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| ***THE SPECIALIZED INVESTMENT FUND (SIF)*** |

The Luxembourg Parliament has adopted on February 13th, 2007 the law in relation to specialized investment funds which replaces the law of 1991 concerning Undertakings for Collective Investment, the securities of which are not intended to be placed with the public (called “institutional funds”).

Further to the amendment by Parliament made on 26 March 2012, the legal framework for this new vehicle may be summarized as follows:

**Scope of Eligible Investors**

The scope of eligible investors of a SIF is broadened to include not only institutional investors but also professional investors and sophisticated investors. This latter category includes private individuals who fulfill the following criteria:

* they formally adhere to the status of “sophisticated” investors (meaning in substance that they are able to understand the risks associated to investing in the SIF), and
* they invest a minimum of 125.000 € in the SIF, or they have been subject to an assessment made by a credit institution, an investment firm or a management company certifying their expertise and knowledge in adequately appraising an investment in such particular SIF

The above-mentioned conditions do not apply in the case of directors and other persons involved in the management of the SIF.

**Organization**

* A SIF is not required to have a promoter with significant financial resources; however, the persons in charge of the management of the investment portfolio are subject to approval by the Commission de Surveillance du Secteur Financier (the “CSSF”). The law provides also since the above mentioned amendment made on 26 March 2012, which became effective on 1st April 2012, that the « Directors » are subject to CSSF approval. Therefore the investment manager and the directors of a SIF must have a good reputation and sufficient experience with regard to the SIF concerned. To that end, the names of the directors and any person succeeding them in office must be communicated forthwith to the CSSF.
* Henceforth, a SIF cannot start operations without the express prior approval by the CSSF. The amendment of the law made on 26 March 2012 has introduced a system of management and risk control to be put in place in order to appropriately manage the risks from investment strategies and risk profile of the fund. It also strengthened the organization of these funds in order to restrict to a minimum the risk of conflicts of interest between the SIF and any person contributing to the activities of the fund, in order to permanently ensure the safeguarding of the investors’ interests.
* Disclosure requirements: The prospectus (the “Issuing Document”) does not require a minimum content and needs to be updated only in the case of a new issuance of shares or units. Therefore the “Issuing Document” benefits from a high level of flexibility as to the content and the format of the prospectus. SIF are not required to publish semi-annual reports, but a periodical report (monthly and annually) is to be submitted to the CSSF. SIF’s accounts do not have to be consolidated with those companies in which they have invested, whatever the holding percentage is.
* The terms and conditions applicable to the subscription and/or redemption of shares or units of a SIF are only subject to the articles of incorporation of the SIF or to the “Issuing Document”, in particular, the price applied may be different from the NAV. As a consequence, a calculation of the NAV on a regular basis is not compulsory from a legal point of view.
* A SIF can be created as a common fund managed by a management company (“FCP”), as a company with a fixed share capital (“SICAF”) or as a company with a variable capital (“SICAV”). SIFs (under the form of a “SICAV”) may be established under the legal forms of a public limited company (SA), a limited company (Sàrl.), a partnership limited by shares (SCA) or a cooperative in the form of a public limited company (SC incorporated as a SA). Therefore it is possible to have a single member company.
* A SIF is allowed to issue not only shares or units, but also other types of instruments, such as notes, bonds.
* The share capital structure is very flexible in the sense that if the minimum capital required for a SIF amounts to 1.250.000 €, this amount, if the SIF is of the corporate structure, is examined in respect of the subscribed capital and issue premiums instead of the net paid-up assets. SIFs have 12 months to reach the minimum net assets threshold following the authorization from the CSSF. SIFs of the corporate type must have their capital entirely subscribed, but only 5% of each share must be paid up. In addition it is possible for SIFs of the corporate type to issue partly paid shares.
* The role and responsibility of the depositary bank have been reduced in comparison to former institutional funds to the extent that the depositary bank has not to verify certain transactions. If safekeeping and general supervisory functions are maintained, the depositary bank does not have, for example, to check that the instructions of the management company comply with the law or the management regulations.

**Eligible Assets and Investments**

* The Law on SIFs grants a maximum flexibility in terms of eligible assets in which a SIF may invest. Therefore, subject to the principle of risk spreading (the CSSF defines that a FIS should not invest more than 30% of its assets in securities issued by the same institution), a SIF with specific investment purposes can be launched, such as investing in transferable securities, money market instruments, real estate, hedge funds, funds of funds, private equity, commodities, financial derivate instruments, debts, microfinance, etc. It is up to the managers of the SIF, in agreement with the CSSF, to determine quantitative limits.
* Unless the management regulations (or the articles of incorporation) state the contrary, asset valuation is to be based on the fair value. The precise evaluation methods of the “fair value” must be set out in the constitutional documents or by reference to evaluation methods recommended by professional associations such as for instance, the “International Private Equity and Venture Capital Guidelines” or “The Guidelines of the Royal Institute of Chartered Surveyors”.

**Taxation**

* SIFs are subject to the subscription tax at a rate of 0,01% of the net asset value; however, the portion invested in other Luxembourg undertakings for collective investment subject to the subscription tax, certain institutional cash funds and pension pooling funds are exempt from the subscription tax.
* One-time registration fee of 75 € flat (upon constitution, transformation, contributions, conversions and mergers).
* No withholding tax is due on the amounts distributed by SIFs.
* Regarding the taxation on the saving income, the conditions of the tax agent is in principle applicable.