Commission de Surveillance du Secteur Financier

Compilation of key concepts and terms used in the field of investment funds other than UCITS and MMFs and explanations on how the CSSF understands them

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For many years, investment funds other than UCITS or MMFs have been greatly innovating, particularly in terms of investment strategies, investment methods and subscription or redemption models. Most concepts associated with these strategies, methods and models are known by their technical English terms.

This document intends to clarify the most common concepts by placing them in their relevant contexts. It also explains how the CSSF understands them. These explanations aim to foster a better understanding and to facilitate exchanges with the CSSF.

This document does not purport to be exhaustive. Some strategies, methods or models may not be explicitly mentioned in this document. However, this does not imply that they are prohibited.

The CSSF stresses that this document is neither a regulation nor a CSSF circular and that its sole purpose is to provide a synthesis and to inform the public concerned. All interested readers should refer to the relevant European and Luxembourg laws and regulation which prevail in any case, as well as to the fund's sales document in particular.

This document does not prejudge the acceptability of an application for authorisation submitted to the CSSF.

The document focuses mainly on investments made outside the regulated markets or other stock markets (hereunder "**private investments**"). Private investments are usually based on a broad range of investment strategies. In principle, they have a low correlation with public markets, sophisticated selection criteria, generally complex investment structures, relatively long-term investment horizons, fragmented historical data, particular fee structures, potentially significant leverage and specific risk profiles. Private investments are usually not very liquid, as they are not subject to regular transactions. This is clearly without prejudice to individual cases.

This is an evolving document. The CSSF may modify its content in order to complete it or to take into account the European and international regulatory developments.

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1. DEFINITIONS AND ABBREVIATIONS

For the purposes of this document, the following definitions apply:

CSSF: the Commission de Surveillance du Secteur Financier.

AIFMD: Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers, as amended.

UCITS Directive: Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), as amended.

AIF: an alternative investment fund within the meaning of the AIFMD.

Fund: a fund or a compartment where the fund is constituted as a fund with multiple compartments.

Manager: the AIFM if designated or the fund's portfolio manager(s).

AIFM: an alternative investment fund manager within the meaning of the AIFM Law or the AIFMD.

GP: a General Partner. This term is used in the broad sense of the term, i.e. to refer to the manager.

Private investment: an investment made outside the regulated markets or other stock markets.

Retail investor: a retail investor as defined in the AIFMD.

Unsophisticated retail investor: a retail investor, as defined in the AIFMD and in the AIFM Law, who does not meet the criteria of a well-informed investor, as defined in the SIF Law.

SIF Law: the Law of 13 February 2007 relating to specialised investment funds, as amended.

AIFM Law: the Law of 12 July 2013 on alternative investment fund managers, as amended.

LP: a Limited Partner. This term is used in the broad sense of the term, i.e. to refer to the investor.

MMF: a money market fund within the meaning of Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

UCITS: an undertaking for collective investment in transferable securities within the meaning of the UCITS Directive.

Regulation 2017/1129: Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, as amended.

2. THE CONCEPT OF INVESTMENT POLICY

1. An investment policy must be established for each fund. It must include (i) the fund's investment objectives and strategies, (ii) the composition of its portfolio and hence the asset classes in which it may invest, the possible preferred geographical areas or sectors, (iii) the possible applicable restrictions, (iv) the contemplated investment methods, (v) the techniques that may be used, and (vi) the targeted investment horizons. Moreover, it must include the potential borrowing possibilities and restrictions.
2. The investment policy is a key element for investors to decide to invest in a fund and must therefore be established prior to any subscription. To avoid future disputes, it must be clearly defined and communicated to investors in accordance with the applicable laws and regulations, without minimising the risks or promising returns that cannot be reasonably reached. Its design must allow its implementation over time, when successive financing is needed to carry out the contemplated investments.
3. An investment policy must not in any way encourage, cause or support fraudulent behaviour and must not be used to finance or support activities prohibited under the Penal Code, regulations on the fight against money laundering and terrorist financing, international agreements or any other law or regulation. It must not promote practices that may be reasonably deemed as harmful to the financial market's stability and integrity.
4. An investment policy must be developed and implemented in a consistent manner and the risk level communicated to investors. An appropriate analysis allows identifying beforehand the risks associated with each investment opportunity. It also ensures that the proposed investment policy can indeed be implemented in accordance with the applicable regulations, that appropriate procedures are in place to manage and control the identified risks, that the assessments are available in due time and that the redemption policy and/or the lifespan are suitable.
5. The investment policy must be developed and implemented in the best interest of the fund and its investors. Any practice that is likely to harm the fund and its investors must be avoided (e.g. churning). It must take into account the possible conflicts of interest. These conflicts may arise, for example, during the acquisition, assessment or disposal of investments. They may also occur during the provision of various services related to investments or while interacting with other investors. Particular attention must be paid to transactions with related parties, especially those involving entities related to or managed by the manager or initiator of the fund or the group to which it belongs. A fund is not supposed to conclude transactions with a related party if the transaction is not negotiated at arm's length.
6. The investment policy must provide information on the investment horizon, taking into account possible exit strategies. In the absence of legal requirements, the fund must select the exit strategy that is the best suited to reach its investment objective. In the area of private equity, for example, the most common exit strategies are: initial public offering (IPO), sale to strategic, secondary sales/sponsor-to-sponsor deals/secondary buyout, dividend recapitalisation, management buyout (MBO) and merger and acquisition, for example, through a special purpose acquisition company (SPAC).

3. THE CONCEPTS RELATED TO INVESTMENT STRATEGIES AND ASSET CLASSES

3.1. Index replication

7. A fund may replicate an index and has a broad range of indices available for this purpose. The replication may be carried out in different ways. The CSSF distinguishes notably between:

Physical replication	Physical replication reflects the performance of the underlying index by investing in all securities or other assets of this index.
Synthetic replication	Synthetic replication uses derivatives (usually total return swaps) to replicate the performance of the index.
Sampling replication	The fund replicates the index but based on a representative sample which tracks the performance of the index as closely as possible. To this end, the fund may use different techniques.
Hybrid replication	The fund uses a mix of physical and synthetic replication.
Others	

8. In order to avoid any subsequent disputes, the index must be understandable and structured so as to avoid any circumvention of the rules applicable, where appropriate, to the fund. Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds lays down specific provisions which must be taken into account, where appropriate.

3.2. Private equity

9. A fund may acquire shares on a stock exchange. However, it may also acquire shares which are not traded on such a market or an exposure to such shares. The term "private equity" means in general an investment in a target undertaking outside stock exchanges. The target undertakings are in principle private companies. In rare cases, they may be public companies which were privatised following a private equity operation (public-to-private). The type of business sector of these undertakings is usually irrelevant, provided that it is lawful. The target undertakings may focus on business-to-business (B2B) and/or on business-to-consumer (B2C).

10. The private equity strategy consists in supporting a target undertaking to increase its value, then to sell the holding acquired in this undertaking. This added value may be generated in different ways: for example, through an operational optimisation of the productivity, the profitability or the overall efficiency of the undertaking, through the development of its business, the entry into new markets, targeted or complementary acquisitions, or even restructuring. The support given mainly takes the form of a financial contribution and, where appropriate, assistance with or advice on management.

11. The creation of value requires time. In general, the fund has holdings acquired in the target undertakings in the medium or long term. However, it does not prevent the fund from financing the target undertakings in the short term or through any other means, like loans, for example. The CSSF identifies the following financing methods:

Equity financing	As a rule, the fund acquires a holding in the form of equity or quasi-equity in the target undertaking. It may be a minority or majority holding. As a shareholder, the fund partakes in the profits and in the losses of the undertaking. In the case of insolvency of the undertaking, the fund will usually be the last to be reimbursed, i.e. after all other debts have been paid.
Debt financing	The fact that the fund is a shareholder of the target undertaking does not prevent it from becoming the undertaking's creditor as well (cf. section 3.3 private debt). It may, for example, grant loans to the target undertaking, irrespective of the percentage of the holding. If the fund holds directly or indirectly at least 5% of the capital or voting rights in the target undertaking, the loan may be qualified as shareholder loan within the meaning of the AIFMD subject to the conditions set out therein.
Mezzanine financing	Mezzanine financing is a hybrid financing method which includes an option to convert, under predefined conditions, all or part of the debt into equity. In the capital structure of the undertaking, it sits between equity and debt (cf. section 3.3 private debt).
Bridge financing	Bridge financing is a temporary financing method that undertakings generally use to consolidate their short-term position until a long-term financing option can be implemented. It can take the form of equity bridge financing or debt bridge financing (cf. section 3.3 private debt).
Other types of financing	

12. Private equity covers a large range of sub-strategies which mainly differ in terms of the stage of maturity that the target undertaking reaches at the time of financing. According to the stage of maturity of the target undertaking, the CSSF distinguishes, among others, between the following sub-strategies:

Venture capital	Venture capital aims to invest in start-ups or scale-up undertakings. A start-up is usually an undertaking that is in the early stages of development. By contrast, a scale-up undertaking is already in its growth phase in terms of income and of the number of employees, as well as in terms of scope of the market. Often innovative, these undertakings are usually small, except those called "unicorns". Depending on the developmental stage of the undertaking, the CSSF distinguishes between: - seed capital, which means the initial financing to support the research or development relating to an idea (e.g. for a product or a service). Seed capital is a type of investment which can be highly profitable, but which is also usually very risky as the undertaking has not yet marketed its products/services and has not yet developed its customer base. Seed capital is generally provided by people close to the founder or by external investors such as business angels, start-up accelerators or incubators. Once the start-up has an initial capital, it may launch a series of financing rounds in order to collect additional funds. - early-stage capital, which means the financing of an undertaking that is being established or has been recently established. It is aimed at supporting the development of a product/service or its marketing. It is usually a "series A financing". The undertaking has probably already a

	product/service which works and has a few employees. It is no longer a start-up but has reached the stage of scale-up undertaking. - late-stage capital, which means the financing of the expansion of the operational undertaking, the break-even threshold of which has recently been reached or is about to be reached. It is usually a "series B financing". At this stage, the undertaking may already enjoy some success. However, it may not yet show profits although it might already generate income and/or it is considered as having used the "series A financing" successfully. The holdings acquired by the fund are generally medium- or long-term minority holdings.
Growth capital	Growth capital allows investing in more mature undertakings. This financing type is intended for undertakings which would like to expand their presence in the market, conquer new markets, buy a competitor, finance merger and acquisition activities or even launch a new product or service. The holdings acquired by the fund are generally short- or medium-term holdings. It is usually a "series C financing". The subsequent financing aims to support undertakings in the process of an initial public offering.
Buyout	Buyout aims to take control of larger and mature target undertakings with growth prospects. In principle, the goal is to gain effective influence on the management of the target undertakings in order to streamline the operations and the financial management (e.g. by imposing its own managers). It encompasses management buyout (MBO) and management buy-in (MBI) operations. The holdings acquired by the fund are generally medium- or long-term majority holdings. They often give rise to leverage, notably in LBO (leveraged buyout) operations. Buy-and-build (or roll-up, add-on or bolt-on) refers to the acquisition of an initial target undertaking with the aim to add ancillary activities to create a more significant undertaking.
Turnaround/Rescue/Distressed	Turnaround/rescue/distressed sub-strategies aim to finance undertakings facing difficulties or to provide liquidity to undertakings which need it. They allow the target undertaking to be relaunched or to avoid being wound-up.
Refinancing/Financial restructuring	This sub-strategy aims to finance undertakings in the case of a specific situation.
Public-to-private or take-private or P2P	Public-to-private aims to privatise a public undertaking through a private equity operation. The change from a public undertaking to a private undertaking usually entails buying all the outstanding shares from public shareholders, often adding a bonus to the market price.
GP Stakes	GP stakes are investments - usually minority holdings - in other fund managers.
Other sub-strategies	

13. According to the chosen financing method, the fund is exposed to counterparty risk or credit risk vis-à-vis the target undertaking. The scale of the risk depends on the maturity stage of the target undertaking. As a rule, the venture capital strategy is associated with a risk that is higher than for the buyout or growth strategies. However, other factors like the financial health of the target undertaking or its debt level also impact the risk. Heavily indebted undertakings are indeed more sensitive to negative market trends, like an increase in interest rates, and are therefore more exposed to insolvency risk. The maturity level of the target undertaking also impacts investment returns because, at the start of its existence, it usually does not generate income and therefore does not distribute dividends.

14. The AIFMD lays down specific provisions in the case of control over a non-listed company, which must be taken into account, if applicable.

3.3. Private debt

15. The fund may acquire listed corporate bonds, government bonds or municipal bonds which generally offer a fixed income. However, it may also invest in debts which are not traded on the stock exchange or hold exposures to these debts (hereunder "**private debt**"). This type of debt does not necessarily offer a fixed income. The term "private" refers to the investment instrument and not to the borrower.

16. Private debt may take the form of securities or loans. Where private debt is in the form of a loan, the CSSF distinguishes between:

Loan origination	In accordance with the definition under the AIFMD, a fund originates a loan when it grants a loan (i) directly as the original lender or (ii) indirectly through a third party or special purpose vehicle which originates a loan for or on behalf of the fund, or for or on behalf of a manager in respect of the fund, where the manager or fund is involved in structuring the loan, or defining or pre-agreeing its characteristics, prior to gaining exposure to the loan.
Loan participation	The fund is involved in the debt where it acquires part or all of the existing debt, either directly from the creditor or on the secondary markets where these debts are traded.

17. Private debt can be divided into different sub-categories, for example, according to the financing purpose. This purpose must always be lawful and must not serve the manager's personal interests. Given its magnitude, private debt overlaps with other investment strategies presented in this document. Without prejudice to possible overlaps, the CSSF distinguishes between private debt granted to target undertakings, syndicated loans and other types of private debt.

Corporate private debt	This concept refers to any form of debt granted to an undertaking which is not listed on a stock exchange.

Syndicated loans	This concept refers to loans granted by a group of banks (syndicate), under the aegis of an arranging bank. Generally, the purpose is to finance large-scale projects in the medium and long term.

Loans granted to other UCIs	This concept includes for example, subscription line financing for which investors' commitments usually represent the guarantee, or NAV lending for which the fund's assets usually represent the guarantee.
Securitised debt	This concept refers to debts which have been pooled and transformed into financial securities to be sold to investors on the financial markets.
Structured debt	This concept includes for example, asset-backed securities (ABS) or collateralized loan obligations (CLO).
Loans to individuals	This concept refers to loans granted to natural persons (provided that the legislation does not prohibit it).
Real estate/infrastructure loans	This concept refers to loans aimed at financing real estate or infrastructure projects (see sections 3.6 and 3.7 - real estate or infrastructure investments).
Other debts/loans	

18. Where a fund finances a target undertaking through debt, it becomes one of its creditors. Its position in the capital structure of the undertaking is decisive to assess the risk

associated with the investment because the order of priority for the reimbursement of the debt depends on it. Thus, senior secured debts/loans or first and second lien loans put the fund in a privileged position in the case of insolvency of the target undertaking. This is not the case for subordinated debts or junior debts, which may offer a higher return to offset additional risk-taking.

19. Without prejudice to possible overlaps between the different sub-strategies, the CSSF distinguishes notably, at the level of the financing of a target undertaking, between:

Direct/corporate lending	The purpose of direct lending is to grant loans directly to target undertakings. Usually they are senior loans, but they can also be subordinated loans (e.g. unitranches).
Mezzanine debt	Mezzanine financing is usually composed of a subordinated loan remunerated at a fixed rate and of a participation in the profits in the form of share subscription rights. Its duration is often longer than that of a traditional loan.
Distressed debt	Distressed debt means investments in undertakings, whose purpose is to cover a liquidity shortfall in the short term. In general, these additional credits are granted with corresponding risk premia. Debt restructuring is often carried out in order to avoid new late payments of credits or even defaults. The approach adopted by the fund may be a passive "wait-and-see" approach or an active approach which usually implies that the fund takes control of the undertaking.
Venture debt	Venture debt is aimed at start-ups which have already reached a certain level of maturity and already have capital support, but which require additional financing. Through the debt financing, the undertaking avoids further diluting its shareholding. It is generally in the form of short- or medium-term loans.
Special situations	This debt is intended for undertakings the value of which could be impacted by a given event, like a split, a merger or a takeover bid, and which are therefore subject to unusual pressure with respect to liquidity.
Asset-based lending/speciality financing	This means granting loans with a guarantee in the form of tangible or intangible assets (e.g. loans to undertakings secured by assets rather than by cash flows generated by the undertaking, as in the case of direct loans).
Bridge financing	Bridge financing is a temporary or intermediate financing option that undertakings generally use to consolidate their short-term position until a long-term financing option can be implemented.
Others	

20. In the case of loan origination, the lending fund and the borrower negotiate the loan conditions to meet the specific needs and objectives of each party. These specificities may make the loan difficult to transfer and oblige the fund to keep it until its maturity. Private loans may have shorter or longer durations. The loan income is usually based on a fixed or variable interest rate. If the loan is granted to another fund and remunerated according to the performance of the fund, it may be considered as an exposure to this fund, particularly within the meaning of Article 1(42) of the AIFM Law.

21. The credit risk associated with each loan varies depending on many factors, among which the borrower's solvency. As regards private debt, the great majority of borrowers are high-yield undertakings, i.e. whose quality is deemed inferior to that of the undertakings rated as investment grade by rating agencies. These undertakings usually present higher risk profiles or higher indebtedness levels than the borrowers of banking or syndicated loans. Other factors may also constitute a source of potential risk, such as currency, regional or sector-specific factors.

22. Different measures may mitigate the risk to which the fund is exposed, such as:

- the ability of the fund to restructure the loans granted to borrowers in case of distress as well as certain contractual clauses (e.g. covenants or cash sweep clauses);
- the acquisition of a guarantee, provided that the latter is likely to be executed without delay and does not expose the fund to excessive risks;
- interest floors protecting the fund in an environment of declining rates;
- derivatives protecting the fund from currency risks.

23. The AIFMD lays down specific provisions for loan origination. Depending on the specific characteristics of a hybrid instrument (e.g. profit participating loan, convertible bond), the latter may be considered as a debt instrument or equity and may be recognised as such in the fund's accounts. Only the creation of instruments which may qualify as loans (i.e. debt) pursuant to national laws or other European regulations[1] is considered loan origination.

3.4. Hedge funds

24. The strategies widely used by hedge funds differ from others in that they usually target more liquid assets and shorter positions. As a general rule, they seek absolute return in all market phases. These absolute returns come from either risk premia or market inefficiencies exploited by the fund's manager. These strategies aim to produce short-term profits based on financial elements rather than operational elements and thus differ from private equity.

25. Originally, these hedging strategies were created to take long or short positions on the market in order to protect the fund from market movements. Meanwhile, they cover a large array of sub-strategies and invest not only in traditional asset classes, such as shares or bonds, but also in other assets.

26. The CSSF distinguishes notably between the following sub-strategies:

Equity which may be realised in different ways according to the desired level of exposure to the market.	*For example: long/short equity, market-neutral, long-bias, short bias, value-oriented*
Event Driven which seek to exploit price inefficiencies that may arise before or after a corporate event.	*For example: equity special situations, distressed/restructuring, risk/merger arbitrage, opportunistic, activist*
Relative value which produce profit by capturing the price differences between two closely related securities.	*For example: relative value arbitrage, statistical arbitrage, fixed income arbitrage, convertible bond arbitrage, volatility arbitrage, capital structure arbitrage*
Macro	*For example: macro /managed futures:*

[1] *Annexe V, paragraph 32, of Commission Implementing Regulation (EU) 2021/451*

the purpose of which is to take advantage of significant market fluctuations caused by political and economic events.	*Managed Futures/CTA: Fundamental* *Managed Futures/CTA: Quantitative*
Credit which invest in debt securities, with the aim to take advantage of loan inefficiencies.	*For example: specialist credit, fixed income credit, mortgage-backed credits*
Niche which focus on small specific market niches.	*For example: insurance-linked, initial coin offering investment*
Alternative risk premia which invest in long and short positions in several asset classes.	*For example: asset classes such as shares, fixed-income securities, forex, commodities and interest rates*
Other types of sub-strategies	

27. The different sub-strategies partly share common characteristics. They generally use short selling, derivatives (e.g. futures, options, swaps), arbitrage techniques and indebtedness to achieve the targeted absolute return. A fund can carry out short selling in accordance with the provisions of Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps[2]. The risks vary according to the sub-strategies, the nature of the underlying, the use of loan and/or short selling, as well as the algorithms which may be used to achieve these strategies.

3.5. Fund of funds

28. A fund may acquire units or shares of other funds or acquire an exposure to the portfolio of these funds, regardless of their legal form and qualification. The management of this type of fund is based on an appropriate selection of the target funds and comprises also master-feeder types of structures.

29. There are different types of funds of funds, each adapted to specific objectives. The CSSF distinguishes notably between:

Multi-asset funds of funds	These funds allocate their investments among different asset classes in order to balance the risk and the return.
Specific funds of funds	These funds focus on a specific type of fund (e.g. hedge funds, private equity funds, debt funds).
Country-specific funds of funds	These funds focus on funds investing in a geographical region or a specific country.
Sector-specific funds of funds	These funds invest in funds specialised in specific sectors.
Other types of sub-strategies	

30. It is understood that the possibility to invest in other target funds must not be used to circumvent potential investment limits or to expose the fund to risks beyond the risk level communicated to investors.

2 This regulation is implemented in national law by the Law of 12 July 2013 on short selling of financial instruments.

31. The risks to which the fund is exposed when it invests in another fund are varied. The performance of the target funds may depend on a single person or a small group. Investment in other funds may also involve a risk of asymmetry between the redemption frequency provided by the fund and that provided by the target funds. Where the fund subscribes to another fund by signing a capital commitment, it must still be able to finance its commitments.

32. The concept of funds of funds and master-feeder structures are different from other indirect financing methods presented in section 4.3. Investment in target funds usually exposes the fund to a blind pool risk, i.e. at the time of investment, the fund has no precise knowledge of the different investments which will be made by the target fund, especially if the latter is managed by another manager. It is not the case where the fund uses intermediary vehicles to make its investments.

3.6. Real estate investments

33. A fund may finance real estate. The fund may thus acquire a real estate property or an exposure to this property, for example via a loan (real estate debt/lending). Such investments generally require significant medium- or long-term capital. They may provide stable cash flows that are predictable (e.g. rent) or not, as the case may be.

34. This strategy does not exclude the acquisition of other real estate securities, such as (i) holdings in real estate companies (including claims on such companies) whose exclusive purpose is the acquisition, promotion and sale as well as the letting and lease of properties. It also includes rights giving property related long-term interests such as surface ownership, lease holds and options on real estate securities.

35. It covers different sectors:

Residential	For example, rental housing, land to be developed.
Commercial/office	For example, offices, retail.
Industrial	For example, industrial assets, logistic assets.

36. The CSSF distinguishes notably between:

Core	This sub-strategy aims at real estate which tends to be less volatile, of better quality and high occupancy rate. It usually offers stable and predictable cash flows and generally requires less renovation and upkeep.
Core-plus	This sub-strategy aims at real estate whose cash flows may be increased due to minor property improvements, greater efficiency in the management or improvement in the quality of tenants.
Value-added	This sub-strategy aims to improve real estate properties in order to sell them for profit. Cash flows are generally low at the time of acquisition of the property. These real estate properties often have occupancy problems, management issues, delay in upkeep or a combination of all these factors and therefore require improvements.
Opportunistic	This sub-category involves significant improvements (e.g. undeveloped land, demolitions or reconstructions, etc.). Cash flows are generally low, even non-existent, at the time of acquisition.

Other types of sub-strategies

37. When investing in real estate, the fund must consider specific risks associated with this type of investment, such as:

- possible problems during the management or development of properties (e.g. property damage, disputes with tenants, upkeep costs or unexpected repairs);
- any problems relating to the sales or rental agreements, insurance policies or regulatory changes which may impact the real estate market in general or the specific property, such as zoning laws, environmental regulations, tax laws or laws on construction or renovation.

3.7. Infrastructure investments

38. A fund may finance infrastructure projects. The fund may thus acquire the infrastructure or an exposure to it, for example via a loan (infrastructure debt/lending). Such investments generally require significant long-term capital. They may generate stable cash flows that are predictable or not, as the case may be. Income from this type of assets may be fixed (for availability assets) or variable (for toll assets).

39. The infrastructure strategy covers different sectors:

Economic	Economic infrastructure is usually characterised by the fact that individuals pay for each use.
Social	Social infrastructure does not usually function based on pay per use.

It includes notably the financing of public buildings (schools, hospitals, social housing), transport infrastructure (roads, bridges, public transport systems, airports), energy infrastructure (photovoltaic farms, wind turbines, electric network, mitigation projects and projects for adaptation to the climate change effects, power plants, pipelines), water management infrastructure (dams, water treatment plants, water supply and sewage systems or irrigation systems), communication infrastructure (networks or data centres) and water and waste management infrastructure (water services or collection or recycling systems).

40. Depending on the developmental stage of the project, the CSSF distinguishes between:

Greenfield	Greenfield means an asset to conceive or build.
Brownfield	Brownfield means an asset to improve, repair or develop.
Secondary stage	Secondary stage means an operational asset no longer requiring any development investment.

In the case of greenfield projects, the risks are usually high because the infrastructure is not yet operational, and the project can still be subject to risks associated with the construction depending on the developmental stage (e.g. absence of approval by public authorities) or to risks associated with putting it into service. The exact moment these investments will generate cash flows is generally not known beforehand. Brownfield assets may also show very high risks (e.g. contaminated land like industrial wasteland).

41. Another difference may be established according to the sub-strategy, each having various risk levels.

Core	This sub-strategy aims at infrastructures located in low-risk countries, for which there is a proven demand. They usually generate stable long-term cash flows.
Core-plus	This sub-strategy aims to improve an infrastructure in order to increase its cash flows and its value.
Value-added	This strategy aims at infrastructures which require greater investments and possibly operational improvements to achieve their full potential. Cash flows are limited in the beginning.
Opportunistic	This strategy aims at infrastructures which have strong growth potential, but also a higher risk level. These assets usually do not generate stable cash flows, are in early stages of development or require significant restructuring.
Other types of sub-strategies	

3.8. Virtual assets or crypto-assets

42. "Virtual assets" and "crypto-assets" are sometimes used to designate the same thing. The definition of the different concepts requires therefore reference to the relevant regulations. For example:

MiCAR refers to the notion of crypto-assets	a digital representation of a value or of a right that is able to be transferred and stored electronically using distributed ledger technology or similar technology.
The FATF refers to the notion of virtual assets	any digital representation of value that can be digitally traded, transferred or used for payment. The term does not include digital representation of fiat currencies.

43. Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets distinguishes between three categories:

Asset-referenced token (ART)	ART is a type of crypto-asset that is not an electronic money token and that purports to maintain a stable value by referencing another value or right or a combination thereof, including one or more official currencies.
Electronic money token (e-money token, EMT)	EMT is a type of crypto-asset that purports to maintain a stable value by referencing the value of one official currency.
Crypto-assets other than EMT or ART	This concept refers to a digital representation of a value or of a right that is able to be transferred and stored electronically using distributed ledger technology or similar technology.

As regards the possibility for a fund to carry out such investments, reference must be made to "CSSF guidelines on virtual assets" available at: FAQ Virtual Assets – Undertakings for collective investment – CSSF.

3.9. Other asset classes

44. A fund may acquire commodities or an exposure to them. In general, returns are not based on income flows such as dividends, interests or rents, but on the development of commodity prices. A related strategy consists in investing in natural resources (e.g. oil, gas, forest or agricultural land, water, mines) which are likely to offer predictable cash flows.

45. A fund may acquire physical assets other than real estate or infrastructure assets or an exposure to such assets. Thus, it may invest in collectibles, such as works of art, manuscripts, wine stocks, vintage cars or jewellery. These collectibles usually do not generate predictable cash flows. Royalties (e.g. music royalties) or specialities (e.g. insurance linked securities) generate or do not generate, as the case may be, cash flows. The risks associated with these investments vary greatly and may be very specific (e.g. counterfeiting and piracy risks, theft and loss risks, risks associated with licences, dispute risks). Distribution to unsophisticated retail investors is generally not considered as appropriate.

46. As regards "fixed income" and "share" classes, please refer to points 9 and 15.

4. THE CONCEPTS RELATED TO INVESTMENT METHODS

4.1. Primary or secondary transactions

47. A fund may acquire its private investments directly from the owner or issuer, or on a primary market. The CSSF defines "primaries" as investments in assets that were not previously held by another investor.

48. A fund may also acquire its private investments on the secondary market. The CSSF defines "secondaries" as investments in assets that were previously held by another investor. In the context of private equity, the fund may acquire holdings in target undertakings on the secondary market, regardless of their stage of maturity. The stage of maturity of the target undertaking is important in assessing whether the acquisition complies with the fund's investment policy. Secondaries may involve all or part of the asset (partial sale). They may take place at an early stage (early secondaries) when the asset is not yet fully financed, or at a more advanced stage when the investment is already well advanced in its life cycle (late secondaries).

49. As regards these transactions, the CSSF distinguishes in particular between:

LP-led secondaries	This term generally refers to a situation in which the buyer acquires the units or shares of an LP in an existing fund. The buyer then assumes all the seller's rights and obligations, including capital calls and future distributions. In this type of transaction, the fund may be the buyer or the seller of the units or shares.
Direct secondaries	This term refers to a situation in which the buyer acquires a holding in a target undertaking held directly by an LP. In this type of transaction, the fund may be the buyer or the seller of the holding.
GP-led secondaries	GP-led secondaries may take various forms, such as: - <u>Continuation funds</u>: this term generally refers to a situation in which the GP transfers one asset (single-asset) or more assets (multi-asset) from the portfolio of an existing fund to another fund, which acts as a continuation fund for these assets. The continuation fund thus extends the holding period of the asset(s) that was(were) owned by the existing fund. In this type of transaction, the fund may be the existing fund or the continuation fund. - <u>GP-led tender offers</u>: as part of these transactions, the GP organises the purchase of the LPs' units or shares, thereby giving the LPs the opportunity to sell them. The capital raised from secondary buyers is used to repurchase the units or shares from the LPs that have accepted the offer. In this type of transaction, the fund may be the buyer or the seller of the units or shares. - <u>equity strip sales</u>: they involve the partial sale of the fund's investments in target undertakings to new investors. In this type of transaction, the fund may be the buyer or seller of these shares. Other forms are not excluded.
Synthetic secondaries	Synthetic secondaries aim to create a new fund specifically designed to acquire the entire investment portfolio of an existing fund. The successor fund is usually launched by the same manager. In this type of transaction, the fund may be the new fund acquiring the portfolio or the existing fund selling its portfolio.

Warehousing	This term refers to a situation in which an investment is made before the fund is created and subsequently transferred to the fund.
Other transactions	

50. Secondaries may expose the fund to conflicts of interest and additional risks (e.g. in terms of valuation).

4.2. Total/partial transactions and tokens

51. The fund may acquire, directly or indirectly, all or part of an asset (e.g. in the context of a division of ownership, if it acquires only the usufruct or the bare ownership).

52. The fund may also acquire one or more tokens, which represent ownership rights to a specific asset (e.g. real estate). Such a token may relate to the full ownership of the property or only a part thereof. These tokens may expose the fund to additional risks, such as legal or cybersecurity risks.

4.3. Direct or indirect transactions

53. The fund may acquire the target assets directly.

54. The fund may also acquire the target assets indirectly through an intermediate financial or legal structure (hereunder "**intermediary vehicles**"), which, in a certain way, executes the investment decisions made by the fund manager. These intermediary vehicles may take the form of a securitisation vehicle, a special purpose entity (SPE), a special purpose vehicle (SPV), a holding company, an aggregator vehicle, a co-investment vehicle or any other intermediary structure.

55. Intermediary vehicles may be used for various purposes, such as structuring, optimisation, profitability, risk limitation and for other legitimate operational objectives. They must not be used to knowingly circumvent prohibitions, legal or regulatory requirements, legal, regulatory or contractual restrictions or limitations to which the fund or its manager are subject, nor for any purpose that is punishable by law.

56. By using intermediary vehicles, the fund gains exposure to the investments made by these vehicles. This exposure is, in principle, proportional to the fund's financial contributions and is therefore calculated in proportion to the financial contributions of other potential investors. As the financing by the intermediary vehicle does not constitute a target investment per se, the fund must adopt a look-through approach in order to ensure the eligibility of target investments in relation to its investment policy, including compliance with any investment limits. This approach also applies in the case of the use of cascade structures.

57. In any case, whether or not the vehicle is majority-owned by the fund, the fund and its manager must be able to fulfil their respective legal or contractual obligations. Therefore, they must have some control over the intermediary vehicles. This implies, among others,

that, as part their respective responsibilities, they must be able to ensure that the investments belong to the intermediary vehicles and to monitor the risks associated with these investments on an ongoing basis.

58. Indirect transactions may expose the fund to conflicts of interest and additional risks (e.g. legal or operational risks).

4.4. Simple or joint transactions

59. The fund may make investments on its own.

60. The fund may also make investments in collaboration with other investors. In this case, the fund must not, in principle, be at a disadvantage in relation to other investors.

61. Without prejudice to any overlap between the different methods, the CSSF distinguishes between:

Parallel funds	This is a situation in which the fund invests directly or indirectly with other funds (e.g. through an aggregator vehicle) in one or more assets. The participating funds have similar investment policies and strategies. They invest simultaneously under similar conditions, share common investment objectives and have similar risk profiles.
Co-investments	Co-investments may vary depending on the asset classes in which they are used. A co-investment may be specific to one or more specific transactions or may be designed to make opportunistic investments where the lead investor has reached the target threshold in a particular transaction. In general, the CSSF distinguishes between: • sidecar or LP co-investments which refer to situations in which the LPs make co-investments alongside a primary fund (sponsor) in which they are also invested. These co-investments may be made directly by the LPs or through a co-investment vehicle. Holdings acquired through LP co-investments are generally minority holdings. • direct co-investments refer to situations in which investors make co-investments without also being LPs in a primary fund. This method may overlap with that of parallel funds or club deals. Direct co-investments may be made with or without a lead investor, using a co-investment vehicle or not. Holdings acquired through direct co-investments may be minority or majority holdings, as the case may be. • The fund may also make indirect co-investments through co-investment funds. In a structure involving co-investments, the fund may or may not be the lead investor/sponsor. It may be a majority or minority investor.
Club deals	A club deal is a form of financing operation carried out in collaboration with several investors that are not necessarily other funds. The various investors enter into a contract with each other. The agreement in question must be in writing, negotiated on an arm's length basis and clearly set out the contributions, commitments and income distribution. One or more members of the club generally act as mandated lead arranger.

GP-Team Co-Investments	These are investments made by the GP's management team in the form of a personal financial contribution to a given fund, which aims to ensure that investors and the fund’s manager have skin in the game. These acquired holdings are sometimes also referred to as co-investments.
Other types of common transactions	

62. Joint transactions may expose the fund to conflicts of interest and additional risks (e.g. disputes).

5. THE CONCEPTS RELATED TO SUBSCRIPTION AND REDEMPTION MODELS

5.1. Subscription models

63. A fund may opt for a fully funded or paid-up subscription model. In this model, each investor whose subscription is accepted pays the total amount subscribed at the time of subscription. It is therefore essential that adequate investments are available in a timely manner so that the amounts paid can be invested immediately and generate the expected returns. The subscription frequency may vary and does not necessarily have to coincide with that proposed for redemptions.

64. The fund may opt for a commitment model. In this model, the number and duration of the subscription periods are in principle pre-determined and communicated to the investors. The collection of commitments ends on the final closing date. Only part of the total amount subscribed by the investors is required at the time of subscription, the remainder being subject to capital commitments. A capital commitment means a contractual commitment of an investor to provide the fund with an agreed amount of capital on request by the manager. As investment opportunities or capital requirements arise, capital calls/drawdowns are made. The fund's income depends on the amount of funds invested. These amounts are lower than the amounts subscribed in the first years.

65. In such a model, it is essential that:

    - investors, especially retail investors, are informed that they must keep the promised cash available for the agreed period;
    - investors meet their commitments within the agreed time limits, as the failure of one investor may have serious consequences for the fund and compromise the realisation of its investments.

66. The called-up capital is invested immediately in accordance with the fund's investment policy, unless it is intended for other purposes.

67. An umbrella fund may provide for a combination of the two types of subscription models described above. The subscription model is then determined, in principle, at the level of the compartment of the fund.

5.2. Redemption models

68. The chosen redemption model must be compatible with the fund's investment policy, and vice versa.

69. In accordance with Article 1(2) of Commission Delegated Regulation (EU) No 694/2014 of 17 December 2013, an open-ended fund is considered to be an investment fund "the shares or units of which are, at the request of any of its shareholders or unit-holders, repurchased or redeemed prior to the commencement of its liquidation phase or wind-down, directly or indirectly, out of the assets of the fund and in accordance with the

procedures and frequency set out in its rules or instruments of incorporation, prospectus or offering documents".

70. An open-ended fund may or may not have a fixed lifespan (term). It may accept new subscriptions throughout its existence (evergreen funds). By definition, it grants redemption rights to investors, but it may impose limits on exit options (cf. point 75). Depending on the redemption conditions set, such a fund may shift towards the category of closed-ended fund. It is therefore essential that the redemption rights, as well as the relevant redemption terms and conditions are clearly disclosed to the investors so as to avoid any subsequent disputes. The redemption terms and conditions, together with the liquidity management tools, must be designed in such a way as not to make redemptions impossible or excessively complicated, particularly where the fund is marketed as a fund open to redemptions.

71. Commission Delegated Regulation (EU) No 694/2014 of 17 December 2013 defines closed-ended funds as opposed to open-ended funds. The interpretation below is without prejudice to any stricter or different definition that may be given under other provisions, such as Regulation (EU) 2017/1129[3].

72. A closed-ended fund generally has a fixed lifespan. It does not generally accept new subscriptions during its life cycle but may reopen a new subscription period during its life. Investors have no rights of redemption and therefore generally have few options to exit the fund before its liquidation, other than selling their units or shares on the secondary market. A closed-ended fund is intended for a pre-set investment horizon. Consequently, once the investment period has ended, such a fund can no longer, in principle, engage in medium- or long-term private investments. Only investments that complement existing investments of this type are still permitted (follow-up investments). The fund may earmark capital for this purpose. However, these complementary investments must not jeopardise the fund's lifespan.

73. A closed-ended fund with a fixed lifespan goes through different stages during its life cycle. In a private equity fund, these stages are the subscription period, the ramp-up period, the investment period, the harvesting period, the wind-down period and the liquidation period. Limited extensions to the fund's lifespan are possible if such extensions are necessary to enable the investments to reach their full potential and if the fund's instruments of incorporation provide for such a possibility. No later than at the beginning of the wind-down period, the fund focuses on the sale of its investments and the distribution of the proceeds from the sale or disposal. Where the proceeds of the sale or disposal are not distributed immediately, the corresponding liquid assets are managed so that the fund is not exposed to excessive risks or conflicts of interest that have not been previously identified. At the end of the wind-down period, the fund has normally sold or disposed of almost all of its assets before entering the actual liquidation phase.

74. Other models are possible (cf. point 75), such as funds with no limited term, whose redemption options are left at the discretion of the fund or its manager. However, such funds are generally not suitable for marketing to unsophisticated retail investors.

[3] Cf. CSSF FAQ Prospectus – point VII

5.3. Liquidity management measures and tools

75. A fund's liquidity may vary, inter alia, according to factors such as its portfolio composition, cash flows or investment approach. An open-ended fund that invests significantly in illiquid assets generally implements one or more of the following measures to avoid potential structural liquidity mismatches. These measures form an integral part of the fund's redemption conditions:

Redemption frequency	With some exceptions, a fund does not generally offer redemptions on a daily basis but sets an interval between the different redemption dates, which allows it, if necessary, to obtain liquidity to meet any redemptions. When investing in other funds, it takes into account the redemption frequency provided for by the latter.
Notice period and settlement period	Similarly, a fund may provide for a liquidity timeframe between the time an investor submits a redemption request and the time it is paid. This interval may give the fund time to obtain liquidity to meet any redemptions. In this context, two contractual parameters must be taken into account, namely the notice period and/or the settlement period. The notice period corresponds to the period imposed between the redemption request and its execution. It may apply at a certain threshold, which must then be clearly disclosed to the investors in the fund's redemption terms. The settlement period corresponds to the period imposed between the execution of the redemption request and its settlement.
Redemption limit/cap or pre-set redemption limitation	In principle, investors in an open-ended fund have the right to redeem all of their investments on each redemption date. However, this right may be adjusted by pre-set redemption limitations, which limit the maximum amount that investors can withdraw on each redemption date or over a given period. Such redemption limitations are generally used by semi-liquid or semi-open funds. Their main purpose is to help the manager maintain an appropriate balance between meeting the investors' liquidity needs and preserving the fund's investment strategy. To be applicable, they must be expressly provided for in the redemption terms communicated to the investors. The main difference between pre-set redemption limitations and redemption gates (point 76) lies in the degree of certainty with which they will be applied. Redemption limitations will apply systematically to investors, as they are one of the redemption terms that the fund may choose to include in its redemption policy. Redemption gates are not redemption conditions but powers that the manager may exercise in certain situations. In principle, pre-set redemption limitations may take the form of (i) hard limits, which leave no choice to the fund (or its manager) once the set threshold is exceeded, or (ii) soft limits, which allow the fund (or its manager) to authorise redemptions in excess of the pre-set limitation, at its discretion, if the relevant cash is available and provided that this does not jeopardise the fund's investment strategy and the fair treatment of the investors. Moreover, they may take the form of (i) an ex-ante investor restriction, which is a pre-set limit on the amount that a given investor may redeem at each redemption point, or (ii) an ex-ante fund level restriction, which

	is a pre-set limit on the amount that can be redeemed at each redemption point by all investors, or possibly a combination of both. The fund may also provide for other arrangements, such as redemption limitations that cap withdrawals on each redemption date at a given percentage of the total investment of the investor requesting the total redemption. The investors may thus make a total redemption over several quarters, provided that they notify the fund before the first redemption date. Backstops, i.e. limitations applied over several consecutive months, may also be put in place, provided that they are clearly disclosed. Redemption limitation may have the same characteristics as redemption gate (cf. point 76), since in both cases it is a quantitative limitation with the same objective: to limit redemptions. Where a redemption limitation is used as one of the two LMTs, which the manager selects pursuant to Article 16(2)(b) of the AIFMD, this LMT must comply with the requirements of that directive and the manager must have the necessary powers to activate or deactivate it.
Minimum holding period, lock-up/-in or -out period	This is a period during which investors cannot request the redemption of their units or shares (lock-up period or minimum holding period). These lock-up periods may take the form of a hard lock-up, which prevents the investors from withdrawing their capital during the specified period. They may also take the form of (i) a soft lock-up, which allows the investors to withdraw their investment subject to a redemption fee, or (ii) a rolling lock-up, which allows the investors to redeem their capital on a specified date. In the latter case, the investors lose their right to redemption and are subject to an additional lock-up period if they do not proceed with the redemption on the agreed date. Such terms may not be suitable for funds marketed to unsophisticated retail investors. Lock-up periods may cover the fund's launch period. They may also apply for a certain period from the date of the initial subscription or any new subscription to the fund. When setting a lock-up period, the fund takes into account the specific characteristics of the investments it plans to make. A lock-up period may thus, for example, take into account the possible time lag between the injection of capital into the target undertaking and the realisation of a certain value.
Other types of measures	The use of other structural measures is not excluded but requires additional explanations where appropriate. These measures include, for example, (i) slow pay provisions whereby capital is returned to the investors based on the maturity of the assets, for example, on a run-off basis, (ii) redemption windows that are not periodic (e.g. only possible on specific dates), or (iii) measures that allow the manager to designate, at its discretion, the date on which it offers a redemption opportunity to the investors (funds offering discretionary liquidity only). Some of these measures may not be suitable for funds marketed to unsophisticated retail investors.

76. Managers select and use the liquidity management tools (LMTs) provided for in the AIFMD in accordance with its requirements, where applicable. The AIFMD mentions in Annex V:

Suspensions of subscriptions, repurchases and redemptions	This refers to temporarily disallowing the subscription, repurchase and redemption of the fund's units or shares

Redemption gate	This refers to a temporary and partial restriction of the right of unit-holders or shareholders to redeem their units or shares, so that investors can only redeem a certain portion of their units or shares.
Extension of notice periods	This refers to extending the period of notice that unit-holders or shareholders must give to fund managers, beyond a minimum period which is appropriate to the fund, when redeeming their units or shares.
Redemption fee	This refers to a fee, within a pre-determined range that takes account of the cost of liquidity, that is paid to the fund by unit-holders or shareholders when redeeming units or shares, and that ensures that unit-holders or shareholders who remain in the fund are not unfairly disadvantaged. (Some administrative fees applied to redemptions are not covered)
Swing pricing	This refers to a pre-determined mechanism by which the net asset value of the units or shares of an investment fund is adjusted by the application of a factor ("swing factor") that reflects the cost of liquidity.
Dual pricing	This refers to a pre-determined mechanism by which the subscription, repurchase and redemption prices of the units or shares of an investment fund are set by adjusting the net asset value per unit or share by a factor that reflects the cost of liquidity.
Anti-dilution levy or ADL	This refers to a fee that is paid to the fund by a unit-holder or shareholder at the time of a subscription, repurchase or redemption of units or shares, that compensates the fund for the cost of liquidity incurred because of the size of that transaction, and that ensures that other unit-holders or shareholders are not unfairly disadvantaged.
Redemption in kind	This refers to transferring assets held by the fund, instead of cash, to meet redemption requests of unit-holders or shareholders. (Redemption in kind as a payment option in the context of the redemption policy is not covered)
Side pockets	This refers to separating certain assets, whose economic or legal features have changed significantly or become uncertain due to exceptional circumstances, from the other assets of the fund.

77. Other tools, such as soft closures or extensions of settlement periods, may also be provided for, where appropriate, but do not qualify as liquidity management tools within the meaning of the AIFMD. The funds not covered by Article 16 of the AIFMD may also use these various tools, provided that the manager's powers are enshrined and disclosed in accordance with the laws in force.

78. To ensure a fair treatment of the investors, the liquidity management measures and tools apply in principle in the same way to all the investors in the fund. However, various redemption terms and conditions may be applied to the different categories of shares or units, provided that this does not result in a significant overall disadvantage for the other investors, in particular the retail investors, and that this is not prohibited under the European regulations which may apply.

79. In order to avoid any subsequent disputes, the liquidity management measures and/or tools must be clearly defined and disclosed to the investors in accordance with the laws and regulations in force. The treatment of redemption orders must be specified and communicated to the investors. For any quantitative limitation on repurchases and redemptions, the treatment applicable to the redemption requests exceeding the set threshold must also be specified (e.g. automatic cancellation, transfer with priority, or

transfer without priority) and communicated to the investors, along with the applicable net asset value, where appropriate.