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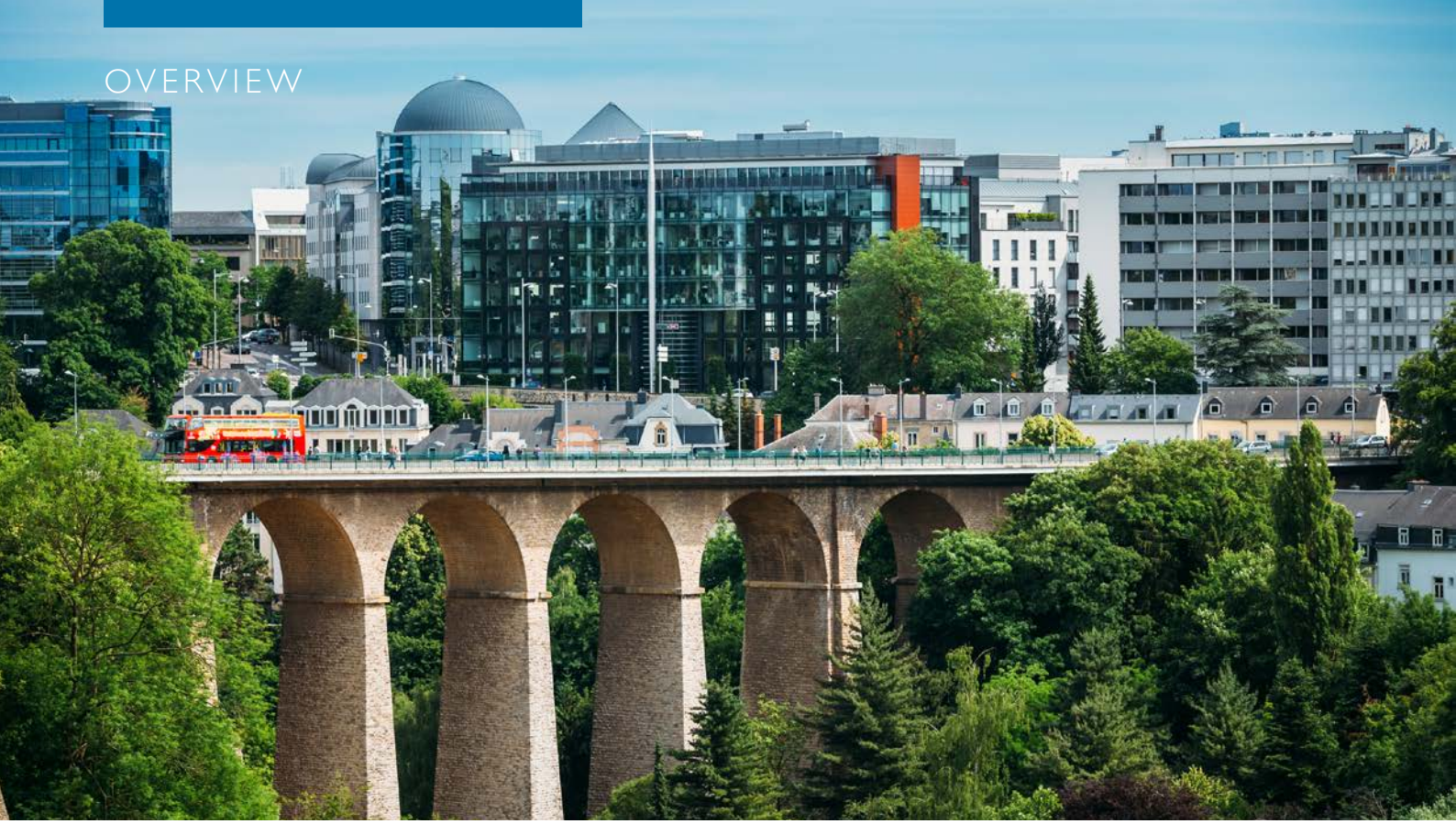


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Adapting and responding to change

By A. Paris

Uncertainty remains the order of the day as the world heads into a period of slow recovery which risks being scuppered by a variety of factors including the US elections, trade tensions and the prolonged impact of the Covid-19 pandemic. Financial services practitioners in Luxembourg, like their peers in other jurisdictions, have had to navigate this volatile environment while continuing to provide a seamless service to clients.

"The crisis has been a strong accelerator of change by spotlighting our resilience, as well as our ability to adapt. While organisations are considering how to accommodate working from home to a greater extent, the reduction of face-to-face contact may in turn have a detrimental impact on collaboration, connectedness and productivity. To that end, the need for support in this profound cultural change should not be minimised," details a report published by the Digital Banking and FinTech Innovation Cluster of the Luxembourg Bankers' Association (ABBL) and KPMG Luxembourg.

Although much in the world has obviously changed, ALFI chair Corinne Lamesch told delegates at the organisation's virtual conference that following the initial Covid shock in February and March, total assets under management in Luxembourg rebounded to EUR4.6 trillion at the end of July, approaching the all-time peak set in January. "At least for now, Luxembourg's role as the world's leading cross-border fund centre remains unchallenged," she said.

Luxembourg's regulator, the Commission de Surveillance du Secteur Financier (CSSF) has played a significant role in supporting the funds industry through the crisis. For example, certain deadlines were extended and new measures were brought in to permit firms to hold shareholder and management body meetings of exclusively in digital form.

AIFMD review

It has been nine years since the Alternative Investment Fund Managers Directive (AIFMD) was first published and seven since it was passed into law. In this time Luxembourg has witnessed growth in the alternatives arena as it set up structures to support managers in complying with the new regulation.

However, some element of change may be afoot. In a letter to the European Commission, Steven Maijoor, chair of the European Securities and Markets Authority (ESMA) identified topics which should be addressed in the EC's review of the AIFMD.

Greg P. Norman, Counsel, Investment Management, Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates comments: "Of the 19 reform areas listed by ESMA, the proposed changes relating to delegation and substance stand out as the most controversial due to the highly disruptive impact that they could have on the well-established delegation and host alternative investment fund manager (AIFM) models."

At the ALFI conference, Luxembourg's finance minister Pierre Gramegna and the CSSF's Claude Marx and Marco Zwick joined industry members in warning against hasty changes to a model that has served Luxembourg's and Europe's fund industry well over the past three decades.

Growing ESG demand

Another factor Luxembourg players need to contend with is the growing appetite for sustainability and environmental, social and governance (ESG) both from an investment point of view and also on a policy dimension.

Luxembourg for Finance, the jurisdiction's development agency writes: "Luxembourg is constantly expanding its toolbox of products and services designed to promote investment into green and sustainable projects and to help bring sustainable finance into mainstream."

In testament of this, in September, the Grand Duchy became the first European country to launch a Sustainability Bond Framework. The innovative framework is also the first in the world to fully comply with the new recommendations of the European taxonomy for green financing.

Revenues obtained through these bonds will be invested by the government in new sustainable projects, such as the construction of green housing, the energy transition, the development of low CO_2 emission transport or more efficient water management, or to refinance existing loans should they meet the criteria. The proceeds will also be used to finance social projects in sectors such as health, education, affordable housing or the labour market.

> *"At least for now, Luxembourg's role as the world's leading cross-border fund centre remains unchallenged."*
>
> Corinne Lamesch, ALFI

For asset managers and service providers, the growing focus on ESG by policy makers often translates into increased reporting and compliance measures. The Luxembourg Stock Exchange outlines: "Multiple companies would like to meet this demand [for ESG], but struggle to define the right ESG approach and methodology and establish proper ESG reporting procedures." In support of the industry, the exchange published a set of comprehensive guidelines for reporting on ESG aspects."

The asset management industry itself is said to be forerunning regulations around ESG as it responds directly to investor demand. In an article on the firm's website, Eric Borremans Head of ESG at Pictet Asset Management, notes: "ESG is a technique for enriching traditional analysis. It is misleading to think in terms of 'ESG compliance'." His words warn against a tick-the-box attitude to ESG, suggesting a more integrated approach.

CVC Capital Partners, one of the largest managers in Luxembourg advocates this as well. The firm, which has more than USD80 billion under management across private equity and credit, fully integrates ESG considerations into its approach to creating value across its investments.

In a keynote interview, CVC ESG director Chloë Sanders notes: "More recently I've observed a significant increase in interest and depth of understanding of ESG topics. Those investors interfacing with us on ESG are sophisticated and are asking for far more detailed information about portfolio companies, wanting to understand more about our overall approach to the big global challenges.

"A lot of that comes from obligations in respect of their own ESG commitments. As long-term signatories to the PRI and more recently as a member of the PRI Private Equity Advisory Committee, we are actively involved in the finance industry's dialogue on these topics." ■



New growth opportunities for an expanding global funds industry

By Marc-André Bechet

Broadening and diversifying Luxembourg's footprint as a global funds jurisdiction

Luxembourg is in a quite unique position as a global funds jurisdiction compared to other financial centres in the European Union.

The country enjoys an unrivalled political and economic stability. It benefits from a triple A rating with a stable outlook, which has been re-confirmed in September by the three rating agencies Fitch, Standard & Poor's and DBRS Morningstar. Luxembourg is one of the ten countries worldwide with a triple A rating. Debt to GDP, although on the rise as a consequence of the current crisis, will soon reach 26 per cent but remains well below debt levels in the EU.

The legal system is combining legal structures which originate from civil law and common law jurisdictions alike. In the "legal toolbox" which asset managers can avail of in the Grand Duchy, the common limited partnership ("SCS") and the special limited partnership ("SCSp"), a limited partnership without legal personality, are recent additions which have proven extremely powerful in the structuring of private equity and venture capital investment vehicles.

Luxembourg offers a large variety of structuring opportunities for PE/VC vehicles, such as the investment company in risk capital (SICAR), the specialised investment fund (SIF), the reserved alternative investment fund (RAIF), and the limited partnership as just mentioned.

The RAIF (Reserved Alternative Investment Fund) structure, introduced by the law of 2016, allows asset managers to set up Luxembourg-domiciled funds that are not subject to regulatory approval by the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier ("CSSF"). A RAIF is however "indirectly" supervised as it must be managed by an authorised AIFM. Main benefits are quick time-to-market, flexibility in the categories

of asset classes a RAIF can invest in, and the availability of the marketing passport under the AIFMD.

As of July 2020, there were close to 4,000 limited partnerships (SCS and SCSp) in Luxembourg, qualifying as Alternative Investment Funds. With 1,087 funds and 42 billion euros AUM, the RAIF has become a vehicle of choice in the PE/VC space.

Next to its three official languages including French and German, the use of the English language is widespread. Asset managers can deal with the CSSF and the authorities in English. Articles of incorporation and funds' offering circulars do not need to be translated.

Luxembourg is obviously not a distribution market in itself. From the very days of UCITS, and more recently with the AIFMD, the Grand Duchy has positioned itself as the preferred domicile for investment funds with a global distribution reach. Today, 80 per cent of the top 30 asset managers across the world have set up funds in Luxembourg. 58 per cent of all cross-border funds[1] are Luxembourg-domiciled, being marketed in 70+ markets. Asset managers from 35 different jurisdictions[2] have established a management company and/ or an AIFM in Luxembourg. Some asset managers prefer to appoint a 3rd party management company when establishing their first fund structures. Recent newcomers include asset management firms from Vietnam and Brazil.

Brexit: Implications for Luxembourg as an international asset management centre

London and Luxembourg are long-standing partners. With 17.1 per cent of AUM[3], UK asset managers represent the second largest group of initiators of Luxembourg funds. These investment funds (UCITS and AIFs) benefit from European marketing passports.

The UK is in fact a very important distribution market, with Luxembourg clearly a leader among overseas funds. Roughly 25 per cent of funds distributed in the UK are overseas funds. As at 31 December 2019, there were 8,862 funds/ sub-funds distributed in the UK. From this total, 4,341 are Luxembourg-domiciled[4], which thus represents 49 per cent of all overseas funds registered in the UK.

The vast majority of UK asset managers already had a presence in the Grand Duchy before Brexit, but some additional 30 firms, essentially in the management of alternative funds, have in the meantime set up their own operation in Luxembourg.[5]

Unlike in other segments of the financial sector such as the clearing of derivatives, trading venues or CSDs, the concept of equivalence plays little if no role when it comes to the management and marketing of EU and non-EU funds. Indeed, the UCITS directive and the AIFMD already offered pre-Brexit a relatively clear framework. ALFI's feedback from its members is that virtually all firms have taken the necessary steps to anticipate the impact of Brexit.

From January 2021 onwards, UK-domiciled funds will qualify as non-EU AIFs. These funds may still be marketed to European investors under the National Private Placement Regimes, if any, of each individual EU Member State. But they will no longer benefit from the marketing passport of the AIFMD.

Policymakers in the UK have confirmed their intention to keep the UK market open to overseas funds, which is a welcomed development.

To avoid any disruption, the UK government and the FCA implemented a Temporary Permissions Regime (TPR) which enables relevant firms and funds which passport into the UK, to continue operating in the UK when the passporting regime ceases to exist on 31 December 2020. All Luxembourg investment funds registered for distribution have made use of the TPR mechanism. The TPR is obviously a short-term facility to bridge the gap until new legislation is passed and effectively implemented in the UK.

The UK Government (HM Treasury) launched a Public Consultation on the Overseas Funds Regime (OFR) post Brexit, to which ALFI responded in early May. ALFI generally agrees on the approach taken, in particular the concepts of outcomes-based equivalence set out in this Consultation. The main challenge for overseas funds will obviously lie in the additional requirements (such as the requirement to comply with FCA PS18/8 on the Assessment of Value) that the UK legislator, being no longer bound by EU legislation, may impose on overseas funds.

A major point of attention in the relationship between the UK and the EU post Brexit is the delegation of portfolio management. Delegation is explicitly permitted in the UCITS Directive and AIFMD. Cooperation agreements between EU Member States and third countries must be in place in case of delegation, which will be the case.

The designation of delegates in and outside the EU is subject to strict requirements of initial and ongoing due diligence, and oversight of delegates. A framework with the required protections and safeguards is already in place. As a result, there is a wide consensus in the industry that they are no reasonable grounds to revisit the delegation framework in the context of the reviews of the AIFMD and UCITS Directive.

Capitalising on the surge in investors' appetite for sustainable/ESG fund products

ALFI has always viewed responsible investing as one of the three main pillars of its mission, next to fostering the development of UCITS and Alternative Investment Funds. ALFI is also one of the founding members and a close partner of the Luxembourg labelling agency, LuxFLAG.

In its survey on the European Responsible Investing Fund Market 2019, KPMG showcases the steady increase in responsible investing both in terms of number of funds and assets under management. According to KPMG, from



2016 to 2018, the number of RI funds in Europe increased by 27 per cent while assets went up by 12.5 per cent to reach the mark of EUR 500 billion.

While at the time this only represented a small proportion of 3 per cent to 4 per cent of the assets of all European funds, sustainable/ ESG considerations have become one of the key investment criterion for both retail and institutional investors. Morningstar reported in August 2020 that flows into sustainable funds more than doubled in Q2 2020 compared to Q1 2020, with 54.6 billion US dollars net inflows.

This can be explained by an increasing demand from investors as a result of the Covid-19 pandemic, bringing sustainability at the forefront. The European Commission's regulatory agenda, with the disclosure and taxonomy regulations being rolled out in 2021, is also a game-changer. It will require each and every single fund, not just those with an ESG focus, to comply with new disclosure requirements, including on the adverse sustainability impact.

As a confirmation of the above trend, LuxFLAG recently announced that the total number of labels has reached an all-time high with 303 investment products from 10 different jurisdictions, managed in 17 countries by 98 asset managers and 128 billion euros AUM. The number of labelled investment products has grown by 92 per cent since Q3 2019, reflecting the strong growth in sustainable investing.

On a broader note, Luxembourg was the first European country to launch a Sustainability Bond Framework, which is the first in the world to fully comply with the new recommendations of the European taxonomy for green financing. Luxembourg also became the first European government to issue a "sustainability" bond on 7 September 2020, raising 1.5 billion euros. The issue was 8 times oversubscribed.

The Luxembourg Green Exchange ("LGX") is the world's first and leading platform dedicated exclusively to sustainable financial instruments. It is an essential actor in Luxembourg's strategy to position itself as one of the leading financial centres in sustainable finance. One of key concerns of asset managers is the lack of sustainability data. As a response to this market need, LGX recently created the LGX DataHub which allows asset managers to analyse previously unstructured pre- and post-issuance information on Green, Social and Sustainability Bonds, including but not limited to, all those displayed on LGX.

The expansion of private debt and real assets as growing alternative fund sectors

ALFI has been commissioning or carrying out annual surveys on the three main alternative asset classes enjoying significant growth in Luxembourg: private equity, private debt and real estate.

Over the period under review ending September 2019, growth rates for all three asset classes (regulated funds only) were well above that of mainstream funds: + 14.5 per cent for private debt, + 17.71 per cent for RE and + 19 per cent for PE (regulated/ non-regulated). In contrast, for the past 12 months up to end of September 2019, UCITS' AUM grew by + 8.02 per cent. This trend is set to continue in 2020.

There is now evidence that the AIFMD "brand" and the three asset classes gain traction not only in the EU, but also increasingly outside the EU – both in terms of asset managers creating AIFs in Luxembourg and non-European institutional investors investing in these products.

Asset managers typically choose Luxembourg for AIFs that have a multi-country investment approach and/ or that are distributed cross-border, in effect for the most complex and sophisticated structures; this is a recognition of the Luxembourg eco-system and expertise of all stakeholders across the entire value chain.

Some key facts and trends:

REIFs

- Asset managers: increasing interest from non-EU, in particular North American (18.3 per cent compared to 11 per cent in 2018);
- 46 per cent distributed in 2 to 5 countries, increasing use of AIFMD passport (against NPPR) – see survey link.

Private Equity Fund

- Average size significantly increased from 132 million to 200 million euros;
- Number of funds with over 1 billion euros has doubled in 12 months, with nearly large fund houses now active in this segment and present in Luxembourg;
- Unregulated investment vehicles (RAIFs and limited partnerships) now account for 51 per cent of all PE funds – see survey link.

Private Debt Funds

- In the last two years alone, AUMs of private debt funds have increased by 40 per cent from 40 billion in 2017 to 56 billion euros in 2019 (regulated funds only). It should be noted that there is a significant part of the segment in Luxembourg that is structured as unregulated entities – see 10 reasons link; see survey link;
- Luxembourg debt funds can originate, participate or syndicate loans and accommodate all types of debt strategies, including loan origination investments in secondaries, mezzanine, and distressed debt, subject to the requirements set out by the CSSF in its FAQs (section 22 on loan origination.

The growing attractions for fund managers of Luxembourg as a physical location

The Grand Duchy is home to no less than 170 different foreign nationalities representing a staggering 47.4 per cent of the total population, with an even higher percentage for the City of Luxembourg.

Quality of life – climate, housing, infrastructures, international schooling, health services, sporting facilities – is an important consideration for expats deciding to pursue their career in the Grand Duchy. The City of Luxembourg ranks 9th in the Global Liveability Report 2020 and thus maintains its place in the top 10, which it already occupied in previous years.

Luxembourg ranks 2nd out of 128 countries in terms of political stability and safety according to the INSEAD & OMPI Global innovation Index, 2016. It ranks 4th best city for the level of its healthcare services in the EU Flash Eurobarometer, Quality of Life in European Cities.

It has a wide selection of multilingual schooling options and a vast selection of state-subsidised fee-paying schools to cater for the growing expat community. And it ranks 2nd best city with the highest level of sporting facilities in the EU according to the EU Flash Eurobarometer 419, Quality of Life in European cities.

The Luxembourg government reckons that public transport requires further investments. In 2020, Luxembourg became the first country in the world to make all public transport free. ■

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Footnotes:

1. *Refinitiv and PwC Analysis, 31 December 2019.*
2. *CSSF, 2019 Annual Report.*
3. *Source: CSSF, 31 July 2019.*
4. *Source: Refinitiv and PwC analysis, 31 December 2019.*
5.. *Source: Luxembourg for Finance.*



Marc-André Bechet
Deputy Director General, ALFI

Marc-André Bechet is Deputy Director General, Director Legal & Tax of ALFI, the Association of the Luxembourg Fund Industry. He joined the association in September 2014. Before joining ALFI, Marc-André Bechet was Head of the Investment Funds Services at Banque Degroof Luxembourg, responsible for fund administration and custody. He was also a member of Banque Degroof's Management Board. Prior to joining Banque Degroof, Marc-André Bechet worked for 18 years at RBC Investor Services Bank S.A. in Luxembourg, where he held various senior positions including Head of Custody and Network Management, and Head of Business Development and Relationship Management, Legal and Compliance. Mr. Bechet holds a Master's degree in Business Administration from the University of Ottawa (Canada) and a Master's degree in Finance from the French business school ESCP in Paris. He speaks English, French, German and Luxembourgish.

Maintaining momentum and seizing opportunity

Interview with Anita Lyse

There are several macroeconomic factors which support further growth in the private equity, venture capital and real estate space in Luxembourg. Although events like Covid-19, the Brexit transition, US elections and the US-China trade war may damage this potential, managers can also find opportunity in the turmoil.

"There are huge amounts of capital in the markets. Unlike during the GFC, there is no shortage of debt, we're not in a liquidity crisis. And we are still in a low interest environment – which isn't going to change any time soon, so we're going to see more money continue to move into the alternatives sector. When you look at fund raising in the first half of 2020, yes, numbers are down compared to last year, but still at very healthy levels especially given the difficult context we're in with Covid-19," comments Anita Lyse, Head of Real Estate, Alter Domus.

However, given the prospective speed bumps ahead, Lyse notes: "Even though there are positives out there today and bright spots on the horizon, I don't think the markets overall will be fully back on track until the end of next year, at the very earliest. No one is able to predict the full economic and social impact that Covid-19 will have in the end. Additionally, there are other factors impacting the markets too; Brexit transition, the US elections, and the US-China trade war are all elements that add to the uncertainty across the markets – but which can also create great opportunities for those that are a bit more bullish and able to navigate through all this. So, managers will fare well or potentially struggle for longer depending on their investment strategies, the geographies they focus on, and their ability to cut through the noise and find opportunities."



Keeping up the pace

Discussing the role Luxembourg plays in these developments, Lyse identifies a few areas in which the jurisdiction needs to keep on its toes to maintain the pace of growth it has experienced over the years.

"Luxembourg needs a strong regulator. It is important to our clients and investors that Luxembourg enjoys a strong reputation as a financial centre, and the CSSF's contribution to that effect is key. Its ability to adapt to an ever changing environment is equally key.

"Generally speaking, I think Luxembourg authorities, including the financial regulator, have always done a pretty good job in being close to the industry participants, listening to their challenges and market trends, and being smart about how to best adapt the overall framework. They have also worked to be among the best in class in implementing new legislation and regulation, be it from the EU or the OECD," she says.

According to Lyse, intelligent management of resources is another critical building block: "There is a resource constraint in Luxembourg, so attracting and retaining talent has been on companies' agenda for a while already. Having a clear strategy on this is clearly on our agenda too as we continue our efforts to maintain and develop our employer value proposition.

"In addition to that, we have set up alternative service delivery centres outside of Luxembourg to mitigate that resource

constraint. We have not wanted to go to low cost centres, nor go outside of Europe, so we set up in Cork in Ireland a few years ago where we now perform primarily fund administration tasks. Contrary to what some may think, this is not at all about margin improvement as I think there are other and better ways to achieve that. The rationale is rather about capacity planning and ensuring we have resources that are able and available to onboard and manage the new business that comes in the door as we continue to enjoy a double-digit organic growth rate."

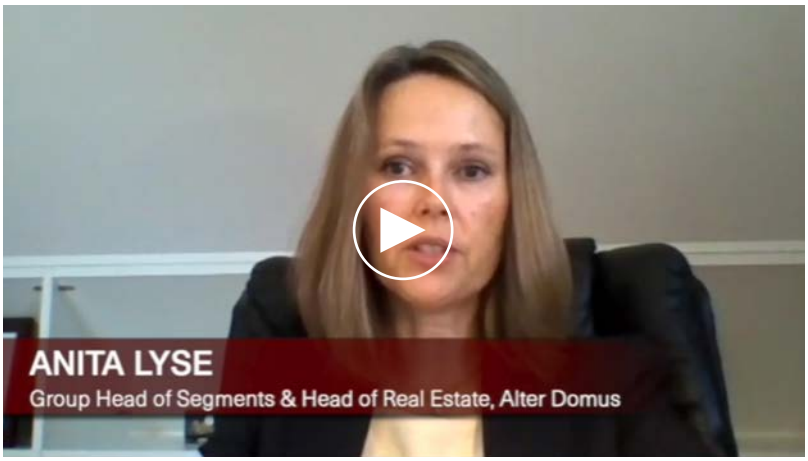
Moreover, continued focus on technology and innovation will further support Luxembourg's growth in the alternatives arena. Lyse remarks: "Since the lockdown in March this year, we have seen people and companies embrace technology a lot more, including digital solutions for signing documents, holding board meetings, and so on. This is great, but we need to continue to push this even further. For example, the legal validity of electronic signatures should be more widely accepted so that we can perhaps stop asking for wet ink signatures on certain types of documents.

"Overall, there is also a trend and pressure to continue to push for increased use of smart technology, robotics and process automation in order to gain speed in operations and deliverables and reduce costs. This is also an area in which we as a firm continue to invest heavily, both implementing better, more integrated and truly global systems, and also adding robotics to a number of our recurring processes."

KYC and onboarding challenges

Lyse highlights the challenges which lie within the Know Your Customer (KYC) and investor onboarding process: "This is an area that can sometimes cause a bit of frustration for our clients, especially those operating internationally with the obligation to go through this process in multiple jurisdictions. The AML/KYC rules should, in principle, be the same across all member states as they are set by the EU. However, there can often be certain tweaks or discrepancies in the way, and also in how quickly, these EU directives are transposed into national law by the different countries.

"If you look at it from a Luxembourg perspective alone, the fund manager needs to transmit KYC documents to a number of

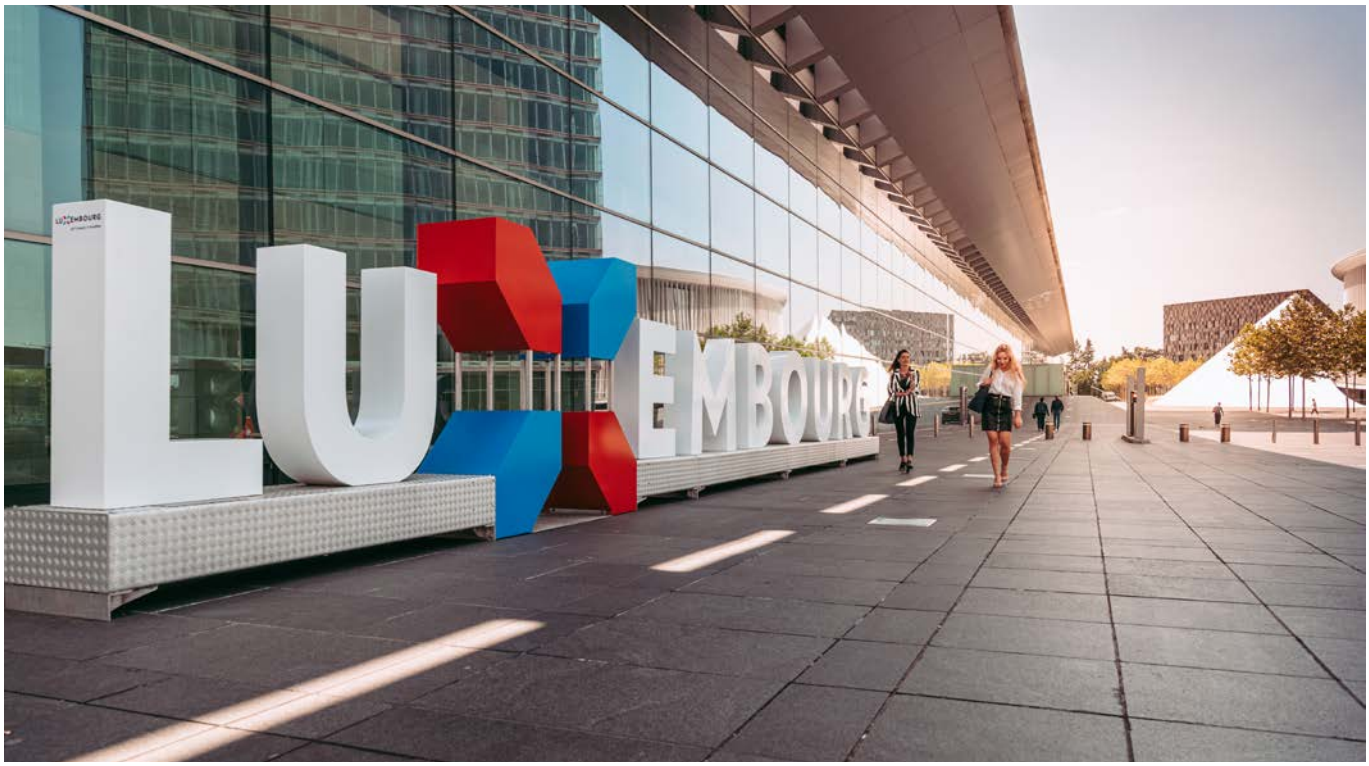


parties; banks, lawyers, fund administrators, etc. Whilst the rules will be the same for all, the client experience with each of these providers may be slightly different as each one in their own way goes through the process of fully understanding the intended structure and identify the ultimate beneficial owner. A potential solution to this could be implementing a centralised body that sets best practices throughout the industry, or even – going a step further – that could centralise the entire KYC function for the whole community. But that may be wishful thinking at this stage."

Meanwhile, to help streamline this process, Alter Domus has launched initiatives to digitise the onboarding process through an investor portal, and after a successful launch in some of our other locations, we are aiming to fully deploy this in a very near future also in Luxembourg. This helps to put the investor in the driving seat of the process and provides full transparency to both the investor and the manager around where things stand, which items are missing and which ones would potentially be blocking, for a distribution for example.

Client needs in Luxembourg have evolved over the last few years. In Lyse's view, the most significant change has been around the need for third party AIFMs. "The model of using a third party AIFM has not only gained a lot more acceptance but also become very much sought after as an alternative for managers trying to set up their own AIFM, which we all know can be very time and cost consuming.

"We have had our own AIFM solution in place for a few years, and have seen first-hand that huge demand in services translate into a tremendous increase in our assets under



management, growing from only a couple of billions of AUM three years ago to now reaching almost EUR 30 billion of committed capital," she outlines.

The demand comes on the one hand from non-EU fund managers wanting to tap into European capital with mostly the US, and over the last years also the UK managers at the forefront. Lyse points out that many smaller fund managers and new market entrants are also opting for the third party model: "Some of these will view that model as short-term; to use until they reach a critical size for them to set up their own AIFM. Others will take a different view on it and be happy to outsource this function longer-term. This will allow them to really focus on raising and deploying capital in the best interest of their investors."

The Brexit view

With Brexit, Luxembourg has also witnessed an enormous demand from UK managers looking for an alternative gateway to the single market. Commenting on the continued impact of the Brexit transition on the Luxembourg industry, Lyse states: "We started to see an acceleration before the Brexit vote as companies tried to anticipate and implement strategies to mitigate any risks that a 'yes' vote would have on their own operating model. Uncertainty isn't something managers or investors are very fond of in order to conduct their business in a sustainable fashion.

"This trend obviously accelerated even further after the vote and Luxembourg became the go-to place for many managers and investors, given its strong position as the largest financial centre for fund servicing in Europe and also among the largest globally. How the relationship and agreement between the UK and the EU will be worked out is still uncertain, but it will be in everyone's best interest to get something in place that works for all parties. I expect Luxembourg will take a very pragmatic approach to this and will be keen on getting a reasonable arrangement in place as quickly as possible." ■

Anita Lyse
Global Head of Real Estate, Alter Domus

Anita joined the company in 2001. Over the years she has worked with some of the world's largest private equity and real estate funds, and developed her expertise in management, accounting and financial reporting, corporate tax and legal aspects of Luxembourg vehicles set up by such investors. Before joining Alter Domus, Anita was a market analyst at Alcatel Business Systems' Mobile Phone Division, in charge of all country-by-country quantitative analysis and support. Anita holds a MSc in Business and Economics from the University in Toulouse, France. She is also a member of the Luxembourg Ordre des Experts Comptables (Luxembourg body for certified chartered accountants).

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Growth of parallel funds in the face of EU complexity

Interview with Anja Grenner

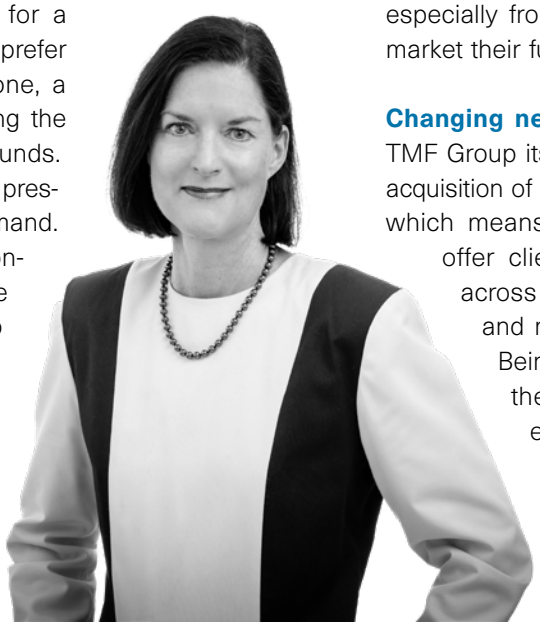
Luxembourg remains a key hub of fund distribution. However, the complexity of the European regulation has seen a rise in managers setting up more parallel funds in other jurisdictions. This is done to accommodate non-EU investors, who may struggle with the demands of the EU fund regulations.

"Something we're seeing quite a lot of is managers setting up a fund in Cayman or Delaware for US investors, a Singapore or Hong Kong fund to cater for Asian investors and then a Luxembourg fund for the EU market," observes Anja Grenner, Market Business Development Lead – Fund Services at TMF Group.

It would be simpler and cheaper to have a one-size fits all solution, but this trend is largely driven by the regulation governing fund distribution in Europe. "Across the EU, the rules are undeniably more complex than for structures outside of the union. We see this from the investors' perspective as well, as US or other non-EU investors in an EU fund sometimes struggle with the requirements to be met here in Europe," Grenner remarks.

She confirms a development seen for a number of years now where investors prefer a fund domiciled in their local time zone, a preference which is further underscoring the trend for managers to set up parallel funds. In TMF Group's case, it can leverage its presence across the globe to meet this demand. Grenner notes the overall client relationship manager would usually be in the fund manager's home jurisdiction, to maintain high levels of communication and rapport.

However, she adds: "There are many synergies to be gained from working with one service provider with multiple locations. We can make sure managers who have parallel funds in the US, Europe and Asia don't have to repeat everything three times. So, although you service the client from the jurisdiction in which they are located, certain services such as accounting or capital call statements can be performed in one place for all three jurisdictions." The main objective of this is of course to keep costs at a reasonable level.

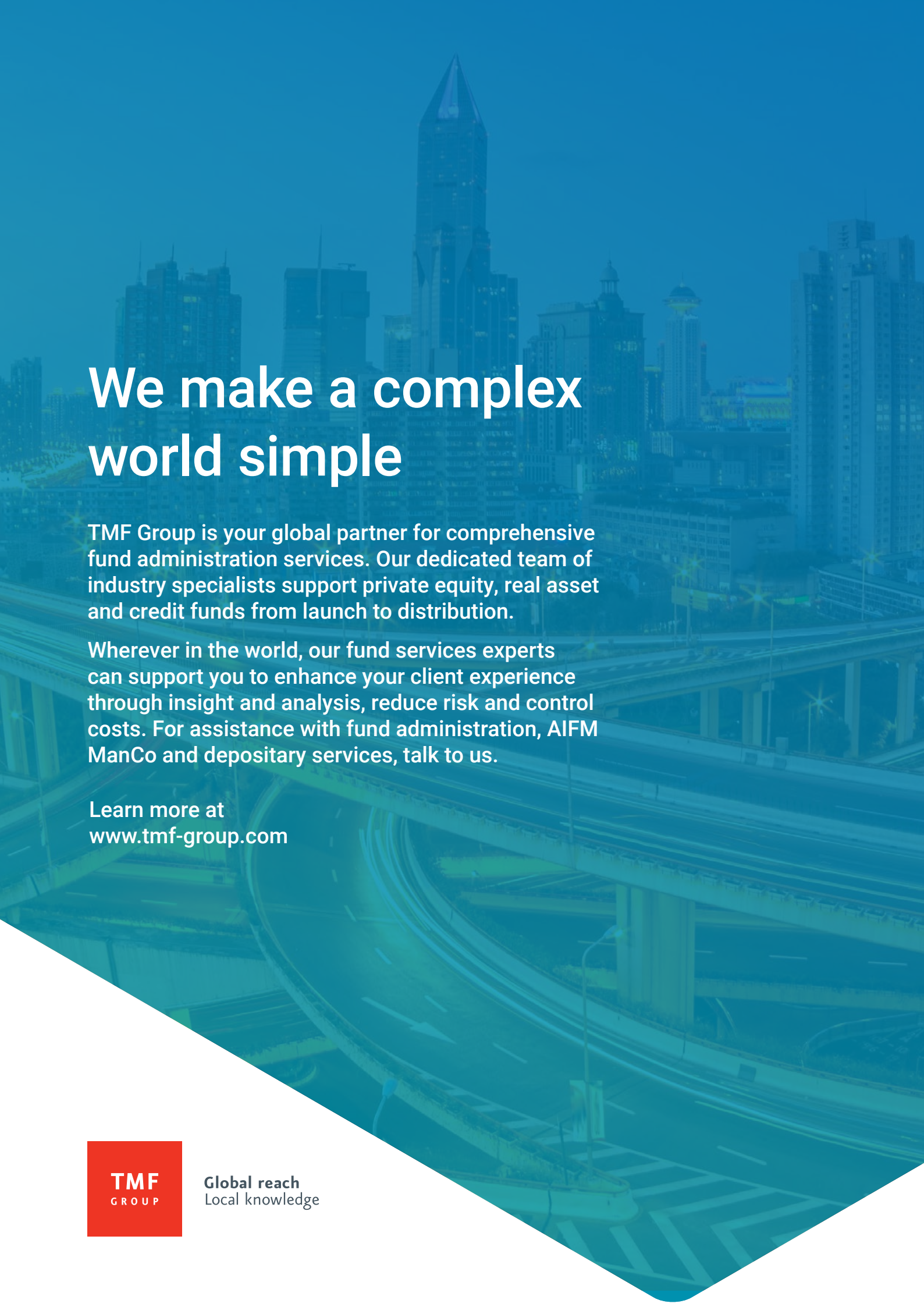


This said, certain services must be performed within the fund's domestic jurisdiction. For example, in case of a Luxembourg fund the maintenance of the investor register has to be retained in Luxembourg.

The growth in parallel funds is also contributing to expansion in Luxembourg, as non-EU managers look to set up European versions of their product, using Luxembourg as their gateway. Grenner comments: "We still see increasing levels of new assets coming in and over the last few years the concept of Alternative Investment Fund Managers (AIFMs) in Luxembourg has risen to an impressive number. There are now more than 260 AIFMs in the country and although not all are third party AIFMs, a good number of them are. This has given non-EU asset managers, especially from US, an option to continue to market their funds in the EU."

Changing needs

TMF Group itself has recently announced the acquisition of an existing AIFM in Luxembourg, which means the firm will now be able to offer clients a one-stop shop solution across fund administration, depositary and management company services. Being part of a large, global group, the firm benefits from constant evolution. Grenner points out: "We are always rolling out new systems, new architecture and new software to add onto existing systems worldwide. So, although TMF Group in



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Luxembourg has been a fairly small player on the funds side in the past, we have all the building blocks and ambition in place for growth."

In order to see this growth materialise, Grenner explains the firm needs to excel in terms of automation and processes, while focusing on how different systems interlink: "We have one core system for administration, but can adapt the reporting to each client. Ultimately, clients often want a tailor-made solution and this is what we are offering them in the most transparent way possible."

Grenner outlines the growing need for transparency on behalf of clients: "The demand for information is growing. Clients want to know about fees, valuations, reporting and performance indicators. Everything needs to be made more transparent and easily accessible."

An elemental part of this rising need for data relates to the increased appeal of ESG-compliant investing. Although this manner of investing has not yet impacted fund administration services, Grenner explains that TMF Group is primed to take this in its stride once the potential requirements on the administration side become clearer.

Keeping up-to-date

She says: "We don't want to be the last kid on the block, nor to be forced to rush. We are already in discussions with some of the leading ESG consultants in Luxembourg. We have also broached the discussion with our clients to understand what ESG mean to them and what they require in this regard. It's still all in the discussion phase at the moment. However, we will address this on a more systematic basis to be prepared for what's ahead within the next three to six months."

For this development to be successful, system enhancements are critical. In Grenner's view: "Good systems, processes and procedures are crucial. A strong technology platform is more than just a system. The key aspect is the ability to automate processes to make sure our people are not doing repetitive, manual work. We have highly qualified staff and nobody wants them spending time inputting data manually into a system. They should communicate with clients to assist and support them."

According to Grenner, the continuous development of robust systems is one of the most significant challenges players in Luxembourg face: "Our clients are demanding more from us, especially the international managers. When dealing with technology and updating systems, security is a vital dimension. Adding a new tool or piece of software is good for the clients, but it has to be done in a secure manner. Luxembourg has made huge progress over the last years in terms of systems used here, but this development is also driven by regulatory requirements. Ultimately, it is our clients but also the regulator requesting more granular and tailored reporting, which consequently drives the continued development of systems needed to meet those needs." ■

Anja Grenner
Market Business Development Lead Fund Services, TMF Group

Anja Grenner has been active in the Luxembourg fund services industry since 1993. Her extensive experience includes roles with the Big4 and several other large fund administration providers in Luxembourg. Anja holds a University degree from the University of Giessen (Germany) and a post-graduate degree from Royal Holloway, University of London. She also obtained the Investment Management Certificate (IMC) in the UK and qualifies as a Real Estate specialist certified by the Luxembourg training institution for the financial industry.

A growth outlook in a new reality

Q&A with Marcus Peter & Irina Stoliarova

What are the key trends currently driving growth and development within Luxembourg's funds industry?

In 2019 Luxembourg fund industry revealed significant growth that was not slowed down in the first three quarters of 2020. As at 31 August 2020, the total assets under management (AUM) amounted to EUR4,696.762 billion compared to EUR4,617.395 billion as at 31 July 2020, showing an increase of 1.72 per cent over one month and over the last twelve months, the volume of net assets rose by 4.31 per cent.

Regardless of the fact that asset managers, investment advisers and other market participants faced some difficulties due to Covid-19 pandemic, we observed, however, that 2020 is quite a successful year. This is because 2020 showed not only continuing growth in terms of AUM but also pertaining to the set-up of new investment vehicles. Also, the Covid-19 pandemic situation did not force many investment funds to suspend redemption request hereby showing robust and secured liquidity management within the investment funds. Since the Brexit referendum Luxembourg attracted increasing interest from UK based asset managers or asset managers planning to centralise their future cross-border activities via Luxembourg in the post Brexit era. Due to its competitive and professional environment, more than 60 financial institutions selected the Grand Duchy of Luxembourg as their post-Brexit gateway to the EU single market in the last two years.

One of the new key trends driving growth and development in Luxembourg fund industry is sustainable finance. Due to Luxembourg Green Stock Exchange that doubled its green, social, suitability and ESG (Environmental, Social and Governance) securities over the last year and the Luxembourg Finance Labelling Agency (LuxFLAG) that grew considerably over the last year, continuing to label sustainable products across seven jurisdictions, Luxembourg continues to be the place of interest for various fund initiators as well as investors across the globe. Along with those market players, the Luxembourg government plays an important role in developing sustainable finance area. Implementation of new disclosure regulations added substantial burden on a short term perspective, however, in our opinion, will create a strong impact for bringing the Luxembourg investment fund market to the next level as green financial centre in the mid-term and long-term future.

Fintech is another key trend that drives the growth of Luxembourg economy and will continue to develop over the years bringing new business opportunities to the country.

How are these trends impacting your organisation's objectives?

We, as fast growing law firm, are adapting and growing along with new technologies, developing our expertise in sustainable finance area, in particular, with a specific focus on ESG and sustainable funds while also observing closely the other regulatory developments in the market that impact asset management, such as imminent amendment of the AIFMD and other regulatory changes.

Can you outline the primary challenges your clients in Luxembourg are facing at the moment and how your services are helping them overcome these difficulties?

Next to the permanent challenge of creating compliance with new regulation, the main challenges our clients are facing now are the assets valuation, especially illiquid assets, such as real estate assets. Depending on where the respective assets are located, impact on valuations can be tremendous or not to be impacted at all. Certain debt funds due to the nature of assets are facing problems due to contractual or government-ordered suspension of payments and debtors not being able to pay due to the Covid-19 impact that inevitably impacts valuations of assets and liquidity situation at the fund level.

In order to provide more certainty to the clients and given the current market circumstances, we are closely monitoring all regulatory changes due to Covid-19 (and other like ESG and AML compliance) and coordinate with regulators trying to find temporarily and / or long term solutions.

Due to temporary travel restrictions, it continues to be difficult for asset managers to travel and do their regular business that potentially might impact growth of investment fund structures or creation of the new ones. Substance requirements need to be adapted and become more flexible around Covid-19. To this regard, the Luxembourg government is putting in place specific legislation helping the funds and their management companies by providing flexible organisational processes. In the current circumstances, we are offering our clients full legal support and assistance and providing regulatory updates on current legal environment and potential changes that may impact asset managers and the funds under their the management.

What are the most significant developments you expect within Luxembourg's funds industry over the coming year?

Due to the Covid-19 pandemic, all market players were

forced to adapt quickly to remote working conditions, which has shown that digital transformation of the working environment is necessary. How this will become even more indispensable in the future remains to be seen once the pandemic situation fades out. Digitalisation is meant to play an increasingly important role for all business spheres and we believe that Luxembourg will continue to create favourable environment allowing the financial centre to innovate and develop new products and services in that area brining Luxembourg to the new level as Fintech business centre.

Additional framework will be created for sustainable finance products helping Luxembourg fund industry to flourish in a greater scale. It is expected that green finance sector will contribute to strengthening Luxembourg's position as a world key hub for impact investment and sustainable finance. We expect a significant growth of terms of ESG or sustainable investment funds over the coming year.

New ESG disclosure regulation and the overall framework of the EU for sustainable investment are part of active discussions amongst market players in Luxembourg, involving ALFI, LPEA, LuxFLAG and other market players. While in our view, it is certainly positive and right to increase awareness of investors, financial market participants and financial advisers for ESG matters by means of governmental regulation, current market practice also must remain to be respected.

At the current stage return expectations of investors also are not always aligned with ESG objectives, however, we see how quickly the situation changes and investors eager to be more informed of the matter and impact of their investments. It should be noted however that no evidence exists that (i) increased expenses due to ESG framework implementations and/or (ii) investments into ESG respecting targets also entail that return rates of financial products would go down. To the contrary, in the mid and long-term ESG investments might even create higher returns than non-ESG investment strategies.

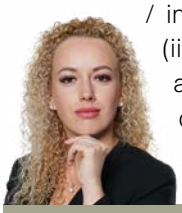
Future will show whether investors will continuously and, perhaps, predominantly require asset managers, AIFMs, UCITS management companies and other financial market participants to respect ESG rules and/or invest into ESG targets. Certain ESG certification or labelling regimes already seem to raise attention of investors.



Another element, which will become important, is the delegation model. Luxembourg is known for its human resource and technical expertise in the fund industry. However, quite often services are delegated by Luxembourg management companies to other parties residing in other EU countries or even outside of the EU. In particular, the portfolio management function is mostly not carried out from Luxembourg. To this regard the European Commission and also ESMA have announced to verify the delegation model for European investment funds, which would then also have an influence on Luxembourg. It remains to be seen what exactly ESMA and the European Commission have in mind. The current business model is working very well for fund promoters and also investors as it allows making use of capacity and know-how where it exists. If the specific know-how is not located with e.g. the AIFM in Luxembourg, it makes sense to delegate this function to another party, which is much better equipped to act. This model has proven reliable and stable not only for Luxembourg. Other fund domiciles like Ireland or France work on the same presumption. Luxembourg is ready to cope with the topic and is well prepared to even more enforce the delegation model (by creating even more advanced monitoring and checking requirements and procedures).

What are the key objectives over the coming year to ensure Luxembourg remains a competitive global jurisdiction?

Up until now Luxembourg has taken a leading position as financial centre with the EU and has shown strong expertise and high resistance during times of pandemic crisis. To continue to remain competitive global centre, the key objective should be (i) remain flexible and answer clients / investor needs in a most efficient manner, (ii) maintain high level of professionalism and (iii) continue to serve as global hub for cross-border activities focusing on digitalisation and sustainable finance. ■



Dr Marcus Peter
Partner, GSK Stockmann

Marcus Peter heads the investment funds and private equity practice at GSK Stockmann in Luxembourg. Marcus is a lawyer qualified to practice in Germany since 2004 and Luxembourg since 2005. He obtained his LLM and PhD degrees from the European Institute in Saarbruecken, Germany. Prior to joining GSK Stockmann, Marcus worked for a Luxembourg law firm from 2004-16 (spending the last four years as a partner). He has been a partner at GSK Stockmann in Luxembourg since 2016. Marcus is an expert in Luxembourg investment funds and private equity law, M&A and corporate law. He speaks German, English, French and Russian. He is a member of the Luxembourg Private Equity Association (LPEA), Chinese-Luxembourgish Chamber of Commerce, DAV Luxembourg, EVER and CBBL (Cross Border Business Lawyers).

Irina Stoliarova
Senior Associate, GSK Stockmann

Irina Stoliarova is a Senior Associate at GSK Stockmann in Luxembourg. She has experience advising national and international clients on all legal and regulatory aspects in the fields of investment funds (UCITS, AIFs, regulated and non-regulated structures) and private equity as well as corporate and M&A matters. Irina Stoliarova is admitted to the Bar in Luxembourg and speaks Russian, English, French, German and Luxembourgish. She holds a Master's degree in European and International Financial Law (LLM) from the University of Luxembourg, a Master's degree in Business Law – Corporate Tax Management from the University of Nice Sophia Antipolis, France, and is a member of the Luxembourg-Russia Business Chamber and of the Association of the Luxembourg Fund Industry (ALFI).

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A European safe harbour for private equity

By Stephane Pesch

As the world tumbles into a period of economic and political uncertainty, private equity relies on its long term investment strategy and eyes the calm after the storm. Meanwhile, investors and fund managers are drawn to the safe harbour of Luxembourg, one of the few they can rely on these days.

Luxembourg has built a reputation as a cross border platform mainly for its capacity to offer an advanced and complete set of legal tools that suit different investors' needs, especially after the implementation of the AIFM directive. More recently, we observed a diversification of the reasons bringing new private equity and venture capital players to Luxembourg, among which Brexit comes out on top. The quest for an EU passport has been a strong driver for new business in Luxembourg but not exclusively so. Many managers are also attracted by the growing number of family offices present in the country and come to the Grand Duchy to find new investors for their funds. Others still, come for the specialised offer of services tailored to international PE transactions.

As it nests further into the complex world of PE, the sector's concerns and trends are very much aligned with those of its international peers. Digitalisation is on top of the agenda as a way to reach further efficiency. This is done to better comply with legal obligations or to increase reporting standards. Standards which increasingly include aspects related to ESG



commitments, a subject which brings new regulatory concerns but also attracts new types of investors and make Luxembourg move further into responsible finance. ESG standards are widespread in the Luxembourg financial centre from start-up accelerator programmes to green bonds and represent a national commitment PE has no intention of escaping from.

One of our latest focus in the LPEA, the trade association representing the Private Equity and Venture Capital sectors and which I'm proud to lead since September, is to support our members in finding the best talent. As many professionals are drawn to PE from other pockets of the financial sector, it has been made clear to us that training is a critical piece of our ecosystem. Either for newcomers, ambitious talent or professionals in reconversion, PE-dedicated training has seen a significant surge in Luxembourg. This is an area in which we have taken direct measures by creating our own Academy. This also reflects the wider diversity of professional opportunities found in the market today. It is not uncommon to have eg. Private Equity accountants or compliance managers looking for a more holistic view of our industry.



Working closely with the HR departments of our members, we are also facilitating access to our sector for young graduates or experienced professionals attracted by our growth. In line with the professional recruitment firms available on the market, we find it very useful to take this role and become one of the first points of contact for those who are new to the sector but still express their interest to have a first professional experience in the asset class.

A challenge particular to PE and VC in Luxembourg and across Europe, somewhat, is to be recognised among non-PE professionals. The Luxembourg PE-VC jurisdiction to which fund managers fly in from all over the world is still relatively unknown among policy makers. Shadowed by a EUR4.3 trillion investment funds industry in Luxembourg, PE is, and will naturally remain, the younger brother – an alternative asset class. As LPEA celebrates its 10th anniversary this year, the timing is ripe to further increase the visibility of our members and association. Policy makers and the public administration in general are fairly familiar with the banking sector and the investment funds industry but they do not yet see PE and VC as a different type of "animal". There is still some work to be done for it to be recognised as an asset class, with real assets and a real impact on the local economy; one that owns some of the country's biggest financial services firms as well as downtown restaurant chains.

Expertise on private equity is not lacking within the Luxembourg regulator, the CSSF. I believe the institution has been a key factor in the success of PE in Luxembourg, by showing a strong knowledge in the field and the capacity to adapt to foreign players. One of the ways it has done this is by adopting English among its practice on top of the three local official languages (Luxembourgish, French and German).

In summary, Luxembourg is making its way as a PE hub and the current global uncertainty may only confirm this path once again. From a risk perspective, investors tend to take the safest route and Luxembourg is perceived as such. It is a safe route which today offers a lot more than it did five or ten years ago when LPEA was created. It features a fast growing community of professionals which today is its strongest asset. ■

Stephane Pesch is CEO of LPEA, the Luxembourg Private Equity and Venture Capital Association

A unique opportunity for private equity firms

Interview with John Terblanche & Michelle Barry

The private equity industry is currently navigating a number of challenges in addition to the Covid-19 pandemic, which the whole world is facing. As regulation and political will around environment, social and governance (ESG) factors grows, PE firms are coming under increased pressure to incorporate this approach into their investment strategies. These firms are also keeping a close eye on the progress of the Brexit negotiations to make sure to maintain their access to Europe.

"Covid-19 has presented much uncertainty and many challenges to the global private equity industry and market perspectives are mixed. However, this uncertainty has offered some private equity firms, who are fortunate enough to have plenty of dry powder, or who may have recently completed large closings, a unique opportunity to invest in assets at interesting price points.

"It also affords private equity firms the opportunity to be closer to their portfolio companies, invest in businesses suffering from the pandemic and demonstrate added value by putting the sizeable amounts of capital they have to work. It would not be surprising, once the economic impact of Covid-19 filters through, to see private equity taking a more active role in the debt markets and continuing a trend, which has been prevalent since the global financial crisis," says Johan Terblanche, Managing Partner and head of the Luxembourg Funds & Investment Management team at the Maples Group.

So, while markets have been hit by downturns and recessions in the past, the rapidly changing situation is also presenting challenges for private equity firms and private equity fund vehicles globally. According to Michelle Barry, an associate in the Funds & Investment Management team at the Maples Group: "The nature of the pandemic, the duration and the ongoing uncertainty means that a forecast on the outlook for the global economy is almost impossible and continued uncertainty around the long-term impact that it will have on the global markets will unfortunately continue for the foreseeable future."

Beyond the Covid crisis however is the strong investor appetite for ESG investing which pre-dates this turmoil. Barry comments: "A growing number of private equity firms have signed up to the United Nation's Principles of Responsible Investing. However, investor appetite is gradually demanding further action on the ESG front, in light of increasing recognition that performance and value can be enhanced by the inclusion of ESG metrics."

This is an area in which the agility of Luxembourg's financial services industry blossom. "The Grand Duchy of Luxembourg financial services centre is cognisant of the trends affecting not only the private equity sector but also the broader financial services industry.

"It has continued to react expeditiously in order to enhance product offerings, address unexpected challenges, promote sustainable finance and ESG to ensure Luxembourg continues to be regarded as a leading private equity hub that is attractive to EU and non-EU private equity firms and asset managers, most of whom have established their EU hubs in Luxembourg," notes Terblanche.

In fact, with the increased focus on ESG issues, certain institutional investors are actively pursuing the agenda on sustainable and responsible investing, which is further supported by the introduction of a package of legal and regulatory ESG initiatives and measures. Barry advises: "In view of this, private equity firms, if they haven't already done so, will have to make a concerted effort to factor ESG into their business and investment decisions."

An additional dimension private equity firms need to keep in mind is the Brexit process. According to Terblanche: "As the transition period comes to a close at the end of this year, private equity firms are keeping a very close eye on the progress of the negotiations between the UK and the EU. Although the outcome of these negotiations remains unclear, many private equity firms are considering their options with respect to ensuring the European market remains accessible to them after 31 December 2020 with some having already taken action by relocating their activities."

Private equity firms are juggling a number of objectives. They are examining how best to maintain and enhance their European presence and access to European markets in light of continuing developments with Brexit and third country passporting.

Terblanche remarks: "Many have committed to Luxembourg as a jurisdiction from which they operate and we will continue to support our clients in this regard. The continued growth and developments in the private equity sector lend themselves well to the attainment of our organisation's objectives and we play an active role in the industry in Luxembourg."

To ensure Luxembourg remains a competitive global jurisdiction, it will leverage upon its reputation as a pragmatic legal jurisdiction and its existing legal framework. Terblanche highlights: "The business-friendly and stable political and economic environment, coupled with the structuring options and workforce will also guarantee the jurisdiction can react expeditiously to changes in the market as and when needed and continue to serve clients from around the globe to the standards they have come to expect."

Looking ahead, Barry says: "Growth in the private equity sector in Luxembourg may to a certain extent, be impeded by the current environment as private equity deals move at a slower pace in light of the inherent uncertainties. However, the nature of Covid-19 means that all areas of the global economy have been affected and the private equity sector in Luxembourg and across the globe is no exception, however it is certainly more robust than most."



Johan Terblanche
Managing Partner, Maples Group

Johan is Managing Partner of Maples and Calder (Luxembourg) at the Maples Group, where he is head of the Luxembourg Funds & Investment Management team. Johan has been focusing on fund structuring / formation and regulated financial business for the majority of his career. He advises managers and investors of collective investment funds, with a particular focus on alternative funds (including private equity, debt, infrastructure, real estate and hedge funds) and their management entities.



The Maples Group has a long track record of providing top quality legal, fiduciary and fund services to private equity firms across various locations. Outlining the firm's plans for its Luxembourg practice, Terblanche comments: "We remain committed to ensuring that our office here is a highly successful law practice offering first-class legal, regulatory and tax services. Furthermore, our fiduciary team has provided corporate governance solutions to clients in this space for well over a decade and our fund services team has extensive experience providing tailored fund administration solutions to Luxembourg vehicles.

"As such, the continued growth and developments in the private equity sector lend themselves well to the attainment of our organisation's objectives and we play an active role in the industry in Luxembourg." ■



Michelle Barry
Associate, Maples Group

Michelle is an associate in Maples and Calder (Luxembourg)'s Funds & Investment Management team at the Maples Group. Michelle advises on a wide variety of legal, regulatory and compliance matters, with a particular focus on the structuring, establishment, operation and regulation of all forms of Luxembourg domiciled investment funds. Michelle's experience also includes acting for a wide range of fund service providers, including investment managers, administrators, depositaries, management companies and AIFMs. Michelle speaks English and German.

Digitally enabled firms keep competitive edge

Interview with George Ralph

It is essential for firms with offices in Luxembourg to build strong digitally enabled operations if they are to remain competitive as the Grand Duchy experiences an influx of players in the wake of a potential no-deal Brexit.



"We have seen increased demand for our managed data services and application management solutions," notes George Ralph, managing partner, RFA. "Our managed data services allow firms in Luxembourg to centralise disparate data from multiple sources into a cloud-based data warehouse, where analytics tools can be applied and insights and predictions can be made. Our simple dashboards, based on Microsoft PowerBI mean our clients do not need data science skills in order to utilise advanced business intelligence capabilities."

These services allow firms to integrate systems, create automated workflows and streamline key processes across the business.

"By automating key processes, efficiency and accuracy benefits can be felt across the business, from the HR department, to the front office and analyst functions, to the operations and reporting teams. These kinds of digital services can really help firms stay competitive in a crowded market," comments Ralph.

Brexit is clearly having an impact on the funds industry in Luxembourg, with many firms either opening branches in the city, or increasing activity there to ensure that they will not lose investment following a no-deal Brexit.

Figures show increased recruitment in the funds industry, some of which has been to the detriment of recruitment in London. This suggests firms are moving assets, operations and staff to Luxembourg from London. EY estimates 7500 jobs will move from London to Luxembourg and around EUR1.5 billion in AUM.

In reaction to this, Ralph says: "RFA is seeing an increase in enquiries from existing clients and prospective clients in the fund management industry, for IT infrastructure and support in Luxembourg. As a result, RFA is further strengthening its presence in Luxembourg, building the team and ensuring that cloud services continue to meet the exacting requirements of the CSSF."

The growth in the Luxembourg industry is not completely smooth sailing. Ralph points out: "Recruitment is tricky for Luxembourg clients as demand increases and we are able to make introductions through our network of professionals in the city.

"Having been accustomed to running firms from London and New York, meeting stringent data protection and data governance requirements in Luxembourg is difficult for clients as they open offices here to bolster operations in Europe. We understand the CSSF requirements and the priorities of investors and can help our clients to meet their data governance and operational commitments."

But despite these constraints, the outlook for Luxembourg's industry remains positive. "We believe Luxembourg will continue to be a very important centre for the funds industry; with its AAA rated stable economy, strong relationship with the UK and pool of skilled resources. Development in the sector will mean growth in available positions for staff across front, middle and back office operations. To this end, there will need to be investment into the younger generation of professionals and attractive incentives for international professionals to relocate to the city." ■

George Ralph
Managing Director, RFA

George Ralph CITP, has successfully founded three technology firms along with C-level advisory services include M&A to numerous firms. George is a true leader and has been managing teams internationally, and leading technology transformation projects for over 20 years. A certified GDPR, Cyber assessor, Auditor, Architect and widely experienced cybersecurity and RegTech professional, George has extensive technical experience in network and server architecture, large scale migrations utilising leading technology brands, and IaaS offerings.



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Alternatives, ESG and digitalisation on the rise

By Stéphane Badey



These are uncertain times, but three solid trends driving the Luxembourg investment funds market can be highlighted.

1. The continuous growth of the alternative investment strategies. Luxembourg has positioned itself as a jurisdiction of choice for alternative asset managers. As a consulting firm we are accompanying clients in their move to Luxembourg. This is made easier from a regulatory perspective by the adoption of a clear regulatory framework.
2. The further integration of ESG criteria into asset managers' strategies. The upcoming regulations (SFDR*) are prompting asset managers to position themselves accordingly. Although many had already embraced the move, we see the topic on the agenda of almost every board now. We are present at every step of such integration, relying on an ambitious governmental plan and the expertise of early movers such as the Luxembourg Stock Exchange or label agencies like LuxFlag, Luxembourg service providers are in good shape to accompany the move.
3. A continuous appetite for digitalisation. This is a trend that largely started before the Covid crisis. Luxembourg financial players have responded very well to the crisis, demonstrating that the infrastructure was already in place. The fund industry is eager for new digital solutions and Luxembourg has plenty to offer. As a firm, Arendt has expanded its digital offering from legal/regulatory tool such as CAROL to more operational systems for managing key management information like SAMI.

In parallel, the regulatory agenda continues to be busy. In these times of crises, raising capital is a challenge and Brexit is on everyone's agenda but the industry should not forget about the cross-border distribution of collective investment undertakings (CBDF). Indeed, Luxembourg being the principal hub for investment funds marketing in Europe, the fund industry here will certainly be shaken by the transposition of the EU Directive 2019/1160 and the full application of the EU Regulation 2019/1156 of 20 June 2019, related to the CBDF as they will affect UCITS but also AIF, ELTIF, EuVECA and EuSEF.

Among others CBDF brings:

- New requirements affecting UCITS passporting which may delay unit classes launches and lead to restructuration of KIIDs,
- The end of the obligation applicable to UCITS to appoint local agents in some EU countries, which may result in insourcing their functions in Luxembourg or delegating such functions to Luxembourg-based agents (with adequate competencies),
- A new definition of pre-marketing activities for AIF, EuVECA and EuSEF, which will be harmonised and will have to be performed by their managers directly or a third party qualifying as investment firm, credit institution, UCITS management company, AIFM or tied agent,
- New rules to AIFM and UCITS intending to cease marketing and de-notify, with important impacts on the possibility given to AIFM to do pre-marketing, be it for the AIF concerned or in respect of similar investment strategies/ideas, for 36 months after the de-notification, and
- Last but not least, UCITS, AIFM, EuVECA and EuSEF will see new European requirements entering into force with regards to their marketing communications. ■

**Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector*

Stéphane Badey
Partner, Arendt

Stéphane Badey is a Partner at Arendt. He specialises in anti-money laundering regulations and advises clients on all aspects relating to their AML/KYC framework. Stéphane also has a particular interest in Environmental, Social and Governance (ESG) matters, especially on sustainability-related financial and regulatory aspects. He is an active member of ALFI, LPEA and EFAMA working groups on AML and ESG.

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Talent squeeze as industry grows

Interview with Lamia Allam

As Luxembourg attracts growing numbers of fund managers and service providers, the progress is raising concerns among those with existing operations in the region. Attracting and retaining top talent is becoming more of a struggle as the number of players increases and the industry needs around compliance continue to mount.

"Investment management clients can no longer solely rely on competitive salaries to attract and/or retain talent, which was the case historically. Instead, candidates are increasingly looking for a clear career path and an employer who goes beyond the material aspects, offering opportunities for personal growth, career fulfilment and a good work-life balance," explains Lamia Allam, senior consultant, One Ten Associates.

More recently, the difficulties in attracting talent have been compounded by the uncertainty caused by the Covid-19 pandemic. Allam observes: "Although, from a recruiter's point of view, recent months have proven to be a great time to engage with talent who would otherwise be less accessible, approximately 40 per cent of the candidates we speak to have been rather reluctant to engage in interview processes unless the upside is significant enough to compensate for the perceived risks."

In an attempt to tackle these challenges, One Ten Associates continues to provide clients with comprehensive talent mapping services and an extensive coverage of the local market, ensuring the relevant talent pools are identified, developed and nurtured. Allam comments: "This year's unforeseen events have allowed us to allocate more time to building and maintaining long-term relationships with candidates, which, in turn, led to a rise in referrals and, subsequently, an increased number of placements."



Brexit effect

As the UK heads for a potential no-deal Brexit, Luxembourg has been seeing a spike in interest from managers planning for future ease of access to Luxembourg fund products and structures. Allam observes: "The upheaval caused by Brexit seems to have made the Grand Duchy an even more appealing setup location thanks to its political stability and CSSF's ongoing efforts to make Luxembourg a secure and attractive place for fund managers.

"The transitional regime introduced by the Luxembourg legislator ensured the continuity of existing mandates lapsed earlier this year. Despite this, fund managers continue to take the necessary steps to ensure that they are able to provide cross-border services and access European markets."

From a recruitment point of view, One Ten Associates continues to service UK and Lux-based fund management clients, with the former increasingly requesting assistance in identifying their first hire in the Grand Duchy.

"Over the course of the year, One Ten Associates observed a spike in enquiries from long-standing fund management clients regarding setting up operations in Luxembourg and the initial infrastructure necessary to conduct business.

"Additionally, we have received and responded to multiple requests for candidate market mapping and compensation information, typically from clients who didn't have a presence in the Grand Duchy at the time of enquiring. In the case of established clients who do already have a Luxembourg office, the challenge to retain existing staff members continues," Allam remarks.

Need for compliance professionals

Allam goes on to observe current trends which have influenced hiring practices among fund managers and service providers: "Having gone through major regulatory adjustments due to an increased international focus on AML in the last couple of years, the funds industry has observed a new trend emerge – an increased need for senior compliance personnel qualified to meet rising demand among Luxembourg fund managers.

"In the case of regulated funds, legislation issued in November last year demands they appoint two compliance individuals, one at management level and one for control at the corresponding level. As a result, over the course of 2020, One Ten Associates has assisted a number of clients in identifying Conducting Officers (Compliance) and other compliance hires to boost their Luxembourg-based operations.

"We expect this trend to continue over the course of 2021. Furthermore, from our candidates' point of view, we forecast compliance individuals interviewing for senior positions to increasingly investigate the fund's KYC AML process and question the overall attitude and tone coming from the top, potentially rejecting offers from funds that aren't able to offer the right level of reassurance."

One Ten Associates has always relied on putting clients and candidates first. The firm won multiple awards in the London market for this very reason and strives to offer the same quality of service and commitment in the Grand Duchy. Allam says: "Since the biggest challenge for our clients is attracting and retaining quality candidates, our research teams are working tirelessly on mapping and targeting the European jurisdiction for finance and compliance professionals open to the region.

"Alongside the above, we invest in targeted marketing and advertising in Luxembourg and across Europe to ensure there is a strong online awareness of our focus in this region. Establishing a successful business in Luxembourg has been based on the application of honesty, integrity and professionalism – building and cultivating genuine relationships with our clients and candidates is what has allowed us to grow our local presence."

Discussing the outlook for the Luxembourg fund industry more broadly, Allam believes several factors will continue to contribute



to Luxembourg's competitiveness and the ability to attract both business and talent: "From a business perspective, CSSF is key to future success – being able to preserve Luxembourg's title as Europe's leading fund domicile will require maintaining the balance between providing an attractive environment for business whilst ensuring a stable and secure environment for investors.

"Equally, in order to continue to attract candidates, funds – especially those setting up in the Grand Duchy – will need to be able to reassure potential candidates that they are much more than a 'letterbox entity'. Fortunately, CSSF's demands for companies to hire more employees and for senior staff to be based in Luxembourg make it rather difficult for disingenuous businesses to set up." ■

Lamia Allam
Senior Consultant – Luxembourg, One Ten Associates

Lamia started her career in Asset Management research before moving into Fund. Management recruitment in 2016. She spent two years at One Ten Associates, followed by a year at an international executive search firm where she worked on developing a new market. Ever since re-joining One Ten in 2019, she has been carrying out London and Luxembourg-based assignments for alternative fund management clients. Her strengths lies in her ability to identify and engage with top talent in the market. Lamia holds a BSc in Finance and Accounting and an MSc in Capital Investments.


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