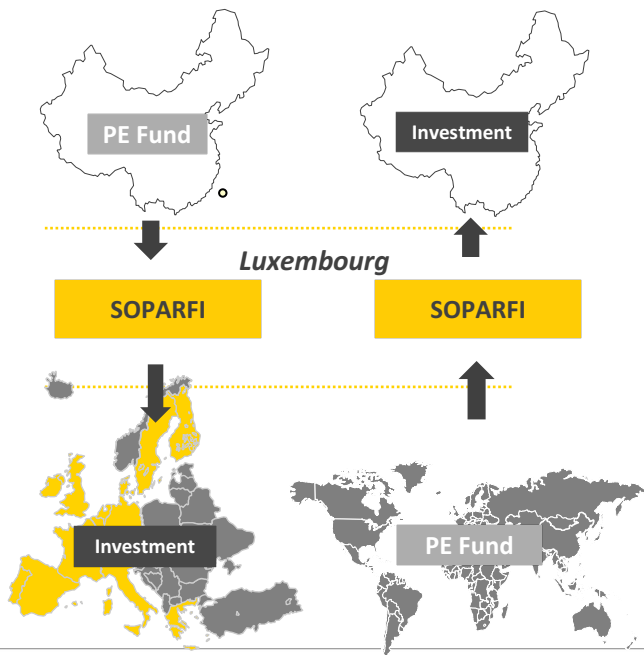
LUXEMBOURG & CHINA - A STRONG RELATIONSHIP

Luxembourg - a hub for China to invest in Europe

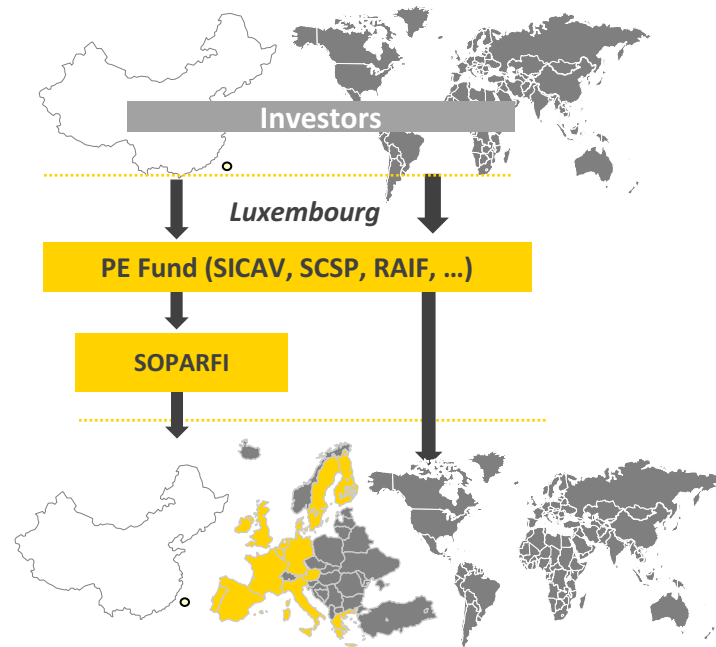


THE ROLE OF LUXEMBOURG FOR CHINA'S CAPITAL

Europe's #1 PE Investment Platform

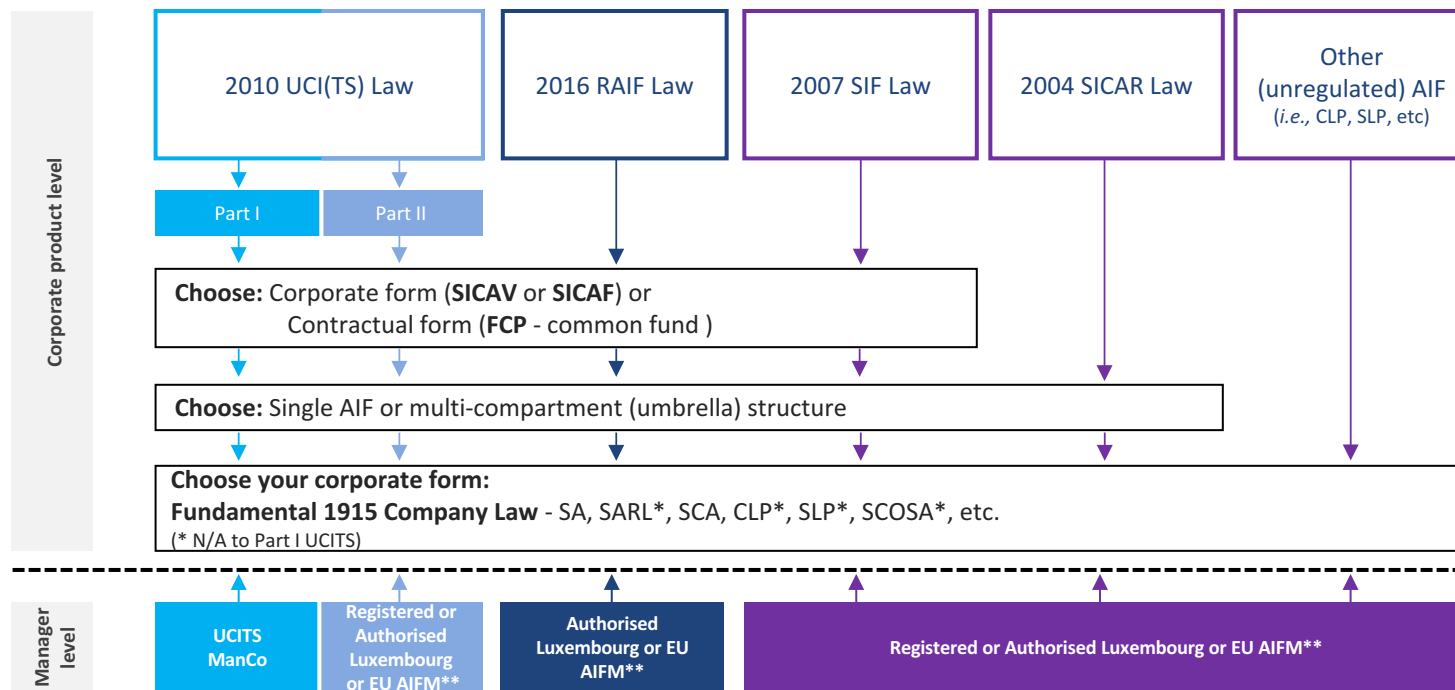


Europe's #1 PE Fund Centre



THE LUXEMBOURG TOOLBOX

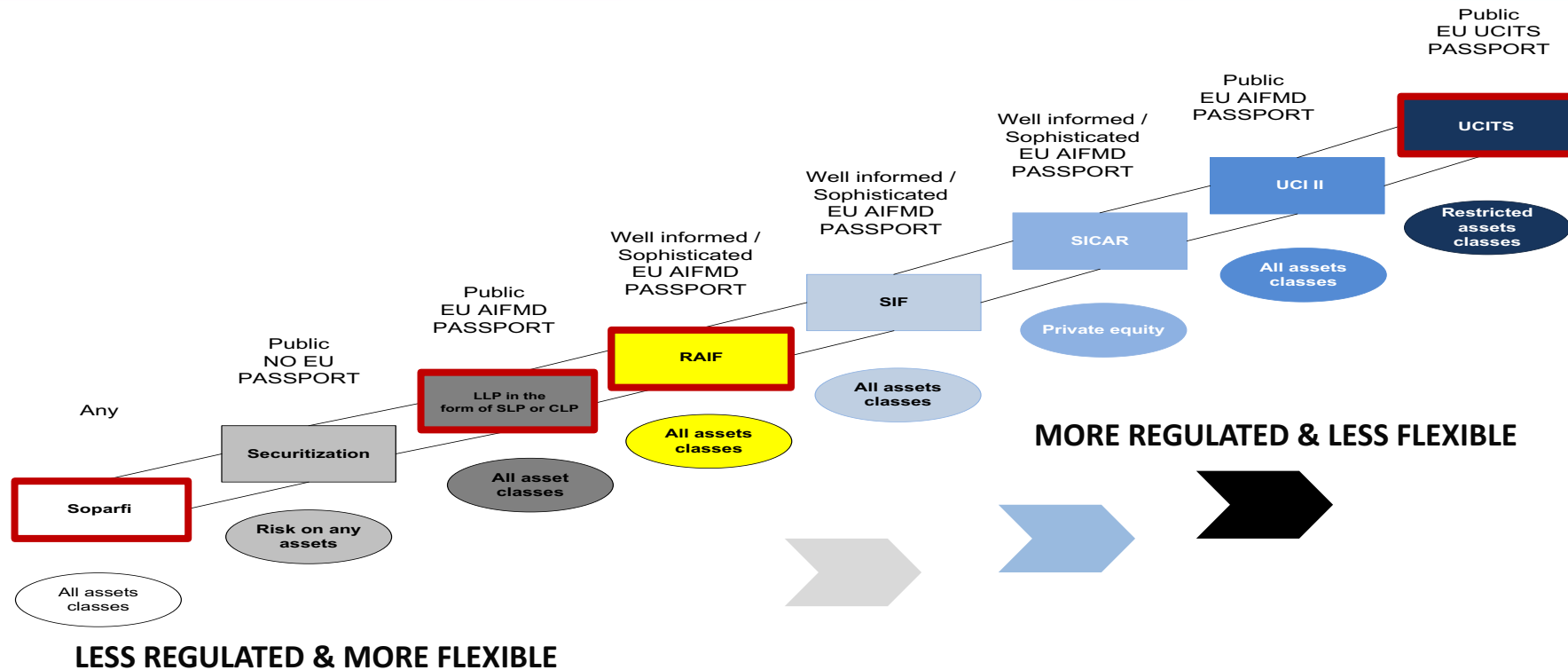
Overview



*** Third country when passport available*

THE LUXEMBOURG TOOLBOX

From non-regulated to highly regulated



THE LUXEMBOURG TOOLBOX

The SOPARFI



A société de participations financières (SOPARFI) is an ordinary commercial company that can take advantage of Luxembourg's network of double taxation treaties. The term SOPARFI is generally used to describe the corporate object of a holding company, which mainly consists in holding participations in or providing financing to other companies. A SOPARFI is a company that mainly holds participations in other taxable companies. Dividends and capital gains generated from these participations are exempt from tax in Luxembourg under certain conditions. Nevertheless, a SOPARFI can be used for any type of investor and any type of asset. In principle, such a company could also undertake any commercial activity that is subject to corporate income tax and VAT

THE LUXEMBOURG TOOLBOX

The SOPARFI

1

No “autorisation” of establishment / No supervisory authority / No regulatory framework / KYC & AML

2

Articles content - subject to the legal provisions of the Luxembourg Companies Act 1915

3

Form: SA / S.à r.l. / SCA / SC / European company

4

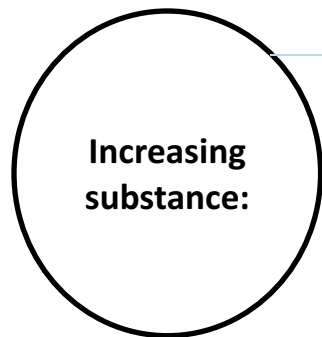
COMI and central administration in Luxembourg

5

The key benefits of a SOPARFI are the participation exemption on dividends, capital gains and wealth tax (subject to, inter alia, certain holding and threshold conditions), a withholding tax exemption on dividends paid to qualifying shareholders, no withholding tax on interest payments or on payments of a liquidation bonus

THE LUXEMBOURG TOOLBOX

Substance requirements



COMI: A SOPARFI will be a tax resident of Luxembourg if its registered office or place of central administration (i.e. its place of effective management) is located in Luxembourg

Board composition / board procedures

Company accounts and records

Shareholders' meetings

Purpose of Luxco

THE LUXEMBOURG TOOLBOX

CLP and SLP, an alternative to Cayman funds

- AIFM Law of 2013 revamped the common limited partnership (“**CLP**”) regime and introduced a new vehicle called special limited partnership (“**SLP**”)
- SLPs used to serve a variety of purposes, e.g. as carry and co-investing vehicles, JV structures, replicating various types of **alternative strategies**
- SLP is an **onshore** vehicle offering same advantages and flexibility as Anglo-Saxon LP structures, without being branded offshore
- **Flexibility** being the key advantage: most aspects can be dealt with in the limited partnership agreement (“**LPA**”) without regulatory or legal constraints
- **Confidentiality** is ensured, to the extent that there are no publication requirements in relation to limited partners
- Set-up under private deed, as **unregulated** or **regulated** vehicle (SIF, RAIF, SICAR)
- SLPs are **tax transparent** for Luxembourg income and net wealth tax purposes

THE LUXEMBOURG TOOLBOX

The RAIF, another alternative to Cayman funds

- The reserved alternative investment fund (“RAIF”) represents one of the most significant advances for the Luxembourg fund structuring toolbox.
- The RAIF is neither subject to the prior approval of the CSSF nor subject to the CSSF’s supervision. In terms of flexibility it is therefore comparable to the LLP in the form of an SLP or CLP.
- If the preferred structure is a tax transparent vehicle, it is also possible to create a LLP under the RAIF regime.
- Compared to the already existing LLP the only advantage however is that the RAIF-LLP can be set up as an umbrella structure with multiple sub-funds.
- The RAIF combines the legal and tax features of the well-known specialised investment fund (“SIF”) and the société d’investissement de capital à risque (“SICAR”) fund regimes but which is not subject to the regulatory oversight of the CSSF.
- The RAIF automatically qualifies as an AIF, it must designate an authorized AIFM (and therefore benefits from the AIFM distribution passport) as well as a depositary and an independent auditor.

LUXEMBOURG INVESTMENT STRUCTURING

A neutral tax environment

- Low effective tax rate
- Low or zero 'exit' taxes (withholding taxes)
- 100% participation exemption for dividends and capital gains on shares with very flexible / favorable conditions
- Access to EU Directives
- Extensive network of double tax treaties
- No CFC legislation
- No capital / stamp duty

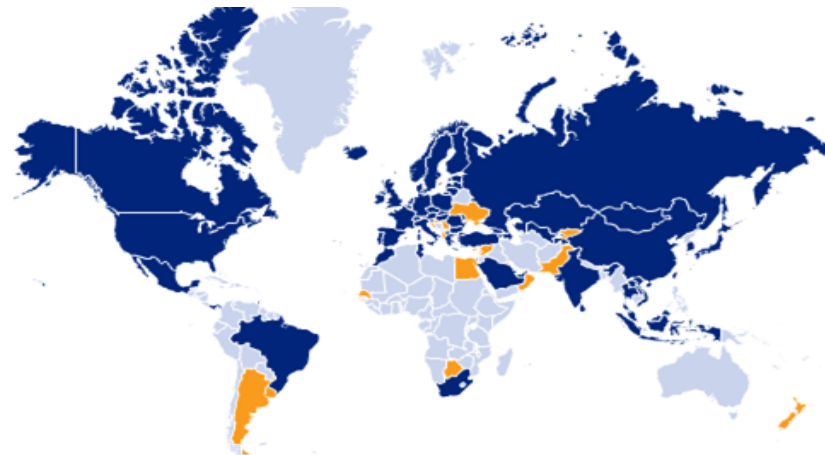


LUXEMBOURG INVESTMENT STRUCTURING

Our double tax treaty network

■ Tax Treaties in force
■ Tax Treaties pending

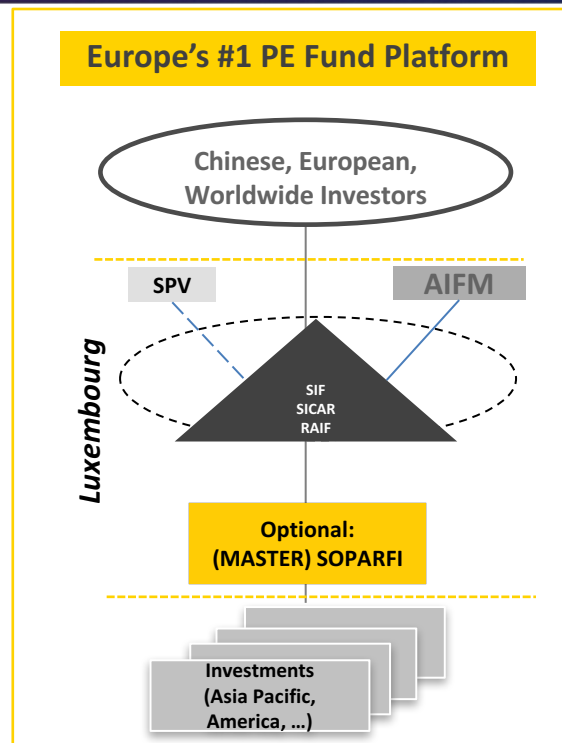
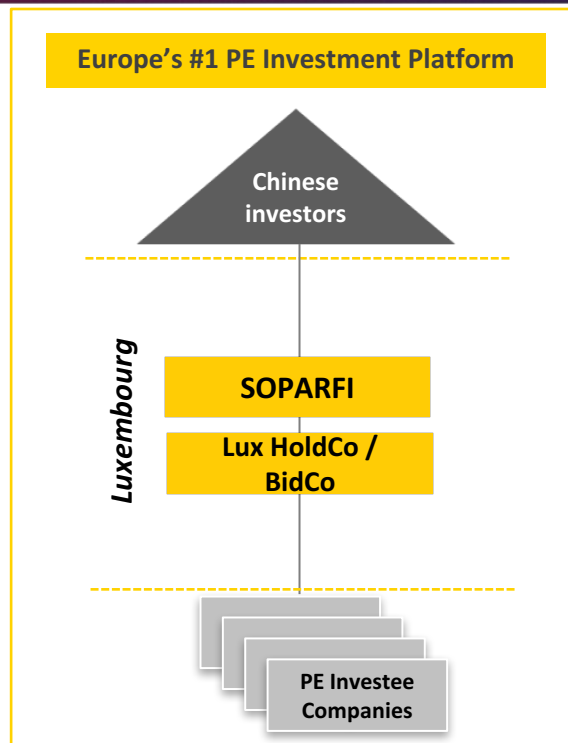
- | | | | |
|--------------------|-----------------------|--------------------------|-----------------|
| 1. Armenia | 29. Japan | 57. Slovakia | 76. Albania |
| 2. Austria | 30. Jersey | 58. Slovenia | 77. Andorra |
| 3. Azerbaijan | 31. Kazakhstan | 59. South Africa | 78. Argentina |
| 4. Bahrain | 32. Laos | 60. South Korea | 79. Botswana |
| 5. Barbados | 33. Latvia | 61. Spain | 80. Brunei |
| 6. Belgium | 34. Liechtenstein | 62. Sri Lanka | 81. Croatia |
| 7. Brazil | 35. Lithuania | 63. Sweden | 82. Cyprus |
| 8. Bulgaria | 36. Macedonia | 64. Switzerland | 83. Egypt |
| 9. Canada | 37. Malaysia | 65. Taiwan | 84. Kyrgyzstan |
| 10. China | 38. Malta | 66. Tajikistan | 85. Kuwait |
| 11. Czech Republic | 39. Mauritius | 67. Thailand | 86. Lebanon |
| 12. Denmark | 40. Mexico | 68. Trinidad & Tobago | 87. New Zealand |
| 13. Estonia | 41. Moldova | 69. Tunisia | 88. Oman |
| 14. Finland | 42. <u>Monaco</u> | 70. Turkey | 89. Pakistan |
| 15. France | 43. Mongolia* | 71. United Kingdom | 90. Senegal |
| 16. Georgia | 44. Morocco | 72. United Arab Emirates | 91. Serbia |
| 17. Germany | 45. Netherlands | 73. USA | 92. Syria |
| 18. Greece | 46. Norway | 74. Uzbekistan | 93. Ukraine |
| 19. Guernsey | 47. Panama | 75. Vietnam | 94. Uruguay |
| 20. Hong Kong | 48. Poland | | |
| 21. Hungary | 49. Portugal | | |
| 22. Iceland | 50. Qatar | | |
| 23. India | 51. Romania | | |
| 24. Indonesia | 52. Russia | | |
| 25. Ireland | 53. <u>San Marino</u> | | |
| 26. Isle of Man | 54. Saudi Arabia | | |
| 27. Israel | 55. <u>Seychelles</u> | | |
| 28. Italy | 56. Singapore | | |



*terminated as from 2014

Source: Luxembourg Tax Authority – January 2015

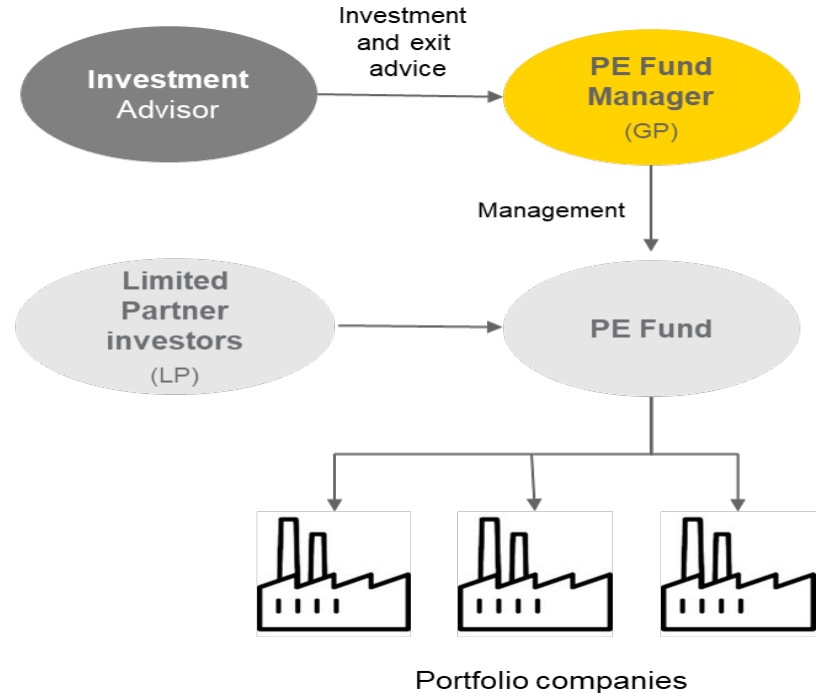
THE ROLE OF LUXEMBOURG FOR CHINA'S CAPITAL (CONT'D)



LUXEMBOURG AS A LEADING HUB FOR PRIVATE EQUITY

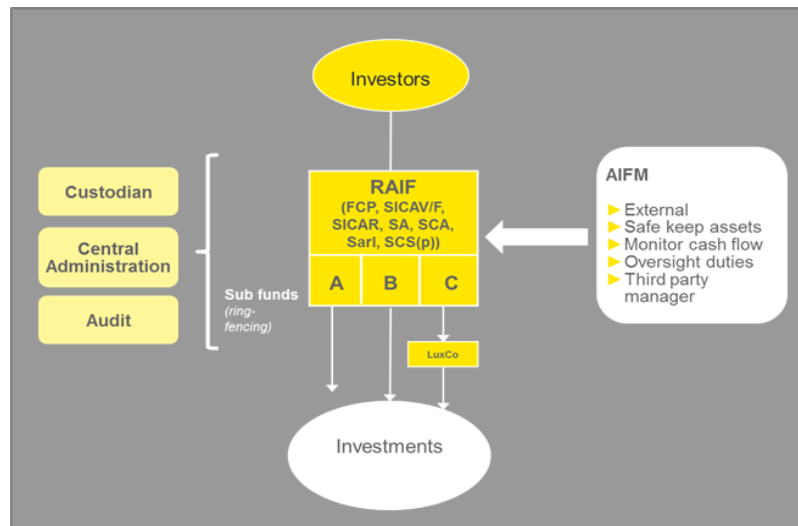
And first: What is Private Equity?

- ▶ Private Equity (PE) is capital that is not noted on a public exchange. Private equity is composed of funds and investors that directly invest into companies with the objective to make them more valuable, over a number of years, before finally selling them to a buyer who appreciates that lasting value has been created.
- ▶ A key feature of PE is the active development approach adopted during the holding period of approximately 10 years.



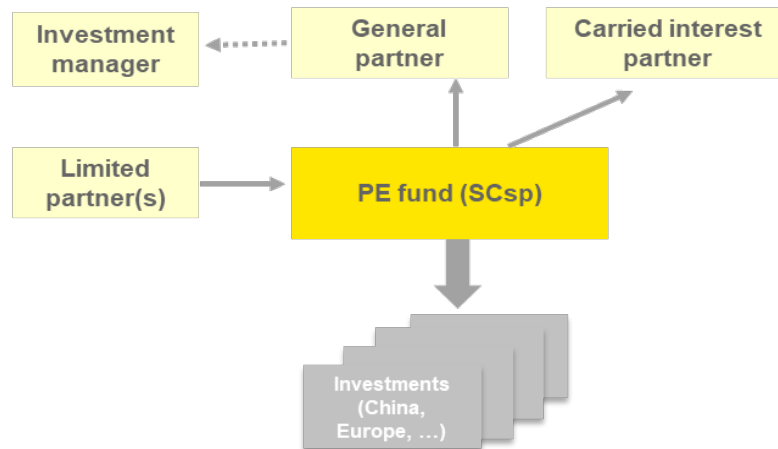
LUXEMBOURG KEEPS INNOVATING: LATEST PE VEHICLES

Reserved Alternative Investment Fund (“RAIF”)



- ▶ No direct supervision by CSSF
- ▶ Investor restriction
- ▶ Optional regime

Special limited partnership (“S.C.sp. ”)



- ▶ A new form of non-incorporated commercial company, created by its GP and LP by way of a limited partnership agreement (“LPA”)
- ▶ Available for regulated or non-regulated vehicles

SECURED LENDING IN LUXEMBOURG / BONDS FINANCING / FUND FINANCING



1

Key features

2

Enforcement and safe harbour provisions


3

Bond financing

4

Fund financing

1 SECURED LENDING IN LUXEMBOURG – KEY FEATURES OF THE COLLATERAL ACT 2005 (1)



Luxembourg act dated 5 August 2005 on financial collateral arrangements, as amended (the **Collateral Act 2005**) seen as one of the most lender-friendly frameworks for security interests amongst European jurisdictions:

- implements Directive 2002/47/EC on financial collateral arrangements;
- providing for a common approach for financial collateral arrangements: pledge, transfer of title by way of security, repos and set-off; and
- going beyond the Collateral Directive's scope: extensive definition of financial instruments and safe harbour provisions.

1 SECURED LENDING IN LUXEMBOURG – KEY FEATURES OF THE COLLATERAL ACT 2005 (2)

Application to receivables and financial instruments (in the largest sense):



shares (and other equity related instruments) in companies, units in undertakings for collective investment, bonds (and other debt related instruments), deposit certificates and bills of exchange

instruments conferring the right to purchase shares, bonds or other instruments by way of subscription, purchase or exchange

fixed-term financial instruments and instruments giving rise to settlement in cash (other than payment instruments), including money-market instruments

instruments representing property rights, receivables or securities

instruments representing financial underlyings, indices, commodities, precious metals, other assets or risks

receivables relating to, or rights over, the above instruments

whether these financial instruments are materialised or dematerialised, transmissible by book entry or by physical transfer, in bearer form or in registered form, endorsable or non-endorsable, and irrespective of the law applicable to them

2 SECURED LENDING IN LUXEMBOURG – ENFORCEMENT OF PLEDGES (1)

No prior notice required

No prior court approval required (except for the judicial enforcement procedure)

Enforcement may occur overnight (in theory)

If **receivables**, pledgee can:

request payment directly to it by debtor or by account bank; or

appropriate monies held by account bank; or

set-off value of the receivables against covered financial obligations

2 SECURED LENDING IN LUXEMBOURG – ENFORCEMENT OF PLEDGES (2)

If receivables, pledgee can:

- appropriate financial instruments at a price determined pursuant to valuation method agreed upon by the parties
 - appropriation (of financial instruments) may be made by another person (SPVs) than the pledgee and may occur at any given time (as opposed to post-valuation)
 - if traded, appropriate financial instruments at market price (prix en cours)
- request a Luxembourg court that title to financial instruments be transferred to it for payment of all or any part of outstanding amount of covered financial obligations upon expert's determination
- set-off the value of financial instruments against covered secured financial obligations
- sell, or cause sale of, all or part of financial instruments in a sale organised by a stock exchange or regulated market or in a public sale
- sell, or cause sale of, all or part of financial instruments in a private sale under “normal commercial terms”

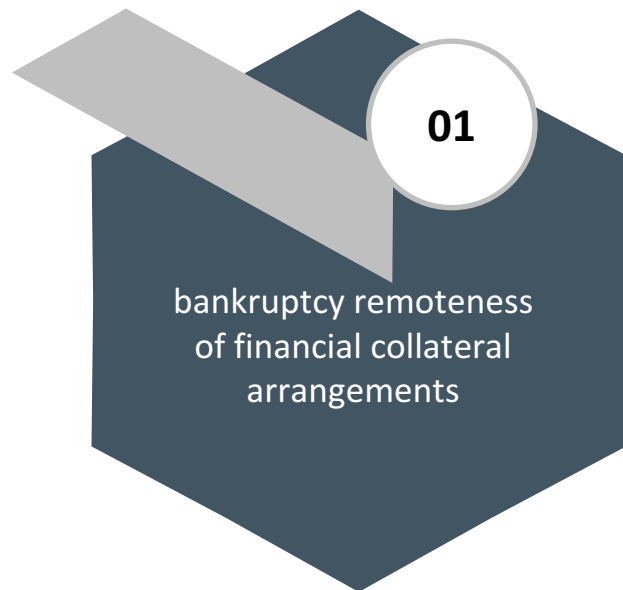
2 SECURED LENDING IN LUXEMBOURG – ENFORCEMENT OF PLEDGES (3)



The general tendency of currently existing Luxembourg case law (in particular Court of Appeal decisions) in relation to enforcement proceedings confirms the legal safety spirit for the benefit of collateral takers of the Collateral Act 2005 thereby enhancing the Luxembourg creditor friendly financial collateral environment and market.

2 SECURED LENDING IN LUXEMBOURG – SAFE HARBOUR PROVISIONS

Effectiveness of enforcement in the context of insolvency:



3 OVERVIEW OF BOND FINANCING

01

Method of raising long-term funding through debt capital markets
Bonds are a type of debt security that can be traded (bought and sold) in the capital markets

02

The issuer borrows money by selling bonds to bondholders; the issuer receives the money and the bondholder receives a promise from the issuer to repay the debt at a later date, usually with interest

03

The stages of a bond issue

- **Pre-launch:** The issuer considers preliminary matters and decides what type of bonds to issue and how to structure the issue
- **Launch and roadshow:** The lead manager announces the bond issue publicly and promotes the transaction to prospective investors, inviting them to buy the bonds once they are issued
- **Issue:** This involves two stages:
 - Signing. The managers sign the subscription agreement, agreeing to subscribe the bonds on closing
 - Closing. The fiscal agency agreement or trust deed are signed and the bond instrument is created. The investors receive the bonds from the issuer in exchange for payment of the purchase price of the bonds

4 OVERVIEW OF FUND FINANCING

1

Luxembourg offers an attractive, secure legal framework that works strongly to the benefit of secured finance parties in transactions involving Luxembourg obligor corporate and fund structures granting security and, consequently, fund promoters seeking investment financing solutions

2

The credit risk of a lender is not dependent on the value of the underlying assets of the fund/group, but on the uncalled capital commitments of the investors of the fund, which offers the lender a lower credit risk and greater degree of comfort

3

Due diligence review of the fund documentation is essential, particularly from the lender's perspective, and should cover the limited partnership agreement (LPA), the subscription agreements, side letters, private placement memorandum (PPM) and any management agreement

4

The security package normally granted by the fund in a subscription credit facility will include:

- a security assignment of the right of the general partner to call the uncalled capital commitments of the investors and to enforce any associated rights; and
- a bank account pledge over the deposit account into which the investors deposit the proceeds of the capital call

Michel Feider

EY Luxembourg, Partner
Private Equity
Tel +352 42 124 8797
michel.feider@lu.ey.com

Stéphane Karolczuk

Partner, Arendt & Medernach S.A.
Investment Funds
Tel +852 28 01 58 08
stephane.karolczuk@arendt.com

Marine Tarditi

Counsel, Allen & Overly Luxembourg
Tel +352 44 445 5712
marine.tarditi@allenoverly.com

Merci
Thank you
Danke

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