RESERVED ALTERNATIVE INVESTMENT FUND (RAIF)

A perfect match for impact investing funds

Launch your impact fund in just two months

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THE RAIF – A SOUND CHOICE TO LAUNCH AN IMPACT FUND

Since its launch, the Luxembourg Reserved Alternative Investment Fund (RAIF) has become the preferred legal form to launch an impact fund.

Why is the RAIF so popular? It combines key advantages critical for impact funds: low setup and running costs, flexibility, fast time-to-market, and pre-marketing and marketing to qualified EU investors due to the indirect regulation of RAIFs.

Innpact has created and launched numerous RAIFs for impact sponsors, guiding them from the fund concept to the first closing in under two months. Let us support you in this fast-track journey.

As an optimal solution for funds to meet the requirements of the AIFM law and the CSSF Circular 18/698, the Luxembourg law of 23 July 2016 created the Reserved Alternative Investment Fund (RAIF) with the simple appointment of an Alternative Investment Manager (AIFM) to ensure compliance with the regulatory requirements.

No CSSF approval is required. Funds can therefore be set up and operational in a short time.

TESTED AND TRUSTED

- > 2,500 Luxembourg RAIFs
- High AIFMD standards
- Regulatory options for PE funds

LIGHT REGULATION

- Indirect supervision with AIFM
- No CSSF approval for launch
- No CSSF approval for changes

SHORT TIME TO MARKET

- Set-up within 6-8 weeks
- Select depositary, administrative agent, auditor
- Prepare legal documentation

EFFICIENT EU MARKETING

- EU distribution passport via AIFM
- Well-informed investors only
- Pre-marketing possible

THE RAIF

An industry standard with multiple interesting features

Most impact funds select the RAIF as it provides a simple way to structure their fund with features well known by international investors used to investing in private equity funds. Innpact's structuring team will guide you in selecting the RAIF features that best fit your impact fund.

Flexible structuring options

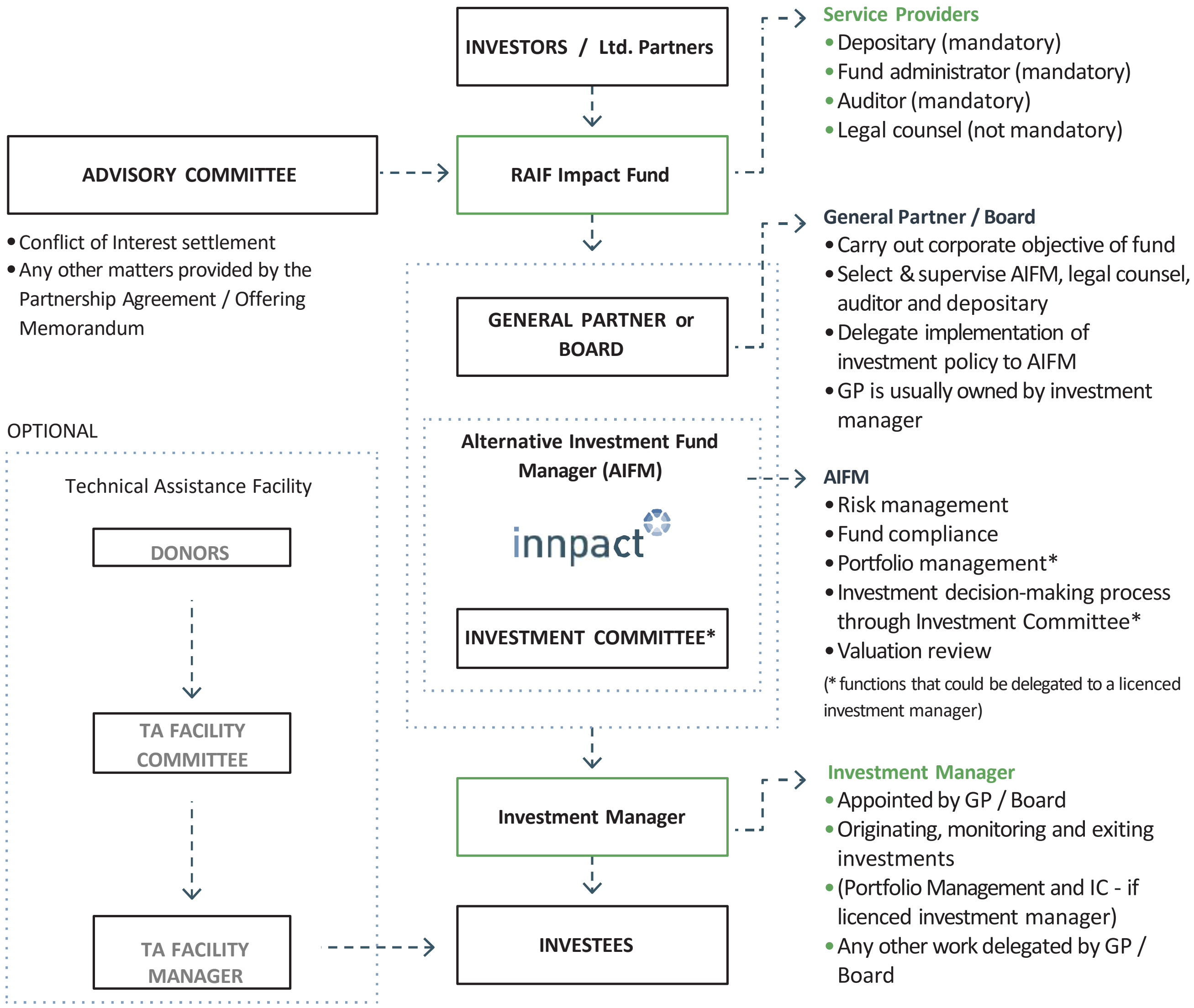
- RAIF can invest in all types of impact assets (such as impact-driven private equity and/or debt, impact bonds, carbon credits)
- High flexibility in creating multiple share classes, with optional accommodation of blended finance
- Umbrella structures can be established targeting different investors with segregated sub-funds covering diverse investment strategies and different structuring features
- Ranging from limited risk diversification requirements (similar to Lux SIFs) to no risk diversification requirements (with a risk capital investment strategy, such as for Lux SICARs)
- Flexibility in choice of accounting principles (IFRS or LuxGAAP) and in valuation methodology
- Possibility to change to SIF regime later, if needed
- Possibility to upgrade to RAIF from a lightly regulated AIF managed by a sub-threshold registered alternative investment fund (when starting with small fund size)

Simple legal considerations

- RAIFs are established by a simple notarial certification confirming the fund's creation
- RAIFs benefit from an attractive tax regime subject only to a 0.01% subscription tax of its net assets (no corporate income or withholding tax)
- Possible to opt for different corporate forms – either shareholders elect a board of directors (usually SA) or a partnership / GP-LP model controlled by a General Partner (SCSp, SCA or SCS)
- Mandatory to appoint an AIFM authorised in Luxembourg (supervised by CSSF) or in another EU member state
- Like all funds, RAIFs are subject to the Sustainable Finance Disclosure Regulation (SFDR)
- Possible to opt for different corporate forms – either shareholders elect a board of directors (usually Société Anonyme - SA) or a partnership / GP-LP model controlled by a General Partner (SCSp - Special Limited Partnership / Société en Commandite Spéciale, SCA – Partnership Limited by Shares / Société en Commandite par Action or SCS - Common Limited Partnership/Société en Commandite Simple)

THE AIFM
A critical role

The RAIF benefits from the governance structure and regulatory approvals of the appointed AIFM, including its in-house policies and procedures. The latter are updated regularly and ensure that AIFM-managed funds are fully in compliance with any new regulations. The AIFM is in charge of producing annual and other regulatory reports according to the AIFM law. As such, the AIFM carries full responsibility towards the regulator in the name of the funds it manages. When approached to manage a fund, the AIFM therefore always completes a full due diligence on the investment or portfolio manager and on the fund to ensure compliance with the procedures and policy standards of the AIFM law. This due diligence will be done at the setup of the fund as well as on an ongoing basis.



While the key AIFM responsibilities are fund portfolio and risk management, it can delegate the performance of these functions under certain conditions. Considering the expertise required to originate and monitor impact investments, the best option is usually to delegate the portfolio management to an authorised impact investment manager who would take all investment decisions. If the investment manager is not authorised in an EU member state (or similar jurisdiction), the AIFM remains responsible for portfolio management and the fund's investment committee advised by an "Investment Advisor". In such cases, the Investment Advisor may have a separate investment committee that refers investments to the AIFM for final approval.

In any case, the AIFM is ultimately responsible for risk management, compliance, NAV oversight and the annual report which requires a solid understanding of the fund's impact investment strategy.

Innpact's expert AIFM team brings over 15 years of practical experience in supporting 30 innovative impact investing funds. This critical experience and our impact mission alignment will be key success factors in the management of your impact fund.

The RAIF

A simple and fast incorporation process

The setup of a RAIF follows a simple and lean incorporation process. From the day the fund initiator has agreed on the fund legal documentation with its prospective investors and selected its service providers (AIFM, depositary, bank, administrative agent, auditor), the process will typically take six to eight weeks. Fund initiators should factor in the length of bank's fund onboarding process which could cause delays. Innpact's experts will guide you in each of the steps and ensure a smooth and seamless incorporation.

SIX TO EIGTH WEEKS*

	2 TO 3 WEEKS	2 TO 3 WEEKS	2 WEEKS	
PRE-INCORPORATION	**GENERAL PARTNER (GP) INCORPORATION (IF GP-LP)**	**RAIF INCORPORATION**	**PUBLICATION IN LUXEMBOURG GAZETTE**	**INSCRIPTION ON LUXEMBOURG RAIF LIST**
• Select **legal and structuring** advisors • Select **AIFM** • **Select service providers** • Conduct due diligences • **Negotiate and draft AIFM and service provider agreements** • Draft General Partner articles • Draft fund Limited Partnership agreement / articles • Draft Private Placement Memorandum (PPM) / Prospectus	• GP **bank account** opening • **Share capital wire** by GP shareholders • **Notary appointment** • Publication in **Luxembourg Gazette**	• Fund **bank account** opening • **SCA min. capital EUR 30k** (no minimum for SCSp) • Min. **EUR 1.25 M** to be reached within one year • Constitution in presence of **notary**	• **For SCA: full articles** incl. details of GP and initial LPs • **For SCSp: enhanced confidentiality;** only limited information disclosed incl. GP details	• **Limited information only**

**indicative timeline*

The RAIF

Minimum substance requirements to operate in Luxembourg

While the AIFM provides usually most of the Luxembourg substance requirements to the fund, certain additional elements need to be domiciled in, or originated out of, Luxembourg:

- Registered office in Luxembourg, usually at the premises of the central administrative agent
- Bank account in Luxembourg
- Financial statements under Luxembourg accounting rules
- At least one board member knowledgeable of Luxembourg AML laws
- Registration of vehicle with the Luxembourg Trade and Company Register, including identification of ultimate beneficial owners of the fund (≥25%) in the ultimate beneficial owner register

It is also advisable to:

- Have the majority of GP board members / directors be Luxembourg residents
- Hold board meetings of GP / fund in Luxembourg

INDICATIVE COST BUDGET

SETUP

- GP notary: EUR 2,000-5,000
- Fund notary: EUR 2,000-5,000
- Fund legal: EUR 50,000-100,000

ANNUAL

- GP admin & accounting: EUR 20,000-25,000
- AIFM: EUR 70,000-120,000
- Depositary: EUR 40,000-EUR 60,000
- Central admin: EUR 40,000-EUR 60,000
- Fund legal: EUR 20,000-50,000
- Independent director: EUR 15,000-20,000

ASSUMPTIONS

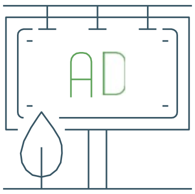
- EUR 75 million assets under management
- Limited duration fund
- 7 investors
- 15 private equity deals

The RAIF
Ready for distribution to EU investors

Pre-marketing and marketing of funds to EU investors is a key factor in choosing to set up a RAIF. The AIFM facilitates these services on behalf of the sponsor and the fund. This is well defined in the key regulations and are services Innpact AIFM provides.

PRE-MARKETING

in the EU is regulated as of 28 July 2021 by the Cross Border Directive. The AIFM can file for the sponsor in all EU countries then contact potential investors in coordination with the sponsor.



MARKETING

is the phase when investors can subscribe. The AIFM files for the EU marketing passport on a country-by-country basis through the Luxembourg regulator. With the EU passports, the AIFM supports the sponsor or investment manager to directly contact targeted investors.

The (interim) sub-threshold fund alternative

While the RAIF is a lean and cost efficient structure, the mandatory service providers (such as AIFM and depositary) may still generate costs that are difficult to absorb for smaller funds with assets under management in the range of EUR 20 to 50 million.

An alternative can be to opt for a sub-threshold lightly regulated fund in the form of a SCSp with the General Partner acting as the registered AIFM. Such structure allows for a lighter operational cost as no authorised AIFM nor a depositary are required. An auditor (although recommended) is not mandatory either, whereas an administrative agent would still be needed to provide accounting and domiciliation services.

The disadvantage of this solution is that the fund will not benefit from the EU marketing passport and some investors may be less comfortable with the lack of indirect supervision. For an interim phase, however, until the fund has reached a sufficient size (e.g. after second closing), it is definitely a solution to consider.

How we can help you

Innpact's expert team has structured and set up more than 30 impact funds investing across all United Nations Sustainable Development Goals (SDGs), all instruments (e.g. private equity / debt, carbon credits), and all regions (from single country to worldwide, Europe or emerging markets). We guide you in launching and managing your fund:

DESIGN YOUR IMPACT FUND

- Develop your fund concept and rationale
- Define your impact investment strategy
- Create your financial model
- Design your efficient fund structure, governance and operational system
- Develop your impact management framework, including theory of change, impact metrics, SDG alignment, impact report, and impact incentives mechanisms

SET UP YOUR IMPACT FUND

- Develop legal documentation with your preferred legal counsel
- Draft all necessary policies and procedures
- Select required service providers
- Ensure SFDR compliance
- Help in negotiations with prospective investors
- Coordinate incorporation and first closing

MANAGE YOUR IMPACT FUND

- Act as your third-party authorised AIFM
- Provide additional hands-on fund management services (such as ALM, risk, cash, FX, annual report)
- Act as your impact officer and support impact report publication

Contact our RAIF and AIFM experts

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Innpact is a leading impact finance specialist providing advisory and third-party fund management services.

Our team, based in Luxembourg and Mauritius, has unrivalled expertise in designing impact funds and blended finance vehicles.

We work with fund managers, sponsors and investors around the world on impact investing projects totaling more than $8 bn targeting the Sustainable Development Goals.

We provide our services with motivation, dedication and smile, being faithful to our mission and our values.

Dedicated to Impact Finance.

innpact

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