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Navigating Complexity: Why Private Equity Firms Need More than a Simple Service AIFM

A Market in Transition: Regulation, Fund Tech, Expectations and Strategic Pressure

The private markets industry is undergoing a structural transformation. Regulatory frameworks continue to expand, the operational depth required to run (cross-border) fund strategies is rising, digitalization and fund tech kicks-in, and investor expectations have evolved to a point where managers must demonstrate more than deal expertise. General Partners across Europe and increasingly from the United States are reassessing how they structure and operate their funds in this dynamic environment. Within this shift, Luxembourg has consolidated its position as 2nd most relevant hub for international fund activity after the US. Its regulatory clarity, mature ecosystem and adaptability make it an ideal environment for managers seeking scalable, compliant and investor-ready platforms. Yet the needs of GPs have moved far beyond what standardised AIFM services or traditional fund administration were originally designed to provide. What the market demands is a combination of regulatory certainty, operational flexibility and a strategic understanding of how investment teams actually work and what service level the ultimate client, the LP, expects.

Why Traditional AIFM Models Reach Their Limits

The forces behind this development are well recognised. Private markets have expanded significantly over the past decade, not only in terms of capital, but in terms of strategy, portfolio design and governance requirements. Investment approaches have become more specialised, more transaction-driven and more focused on operational value creation. LPs have responded with heightened expectations: they request transparency, documented processes, clear governance models and a demonstrably robust risk and sustainability framework. At the same time, the regulatory environment has become more demanding. AIFMD II, DORA, SFDR, valuation standards and substance requirements have grown in scope and relevance. Compliance today is not simply about ticking boxes; it requires a deep, practical understanding of how rules apply to real investment situations.

Luxembourg, with its mature and internationally compatible framework, is well positioned to accommodate this complexity. The jurisdiction offers a combination of regulatory certainty, flexible structuring options and an ecosystem that is highly familiar with the nuances of cross-border private

markets activity. For many managers, particularly those with diverse investor bases, the Luxembourgish environment provides the clarity and reliability needed for long-term institutional fundraising. But the market has also reached a point where the conventional AIFM model, often perceived as largely administrative, no longer meets the strategic needs of managers whose strategies depend on speed, proximity to decision-making and deep integration of regulatory and operational know-how.

While in recent years price often appeared to be the primary criterion when Private Equity firms decided to set-up a Luxembourg fund, pushing AIFMs and service providers into a highly standardized, scale-driven operating models, there is now a renewed focus on team quality and, in particular, stability. This shift supports the establishment of lasting personal relationships and a consistently high level of service quality, especially within more specialised market segments.

What GPs – and LPs – Expect Today: Client Centricity, Delivered Within a Robust and Compliant Operating Framework

This evolution is visible in the expectations of institutional investors.

They increasingly assess not only the investment strategy, but the structuring know-how and the operational readiness of a manager. Governance, valuation processes, risk management, reporting accuracy, continuity of responsible staff and the integration of sustainability factors have become essential components of a credible fund setup. For GPs, this implies that their operating model must be consistent, scalable and aligned with both strategy and regulation, while operated at the required EBITDA margin.

Partnering and delegation play a central role in this context. Against the backdrop of cost considerations, more and more GPs are entering operating partnerships with AIFM and Fund Administration providers with the ultimate target to focus on their key value propositions: deal execution and fundraising. However, delegation only works if the surrounding governance is sound. Investors want to understand who performs risk and valuation oversight, how substance is ensured, which bodies take responsibility for escalation and decision-making, and how conflicts of interest are identified and managed. These questions reflect the broader expectation that operational discipline is inseparable from investment performance. Modern AIFM platforms therefore need to provide a framework that offers structure for operational execution without becoming a bottleneck, one that enables rather than slows down investment activity.

From Scale to Specialist: Why Flexibility and Quality are Key Success Factor

A further structural trend is the consolidation of the AIFM market itself.

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Luxembourg has seen notable concentration among large providers, driven by scale effects, commercial pressure and regulatory demands. While this development has brought efficiency to some segments, it has also reinforced the limitations of highly standardised models. Many GPs – and increasingly LPs – are pushing back, favouring more agile AIFMs that offer stability, closer collaboration, focus on the LP-journey and output quality, faster decision-making and strategy-aligned interpretation of regulatory requirements. This approach resonates especially with managers operating transaction-heavy strategies or those whose value creation depends on rapid and coordinated execution or who expect flawless output quality. For such GPs, a flexible and engaged AIFM partner becomes an operational advantage rather than just a necessity.

The international dimension adds another layer of complexity. US managers entering Europe often encounter a regulatory landscape that differs fundamentally from what they are accustomed to. The principles of AIFMD, the practical implications of SFDR classifications, European valuation norms, local governance expectations and substance requirements can be difficult to navigate, not in theory, but in daily operations. For these managers, the deciding factors for a successful market entry are a fully licensed platform, a governance framework that meets European standards and processes that ensure transparency, consistency and

compliance. Without these elements, fundraising across Europe becomes challenging regardless of track record or brand. Moreover, they often require their European AIFM to act as coach when navigating through the jungle of European regulatory and tax legislation.

Taken together, these developments point to a clear conclusion: the future of the AIFM model lies in the integration of regulatory excellence with operational agility and strategic alignment. The market no longer separates investment capability from governance and process quality; instead, investors evaluate them as part of a single, coherent end-to-end framework. Luxembourg will continue to play a central role in this evolution, not only because of its regulatory infrastructure but because it offers the environment in which tailored, institutional-grade operating models can develop.

For GPs, this shift presents an opportunity. It enables them to refocus on the areas that differentiate them, investment strategy, sourcing, value creation, while relying on platforms that provide the stability, clarity and governance required by a global investor base. As private markets continue to mature, the models that succeed will be those that recognise that regulatory depth, operational excellence and strategic understanding are not competing priorities but essential components of a well-structured and future-proof fund platform.●