Luxembourg to Introduce Protected Cell Companies for Partnership Funds

Luxembourg proposes statutory compartments for SCS and SCSp alternative investment funds

Bill amending the Law of 12 July 2013 on Alternative Investment Fund Managers — introduced 30 July 2026

One of the last structural distinctions between Luxembourg partnership AIFs and product-law fund vehicles may soon disappear. When adopted, the bill introduced on 30 July 2026 will allow sponsors of eligible SCS and SCSp alternative investment funds, managed by an authorised EU AIFM, to establish legally segregated compartments — without the need to establish a RAIF, SIF, SICAR or other product-regulated vehicle.

The reform is simple in concept, but potentially significant in practice. Rather than creating another investment vehicle, Luxembourg has chosen to make one of its most successful existing vehicles considerably more versatile.

What the Reform Does

At its core, the reform gives sponsors a new degree of structuring freedom. Eligible Luxembourg partnership AIFs will be able to establish multiple legally segregated compartments within a single SCS or SCSp, allowing different investment strategies, investors or asset pools to coexist while benefiting from statutory segregation of assets and liabilities. Each compartment carries its own Article 21 investment policy and may be documented under a standalone PPM. Compartments may be liquidated independently, may cross-invest subject to anti-circularity and voting safeguards, and may produce separate financial statements provided consolidated AIF-level accounts are also prepared. No conversion into a RAIF, SIF, SICAR or securitisation vehicle is required.

For many sponsors, this may also reduce the need to establish multiple parallel vehicles solely to achieve legal segregation between investment strategies or investor groups. Depending on the circumstances, a single partnership AIF with statutory compartments may now provide a simpler and more efficient alternative.

Why It Matters

This is more than a technical amendment.

It reflects a broader philosophy.

Stellan Partners, SARL, Société d'avocats inscrite au Barreau de Luxembourg
13, rue Jean Fischbach, L-3372 Leudelange / T : +352 26 48 42 1 F : +352 26 48 42 35 00 E : info@stellanpartners.lu – www.stellanpartners.lu
TVA: No. Lu 25463506 – R.C.S. Luxembourg B 169476

Luxembourg is not asking the market to adapt to a new legal framework. It is adapting its legal framework to how international asset managers structure funds, parallel vehicles and co-investment platforms in practice.

The SCS and SCSp have become the preferred partnership vehicles for private equity, private credit, infrastructure and real estate managers. By adding statutory compartmentalisation to those vehicles, Luxembourg significantly expands the range of structures available without increasing regulatory complexity. In practice, this removes one of the few remaining structural distinctions between partnership AIFs and product-law vehicles.

International sponsors will immediately recognise the practical value of the reform. Many are already familiar with series or protected-cell structures in other leading fund jurisdictions. The proposed regime allows similar structuring concepts to be implemented within Luxembourg's well-established AIFMD framework.

The most successful legal reforms are often those that refine established concepts rather than introducing entirely new ones. This proposal is a good example.

Why Sponsors Can Rely on It

The principal strength of the reform is precisely that it is not new in substance. Rather than introducing an untested ring-fencing mechanism, the legislature extends the compartment regime already embedded in the RAIF and SIF legislation. Sponsors therefore benefit from a legal mechanism that is already well understood by investors, lenders, service providers and advisers operating in the Luxembourg funds market.

Practical Structuring Considerations

Contractual implementation. Statutory segregation is only part of the picture. It protects one compartment against the creditors of another, but it does not itself bind a lender, derivative counterparty or service provider who has not contracted on a compartment-specific basis. Sponsors and their lenders should ensure that all financing, custody, prime brokerage, ISDA and material commercial agreements expressly identify the relevant compartment and limit recourse accordingly — turning the statutory protection into a fully enforceable commercial reality.

Cross-border recognition. Segregation is robust under Luxembourg law and in EU insolvency proceedings under the recast Insolvency Regulation. For structures with material non-EU elements, recognition should be confirmed on a jurisdiction-by-jurisdiction basis, as is already standard practice for RAIF compartment structures.

Stellan Partners, SARL, Société d’avocats inscrite au Barreau de Luxembourg
13, rue Jean Fischbach, L-3372 Leudelange / T : +352 26 48 42 1 F : +352 26 48 42 35 00 E : info@stellanpartners.lu – www.stellanpartners.lu
TVA: No. Lu 25463506 – R.C.S. Luxembourg B 169476

Accounting and financial reporting. Separate compartment-level financial statements are permitted, provided consolidated AIF accounts are also prepared. Sponsors should discuss the intended reporting approach with their auditor at the outset.

Regulatory perimeter. The regime is available to AIFs managed by a fully authorised AIFM in Luxembourg or another EU Member State; non-EU AIFMs and sub-threshold (registered) managers fall outside its scope. This is worth confirming early, but does not change the fundamentally light-touch nature of the mechanism, which requires no CSSF product authorisation.

Looking Ahead

Sponsors currently considering new Luxembourg fund platforms already have an opportunity to prepare for the new regime. Although the legislation has not yet entered into force, constitutional documents can already be drafted with sufficient flexibility to allow compartments to be introduced through a streamlined amendment once the new rules become effective. This preserves optionality while avoiding unnecessary restructuring later. For platforms designed around parallel funds, co-investment sleeves or carried interest arrangements, sponsors can already begin modelling future compartment structures using the well-established RAIF and SIF precedents.

Luxembourg has built its international success by continuously refining existing legal concepts rather than constantly reinventing them. This proposal follows exactly that philosophy.

When adopted substantially in its current form, statutory compartments for partnership AIFs are likely to become another hallmark of the Luxembourg alternative investment toolkit — offering sponsors greater structuring flexibility while preserving the legal certainty and international credibility for which the jurisdiction is known.

Status

Bill tabled 30 July 2026. Subject to parliamentary vote. No entry-into-force date yet fixed.

Contacts

Should you wish to discuss how the proposed legislation may affect your existing or future fund structures, please do not hesitate to contact our Alternative Funds & Investor Services.

Wim RITZ
Partner
Alternative Funds & Investor Services
wim.ritz@stellanpartners.lu
T: +352 621 781 189

Lucrecia TAPIA
Associate
Alternative Funds & Investor Services
lucrecia.tapia@stellanpartners.lu
T: +352 621 812 729

This news has been prepared by Stellan Partners for general guidance only. Although the greatest care has been taken to ensure that the information contained therein are accurate on the date of publication, Stellan Partners does not accept any liability to any person for the information (or the use or reliance upon such information) which is provided in this handbook or incorporated into it by reference. On any specific matter, please contact us for appropriate advice. The information transmitted is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination, or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please contact the sender and delete the material from any computer.