

Investment Funds in Lithuania: 10-minute overview

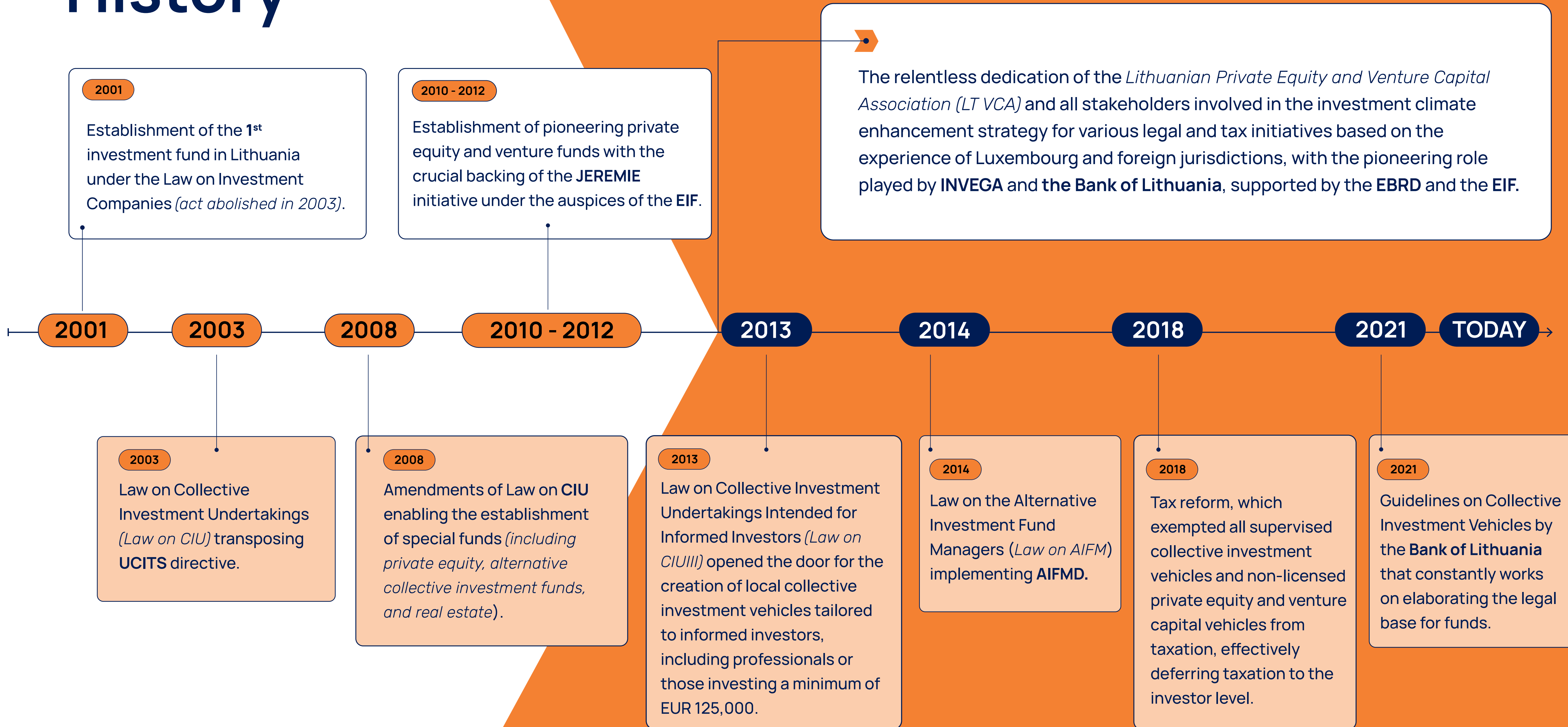


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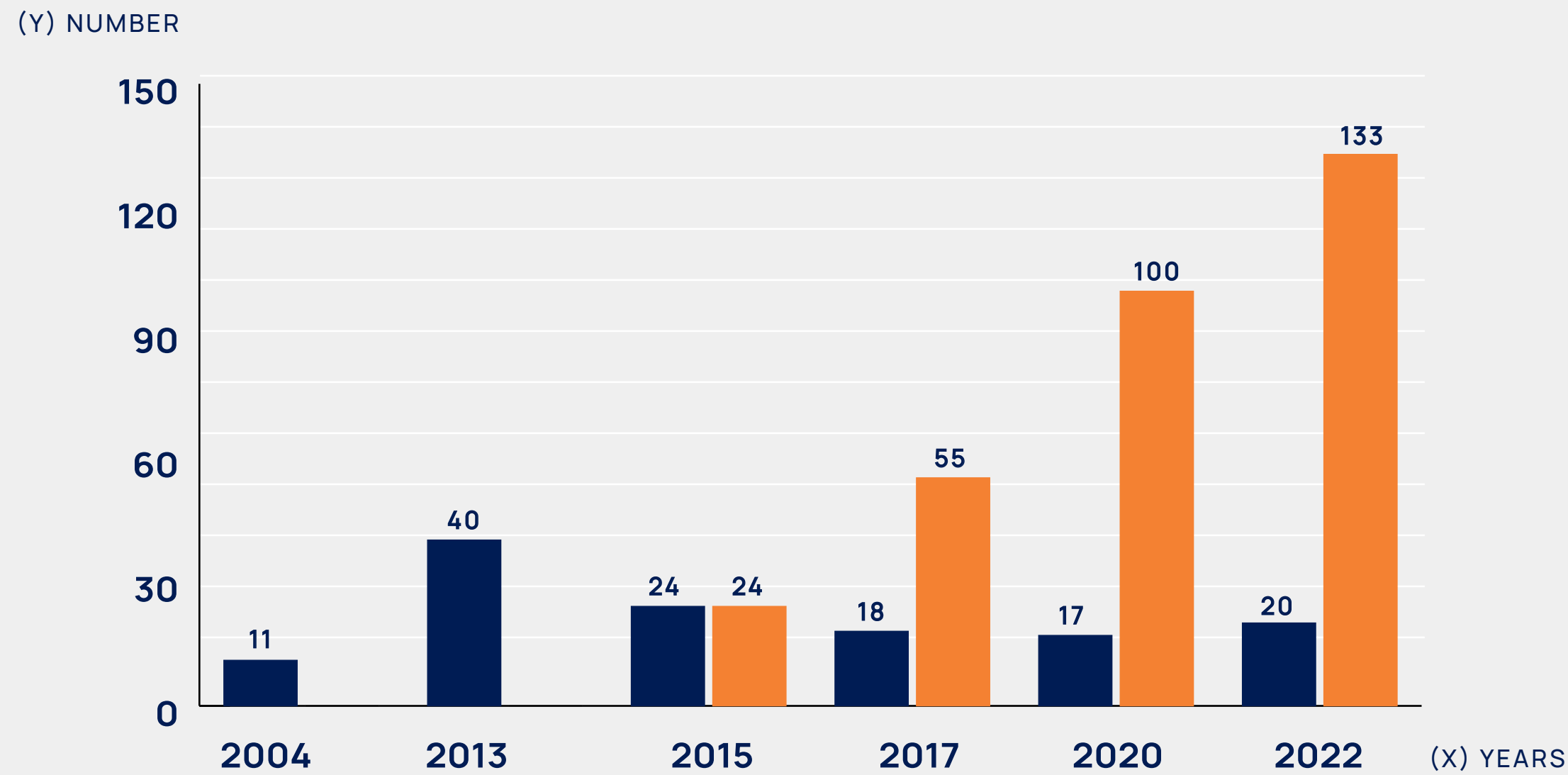
Evolution



History



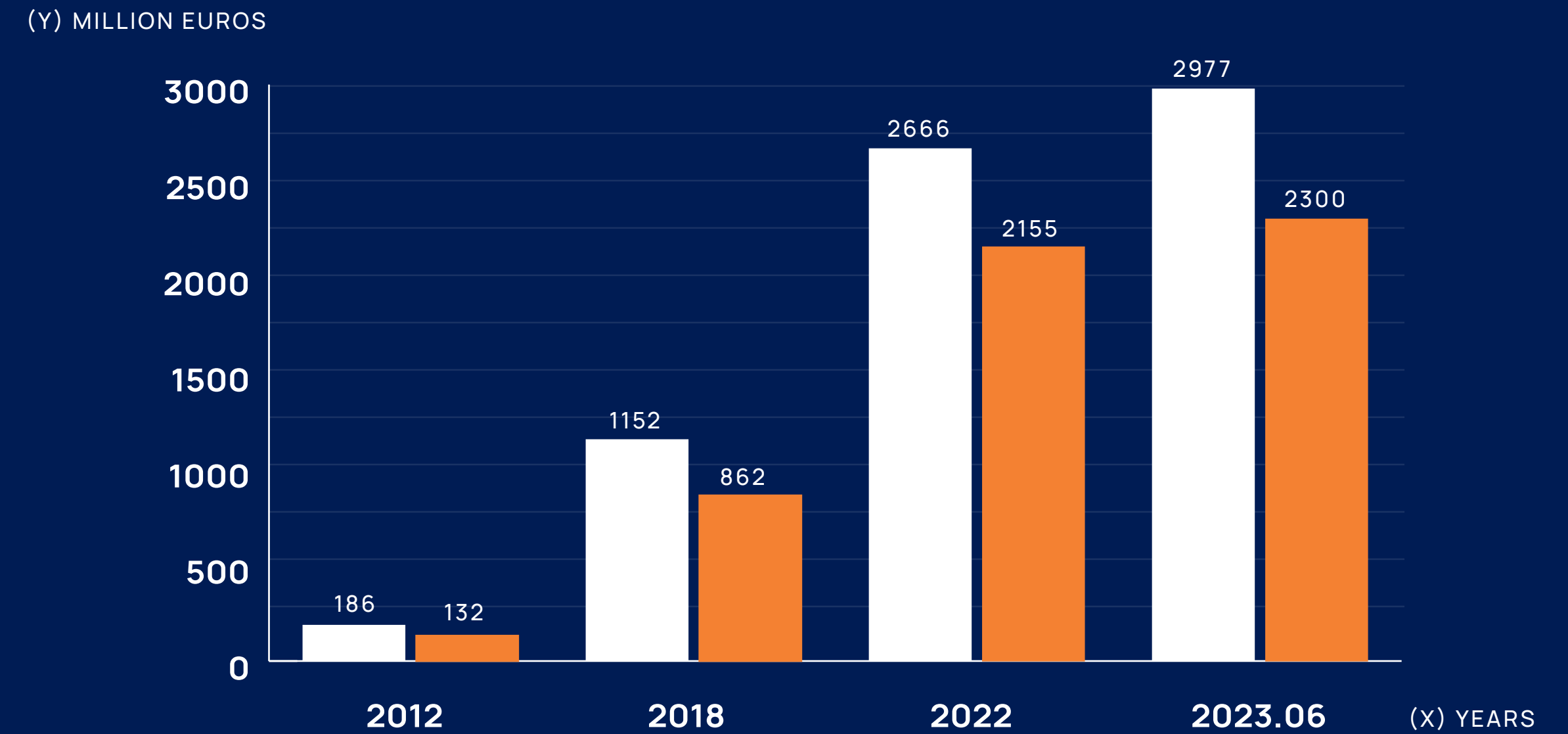
Number of Investment Funds



● CIU * * CIU - Collective investment undertakings
● CIUIII * ** CIUIII - Collective investment undertakings intended for informed investors

Source: Bank of Lithuania, 2023

Assets under Management and Net Assets Value



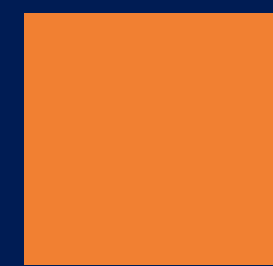
● AuM * * AuM - Assets under management
● NAV ** ** NAV - Net assets value

Source: Bank of Lithuania, 2023



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Regulatory
Regimes for
Investment Funds



	UCITS	AIF for retail investor	AIF for informed investor	Unregulated
Legal Act	Law on CIU ¹ (Part 1)	Law on CIU (Part 2)	Law on CIUIII ²	Law on Partnerships, Law on Companies
National / EU	National and EU	National	National	National
Investor type	Retail investors	Retail investors	Informed investors, including professionals or those investing a minimum of EUR 125,000 or less with a test.	Group of informed investors known in advance - informed investors, including professionals or those investing a minimum of EUR 125,000 or less with a test.
Investment strategy	Transferable securities	Specific regulations for: <ul style="list-style-type: none"> • Real estate funds • Private equity funds • Funds investing into other funds • Funds into securities 	<ul style="list-style-type: none"> • Any strategy • Specific regulation for debt funds 	<ul style="list-style-type: none"> • Any strategy
Portfolio diversification	Applicable	Applicable	<ul style="list-style-type: none"> • Not applicable (general risk management rule) • BUT applicable to debt funds 	Not applicable
Leverage	Caps applicable	Caps applicable to real estate funds	No cap, BUT applicable to debt funds	No cap

¹ Law on Collective Investment Undertakings

² Law on Collective Investment Undertakings intended for Informed Investors



	UCITS	AIF for retail investor	AIF for informed investor	Unregulated
Legal form	<ul style="list-style-type: none"> • Contractual fund with no legal personality • Public limited liability company (in LT: Akcinė bendrovė) 	<ul style="list-style-type: none"> • Contractual fund with no legal personality • Public limited liability company (in LT: Akcinė bendrovė) 	<ul style="list-style-type: none"> • Contractual fund with no legal personality • Following investment companies: <ul style="list-style-type: none"> - Public limited liability company (in LT: Akcinė bendrovė) - Private limited liability company (in LT: Uždaroji akcinė bendrovė) - General partnership (in LT: Tikroji ūkinė bendrija) - Limited partnership (in LT: Komanditinė ūkinė bendrija) 	<ul style="list-style-type: none"> • Any legal form but most common are: <ul style="list-style-type: none"> - Limited partnership (in LT: Komanditinė ūkinė bendrija) - Private limited liability company (in LT: Uždaroji akcinė bendrovė)
Management	<ul style="list-style-type: none"> • Contractual fund: managed by a licenced management company • Public limited liability company: self-managed or managed by a licenced management company 	<ul style="list-style-type: none"> • Contractual fund: managed by a licenced management company • Public limited liability company: self-managed or managed by a licenced management company 	<ul style="list-style-type: none"> • Contractual fund: managed by a licenced or authorised management company • Investment companies: self-managed or managed by a licenced management company 	Self-managed



	UCITS	AIF for retail investor	AIF for informed investor	Unregulated
Capital requirement	<ul style="list-style-type: none"> • Self-managed: EUR 300,000 initial capital • NAV for contractual fund not less than EUR 300,000 • NAV for investment company not less than EUR 600,000 	<ul style="list-style-type: none"> • NAV for contractual fund not less than EUR 300,000 • NAV for investment company not less than EUR 600,000 	<ul style="list-style-type: none"> • Non-commitment-based CIU: not less than EUR 1M NAV within 12 months after authorization • Commitment-based CIU: not less than EUR 2 M commitments and assets within 24 months after authorization 	Statutory amounts of minimum capital (if any) are applicable depending on the legal form
Custody / depositary	Assets to be held at a depositary	Assets to be held at a depositary	Assets to be held at a custodian or a depositary	Non applicable
Public offer	Can be offered publicly after publishing prospectus	Can be offered publicly after publishing prospectus	Can be offered publicly after publishing prospectus	Can be offered publicly after publishing prospectus
Supervision	Applicable (Bank of Lithuania)	Applicable (Bank of Lithuania)	Applicable (Bank of Lithuania)	Not applicable, BUT must register with the Bank of Lithuania and provide annually data on investments
Cross-border distribution	Allowed	Not allowed, BUT allowed to professional investors if it is managed by an AIFM	Not allowed, BUT allowed to professional investors if it is managed by an AIFM	Not allowed

Note: ELTIF, EU VECA, EU SEF are also possible.



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Common
Structures for
Investment Funds

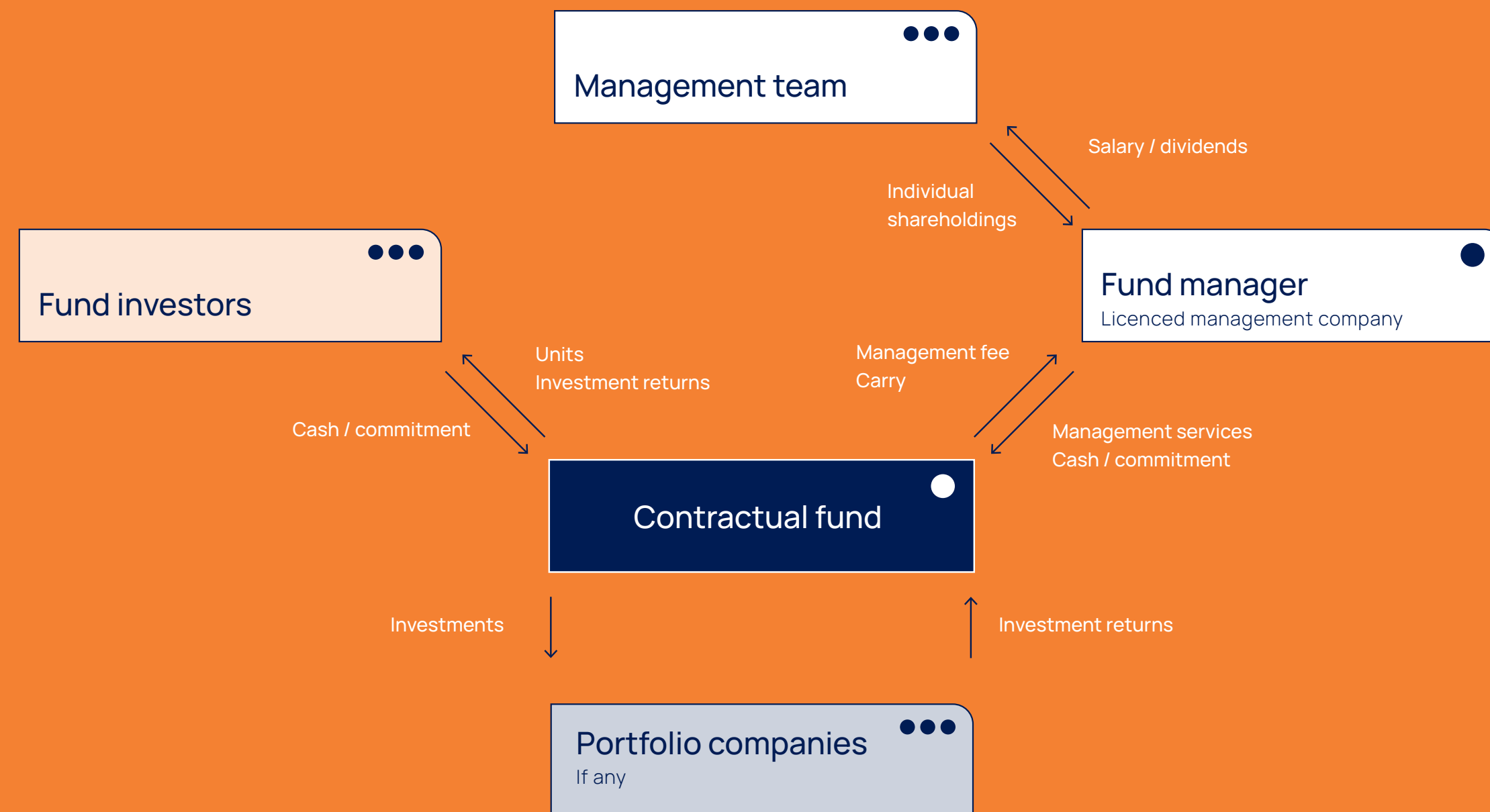


Below, you will find illustrative diagrams that aim to provide a visual representation of the organizational structures used for investment funds and companies in Lithuania

Diagrams A-C depict the most basic and common legal structures, while diagram D presents more intricate and detailed structure



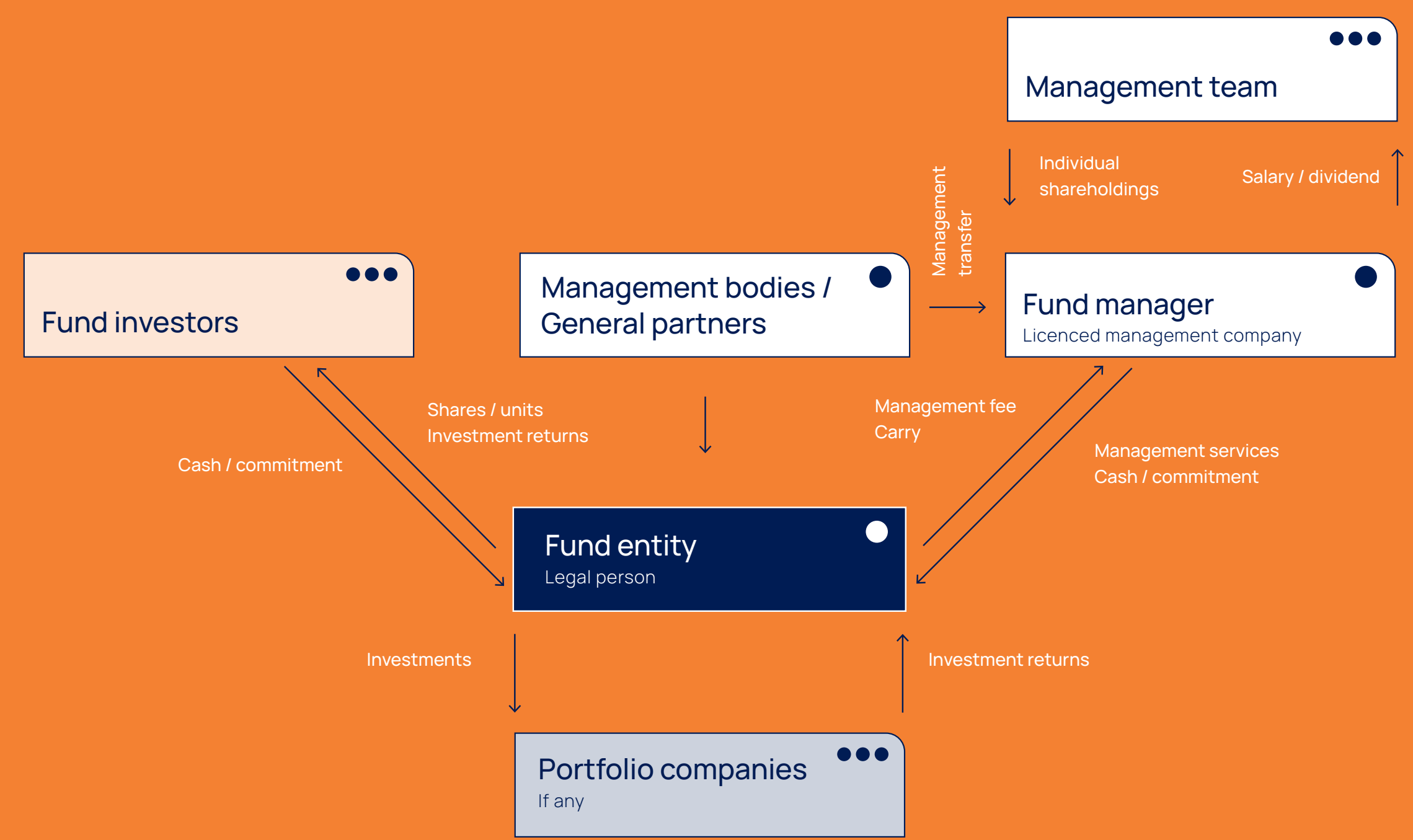
A. Contractual Funds



A contractual fund lacks legal standing and, consequently, does not possess any formalized management bodies. Instead, the operational and administrative functions of a contractual fund are entirely overseen by a licenced management company responsible for its operation.

The investors of the fund engage with and hold a stake in the fund by virtue of contractual arrangements, typically structured as investment agreements or agreements related to the acquisition of investment units. Under these contractual provisions, investors effectively become owners units of the fund and have legal claims in its assets, participating in its activities in accordance with the terms established within these agreements and fund establishment documents.

B. Investment Companies with Transferred Management Function



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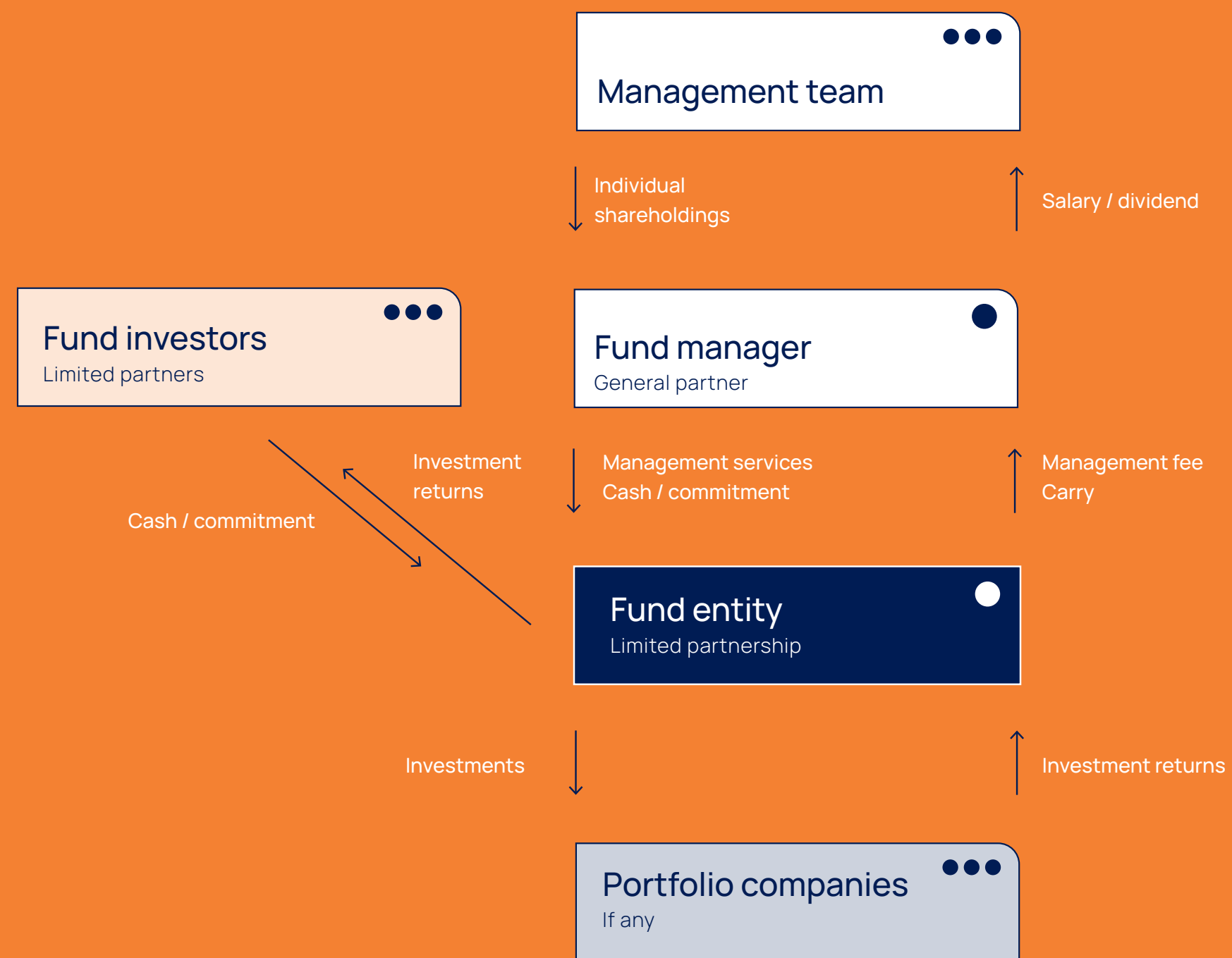
The management of the investment company, as well as all responsibilities associated with its management bodies, including the Chief Executive Officer (CEO) and the Management Board, or alternatively, the duties of the general partner, are formally delegated to a licensed management company through the execution of a comprehensive management transfer agreement.

In practical terms, the management bodies of the investment company are typically put in place during its initial establishment phase. However, as soon as the Bank of Lithuania grants approval for the foundational documents of the investment entity, they promptly cede their authority to the licensed management company. This transfer of authority marks a crucial transition in the governance structure, ensuring that the investment company's operations are conducted by and under the oversight and guidance of the licenced management company.



C. Self-managed Investment Companies

c1. Limited Partnerships

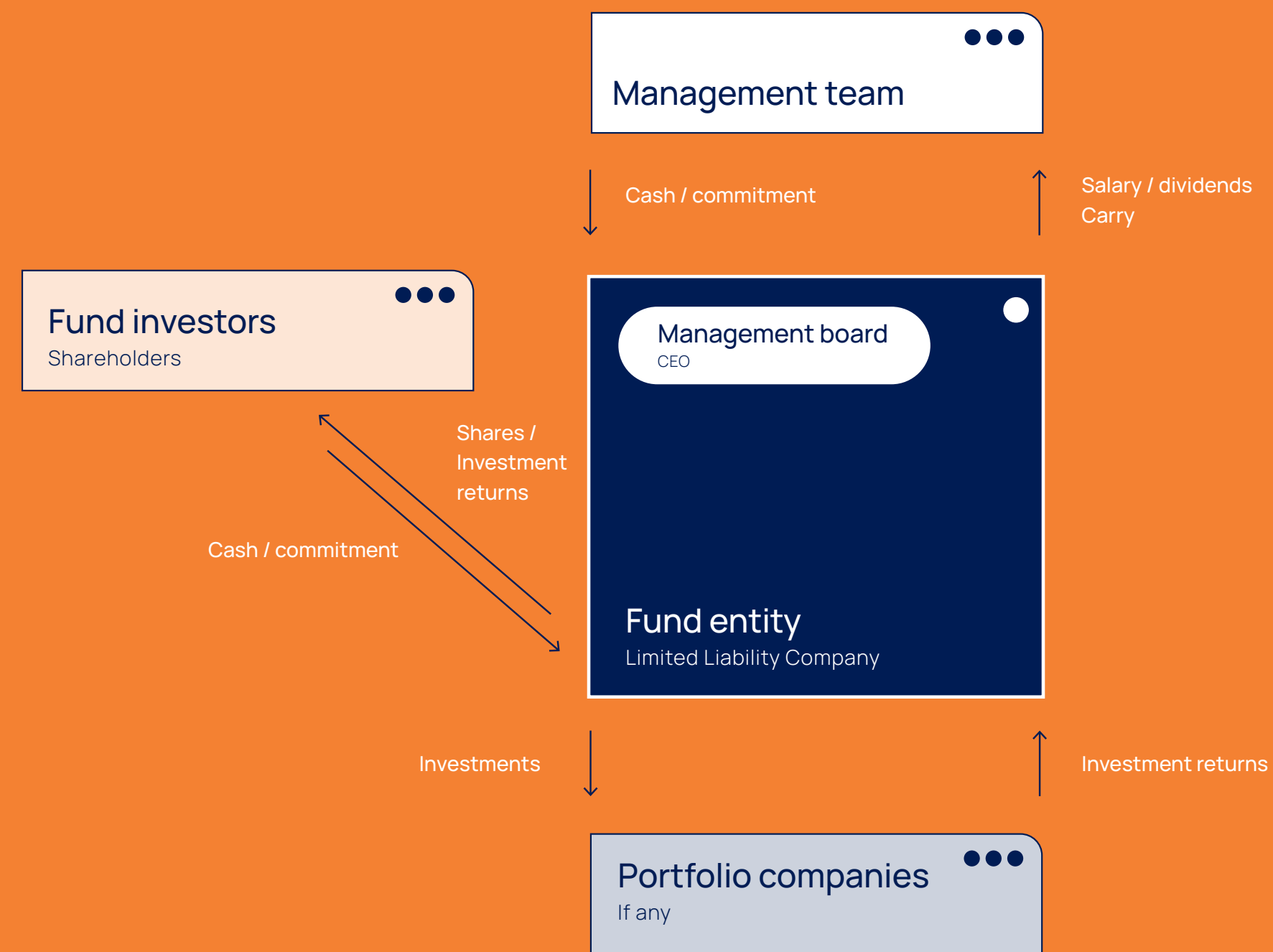


In nearly all instances, self-managed partnerships primarily assume the legal form of limited partnerships (*in LT: Komanditinė ūkinė bendrija*). Within the context of a self-managed limited partnership, the key responsibility for its management lies with its general partner.



C. Self-managed Investment Companies

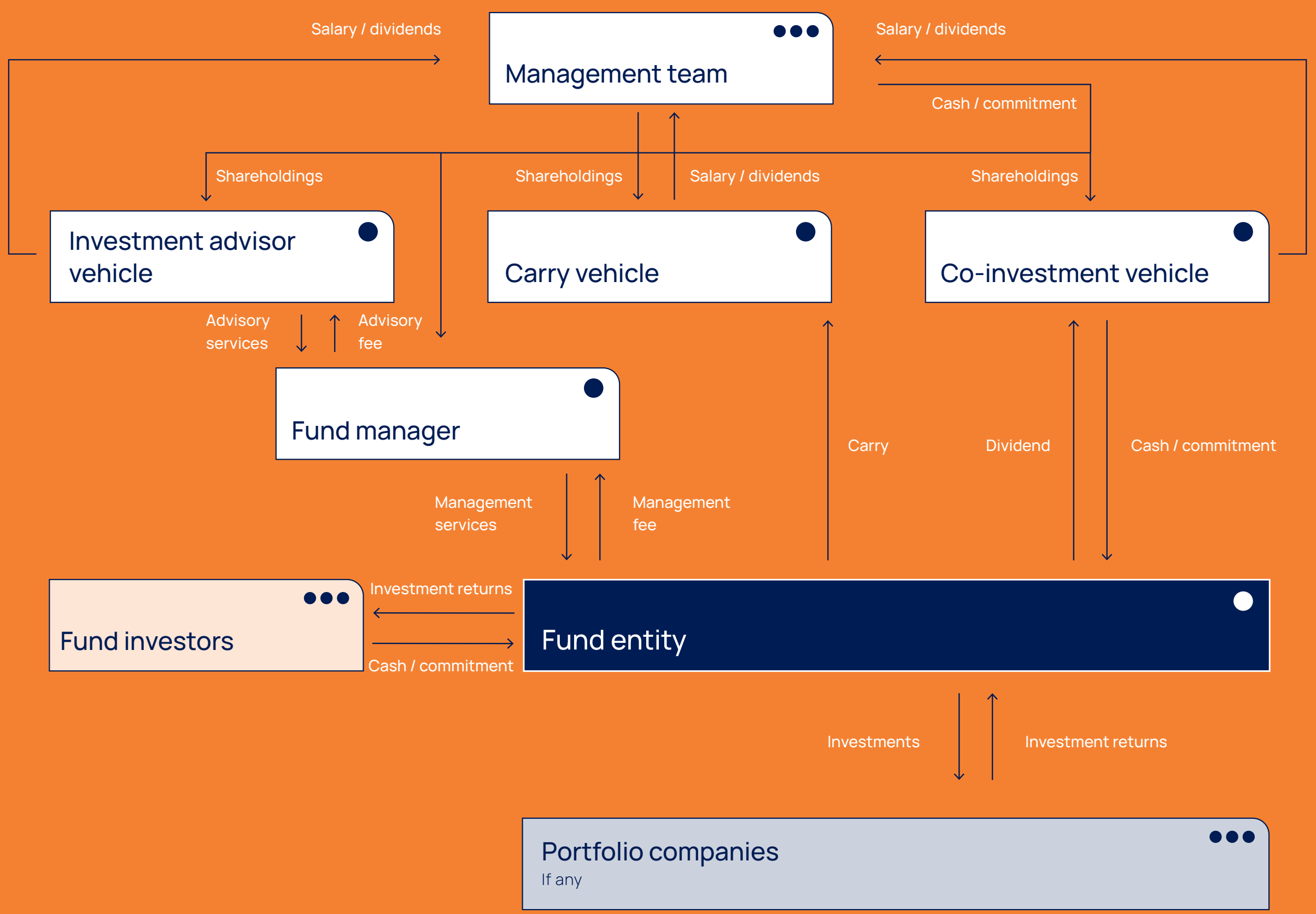
c2. Limited Companies



Limited companies, including both public limited liability companies (*in LT: Akcinė bendrovė*) and private limited liability companies (*in LT: Uždaroji akcinė bendrovė*), operate under the stewardship of their internal management bodies. This typically encompasses the Chief Executive Officer (CEO) and/or the Management Board, who assume the responsibility for the company’s day-to-day operations and strategic decision-making.



D. Elaborate Fund Structures



Typically, fund structures tend to be more intricate than simple A-C models, often incorporating distinct management holding entities to handle various components such as management fees, carried interest (carry), advisory fees, and team's commitment.

These multi-layered fund structures offer the flexibility to implement diverse dividend, fee, or carry distribution models and allocations to the management team. This approach ensures that the carried interest, which represents a share of the fund's profits, is collected into separate vehicles, facilitating more nuanced and customized compensation arrangements for the management team.



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Taxation



Taxation Principles: Fund Level

● Generally, no taxation applies at the fund level, provided that the fund is treated as a collective investment vehicle under the Law on CIU, the Law on CIU III or the Law on AIFM; or is treated as a non-licensed private and venture capital vehicle.

Fund

Non-taxable (except income related to blacklisted territories), if treated as collective investment vehicle

Investment Company

Non-taxable (except income related to blacklisted territories), if treated as collective investment vehicle

Partnership

Non-taxable (except income related to blacklisted territories), if treated as collective investment vehicle

Unregulated Entity AB, UAB, Partnership

Non-taxable (except income related to blacklisted territories), if treated as a non-licensed private equity and venture capital vehicle

Taxation Principles: Investors

In case of collective investment vehicle under the Law on CIU, the Law on CIUIII or the Law on AIFM:

Natural Person Resident

Dividends are taxable at 15% personal income tax

Natural Person EU

Dividends are taxable at 15% personal income tax (unless a reduced tax under the Double Tax Treaty can be applied)

Company Resident

Any type of income received from a collective investment vehicle (except income related to blacklisted territories) is non-taxable

Company EU/ Non-EU

Not in blacklisted territory
Dividends received from a collective investment vehicle are non-taxable. In case of a partnership, any income or assets received by investors are not treated as distribution of profit

In case of a non-licensed private equity and venture capital vehicle:

Natural Person resident

Dividends are taxable at 15% personal income tax

Natural Person EU

Dividends are taxable at 15% personal income tax (unless a reduced tax under the Double Tax Treaty can be applied)

Company Resident

In case of a partnership not registered in a blacklisted territory received profit or dividends are non-taxable as well as any income or assets received by investors are not treated as distribution of profit. In all other cases and legal forms, general tax rules apply and dividends are taxable at 15% corporate income tax (unless dividend exemption can be applied)

Company EU/ Non-EU

Not in blacklisted territory
In case of a partnership, any income or assets received by investors are not treated as distribution of profit. In all other cases and legal forms, general tax rules apply and dividends are taxable at 15% corporate income tax (unless dividend exemption or reduced tax are under the Double Tax Treaty can be applied)

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