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PRIVATE MARKET FUNDS IN LUXEMBOURG

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Abstract

Private market funds collect capital by issuing shares and invest the proceeds in securities that are not listed on a public market. These alternative lenders provide financing to companies in the form of private equity, private debt, and investments in real assets such as infrastructure, real estate or natural resources. Since the global financial crisis of 2008, private market funds expanded significantly and Luxembourg has become an important financial center for their domiciliation. However, while private market funds potentially have important implications for monetary transmission and financial stability, statistics on this market segment remain scarce and heterogeneous. We fill this gap by constructing a new database based on reports from the Alternative Investment Fund Managers (AIFM) to the *Commission de Supervision du Secteur Financier* (CSSF), as well as the reporting from investment funds to the *Banque Centrale du Luxembourg* (BCL). Using this novel database, we provide descriptive statistics on private market funds and identify limitations of the current reporting framework for analysing the portfolio composition and the leverage of these non-bank financial institutions. We then estimate an econometric model on quarterly data to measure the sensitivity of private market funds domiciled in Luxembourg to global macroeconomic and financial developments.

Keywords: Private market funds, statistical methodology.

JEL classification: C81, G23.

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Résumé non-technique

Les fonds de marché privé (*private market funds*) collectent des capitaux en émettant des parts et investissent dans des actifs non cotés en bourse. Ces fonds alternatifs financent des entreprises sous forme de capital-investissement et de dette privée, ainsi que des projets adossés à des actifs réels tels que les infrastructures, l'immobilier ou les ressources naturelles.

Le durcissement de la réglementation bancaire à la suite de la crise des subprimes a coïncidé avec un transfert des prêts aux entreprises des banques traditionnelles vers des intermédiaires financiers non bancaires. Dans le même temps, la recherche de rendement dans un contexte de taux d'intérêt historiquement bas a stimulé l'appétit des investisseurs institutionnels pour les placements alternatifs. Dans ce contexte, l'activité des fonds privés s'est considérablement développée au cours de la dernière décennie (FMI, 2024).

Ces institutions financières, qui opèrent dans le cadre d'une réglementation moins stricte que celle des banques traditionnelles, soulèvent des préoccupations pour la stabilité financière. Les fonds de marché privé se caractérisent en effet par un levier d'endettement élevé, et leur fonctionnement est marqué par une forte opacité, tant sur la valorisation des actifs que sur les interconnexions financières, rendant ainsi l'évaluation des risques plus difficile pour les autorités. Cette combinaison de facteurs accroît les risques de contagion, dans la mesure où les difficultés rencontrées par ces fonds en cas de chocs adverses peuvent se propager au reste du système financier, notamment par l'intermédiaire des banques.

Bien que traditionnellement associé à l'industrie des Organismes de Placement Collectif en Valeurs Mobilières (OPCVM), le Luxembourg est également devenu un acteur central dans la domiciliation de ces fonds alternatifs, qui occupent désormais une place grandissante dans le paysage financier du Grand-Duché. Selon la Commission de Surveillance du Secteur Financier (CSSF) et la dernière enquête de KPMG auprès des dépositaires de titres, les actifs sous gestion des fonds de capital-investissement et des fonds de dette privée représentaient respectivement 774 milliards d'euros et 635 milliards d'euros à la fin de l'année 2024.

En dépit de cette évolution, les connaissances actuelles sur l'activité des fonds de marché privé domiciliés au Luxembourg demeurent encore limitées. L'insuffisance et l'hétérogénéité des sources statistiques limitent les possibilités d'analyse de ces intermédiaires financiers non bancaires. Pour combler cette lacune, ce cahier d'études présente les résultats issus d'une nouvelle base de données combinant les rapports des Gestionnaires de Fonds d'Investissement Alternatifs (GFIA) transmis à la CSSF avec la collecte statistique de la Banque centrale du Luxembourg (BCL) sur les fonds d'investissement.

Les principales conclusions de cette étude sont les suivantes. Selon notre base de données, l'actif net total des fonds de marché privés domiciliés au Luxembourg s'élève à 1,61 trillions d'euros à la fin de l'année 2024. Les véhicules d'investissement de type « fermés » gèrent plus de 80 % de ces actifs, et les fonds alternatifs qui ne relèvent pas de la supervision directe de la CSSF constituent les structures les plus utilisées, avec environ deux tiers des actifs sous gestion. Les fonds de capital-investissement représentent l'essentiel de l'activité, suivis par les fonds qui investissent dans des actifs réels, les fonds de dette privée et les fonds de fonds avec une part respective de 49 %, 22 %, 20 % et 9 %. La grande majorité des avoirs de

portefeuille consiste en des instruments de dettes et des titres de participation émis par des entités ad hoc (*Special Purpose Vehicles*), mises en place par les fonds de marché privé pour structurer leurs investissements. Cette structuration financière a des conséquences importantes d'un point de vue analytique, dans la mesure où l'allocation géographique des investissements et le levier d'endettement de ces fonds ne peuvent pas être mesurés correctement par la collecte statistique de la BCL, basée sur le principe de « contrepartie immédiate ». Enfin, nos données confirment que l'activité des fonds de marché privé domiciliés au Luxembourg a connu une augmentation rapide au cours des dernières années, avec des taux de croissance à deux chiffres des actifs sous gestion.

L'application d'un modèle économétrique au taux de croissance trimestriel des actifs sous gestion permet de mettre en exergue la sensibilité de ces fonds aux évolutions des marchés boursiers et leur caractère procyclique en dépit de leur horizon d'investissement à long terme. Les variations du taux de change exercent également une influence significative sur la valorisation en euro de ces fonds, en raison notamment de la détention d'actifs et de l'émission de parts libellées en dollar américain. Enfin, les résultats empiriques suggèrent que les évolutions des taux d'intérêt sur les marchés mondiaux produisent un effet cumulé significatif sur l'activité de ces fonds.

1. Introduction

Improved banking regulation in the aftermath of the subprime crisis coincided with a shift in corporate lending away from traditional banks to non-bank financial intermediaries. At the same time, the search for yield amid historically low level of interest rates fuelled institutional investors' appetite for alternative investments. Against this background, the activity of private market funds expanded significantly over the last decade (IMF, 2024).

Private market funds collect capital by issuing shares and invest in securities that are not listed on a public market. These alternative lenders provide financing to companies in the form of private equity, private debt, and investments in real assets such as infrastructure, real estate or natural resources. Private market funds are generally closed-ended vehicles with a long-term investment horizon. While traditionally dedicated to large institutional investors such as pension funds or insurance companies, they have become increasingly accessible in recent years to high-net-worth individuals. In the context of the Savings and Investment Union (SIU), which aims to create a more integrated financial market across the European Union (EU), private market funds are also expected to channel more efficiently retail savings into productive investments.

From a central bank perspective, the rise of private market funds may potentially have important implications for monetary transmission and financial stability.

According to Haque et al. (2025), the rapid growth of non-bank lenders has given rise to an indirect credit channel that operates alongside the traditional bank lending channel. The authors find that, during periods of monetary tightening, banks tend to increase the availability of credit lines to non-bank lenders, who then provide financing to firms. Consequently, the credit supply does not contract as sharply as it would if banks merely reduced their direct lending. In addition, empirical results suggest that monetary policy decisions exert a greater impact on the financing cost of firms through this indirect channel, as banks charge higher interest rates to non-bank lenders, which are then passed-through to non-financial corporations. The relevance of non-bank lenders for monetary policy transmission stands in contrast to the lack of comprehensive data at an appropriate frequency.

In terms of financial stability, private market funds use complex structures involving multiple layers of leverage and opaque valuation practices, which raise concerns about the possibility of mispricing and delayed recognition of losses (De Guindos, 2025). These entities also operate under lighter regulatory frameworks and their interconnectedness with other financial institutions such as banks and insurance companies may amplify the effect of adverse shocks, thereby increasing the vulnerability of the financial system (Buch, 2025). However, at this stage, the lack of availability of reliable and consistent data hinders a comprehensive risk assessment, and further monitoring of this market segment is warranted (Cera et al., 2025).

Despite their relatively low amount in comparison with the remaining of the investment fund industry, private market funds play an increasing role in the financing of the real economy. According to McKinsey report, global assets under management (AuM) of private market

funds amounted to USD 13.1 trillion at the end of June 2023¹, with an average annual growth of 20 % since 2018. For comparison, at the end of 2023, the total net assets of open-ended funds worldwide amounted to USD 68.9 trillion (Investment Company Institute, 2024).

While Luxembourg has historically been a key player in the Undertaking for Collective Investment in Transferable Securities (UCITS) market, private market funds have recently gained significant importance within the financial landscape of the Grand-Duchy. However, little is known about the activity and characteristics of these non-bank financial institutions due to data limitations. Statistics on private market funds domiciled in Luxembourg remain scarce and heterogeneous. According to the Alternative Investment Fund Managers (AIFM) reporting dashboard published by the Commission de Supervision du Secteur Financier (CSSF), the AuM of private equity funds amounted to EUR 774 billion at the end of 2024². As for private debt funds, the latest KPMG Private debt fund survey based on custodian data reports AuM of EUR 635 billion at the end of 2024³.

In this paper, we seek to narrow this data gap and construct a new database to gain insight into the activity of private market funds domiciled in Luxembourg, using the AIFM reporting to the CSSF and the Banque centrale du Luxembourg (BCL) reporting on investment funds. The main conclusions of this study are the following. According to our database, we estimate the total net assets of private market funds domiciled in Luxembourg at approximately to EUR 1.61 trillion at the end of 2024. Closed-ended investment vehicles manage over 80 % of these assets, and so-called non-authorized funds are the most popular structures with about two-thirds of the AuM. Private equity constitutes the bulk of the activity, followed by real assets, private debt and funds of private market funds with a respective share of 49 %, 22 %, 20 % and 9 %. Unsurprisingly, the large majority of portfolio holdings consists in unlisted debt and equity instruments. However, these securities are mainly issued by Special Purpose Vehicles (SPVs) used by private market funds to structure their investment. This financial structure implies that the geographical allocation of the investments and the leverage embedded in these funds are not properly reflected in the BCL reporting based on the “immediate counterpart” principle. Finally, we confirm that the activity of private market funds domiciled in Luxembourg has increased rapidly in recent years, with double-digit annual growth rates in AuM.

Using our novel dataset, we apply an econometric model to the quarterly growth rate of AuM including macroeconomic and financial explanatory variables. As in other studies (e.g. Aramonte and Avalos, 2021), we find that private market funds are sensitive to fluctuations in public markets, thus exhibiting some procyclicality despite their long-term investment horizon. Exchange rate movements also exert a significant influence on the Net Asset Value (NAV) of these funds expressed in euro. Finally, the results indicate that changes in short-term

¹ Dry powder, the amount of capital committed by investors but not yet deployed, accounted for an additional USD 3.7 trillion at the same period.

² Luxembourg private equity funds managed by foreign AIFMs are not included in this report. See below for more explanations.

³ This survey is conducted by KPMG Luxembourg in collaboration with the Association of the Luxembourg Fund Industry (ALFI).

interest rates on global markets have a significant cumulative effect on the value of these funds.

The remainder of the study is structured as follows. Section 2 addresses the business model of the main categories of private market funds. Section 3 deals with the specificities of these funds and their legal framework in Luxembourg. We explain the methodology used for the construction of the database in section 4 and discuss some descriptive statistics regarding the activity of Luxembourg domiciled private market funds in section 5. Section 6 performs an econometric analysis to explore the macroeconomic and financial determinants of the evolution of AuM in this market segment. Section 7 concludes.

2. Typology of private market funds

Private market funds typically fall into four main categories: private equity, private debt, real assets and funds of private market funds, each one exhibiting different investment strategies and business models. Nevertheless, these funds share one key feature in that they invest in non-publicly listed equity and debt instruments. The following subsections provide an overview of the different categories of private market funds.

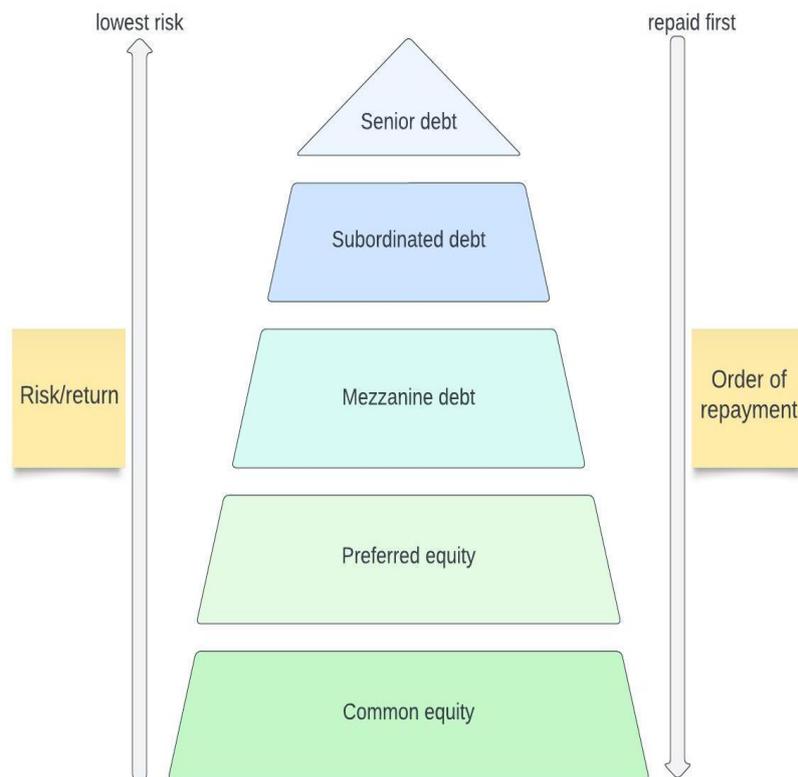
2.1. Private equity funds

The aim of private equity funds is to acquire shares in the capital of unlisted companies. Private equity funds take mainly three forms: leveraged buyouts, mezzanine financing and venture capital.

Leveraged buyout (LBO) is the most common strategy used by private equity funds (Grillet-Aubert, 2023). The purpose of an LBO is to acquire a majority stake in a target company using a large amount of debt to finance the transaction. The control of the company allows the private equity firm to exert a direct influence on its management process. Post-acquisition, the company is restructured to increase its profitability and to generate sufficient cash flows to cover interest and principal repayments of the amounts borrowed. After a few years, the value of the company generally increases and the private equity fund exits the investment by selling the target company to another investor at a higher multiple or by conducting an initial public offering (IPO).

The LBO financing includes a senior secured debt traditionally arranged by a bank. The collateral for the loan often consists in the assets of the target company, which carries the debt on its own balance sheet. A portion of mezzanine debt, which lies between senior debt and equity in the capital structure of a company (see Figure 1 below), is also generally used to optimise the funding structure of the LBO. Mezzanine debt is less costly than common equity, but in the event of a default, this subordinated debt is only repaid after all senior obligations have been satisfied. Mezzanine debt is a hybrid instrument which facilitates the control and acquisition of the target company, as it includes options to convert the debt into common equity in case of default of the company.

Figure 1: Simplified capital structure of a firm



Source: Authors' own elaboration

Mezzanine funds are a specific category of private equity funds investing in mezzanine debt used to finance growth or acquisitions of companies. Mezzanine debt is more junior in the capital structure of the company and thus implies greater risk and return than senior secured loans. Mezzanine funds also generally invest in preferred equity, a hybrid instrument having a par value (as debt) but sharing the characteristics of equity although they do not confer the same voting rights as common shares do.

Finally, venture capital (VC) funds aim to finance start-ups and small firms in the growth phase, especially when they have limited access to bank credit. The fund's equity stakes allow VC funds to influence the management of the target companies, but generally remain minority interests. To realise a capital gain, the funds acquire unlisted equity stakes in the companies which are often innovative and have a strong growth prospect in the initial stage of their development.

2.2. Private debt funds

Private debt funds provide financing to companies using debt-like instruments that are not publicly traded in the market. These alternative lenders originally focused on mid-market companies with a high credit risk profile and highly leveraged borrowers unable to obtain funding from regulated banks (Chernenko et al., 2022). However, they recently extended their

business model to finance larger companies involved in private equity-backed LBOs (Cera et al., 2024).

Private debt funds directly originate loans to companies without bank syndication. Transactions involve the bilateral negotiation of terms and conditions of the loan agreement to meet the specific needs and objectives of the parties without the need to comply with traditional regulatory requirements. Given the absence of a public market for these instruments, private debt funds typically hold the granted loans until maturity (Block et al., 2023).

Private debt funds generally structure their financing as senior secured loans with a floating rate, while other strategies may invest in more junior parts of the capital structure (e.g. mezzanine debt). Private debt funds also provide unitranche loans that combine characteristics of senior and subordinated debt into a unique tranche of debt associated with a blended interest rate and a single set of collateral documents.

According to Block et al. (2023), private debt funds charge higher interest rates than banks but provide more flexibility in terms of leverage and covenant conditions, as well as a greater speed of execution. Loan contracts generally include specific features when financial covenants are breached, including a role in the oversight or management of the company. Private debt funds may for instance impose additional restrictions on firm's activities during renegotiation, resulting in more conservative investments and financial policies in case of distress.

The activity of private debt funds may take the form of loan acquisition on the secondary market. Their portfolios not only include performing but also non-performing loans. Distressed debt and special situations funds respectively target companies in financial distress or companies whose values may be impacted by a specific event. These funds are searching for higher risk-adjusted returns and can originate lending or buy debt from the companies' creditors at a discount rate. Other private debt strategies include structured credit vehicles such as Collateralised Loan Obligations (CLOs), which use leveraged loans extended to companies backed by private equity as underlying assets repackaged in the form of securitisation⁴.

2.3. *Real assets*

The "Real assets" category includes private market funds investing in tangible assets such as infrastructure, real estate and natural resources. The investment of these funds also takes the form of private equity or private lending to companies or projects involved in physical assets with an intrinsic value. Including real assets in a portfolio is a common strategy among institutional investors with the intention to diversify and hedge against inflation (Inderst, 2010).

⁴ Leveraged loans are high-risk loans originated by banks to large corporate borrowers, rated by credit rating agencies, syndicated to institutional investors and subsequently traded in the secondary market. Therefore, they are not always considered as a private market investment (Munday et al., 2018).

Infrastructure funds tend to invest in the most essential facilities and services of our society, such as energy and water supply, telecommunications or transportation facilities, which are often natural monopolies. These long-term investments require significant capital, sometimes in the form of a public-private partnership, and are expected to provide predictable streams of income and stable returns.

Real estate also represents an important class of real assets for private market funds. In this market segment, private equity funds finance the acquisition or the development of real estate projects with the perspective of generating a value added before selling the properties. Private debt funds lend money to real estate buyers or invest in loans backed by real estate properties, providing a steady income stream through principal and interest payments.

Natural resources include raw material production facilities, agriculture and farmland, as well as forestry and timberland assets. Investments in natural resources may rely on the potential capital appreciation of the projects or the expectation of steady income streams. However, they may also be more subject to cyclical or political factors depending on the underlying asset (e.g. precious metals, oil and gas activities).

2.4. Funds of funds

Funds of funds hold shares in other private market funds instead of individual securities. This structure offers a broader and more diversified asset allocation across various investment strategies. However, funds of funds typically involve higher management fees.

3. The structure of private market funds

The aim of this section is to clarify some key concepts regarding the structure of private market funds. We first present a general overview of the most important characteristics of the operational framework common to these alternative funds, before to focus on the particularities of the Luxembourg regulatory environment.

3.1. The operating model

Despite their differences, private market funds share some key similarities from the point of view of investment structuring.

Closed-ended funds are the most prevalent investment vehicles in private markets. Funds issue a fixed number of shares that cannot be redeemed before a predetermined date. Investors only have a limited time window to invest in the fund and know in advance when the fund will close and the capital will be returned. This contrasts with open-ended funds, where the fund can issue an unlimited amount of new shares at any point in time and investors can redeem their holdings at their discretion⁵.

⁵ The positions in a closed-ended fund can be sold by investors on the secondary market. However, these bilateral transactions are in some cases negotiated at a significant discount rate. Secondary funds are private equity funds dedicated to the acquisition of existing commitments in private equity funds before the end of the life cycle. In recent years, semi open-ended funds or evergreen funds have gained importance within the private equity secondary market. These funds have an indefinite lifespan and offer investors a more flexible access to

Private market funds typically go through multiple funding stages, with investors committing to provide a certain amount of capital to the fund at a predetermined horizon of investment. The average life cycle of a private equity fund lasts on average between 10 and 15 years and may be decomposed into four distinct periods: (i) the fundraising period where the capital is raised from investors; (ii) the investment period when the committed capital is deployed to acquire the target companies; (iii) the portfolio management period which consists in restructuring companies to make them more profitable; and (iv) the exit period during which the positions are liquidated and the capital is returned to investors. In comparison, the average life cycle of a private debt fund is usually shorter and less than 10 years, ending with the repayment of the debt in the case of a buy-and-hold strategy.

Private market funds are generally organized as limited partnerships, in which the General Partner (GP) manages the fund and the Limited Partners (LPs) provide most of the capital to the fund. The LPs typically include institutional investors, such as insurance companies or pension funds, as well as high-net-worth individuals. The GP also holds a stake in the funds, to ensure an alignment of incentives with the LPs. The funds, however, remain legally separated from the GP balance sheet. Recently, some large institutional investors started to co-invest in specific projects without committing capital to the funds⁶.

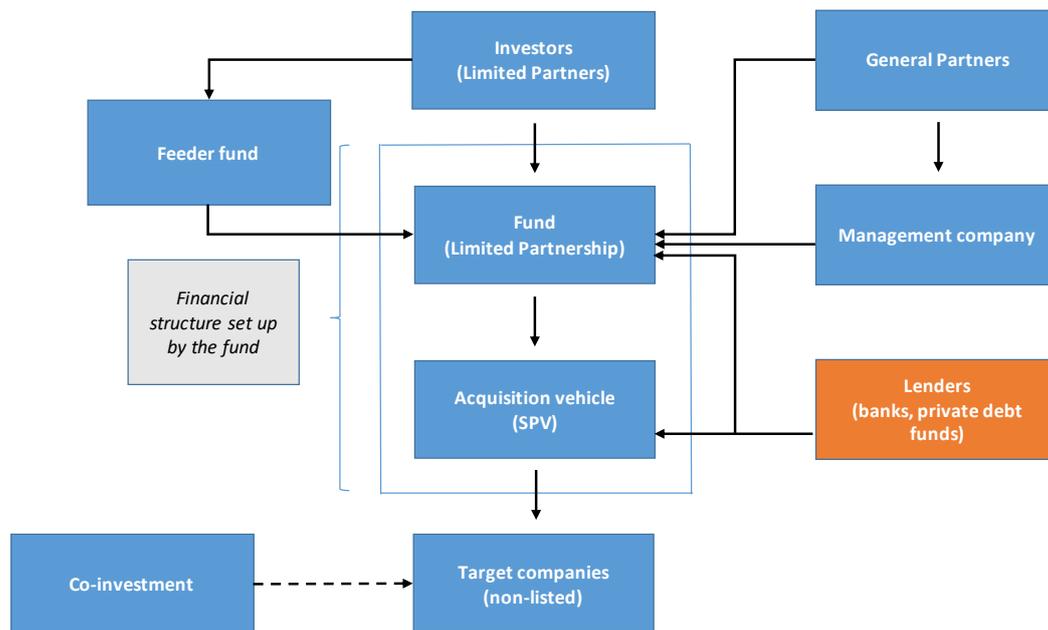
Private market funds are highly leveraged entities. Leverage occurs not only at the level of the target companies, but also at the level of the funds (Aramonte and Avalos, 2021). Subscription credit facilities collateralised by undrawn capital commitments of investors are a standard tool used by private market funds to manage their liquidity needs at the early life of their cycle. In recent years, they have been complemented by NAV financing which consists in loans collateralised against the portfolio assets of the funds. Given that the base of the NAV facility increases during the investment period, this tool fills the borrowing gap left by the ensuing reduction in uncalled capital commitments and provides at the same time a longer horizon of the credit line over the life of the fund.

Private market funds entail complex financial structures involving the use of multiple subsidiaries and various layers of financing to distribute risk and leverage. Figure 2 illustrates the stylized structure of a private equity fund. In this example, the LPs receive shares from the fund, either directly or indirectly through a feeder vehicle. The fund channels the raised capital through the financial structure to the SPVs, using a combination of equity and debt instruments. The collection of additional debt from external lenders and the acquisition of the target companies are usually performed at the level of the SPVs, which are wholly owned subsidiaries of the fund.

liquidity as they allow for continuous capital inflows and redemptions opportunities over time, typically on a monthly or quarterly basis.

⁶ Co-investment allows investors to circumvent the fund structure to directly select the projects in which they invest, and to incur lower management and performance fees.

Figure 2: Typical structure of a private equity fund



Source: Authors' own elaboration

3.2. The Luxembourg legal environment

This subsection presents the main features of the regulatory environment in which private market funds operate in Luxembourg.

3.2.1. The regulatory framework

Private market funds fall under the scope of the AIFM Directive, the European regulation for Alternative Investment Funds (AIFs). The Directive provides fund managers with a single passport to manage AIFs and to market AIF shares in all member states. To operate in the EU, a private market fund has to appoint an authorized AIFM in charge of the risk and portfolio management of the AIF⁷.

In Luxembourg, a private market fund may be set up as one of the following investment vehicles, which are either authorized or non-authorized according to the terminology of the CSSF, the supervisory authority of the financial sector.

⁷ The European Long-Term Investment Fund (ELTIF) is an EU marketing passport designed to support investments in projects requiring long-term capital such as infrastructure or real estate assets, as well as investments in securities issued by unlisted companies. An ELTIF must be managed by an authorised AIFM. The ELTIF label promotes a certain standardization of investment criteria and a higher level of protection for investors, and improves the access of AIFs to retail investors. The European Venture Capital (EuVECA) Regulation also provides a common framework and a label for VC funds at the EU level.

Authorized AIFs are registered under Part 2 of the 2010 law on undertakings for collective investments (UCIs), the law on Specialised Investment Funds (SIFs) or the law concerning the investment company in risk capital (SICAR, *Société d'Investissement en Capital Risque*). Authorized AIFs have to obtain the agreement of the CSSF to be sold on the market. Their activity is directly supervised by the CSSF.

Non-authorized AIFs are defined by the CSSF as AIFs which are not subject to prior authorization and/or prudential supervision by a supervisory authority (Circular CSSF 15/612). However, non-authorized AIFs are indirectly supervised through their AIFM, which can be domiciled in Luxembourg or in another Member State. This category comprises funds operating under the law on Reserved Alternative Investment Funds (RAIFs) and AIFs registered under the law on commercial companies (Other Non-Authorized Alternative Investment Funds, Other NAAIFS).

3.2.2. The legal form of the company

In the Luxembourg context, the limited partnership model takes one of the three following forms:

- The common limited partnership (*société en commandite simple* or SCS)
- The special limited partnership (*société en commandite spéciale* or SCSp)
- The partnership limited by shares (*société en commandite par actions* or SCA)

The SCSp and, to a lesser degree, the SCS are the most commonly used legal forms to structure private market funds. These entities are not subject to corporate income tax. Instead, taxation occurs at the level of the LPs. In comparison with the SCS, the SCSp does not have a legal personality and the obligation to publish annual accounts⁸. *A contrario*, the SCA is a joint stock company with partnership features, which in contrast to the SCS and SCSp, is subject to the corporate income tax.

Alternatively, private market funds can be set up as a private limited liability company (*Société à responsabilité limitée* or Sàrl) or a public limited liability company (*Société anonyme* or SA). Private market funds may choose these legal forms if they seek to attract large amounts of capital from a broad investor base. In comparison with the SCS and the SCSp, the ownership shares of these entities are easily transferable and the management and governance are well established, providing more transparency and accountability for investors.

3.2.3. The Collateral Law and the Double LuxCo structure

The Luxembourg law on financial collateral arrangements displays important features that provide protection to lenders. First of all, the Luxembourg law guarantees to creditors a priority over all creditors in case of insolvency of the collateral provider. In addition, the contractual flexibility allows to enforce the pledge in any specific triggering event determined by the parties⁹. Finally, the enforcement of the pledge is quite straightforward as it does not

⁸ See e.g. Sciales (2022) and Elvinger Hoss (2024) for further details.

⁹ A share pledge provides the lender with the right to take control of the underlying asset if the borrower defaults or breaches the financial covenants defined between the parties.

require the intervention of a court. The use of a Double LuxCo structure involving two Luxembourg-based companies guarantees the application of this framework irrespective of the governing law of the loan document or the location of the pledged assets.

4. The methodology of the database

To construct our database on private market funds, we use the AIFM prudential reporting to the CSSF and the statistical reporting of investment funds to the BCL.

As mentioned previously, private market funds can be established in Luxembourg as authorized or non-authorized investment funds. The AIFM reporting includes both Luxembourg and foreign alternative funds managed by Luxembourg-based AIFMs. Thus, Luxembourg funds managed by a foreign AIFM are missing from this source. *A contrario*, the BCL reporting covers alternative funds domiciled in Luxembourg that are managed either by domestic or foreign AIFMs. While the statistical coverage of authorized funds is exhaustive, the data collection for non-authorized funds is subject to a threshold currently fixed at EUR 500 million of the total assets of the funds, encompassing all the compartments of the fund in the case of an umbrella fund (Circular BCL 2018/241).

The first step in our analysis consists in making a mapping for the entities between the AIFM and the BCL database. We extract the AIFM reports of the CSSF for the Luxembourg entities and create a common identification code between the two databases in order to match our identification code with the one of the CSSF.

In a second step, we use the information of the AIFM reporting to select the list of private market funds and classify them into four categories: “private equity funds”, “private debt funds”, “real assets” and “funds of funds”. For this purpose, we use the attributes reported for the investment strategy, e.g. “Private equity strategies”, or the strategy type, e.g. “Other strategy - Infrastructure fund”, “Fund of funds strategies - Fund of private equity”. For some categories, in particular private debt funds, we have to investigate the qualitative information provided by the AIFM on the investment policy of the fund on a case-by-case basis. Finally, we complete the list of private market funds with the BCL internal classification database for non-authorized entities managed by a foreign AIFM.

The resulting dataset provides a list of 5 506 entities with AuM of EUR 1 608.1 billion at the end of December 2024¹⁰. Several points are worth noting regarding measurement errors in our database. (i) Non-authorized funds managed by a foreign AIFM that are below the reporting threshold of the BCL are not included in our analysis. This limitation leads to a downward bias in the estimate of the activity of private market funds domiciled in Luxembourg. (ii) On the other hand, our database does not consolidate the positions within the same investment structure. Therefore, the use of master/feeder structures and holding companies by private market funds domiciled in Luxembourg leads to a double counting of the same investment amount and thus to an overestimation of the activity of these funds. (iii) Finally, we construct our database with the AIFM data available at the end of 2022, and update it with data for 2023 and 2024. As a result, from a time series perspective, part of our

¹⁰ These figures do not include dry powder.

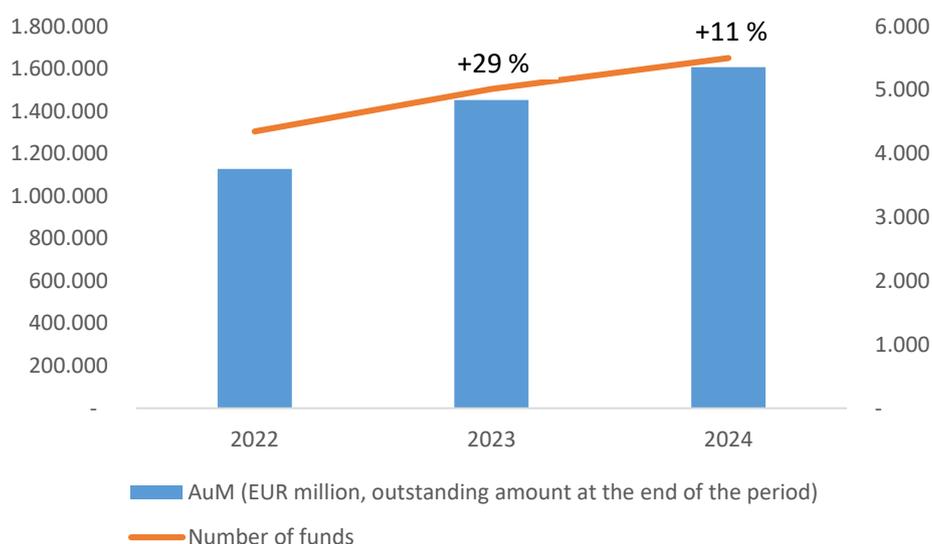
dataset suffers from a survivorship bias prior to 2022. In fact, for these earlier periods, the dataset only includes private market funds that are still active in the last quarter of 2022, with the exception of private equity and private debt funds that already existed in the BCL’s internal classification database. This leads to an underestimation of the activity of private market funds domiciled in Luxembourg until 2021.

5. Descriptive statistics

According to our database, the AuM of private market funds domiciled in Luxembourg reached EUR 1 608.1 billion at the end of December 2024, spread across 5 506 entities¹¹.

Over the last three years, for which we generate our database, the activity of private market funds has significantly risen. AuM have grown by 42.6 % between end-2022 and end-2024, while the number of funds has increased from 4 349 to 5 506 during the same period.

Figure 4: Private market funds activity in Luxembourg¹²



Source: BCL, CSSF

Figure 5 displays the breakdown of the activity of private market funds by legal framework, according to the outstanding amount of AuM at the end of December 2024¹³. Private market

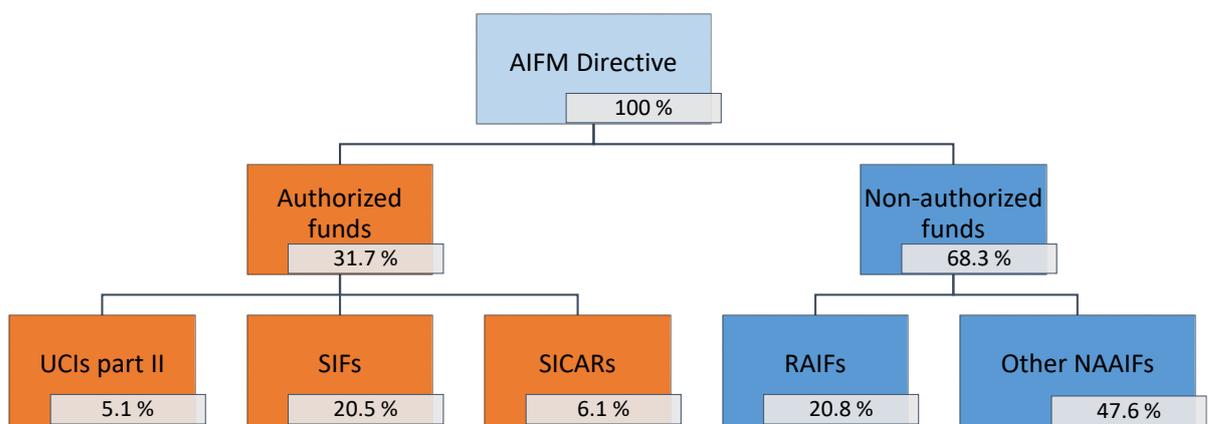
¹¹ Albeit comparison with other sources may be biased due to heterogeneity in the classification of funds, this estimate is roughly in line with the data provided by the AIFM dashboard of the CSSF and the latest KPMG survey. According to these sources, the sum of the AuM of private equity funds and private debt funds domiciled in Luxembourg amounted to EUR 1 409 billion at the end of December 2024.

¹² The percentage figures shown in Figure 4 indicate that the AuM of private market funds have respectively grown by 29 % and 11% in 2023 and in 2024.

¹³ The following statistics are mainly based on the list of funds reporting statistics to the BCL. At the end of 2024, the activity of these funds represented EUR 1 376.9 billion of AuM spread across 3 539 entities. As explained in the previous section, this difference with the whole database including the reporting to the CSSF lies in the BCL

funds are part of the alternative investment funds category and are therefore subject to the AIFM Directive. Non-authorized funds, which can be set up quickly and without authorization of the CSSF, represent the bulk of the activity, with 68.3 % of the AuM at the end of 2024. Within this category, other NAAIFs are the most popular vehicles while the relatively newly introduced RAI Fs account for nearly 20.8 % of the AuM. SIFs constitute the vehicle of choice for authorized funds with 20.5 % of the AuM, followed by SICARs (6.1 %) and UCI part II funds (5.1 %)¹⁴.

Figure 5: Breakdown of AuM by legal framework (December 2024)



Source: BCL, CSSF

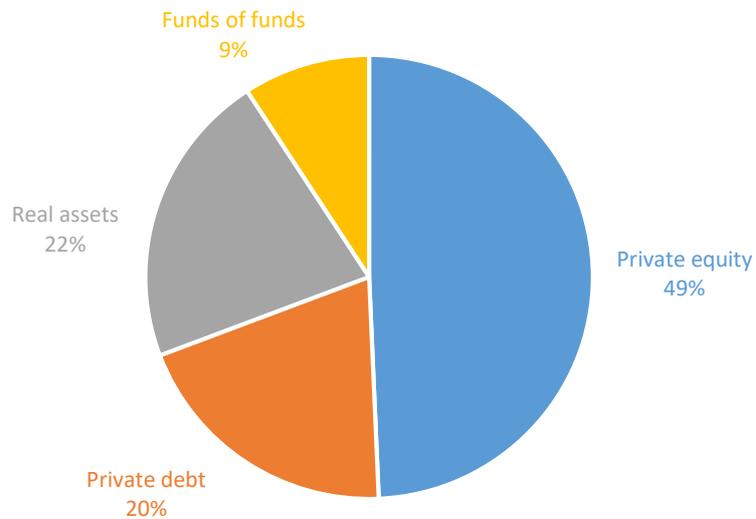
Figure 6 presents the distribution of the different private market fund categories in Luxembourg. Using the most recent data available for December 2024, we see that private equity funds make up almost half of the activity in this market segment (49 %). Funds investing in real assets are the second most important category (22 %), while private debt funds and funds of funds respectively represent 20 % and 9 % of the total AuM of private market funds¹⁵.

statistical coverage for non-authorized funds, which only concerns funds with total assets above the EUR 500 million threshold.

¹⁴ See Paragraph 3.2.1 for the explanation of these acronyms.

¹⁵ The spectrum of private debt funds included in this paper comprises direct lending funds, senior secured loans funds, distressed debt funds, special situations funds and CLO funds. Infrastructure debt funds and real estate debt funds fall into the “Real assets” category.

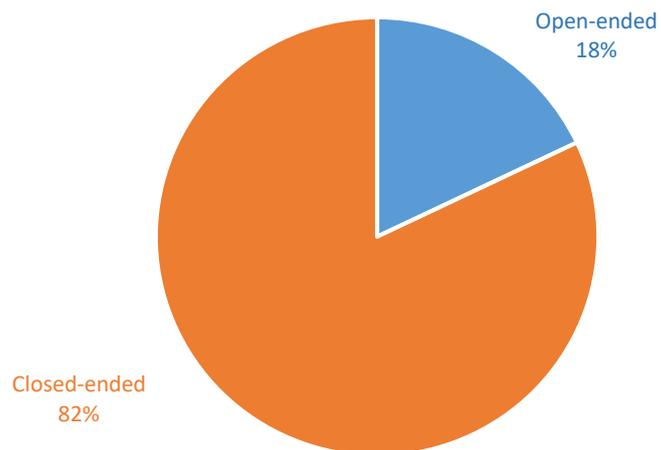
**Figure 6: Breakdown of AuM by category
(December 2024)**



Source: BCL, CSSF

Figure 7 shows the breakdown of AuM between open-ended and closed-ended funds. According to the data compiled by the BCL using both the AIFM and the non-authorized funds reporting, over 80 % of the assets are managed in a closed-ended investment vehicle.

**Figure 7: Breakdown of AuM by structure
(December 2024)**



Sources: BCL, CSSF

Table 1 displays the aggregate balance sheet of private market funds. The large majority of assets (75.6 %) consists of equity and investment fund shares. The former contains the shares of the target companies and holding companies, whereas the latter stems from the presence of funds of funds and master-feeder structures. Debt securities account for 12.3 % of total assets and reflect, to some extent, the positions reported by private debt funds. Deposit and loan claims make up 8.8 % of total assets, with exposure to Luxembourg counterparts representing approximately three-fourths of this item.

**Table 1: Aggregate balance sheet of private market funds
(Outstanding amounts at the end of December 2024)**

Assets	Total (EUR million)	(% of total)
Deposits and loan claims	156.226	8.8%
Debt securities	217.706	12.3%
<i>o/w listed debt</i>	45.397	2.6%
<i>o/w unlisted debt</i>	172.309	9.7%
Equity and investment fund shares	1.340.924	75.6%
<i>o/w listed shares</i>	10.158	0.6%
<i>o/w unlisted shares</i>	609.613	34.4%
<i>o/w investment fund shares</i>	721.152	40.7%
Other assets and financial derivatives	59.104	3.3%
Total assets	1.773.959	100.0%
Liabilities		
Borrowings	78.585	3.6%
Debt securities issued	20.067	1.5%
Shares issued	1.608.100	91.7%
Other liabilities and financial derivatives	67.208	3.3%
Total liabilities	1.773.959	100.0%

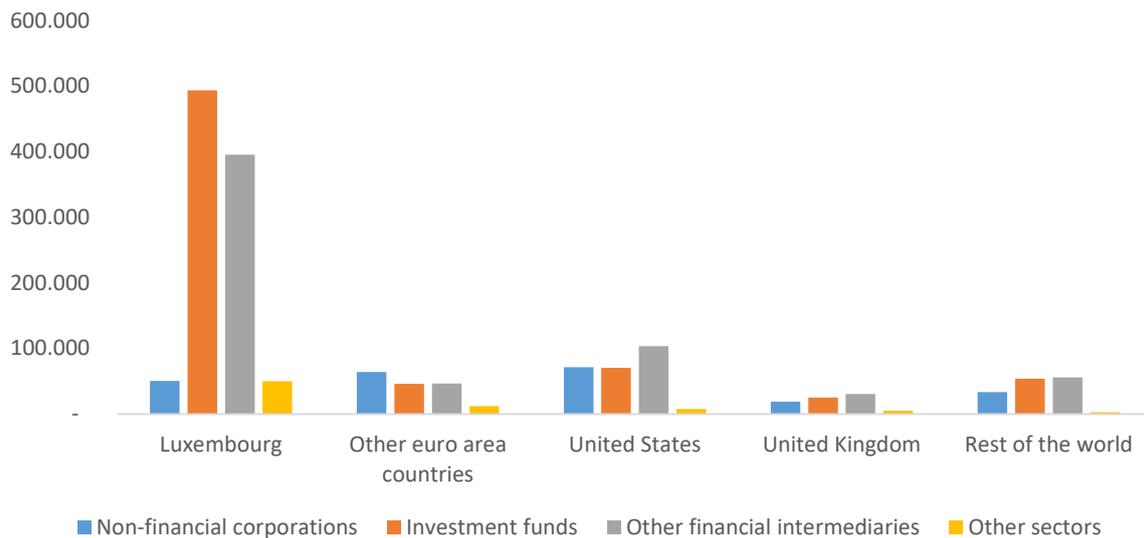
Source: BCL

The bulk of the liability side comes from the issuance of shares. Accordingly, the relative amounts of borrowings and debt securities issued are low and represent a mere 5.1 % of the total balance sheet. This could suggest that private market funds are not leveraged entities. However, this low level of indebtedness reflects the use of SPVs in the financial structuration of the funds. Indeed, the external debt raised at the level of the SPVs is not included in the BCL statistics which, in contrast to the AIFM prudential reporting, are based on the immediate counterparts and do not account for the consolidated positions of the funds.

Figure 8 also illustrates the use of multi-layer structures by private market funds. The geographical and sectoral breakdown of the portfolio indicates that the bulk of the exposure consists of investments realized with Luxembourg counterparts, mainly investment funds and other financial intermediaries. Indeed, these positions account for 54.3 % of the total holdings reported by these funds. As emphasized by Di Filippo (2024), even though the issuer of

securities held by private market funds is usually domiciled in Luxembourg, the final target of the portfolio company is only rarely located in Luxembourg.

**Figure 8: Geographical and sectoral composition of the portfolio
(Outstanding amounts at the end of December 2024, EUR million)**

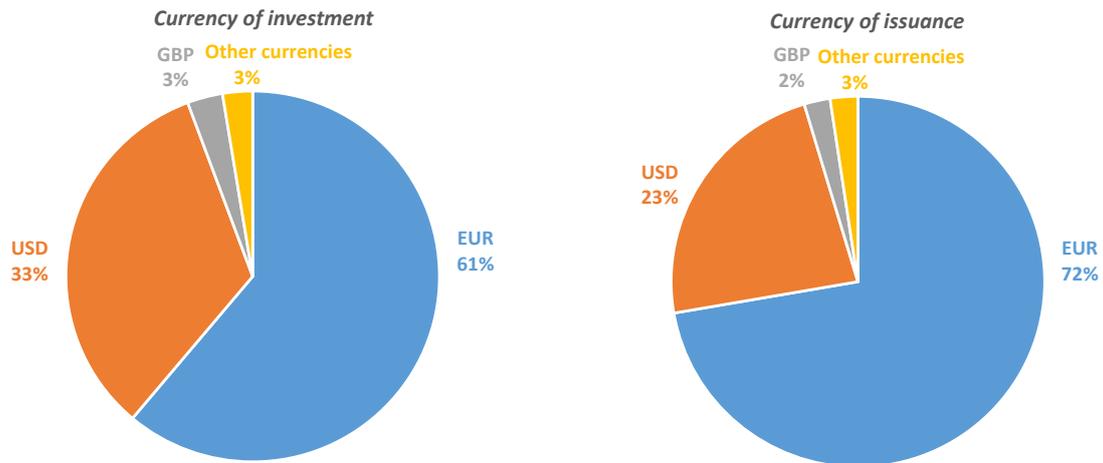


Source: BCL

The same holds true for the exposures to other euro area countries, the United States or the United Kingdom, which are mostly associated with positions on financial intermediaries and, accordingly, do not necessarily reflect the final destination of the investments. As for the rest of the world, about two-thirds of the portfolio holdings are concentrated on SPVs domiciled in the Cayman Islands, Jersey and Guernsey.

Finally, Figure 9 displays the currency composition of the balance sheet of private market funds domiciled in Luxembourg. On the liability side, 72 % and 23 % of the outstanding amount of the shares are issued in euros and US dollars, respectively. The currency composition of the security portfolio is more diversified, but still, the euro represents 61 % of the total assets held by private market funds, followed by 33 % for the US dollar.

**Figure 9: Currency composition of the balance sheet¹⁶
(December 2024)**



Source: BCL

6. The determinants of the AuM evolution

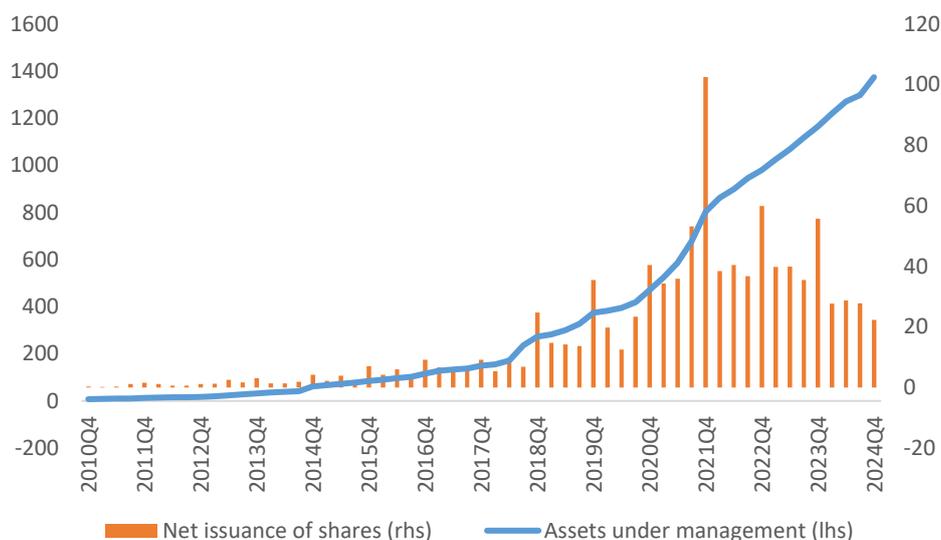
This section first discusses the macroeconomic context in which the activity of Luxembourg private market funds developed, before applying an econometric model to analyse the sensitivity of aggregate AuM to changes in the macroeconomic and financial conditions.

6.1 The macroeconomic context

Figure 10 displays the evolution of the AuM of Luxembourg domiciled private market funds since the end of 2010, based on data provided by the BCL reporting. The left-hand side shows the evolution of the AuM, while the right-hand side shows the contribution of the net issuance of shares to this evolution.

¹⁶ EUR, GBP and USD respectively correspond to the currency codes used for the euro, the British pound and the US dollar.

**Figure 10: Evolution of AuM
(EUR billion)**



Source: BCL

The BCL updated the reporting to include SICARs in 2014Q4 and non-authorized alternative funds in 2018Q3¹⁷. Since the introduction of the latter, AuM have grown by more than 30 % on an annual basis.

The significant increase in the activity of private market funds over the past decade has been driven by several factors. On the supply side, the strengthening of banking regulation in the aftermath of the global financial crisis coincided with the development of alternative lenders. In addition, the introduction of the SCSp in 2013 and the RAIF in 2016 expanded the range of investment vehicles available for structuring private market funds in Luxembourg. On the demand side, the low level of interest rates - owing to historically low inflation in advanced economies - and the search for higher yields have driven institutional investors' appetite for non-traditional asset classes (Cera et al., 2024). During this period, the low cost of borrowing also increased the ability of private market funds to leverage and to improve returns, particularly those involved in LBOs.

The Covid-19 crisis had a negative impact on private market funds in 2020, through the reduction in the activity and growth prospects of their portfolio companies. However, despite the uncertainty surrounding the effects of the pandemic, the industry proved resilient and recovered quickly during the year, to reach new records in 2021. After more than a decade of historically low costs of financing, the rapid rise in interest rates, necessary to bring inflation back to levels in line with central bank targets, affected balance sheets, deal activity and fundraising at the global level (McKinsey, 2024). Despite a macroeconomic environment

¹⁷ For further details regarding the introduction of the reporting of non-authorized alternative funds, see Bulletin BCL 2021/1 « Les fonds d'investissement alternatifs non réglementés », pp. 54-57.

characterised by an uncertain growth outlook and ongoing geopolitical tensions, the activity of private market funds continued to increase at the end of the period, albeit at a slower pace.

6.2 Results from the econometric analysis

In this subsection, we perform three different econometric models using the quarterly growth rate of the AuM of private market funds domiciled in Luxembourg as the dependent variable. Table 2 displays the results of the empirical analysis.

Table 2: Econometric results

	(1)	(2)	(3)
Constant	0.050*** (0.009)	0.064*** (0.007)	0.063*** (0.005)
AR coefficient	0.250*** (0.094)	-	-
LPXCMP	-	0.071** (0.035)	-
MSCI	-	-	0.088** (0.043)
USD/EUR	-	-	-0.238** (0.097)
Short-term interest rate _{t-4}	-	-	-0.039*** (0.015)
Short-term interest rate _{t-8}	-	-	-0.038*** (0.014)
Lending/GDP	-	-	-0.095* (0.050)
Adjusted R ²	68.5%	67.0%	75.5%
Number of observations	57	57	57

Models are estimated with quarterly data over the period 2010Q4 to 2024Q4. The dependent variable is the quarterly growth rate of the AuM of private market funds domiciled in Luxembourg. Explanatory variables include an autoregressive (AR) coefficient, the year-on-year return of a composite index of private equity funds quoted in the market (*LPXCMP*, end-of-period), the year-on-year return of the world stock market index (*MSCI*, end-of-period), the quarterly return of the EUR to USD exchange rate (*USD/EUR*, end-of-period), the quarterly variation in global short-term interest rates (*short-term interest rate*, GDP-weighted average of the US 3-month T-bill rate, the 3-month Euribor rate, the UK 3-month interbank rate, the Japan 3-month interbank rate and the Canada 3-month interbank rate, end-of period), and the year-on-year variation in the lending to GDP ratio, using euro area data for practical considerations (*Lending/GDP*, adjusted loans to non-financial corporations over seasonally adjusted nominal GDP, end-of-period)¹⁸. The models are estimated with a constant and two dummy variables for 2014Q4 and 2018Q3, as well as a seasonal dummy for the last quarter of each year. The two dummy variables take into account the introduction of the reporting of SICARs in 2014 and non-authorized AIFs in 2018. *** and ** indicate the significance levels of the coefficients at the 1 % and 5 % thresholds.

¹⁸ The LPXCMP and the MSCI indexes come from the Bloomberg platform. The short-term interest rates are taken from the FRED (Federal Reserve Economic Data) database. The other explanatory variables are extracted from the ECB data portal.

Model (1) is an autoregressive (AR) model of order 1 that is used as a benchmark. This purely statistical model explains 68.5 % of the variability in the quarterly growth rate of the AuM of private market funds domiciled in Luxembourg over the period 2010Q4 to 2024Q4.

Model (2) uses as a reference the net performance of the composite index of the largest private equity funds quoted in the stock market. The dependent variable is regressed on the year-over-year market return, considered as a more relevant variable to measure the stance of the market for the private equity fund industry¹⁹. According to the results, a 1 % year-over-year increase in the composite LPXCMP index is associated with a 0.07 % quarterly rise in the AuM of private market funds domiciled in Luxembourg. The explanatory power of this model is slightly lower than the one of model (1), with an adjusted R² of 67.0 %.

Finally, model (3) measures the sensitivity of the activity of private market funds to changes in macroeconomic and financial conditions²⁰. The MSCI world index quantifies the interaction between private market funds and public markets, reflecting to some extent the use of market-based methods to value private equity portfolio holdings²¹. The USD/EUR variable captures the valuation effects arising from the impact of exchange rate movements on both the asset and liability sides of the balance sheet. The short-term interest rate variable, aims to assess the impact of interest rate changes that may arise through different channels, including the cost of borrowing and the ability to leverage, the search for yield behavior of investors or the use of the Discounted Cash Flow (DCF) model in valuing private debt assets²². Finally, the loan-to-GDP ratio allows to control for the substitution effect of private market funds vis-à-vis traditional bank lending to non-financial corporations.

Overall, the explanatory power of this model is substantially better than the one of model (2), with an adjusted R² of 75.5 %. As in other studies (e.g. Bernoth and Colavecchia, 2014, Aramonte and Avalos, 2021), we find that private market funds developments can be partially explained by the financial performance of public market indicators. According to our results, a 1 % year-on-year increase in the world MSCI index is associated with a 0.09 % quarterly rise in the AuM. In addition, the activity of private market funds is sensitive to interest rate changes. On average, the results suggest that a quarterly variation of one percentage point in the global short-term interest rate decreases the quarterly AuM by 3.9 % after one year, and by an additional 3.8 % one year later. Exchange rate fluctuations also have a significant impact on AuM, a 1 % depreciation of the euro vis-à-vis the US dollar being associated with a -0.24 % decrease in the quarterly AuM of private market funds. Finally, the proxy for the substitution effect related to the recourse to traditional bank credit is statistically significant at the 10 %

¹⁹ Year-over-year changes deal with seasonal effects and deliver a higher explanatory power of the model.

²⁰ For other econometric studies focusing on the influence of economic factors on private market funds, see e.g. Bernoth and Colavecchia (2014), Steger (2017), and Aramonte and Avalos (2021).

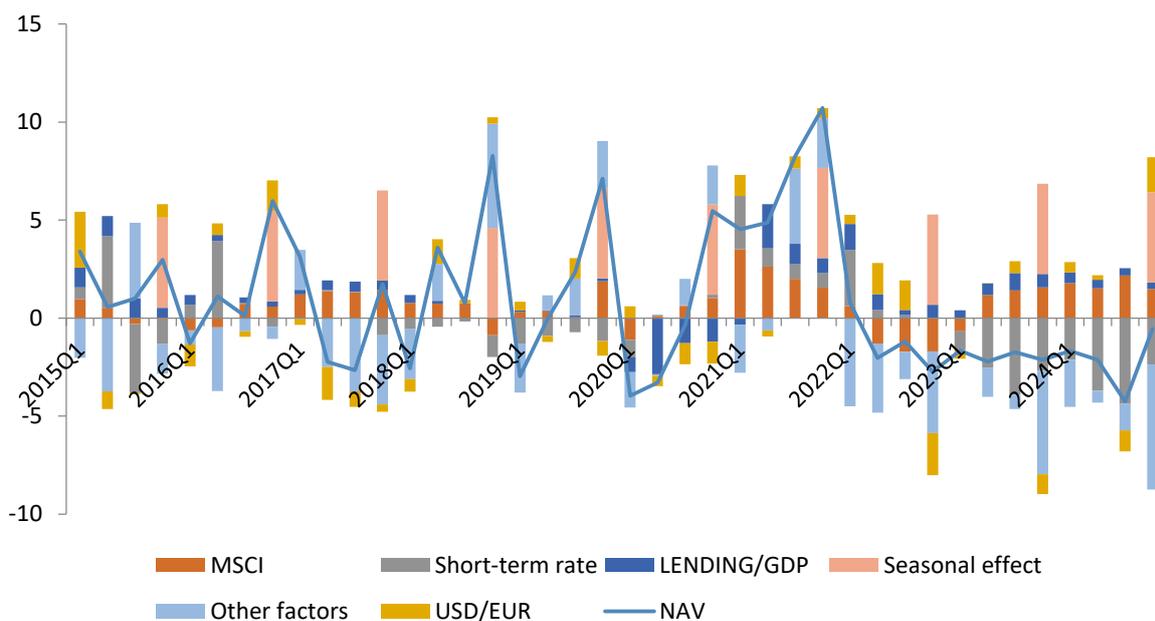
²¹ The multiple method of comparable companies assumes that unlisted companies held by private equity funds should have the same valuation multiples than companies listed on the public market with similar characteristics. The multiple can for example be based on the ratio between the company's Enterprise Value (EV) and its Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).

²² The use of lagged values accounts for the dynamic adjustment of private market funds' activity to interest rate changes. These lagged values were selected using a general-to-specific modelling approach. To obtain this specification, we started with a model incorporating interest rate changes from t to t-8, subsequently removing non-significant terms sequentially.

level, i.e. a decrease in the lending to GDP ratio has a positive impact on the activity of these alternative lenders.

Figure 11 displays the factor contribution of each explanatory variable to the AuM dynamics of private market funds domiciled in Luxembourg.

Figure 11: Historical decomposition of the volatility in the quarterly growth rate of AuM²³ (%)



According to our results, stock market developments and, to a lesser extent, exchange rate fluctuations have been important drivers of the activity of private market funds, in particular during the recent period. These financial variables explain 30.8 % of AuM fluctuations over the last decade²⁴. The contribution of the lending to GDP ratio is smaller and amounts to about 10.3 % of the total variation with a peak inherent to a base effect caused by the recession that occurred at the time of the Covid-19 pandemic. Global developments of short-term interest rates also played an important role in explaining the evolution of AuM, with a respective contribution of 18.4 % of the total variation.

7. Conclusion

Private market funds collect capital through the issuance of shares and provide financing to companies in the form of private equity, private debt, and investment in real assets such as

²³ The quarterly growth of the AuM shown in Figure 11 is adjusted according to the level of the constant estimated in Model (3).

²⁴ To calculate the relative contribution of each factor to the variability of the AuM, we use the absolute values of the individual contributions obtained from the historical decomposition and divide it by the sum of the absolute values of all the factor contributions.

infrastructure, real estate or natural resources. Against the backdrop of stronger regulation in the banking sector and the search for yield by institutional investors, these alternative lenders have gained significant importance in the mutual fund industry over the past decade.

While traditionally associated with the cross-border distribution of UCITS funds, the Luxembourg financial centre has in recent years become an important jurisdiction for the domiciliation of private market funds. However, the statistics on these funds remain scarce and heterogeneous, limiting our knowledge of the characteristics and developments of this market segment. To fill this gap, we build a new database using the AIFM reporting to the CSSF and the BCL reporting on investment funds. According to our database, we estimate the total net assets of private market funds domiciled in Luxembourg at approximately EUR 1.61 trillion at the end of 2024, spread across 5 506 entities. With a double-digit annual growth, these funds currently represent an important source of dynamics for the financial industry in the Grand-Duchy.

The descriptive statistics presented in this paper provide a better picture of the activity of private markets funds domiciled in Luxembourg. The econometric study also constitutes a first step to explore the macroeconomic and financial determinants of the evolution of aggregate AuM in this market segment. However, additional efforts and statistics are needed to better understand the structuring of these investment vehicles, in order to measure the leverage and to analyse the geographical portfolio allocation. These efforts are all the more important since the activity of these funds is likely to evolve further in the coming years, in particular in view of the current trends towards the emergence of semi-liquid products and the “retailisation” of the distribution networks. These developments may bear potentially important implications for financial stability and monetary policy transmission²⁵.

²⁵ Galbarz et al. (2024) analyse the interactions between banks and private market funds from a financial stability perspective.

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Glossary

ALFI	Association of the Luxembourg Fund Industry
AuM	Assets under Management
AIFs	Alternative Investment Funds
AIFM	Alternative Investment Fund Managers
BCL	Banque Centrale du Luxembourg
CLOs	Collateralised Loan Obligations
CSSF	Commission de Supervision du Secteur Financier
DCF	Discounted Cash Flow
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ELTIF	European Long-Term Investment Fund
EU	European Union
EUR	Euro
EuVECA	European Venture Capital
EV	Enterprise Value
GBP	British pound
GDP	Gross domestic product
GP	General Partner
IPO	Initial Public Offering
LBO	Leveraged Buyout
LPs	Limited Partners
LPXCMP	Listed Private Equity Composite index
MSCI	Morgan Stanley Capital International
NAAIFS	Non-Authorized Alternative Investment Funds
NAV	Net Asset Value
RAIFs	Reserved Alternative Investment Funds
SA	Société Anonyme
Sàrl	Société à responsabilité limitée
SCA	Société en Commandite par Actions

SCS	Société en Commandite Simple
SCSp	Société en Commandite Spéciale
SICAR	Société d'Investissement en Capital Risque
SPVs	Special Purpose Vehicles
UCIs	Undertakings for Collective Investments
UCITS	Undertaking for Collective Investment in Transferable Securities
USD	US Dollar
VC	Venture Capital



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