# LUXEMBOURG – STRONG ROOTS FOR A STABLE FUTURE

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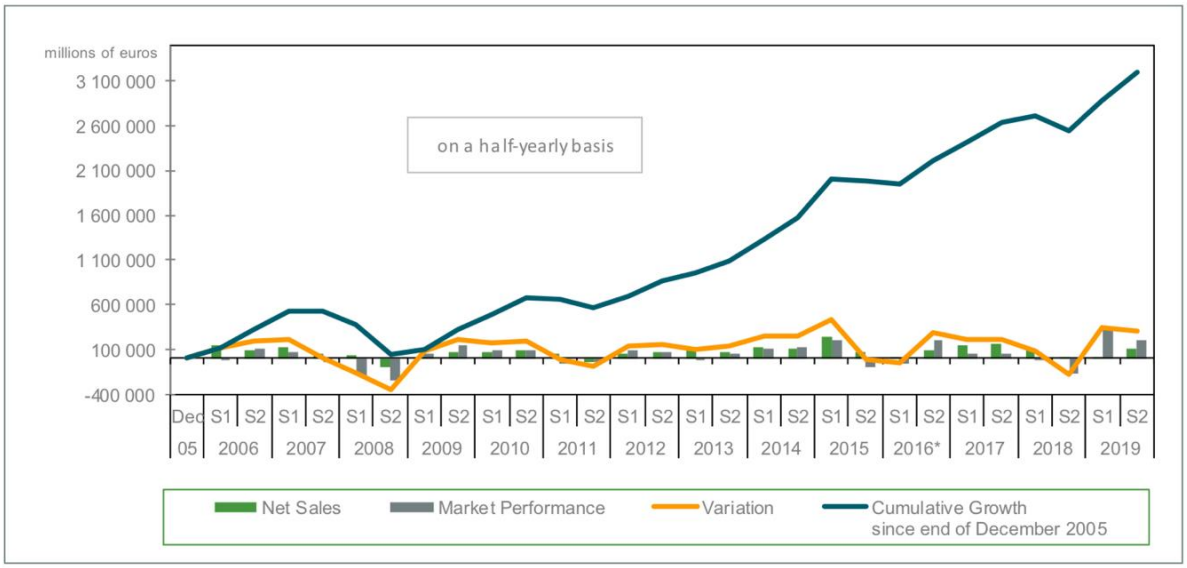
When the European Commission's original UCITS (Undertakings for the Collective Investment in Transferable Securities) regulations were adopted in 1985, Luxembourg was a first mover, immediately transposing the directive into its local laws and regulations and has been at the forefront of the European Fund industry ever since.

This agility proved to be significant in attracting international players that were looking to take advantage of the cross-border marketing opportunities, and to grow their asset management business in Europe and beyond. To evidence this, Luxembourg still remains a dominant force in the UCITS world, with a 36% market share (Sept 2019).

Luxembourg has subsequently become the largest investment fund centre in Europe, building on its reputation as a hub for distribution while leveraging on other significant factors such as its location in the heart of Europe, multi-lingual workforce, depth of fund servicing expertise and stable political environment.

## STRONG AND STEADY GROWTH

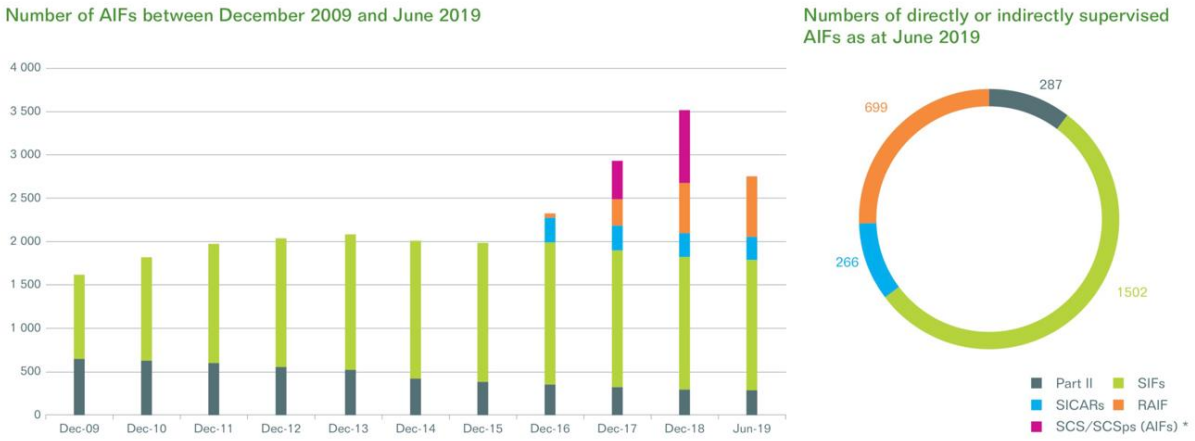



Source: CSSF

The global financial crisis (2007 – 2012) and previously the Asian crisis of 1998 had a material impact on investors' confidence in the financial systems and consequently on the asset managers and service providers working within these systems. The industry's response was through the implementation of a wave of new regulations aimed at protecting investors and ensuring that industry participants had the necessary skills and expertise, but moreover the governance practices in place, to ensure sound decision making, matched to payment scales that were in line with this level of support.

Amongst these was the introduction of the Alternative Investment Fund Managers Directive (AIFMD) in 2012, aimed at creating a more structured environment for Alternative Investment Funds and building on the wildly successful pan-European passporting philosophy introduced by the UCITS regime. Luxembourg was quick to respond with changes and additions to its regulations, strategies, operations and suite of fund structures, to facilitate all alternative asset classes. The introduction of the Reserved Alternative Investment Fund (RAIF) is particularly noteworthy as it provides a fast-to-market structure, suitable for all alternative asset classes and supervised by an Alternative Investment Fund Manager (AIFM).

Leveraging its depth of industry expertise and reputation as a well-regulated domicile, Luxembourg has once again emerged as a front runner in the rapid growth of the Alternative Investment Fund industry and now represents a significant share of Europe's alternative investment assets.




Luxembourg Investment Vehicles

** Statistics for SCS/SCSps qualifying as AIF with an appointed AIFM are only available as at 31 December 2017 and as at 31 December 2018 (Source: Monterey Insight).*

## INFLUENCERS OF CHANGE

The global financial industry is currently facing an era of unprecedented change. These include the "Amazonisation" of services tailored to the online, easy-to-use platforms so desired by millennials, blockchain and cryptocurrency trends which are changing the way investments are processed, and the clear move towards Environmental, Social & Governance (ESG) compliant investments. All of this is driving a change to the operating models of the underlying sectors and industries, while at the same time influencing the composition of portfolios developed by asset managers and asset owners alike.

## BREXIT

In near term Brexit will require managers to identify and map out the areas of their business that have cross-border connections both in and outside of Europe, and to set out in some level of detail the types of arrangements they currently have in place. To date, this has been something of a difficult task, not least due to uncertainty surrounding the future relationship between the UK and the EU in respect of the provision of financial services.

What is certain is that impacts will be felt in cross-border investment management and distribution functions. While it is now clear that regulations will allow for Investment Management functions to be fully delegated, cross-border marketing and distribution still poses serious concerns, as UK based firms will no longer have access to the EU passporting regime.

Without this, distribution of funds is subject to the relevant national private placement regime ("NPPR") applicable in the given target Member State. The NPPR varies from Member State to Member State and indeed some Member States do not allow for any NPPR. As a result, many managers of AIFs currently sold under the Passport have decided that reliance on NPPRs will not be appropriate in future. Such managers, depending on their particular circumstances, are establishing or engaging with EU AIFMs or EU AIFs to ensure continued access to the passport.

## COVID-19

As the COVID-19 pandemic creates turbulence in global financial markets and propels investors into a race for liquidity, we are beginning to see investment funds grappling with some of the issues they had confronted during the global financial crisis, such as defaults on capital calls from high net-worth or private investors or, in some cases, tactical defaults and GP-led restructuring.

But this is more than a financial crisis – the social distancing, lockdown and government stimulus measures being implemented in response to the pandemic are likely to have a profound effect on investment funds and potentially on the way in which the financial industry participants operate, as they develop new tools and mechanisms that reduce global travel and time spent in "the office".

## LUXEMBOURG'S RESPONSE

Trying to determine what asset managers might be looking for in response to this global instability is near impossible, given the extent of the impacts and potential outcomes. Nevertheless, it is very likely that investors will demand what Luxembourg has always offered and fine-tuned over the past three decades, a framework of long-term stability, transparency and a commitment to serving an international fund industry, while at the same time a proven track record in responsiveness to market demands and willingness to change.

With a proven focus on providing expertise and structure to service the industry, Luxembourg is set to play a material role in the stabilization of the European fund industry in a post Brexit, post COVID-19 era.

## ABOUT JTC LUXEMBOURG

JTC opened its offices in Luxembourg in 2009 and we have subsequently built our capabilities to offer full end-to-end servicing to the regulated and non-regulated fund sectors. We provide the full range of fund services including AIFM, fund establishment, multi-currency valuation, fund accounting, shareholder registration and dealing, corporate secretarial, regulatory compliance monitoring, fund administration and depositary.

We also offer solutions to administer the related entities such as special purpose vehicles, trusts, investment managers and carry vehicles.

As such, JTC is perfectly positioned to support Luxembourg's financial industry as it evolves to meet changes and new investor demands.

To find out more about JTC's Luxembourg experience please contact me directly.

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