

Luxembourg Part II UCIs: A Modernized Gateway for US Managers Raising European and Global Private Wealth Capital

4 May 2026

The appetite of European and global private wealth investors for US private market strategies—private credit, private equity, infrastructure and beyond—continues to grow. Luxembourg has been working hard to accommodate this trend, with the CSSF consolidating the rules applicable to Part II UCIs in Circular 25/901 in December 2025, repealing a number of circulars from previous decades. The CSSF in particular sets out the conditions under which Part II UCIs may invest a significant portion of their assets into underlying funds. These rules are relevant far beyond BDCs—they apply equally where a Part II UCI invests in any US investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”), any US private fund, or any other non-EU collective investment vehicle, regardless of its jurisdiction, legal form or regulatory status.

The Key Rules Under Circular 25/901

Single-fund concentration. For funds marketed to unsophisticated retail investors, risk-spreading is met where the fund invests up to 25% of its assets in one and the same underlying fund. This limit does not apply if comparable or stricter risk-spreading is ensured at the level of the underlying fund, in accordance with its sales document or applicable laws and regulations.

No geographic restrictions. There are no geographic, domicile or supervisory restrictions on the target fund. The only condition for exceeding the 25% limit is that equivalent or stricter risk-spreading be ensured at the target fund level—a condition that many regulated US vehicles (BDCs, RICs and others) can satisfy. This stands in contrast to the ELTIF Regulation, under which a target fund is only eligible if structured as an EU AIF managed by an EU AIFM.

Intermediary vehicles. A fund may acquire target assets indirectly through intermediary vehicles (SPVs, holding companies, aggregator vehicles, etc.). As the intermediary vehicle does not constitute a target investment per se, a look-through approach applies: investment limits apply to the investments made through the vehicles, not to the vehicles themselves. A Part II UCI may therefore invest 100% of its

assets through an intermediary vehicle, provided the underlying investments satisfy the applicable diversification rules on a look-through basis.

Ramp-up. For private investments, the ramp-up period may extend to four years, with a further one-year extension in exceptional circumstances accepted by the CSSF.

Disclosure. Where the fund is marketed to retail investors and invests more than 25% in a single underlying fund, the sales document must describe the investment, confirm equivalent risk-spreading, flag the absence of a CSSF cooperation agreement (if applicable), and disclose fee structures where the same initiator or manager is involved.

Fund-of-Funds and “Stacking” Strategies

These rules open up significant structuring possibilities:

- **House fund-of-funds:** A Part II UCI may invest directly in new institutional funds of the sponsor, acquire interests on the secondary market and co-invest alongside institutional funds—all without geographic or structural constraints.
- **“Stacking” with a US fund:** A Part II UCI may invest more than 25% of its assets in a single US fund (e.g., BDC, private fund or other), provided that equivalent or stricter risk-spreading is ensured at the target fund level. There is no longer any requirement that the target fund be open-ended, subject to comparable supervision, or domiciled in any particular jurisdiction.
- **The 85% AIFMD ceiling:** A Part II UCI must not invest more than 85% of its assets in a single fund, as it would otherwise be classified as a feeder fund and lose the AIFMD marketing passport (which is only available where the feeder invests in an EU master managed by an EU AIFM).

The “stacking” mechanism is available only for Part II UCIs, not ELTIFs.

Investing in BDCs: A Concrete Illustration

BDCs are US vehicles that elect to be governed under the 1940 Act, typically investing in private, small and medium-sized US businesses. BDCs and other 1940 Act regulated funds electing regulated investment company (“RIC”) status under Subchapter M of the US Internal Revenue Code (“IRC”) are subject to a 25% diversification requirement thereunder—satisfying the risk-spreading condition under Circular 25/901.

Certain managers have set up Luxembourg vehicles to replicate direct lending strategies or to offer Part II UCIs that invest significantly in a US RIC in order to obtain direct lending exposure. This strategy can work particularly well with a RIC that qualifies for

pass-through treatment under Subchapter M, because the RIC generally avoids entity-level income tax on distributed interest income, allowing the full economics of direct lending strategy to flow through more efficiently to investors.

One important structuring consideration is the 1940 Act. In particular, Section 12(d)(1)(A) generally limits an investment company's ownership of another registered fund or a BDC to 3% of the acquired fund's outstanding voting securities, unless an exemption or exclusion applies. As a result, a Part II UCI seeking meaningful exposure to a US BDC or other a registered fund will often invest indirectly through a feeder or similar intermediate vehicle rather than holding shares of the BDC directly. From a Luxembourg perspective, a Part II UCI may invest more than 25% of its assets in a single US BDC or registered fund (through a feeder), as long as it can look through to the underlying investments to assess sufficient diversification and does not exceed the 85% limit to avoid requalification as a feeder AIF under the AIFMD.

While the above example focuses on BDCs, the analysis is readily transposable to other US fund structures—including RICs and other vehicles subject to comparable diversification requirements. In each case, the key questions remain: (i) does the target fund provide risk-spreading comparable to the 25% limit?; (ii) does the Part II UCI's exposure remain below 85% to preserve the AIFMD passport?; and (iii) are the required disclosures included in the sales document?

Conclusion

The modernized framework under Circular 25/901 confirms that Luxembourg is actively positioning its Part II UCI as a bridge between US private market strategies and European and global private wealth capital. The rules are clear, flexible and jurisdiction-agnostic: what matters is risk-spreading at the target fund level, not where the target fund is located or who supervises it. For US managers—whether offering private credit through a BDC, a diversified strategy through a registered fund, or any other private markets fund—the Part II UCI provides a robust, retail-accessible and passport-enabled solution with strong investor protection through disclosure.

* * *

Please do not hesitate to contact us with any questions.



Veronica Aroutiunian
Partner, Luxembourg
+352 28 57 95 3313
varoutiunian@debevoise.com



Vadim Avdeychik
Partner, New York
+1 212 909 6867
vavdeychik@debevoise.com



Patricia Volhard
Partner, Paris | Frankfurt |
London
+33 1 40 73 12 12
+49 69 2097 5150
pvolhard@debevoise.com