# From Product Innovation to Operating Model Strategy: what Luxembourg's proposed SCS and SCSp Reform tells us

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That makes product development an operating model question, not only a structuring question.

Luxembourg's recent legislative proposals illustrate this well. Once adopted, they could allow certain Luxembourg common limited partnerships (SCS) and special limited partnerships (SCSp) that qualify as alternative investment funds (AIFs) to operate with segregated compartments, provided they are managed by a fully authorised EU alternative investment fund manager (EU AIFM).

The proposals are therefore interesting for two reasons:

1) creating a more scalable Luxembourg structuring option for private markets managers, and
2) bringing the management company model behind the fund structure into sharper focus.

For smaller private asset managers, sub-threshold managers and non-EU managers, the EU AIFM requirement should not be viewed only as a constraint. It should prompt a practical question: **is future European growth better supported by building regulated management company/AIFM capability in-house, accessing an established authorised EU AIFM platform, or combining internal and external capability?**

Managers planning future products should use this moment to test whether their operating model is ready for future growth:

- What products are we likely to launch?
- Which investors and markets do we want to serve?
- What permissions, substance and infrastructure will we need?
- What should we build internally?
- What should we access through an authorised AIFM or ManCo platform?

The key question is not only "can we use this structure?" but "what operating model do we need to use it well?"

## A gap in the market

The popularity of Luxembourg partnership structures, particularly the SCSp, has been built on simplicity and flexibility. For private equity, private credit, infrastructure and venture capital managers, these vehicles closely resemble partnership structures commonly used in other leading fund jurisdictions. The challenge emerges as managers scale.

A manager launching a single fund strategy may be comfortable operating through a standalone SCSp. However, firms rarely stop at a single product. A successful strategy may be followed by successor vintages, co-investment vehicles, feeder structures, sector-focused sleeves, regional variants or entirely new strategies.

The underlying commercial need is straightforward. Managers increasingly want the flexibility of a partnership vehicle combined with the scalability of an umbrella structure. The Luxembourg proposals are noteworthy because they attempt to bridge that gap.

## What would change?

The proposed framework would allow eligible SCS and SCSp AIFs that are managed by an authorised EU AIFM to establish separate compartments within a single legal entity.

In practical terms, the proposed model could provide several features that private markets managers already value in regulated umbrella funds:

| Feature | What it means | Why it helps |
|---|---|---|
| Asset and liability ring-fencing | Each compartment could maintain its own assets and liabilities. | Helps isolate investor exposure between strategies or sub-funds. |
| Compartment-level lifecycle management | Managers could potentially liquidate or wind down individual compartments without affecting the wider structure. | Supports cleaner lifecycle management as strategies mature, close or evolve. |
| Multiple strategies within a common platform | Different investment strategies, vintages or investor groups could potentially sit within separate compartments of the same overarching vehicle. | Reduces structural duplication while preserving a platform approach. |
| Cross-compartment investment flexibility | Subject to applicable restrictions, the proposals envisage the possibility of investments between compartments. | Creates additional structuring flexibility for managers where appropriate. |

Taken together, these features can reduce structural duplication while preserving many of the characteristics that have made Luxembourg partnerships attractive to private markets sponsors.

## Potential applications across private markets

| Strategy | Potential application |
|---|---|
| Private credit | Managers could potentially separate various lending strategies into individual compartments while maintaining a common operating framework. Direct lending, asset-backed lending and specialised credit mandates could coexist within the same umbrella structure. |
| Private equity | Successor funds, sector-specific strategies or investor-specific arrangements may potentially be accommodated more efficiently than through multiple standalone entities. |
| Infrastructure | Infrastructure managers often operate long-term platforms that expand over time. A compartmentalised approach could support new strategies, geographic expansions or thematic investment programmes while retaining structural consistency. |
| Venture capital | Emerging managers frequently need a balance between flexibility and scalability. The ability to add compartments as strategies develop could support growth without requiring an entirely new structure each time. |

## The EU AIFM remains central

The proposals show how product innovation and regulatory oversight are becoming more closely connected.

The flexibility of a compartmentalised Luxembourg partnership would not remove the need for substance, governance or supervision. It would sit within the authorised EU AIFM framework, which remains central to the model.

A regulated ManCo/AIFM is not simply a permission or compliance overlay. It provides the governance, oversight, risk management, regulatory engagement, delegation supervision, substance and operational infrastructure that allow a product platform to grow in a controlled way.

For investors, distributors and counterparties, that framework provides confidence in governance, including critical areas around risk, valuation and delegate oversight, but also provides EU marketing and distribution access.

Building and maintaining that capability requires meaningful investment in people, systems, regulatory expertise, governance and operational resilience. For some firms, that will be the right strategic choice. For others, partnering with an established authorised EU AIFM or ManCo platform may provide a more proportionate and scalable route to growth.

For managers, the practical question is whether those capabilities should be built internally, accessed through a regulated specialist platform, or combined in a hybrid model that allows the investment team to focus on product design, investors, portfolio construction and distribution.

## What does this mean for sub-threshold and non-EU managers?

This is particularly relevant for managers that do not currently operate a fully authorised EU AIFM, including:

- Sub-threshold managers.
- Registered-only managers.
- Non-EU managers seeking to expand into Europe.
- Sponsors evaluating future European fundraising plans.

For these firms, the question is no longer simply whether they can access a structure. It is whether their European growth strategy is best supported by building, partnering or using an established authorised EU AIFM platform.

## A broader operating model question

This links directly to a theme emerging across the European AIFM market. The point is practical. A fund type is no longer just a legal wrapper. It affects speed to market, governance, oversight, distribution and the ability to scale. The proposed Luxembourg reforms are a useful example of that broader AIFM operating model question.

Historically, fund structures, regulatory permissions and operating models were often considered separately. Increasingly, they need to be viewed together.

| Tactical growth | Strategic growth |
|---|---|
| Which fund domicile?<br>Which legal structure and vehicle? | What products are we likely to launch?<br>Which investors are we serving?<br>What permissions are needed?<br>What should we build, outsource or partner for?<br>What model supports scale? |

| Strategic assessment area | What this means |
|---|---|
| Product roadmap | Assess the expected product roadmap, not just the next vehicle. |
| Investor base and distribution | Identify investor needs, distribution channels and servicing expectations early. |
| Permissions and substance | Link product design, distribution and ongoing monitoring to the regulatory permissions and substance required to support it. |
| Capability model | Decide which capabilities are needed and when they should be owned, built, outsourced or accessed through specialist partners. |
| Scalability and resilience | Design the platform for repeat launches, governance, oversight, scale and resilience as circumstances change. |

## A development worth watching

The proposals are to go through the parliamentary approvals but, they introduce an interesting new option into the European private markets toolkit. They are unlikely to be the right answer for every manager. Some sponsors will continue to prefer standalone partnerships, while others will remain better suited to existing regulated umbrella structures.

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