LUXEMBOURG FOR FINANCE

ASSET MANAGEMENT

THE FINANCIAL CENTRE DEVELOPMENT AGENCY

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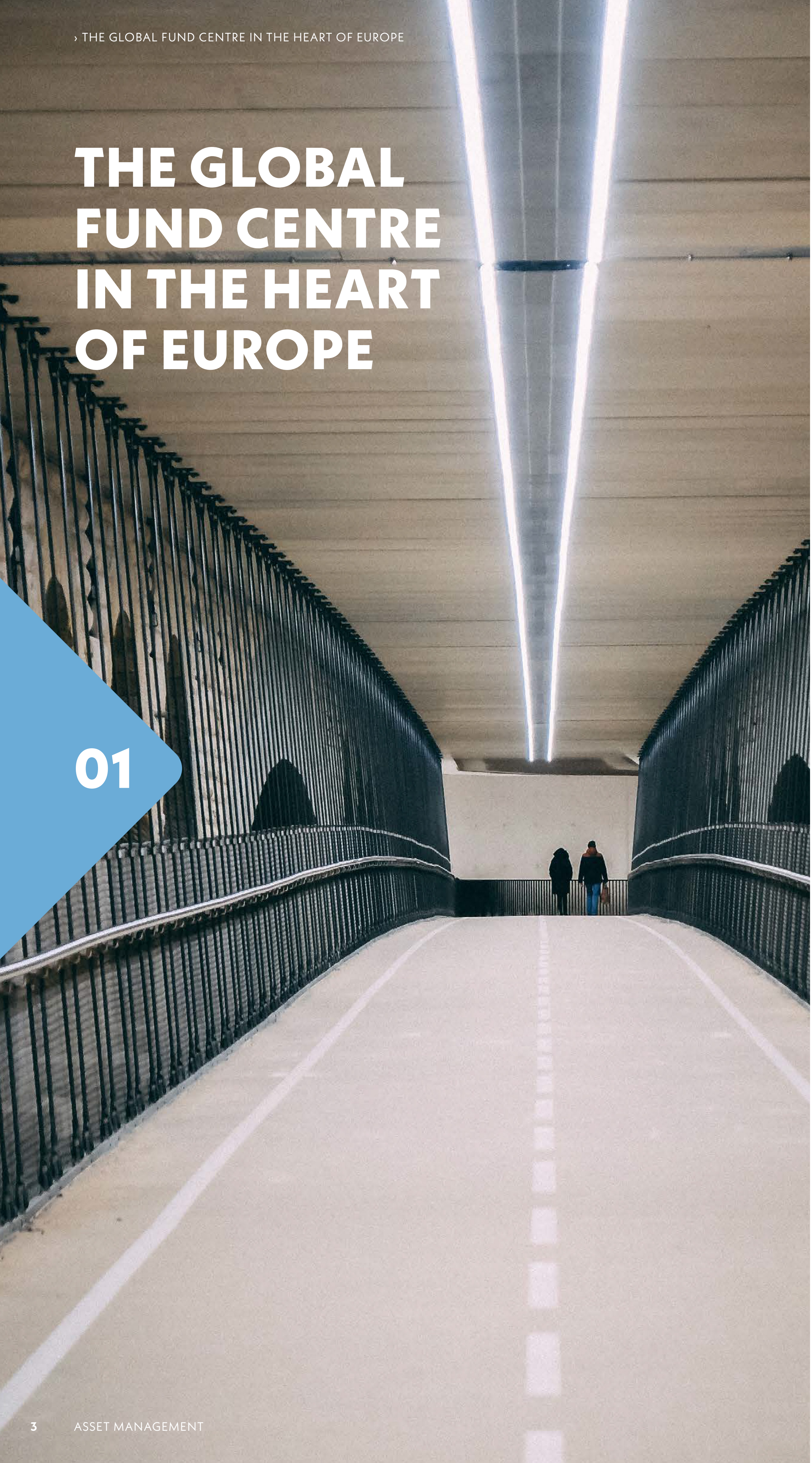
THE GLOBAL FUND CENTRE IN THE HEART OF EUROPE



01

THE GLOBAL FUND CENTRE IN THE HEART OF EUROPE

The asset management industry is an important pillar of the global and national economies. By raising capital from savers and institutional investors and investing it in equities and corporate debt, investment funds help finance the real economy, allowing firms to grow and create jobs.

Investment funds of course provide a return to investors and look set to play a key role in resolving the looming pensions crises facing many developed economies. As people live longer and birth rates fall, most traditional state-pension systems are under increasing strain. People will increasingly have to save and invest more of their own money to have an income when they retire. Investment funds offer the most effective way for them to grow their savings.

Over the course of the last 30 years, Luxembourg has become a key player in the global asset management industry. Given the size of the country, this may come as a surprise. It shouldn't be – as a member of the EU and its Single Market, Luxembourg has access to over 500 million consumers.

The EU is Luxembourg's domestic market. In the same sense, the funds raised through Luxembourg investment vehicles are invested in equities and debt of companies throughout Europe and beyond, helping thus to finance their economic activity.

Luxembourg has built a unique asset management ecosystem, which knits together the institutions, infrastructure and regulatory expertise needed for the success of the industry.

The sector has witnessed several major transformations and it will continue to face challenges. But Luxembourg has a track record of anticipating and managing change. As a result, it can always offer financial institutions an up-to-date and efficient regulatory framework, which is optimal for their operations and business models.

This brochure aims to explain how this asset management ecosystem came about, how it has evolved and its key components. It is aimed at members of the asset management industry interested in becoming part of this unique cluster, as well as those who would like a better understanding of why Luxembourg is a global player in the sector.

FROM FIRST MOVER TO MARKET LEADER

When European Commission President Jacques Delors presented his ambitious project to deepen the European Single Market in the mid-eighties, he proposed a vast array of measures to be adopted across multiple industry and service sectors, including the creation of a pan-European investment fund market. Until then, investment funds were sold on a national basis, market by market, with regulations which varied from country to country, making the launch of new products time consuming and difficult.

In April 1988, Luxembourg became the first country to implement the European directive which brought in regulated retail investment products – so-called *Undertakings for Collective Investment in Transferable Securities* (UCITS). No-one expected at the time that UCITS would become the catalyst for an industry that is today worth close to €13 tn [1], and is arguably the EU's most successful international financial product. Well, almost no-one: Luxembourg's role as UCITS pioneer was no coincidence, and the Grand Duchy continues to lead the way, accounting today for 34% of the world's UCITS assets[2].

Luxembourg understood the potential of the UCITS legislation from the very start. Here was an investment product that could be marketed across the whole of the EU and no longer confined to national markets, thanks to the introduction of a 'fund passport'.

US and Swiss asset managers were early adopters, recognising the enormous potential of UCITS and began to market UCITS products from Luxembourg. UCITS meant they could finally serve Europe as a real single market.

European asset managers quickly followed: while traditionally German, French or Italian asset managers set up domestic funds to sell to local investors, all of a sudden, thanks to Luxembourg funds, a much broader client base was right on their doorstep and accessible from a single location. Today, Luxembourg is host to the international fund ranges of nearly every major European asset manager. Based in the Grand Duchy they can sell across the EU, as well as to clients in Asia, Australia, South Africa, Latin America, and the Middle East.

Currently, fund promoters from more than 60 countries rely on Luxembourg funds to reach global investors and Luxembourg UCITS are sold in 80 countries around the world[3]. International asset managers from Frankfurt, Tokyo, San Francisco, São Paulo and elsewhere find in Luxembourg the perfect one-stop shop for marketing their international financial services and products. Licensing applications, as well as communications with and reporting to the Luxembourg regulator can be done in three languages, including English. And this is not just a post-Brexit innovation. Dealing with cross-border clients and products is a daily routine for Luxembourg's fund professionals. The expertise of Luxembourg's fund management and asset servicing industry, in setting up and managing funds, distributing them across multiple markets and serving investors across the globe, is truly unmatched.

As a result, Luxembourg has grown into Europe's leading fund centre and is the pre-eminent hub for cross-border funds, with a market share of more than 55% of cross-border fund distribution worldwide.[4]

[1] European Fund and Asset Managers Association, EFAMA, Q2 2023
[2] European Fund and Asset Managers Association, EFAMA, End 2022
[3] PwC Global Fund Distribution Data, 2023
[4] PwC Global Fund Distribution Data, 2023

FROM EUROPEAN TO GLOBAL

Over the past decade Luxembourg fund industry assets have experienced tremendous growth to a new high of €5.6 trillion[5] as of September 2021. The country is the top investment fund centre in Europe, the second largest in the world after the U.S.[6] and the leading centre for cross-border fund distribution globally.

Out of the top 100 asset managers in Europe[7]:

- **98** have funds domiciled in Luxembourg
- **56** have their leading fund domiciled in Luxembourg
- **71** have one of their most significant three funds domiciled in Luxembourg

Over 330 Management Companies, 260 authorized Alternative Investment Fund Managers (AIFMs) and 600 registered AIFMs (below the AIFMD threshold), are present in Luxembourg. The world's 18 largest private equity firms do business from Luxembourg[8], as do the world's 20 largest Real Estate firms.[9]

For global asset managers, choosing the right fund type and location is an important decision. With the proper fund domicile, asset managers can raise money internationally with one fund structure, rather than having multiple investment vehicles for a multitude of jurisdictions.

"Luxembourg is a strategically important operations and technology hub for RBC Investor & Treasury Services. As the largest fund domicile in Europe and for cross-border distribution worldwide, our global asset manager clients rely on the local expertise that our people and the local industry delivers in helping them succeed.

Our ongoing investment into digitally enabled solutions for our clients has included the establishment of a technology lab in the Grand Duchy that is focused on delivering advanced solutions to our transfer agency and fund administration clients."

Jeremy Albrecht,
Managing Director and Head of Royal Bank of Canada (Luxembourg)

[5] CSSF, September 2021
[6] EFAMA International Quarterly Statistics, Q2 2021
[7] PwC Global Fund Distribution Data, 2021
[8] LPEA, 2021
[9] IPE Magazine, Top 100 real estate managers

Over the past three decades, Luxembourg's fund centre has been able to expand beyond Europe and today its funds are recognized as market leaders the world over. This global expansion was facilitated by the longstanding support of the Luxembourg authorities and trade bodies, which promoted the international use of UCITS products. ALFI, the Association of the Luxembourg Fund Industry, has been at the forefront of the effort to open new markets for UCITS, organising educational meetings with regulators around the world and industry seminars on the mutual recognition of funds, market developments, how the products work and the advantages of diversification. Recent examples of the fruits of these efforts are the authorisation of UCITS distribution in countries like Canada in 2016, Australia and Israel in 2017.

This expansion is further supported by a constantly growing and comprehensive network of double tax treaties, with over 80 such treaties now signed.

The global reach of Luxembourg funds also brought about an increased international talent pool in Luxembourg. Indeed, while at the beginnings the expertise available was mostly local or regional, today the workforce employed in the financial services industry in Luxembourg is global. This is also a reflected in the demographic make-up of the country itself where the population consists of 47,4% non-nationals hailing from 182 different countries.

Top European distribution markets[10]

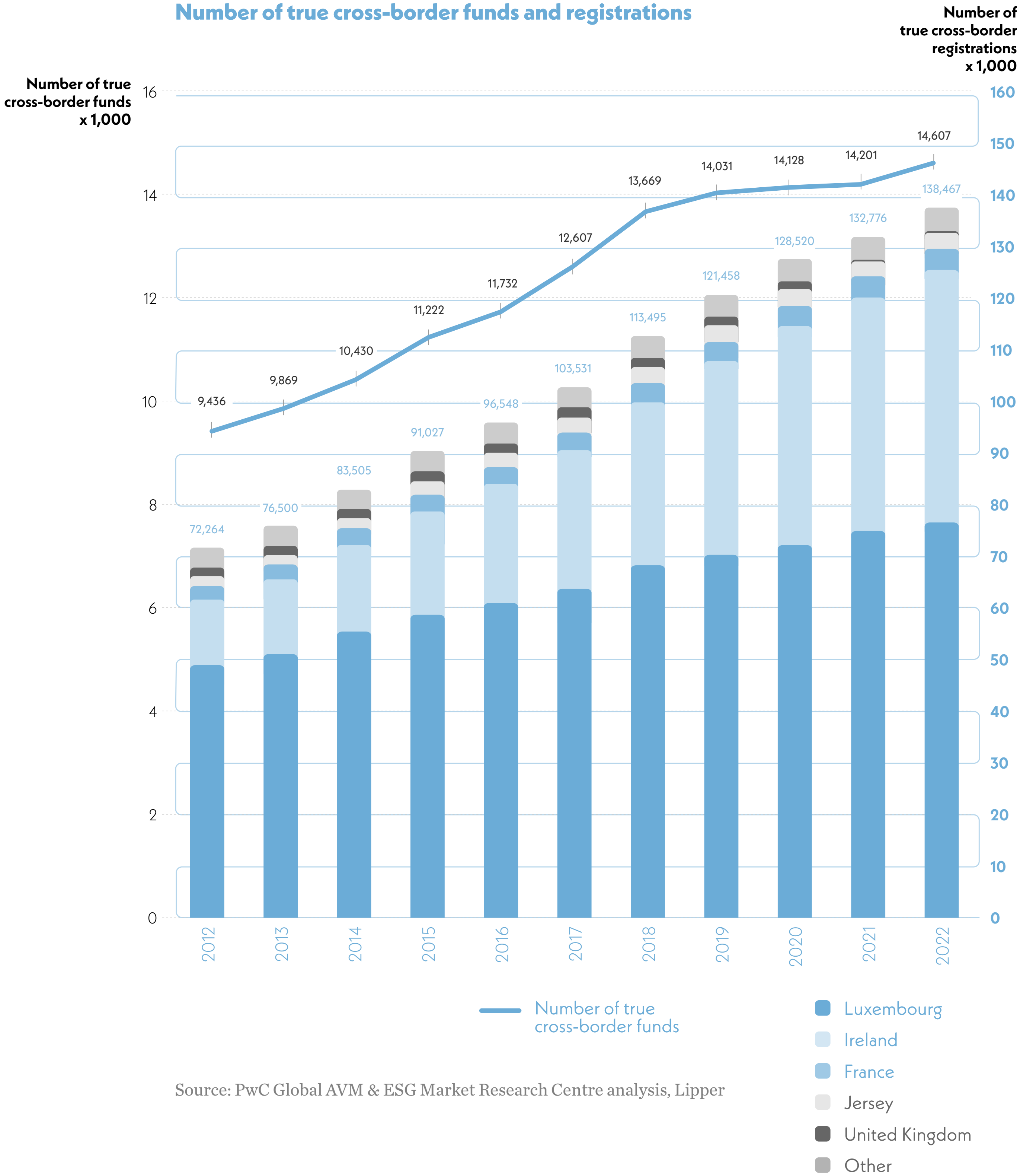
COUNTRY	Luxembourg funds cross-border registrations	Total market share for Luxembourg funds in the respective funds market
Germany	6,385	54%
Switzerland	5,694	58%
France	5,184	57%
Austria	4,995	57%
Spain	4,730	56%

Top non-European distribution markets[11]

COUNTRY	Luxembourg funds cross-border registrations	Total market share for Luxembourg funds in the respective funds market
Singapore	2,696	60%
Hong Kong	910	84%
South Korea	540	85%
Chile	985	54%
Peru	204	37%
South Africa	141	45%

[10 - 11] PwC Global Fund Distribution Data, 2021

Number of true cross-border funds and registrations



Source: PwC Global AVM & ESG Market Research Centre analysis, Lipper

FROM UCITS TO ALTERNATIVES

Over more than three decades Luxembourg has also developed expertise in the retail fund industry through the UCITS fund vehicle. Indeed, because of the country's leading role in the global distribution of this type of fund, the words UCITS and Luxembourg have become almost synonymous. So, it was a natural next step for the country to become Europe's alternative investment hub as well.

Since the turn of the millennium, Luxembourg introduced a range of new vehicles designed explicitly for alternative investments, such as:

- the Investment Company in Risk Capital (SICAR) in 2004
- the Specialised Investment Fund (SIF) in 2007
- the Undertaking for Collective Investment (UCI), most recently updated in 2010
- the Special Limited Partnership (SLP) in 2013
- the Reserved Alternative Investment Fund (RAIF) in 2016

Two key changes helped galvanise Luxembourg's alternative investment fund industry.

One was the EU's Alternative Investment Fund Managers Directive (AIFMD), which Luxembourg transposed into national law in 2013, one of the first EU states to do so. This directive created a management as well as distribution passport for AIFMs and their products, valid across the EU.

The second key change was Luxembourg's development and launch of the Special Limited Partnership in 2013, followed by the Reserved Alternative Investment Fund (RAIF) vehicle in 2016. The RAIF is an investment fund that is regulated only at the manager level and does not require regulatory approval at the fund level before launch. Alternative investment fund managers have widely adopted this new and innovative approach.

Sovereign Wealth Funds (SWFs) are also strongly present as users of Luxembourg-based investment vehicles, thanks to their demand for a high level of product sophistication. Giant SWFs such as the Canadian Pension Plan Investment Board, the Abu Dhabi Investment Authority and China's SAFE Investment Company – use Luxembourg as a hub for their Europe-wide real estate and infrastructure investments.

FROM TRADITIONAL TO SUSTAINABLE

Asset management continues to respond to changing times. Sustainable investing incorporates environmental, social and governance (ESG) criteria into investment decisions so as to better manage risk and generate sustainable, long-term returns.

Well before the Paris Agreement in December 2015, Luxembourg had been a pioneer in this field, thanks to close cooperation between public, private, and civil society sectors.

Thanks to the right regulatory framework, the right expertise and, most importantly, the right mindset, Luxembourg has built up an ecosystem uniquely suited to raising international capital for responsible investments, and today the Grand Duchy has the leading share (33%) of Europe's sustainable funds market.[12]

The same pioneering spirit has been shown by LuxFLAG, the finance labelling agency, whose seal of approval reassures investors that the funds they invest in do what they claim. LuxFLAG has issued labels for microfinance and ESG funds for more than a decade and more recently for climate-finance, environment funds and green bonds.

Luxembourg has also built a strong track record for sustainable finance in capital markets. The world's first green bond was listed on Luxembourg's Stock Exchange in 2007. Green, Social, Sustainable, and Sustainably-Linked Bonds now have their own dedicated platform in Luxembourg - LGX - which has the leading market share globally for GSSS bonds.

Luxembourg's International Climate Finance Accelerator for climate finance asset managers, microfinance and philanthropy seals Luxembourg's reputation as a comprehensive hub for sustainable investment. Luxembourg has a 50% share of assets in microfinance investment vehicles, the largest in the world, and is a significant centre for philanthropic investments via the Fondation de Luxembourg.

Jointly with the UN, Luxembourg published its sustainable finance roadmap in 2018[13].

[12] ALFI European Sustainable Investments Funds Study, 2022
[13] https://www.luxembourgforfinance.com/news/a-sustainable-finance-roadmap-for-luxembourg/

FROM ASSET SERVICING TO COMPLEX DATA MANAGEMENT

Luxembourg has developed strong expertise handling the complex operational procedures around the lifecycle of investment funds. Its long history and global reach in this field provides the industry with an incomparable data lake on the operational characteristics of cross-border funds.

Luxembourg's fund centre is increasingly focused on responding to the regulatory, compliance and operational needs of cross-border financial services. These range from KYC and fraud detection to fund reporting and automated investor information tools. A significant number of FinTech or RegTech companies have sprung up to satisfy this demand.

Since the establishment of the Luxembourg House of Financial Technology (LHoFT) in 2017, the national FinTech platform, as well as other incubators and accelerators, the country is ensuring that it is at the vanguard of the latest technology developments in the field. Through its relevant research, the University is an active element in the ecosystem. Many cross-border FinTech firms are headquartered in Luxembourg and operate in diverse fields, such as payments, big data, AI, RegTech, InsurTech, Cybersecurity, FundTech and Investments, Blockchain and Lending.

The Grand Duchy boasts a state-of-the-art IT infrastructure and has the highest density of Tier IV data centres in Europe as well as a best-in-class broadband network, making it number one globally for bandwidth capacity.

Luxembourg is also at the centre of Europe's High-Performance Computing (HPC) project. As part of the European Commission's Horizon 2020 programme, HPC is a strategic resource for Europe's future, allowing researchers to study and understand complex phenomena, helping policy-makers take better decisions and enabling the industry to innovate new products and services. A supercomputer, with the power of 10 petaflops (10 million billion operations per second) was inaugurated in Luxembourg in June 2021. It is now part of a network of supercomputers to be developed together with Germany, the Netherlands, France, Spain, Portugal and Italy.

FROM FUND ADMINISTRATION TO ASSET MANAGEMENT

Luxembourg's success is about more than just fund products and assets under management. What has made Luxembourg a crucial part of the global asset management value chain is a community of expertise on investments, international fund distribution, and asset servicing.

Luxembourg initially made a name for itself as a hub for setting up and administering investment structures. Since then it has moved up the value chain, adding new layers of activity. Increasing regulation in the wake of the global financial crisis, for instance, encouraged Luxembourg to take on a central role as a regulatory, risk, and compliance competence centre.

Portfolio management is another example. Through the years, Luxembourg has developed a unique know-how in managing portfolios from multiple jurisdictions, with global distribution and covering all types of investment strategies. A growing number of companies have added significant client-facing and portfolio management roles in Luxembourg, increasing the operational integration of their local teams in the country.

Following the UK's decision in 2016 to leave the EU, many financial institutions decided to relocate activities and resources to Luxembourg, either by establishing a new entity in the country or, in many cases, expanding existing operations in the Grand Duchy. Several firms decided to move investment advisory functions to Luxembourg. Private equity firms have also moved key deal-making functions to Luxembourg. Teams covering mid-cap or health tech deals in multiple European countries stand to gain from Luxembourg's multi-jurisdictional expertise, its multi-lingual talent pool and its profound understanding of different cultures.

"Luxembourg being the primary European fund domicile, is indisputably the hub for an asset manager and fund service provider. There is the expertise in the market, the resources and the know-how in order to cover a diverse range of strategies. We serve a large range of alternative illiquid strategies as well as plain vanilla assets, hence we need an international and qualified talent pool – which is available in Luxembourg, thanks to its rich asset management ecosystem."

Alessia Lorenti,
Member of the Executive Committee, Head of Business Development,
Edmond de Rothschild Asset Management

BANKING

Cross-border centre of excellence in wealth management, corporate, commercial and depository banking

118+ international banks from **25 countries**

22.8% aggregated total **capital ratio**

INSURANCE

International portability and a unique level of protection in life insurance

44 **non-life** insurance companies

198 **independent** or **captive** reinsurance companies

36 life insurance companies

ASSET MANAGEMENT

Global hub for international fund distribution

55.6% **GLOBAL MARKET** share in cross-border investment funds

Source: PwC, 2023

1st in Europe, **2nd** in the World **Investment Fund Centre**

Source: CSSF, 2021

Luxembourg funds are distributed in **80 countries**

CAPITAL MARKETS

European leader in international securities listings

41,000+ Luxembourg Stock Exchange **37,000+ listed and tradable securities**

in over **70 currencies**

Inssuers from **+100 countries**

+9tn **assets held in custody** by major post-trade services providers, amongst them Clearstream, the leading international central securities depository (ICSD)

SUSTAINABLE FINANCE

Home to the first and only exchange platform in the world dedicated to sustainable, green and social securities, the LUXEMBOURG GREEN EXCHANGE (LGX)

1st LARGEST MARKET share of listed **sustainable bonds** in the world

34% **Luxembourg** has the leading European market share of sustainable funds

50% of all Global Microfinance Fund Assets are domiciled in **Luxembourg**

STABILITY

A stable country with a strong economy

AAA One of only eleven countries worldwide with **AAA rating**

Growth consistenly **above the EU's average**

Public debt at only **24,7% of GDP**

THE LUXEMBOURG ASSET MANAGEMENT ECOSYSTEM

02

THE LUXEMBOURG ASSET MANAGEMENT ECOSYSTEM

ASSET MANAGERS

Asset managers are the investment decision makers and portfolio managers that generate returns for their investors. Their role is to invest in all types of asset classes on behalf of their clients: liquid assets such as equities and bonds, to illiquid assets such as real estate projects or private equity projects. This is a significant and growing activity in Luxembourg.

Since the 1980s, a large number of international asset management firms have chosen to establish Management Companies, investment firms and investment vehicles in the Grand Duchy.

However, not all of the industry's activities are done from one location. Some asset managers opt to have investment teams based where their regional investment expertise lies, such as New York, Singapore, or London. This allows them to fully focus on investment, while entrusting administration and oversight of their investment vehicles to Luxembourg entities.

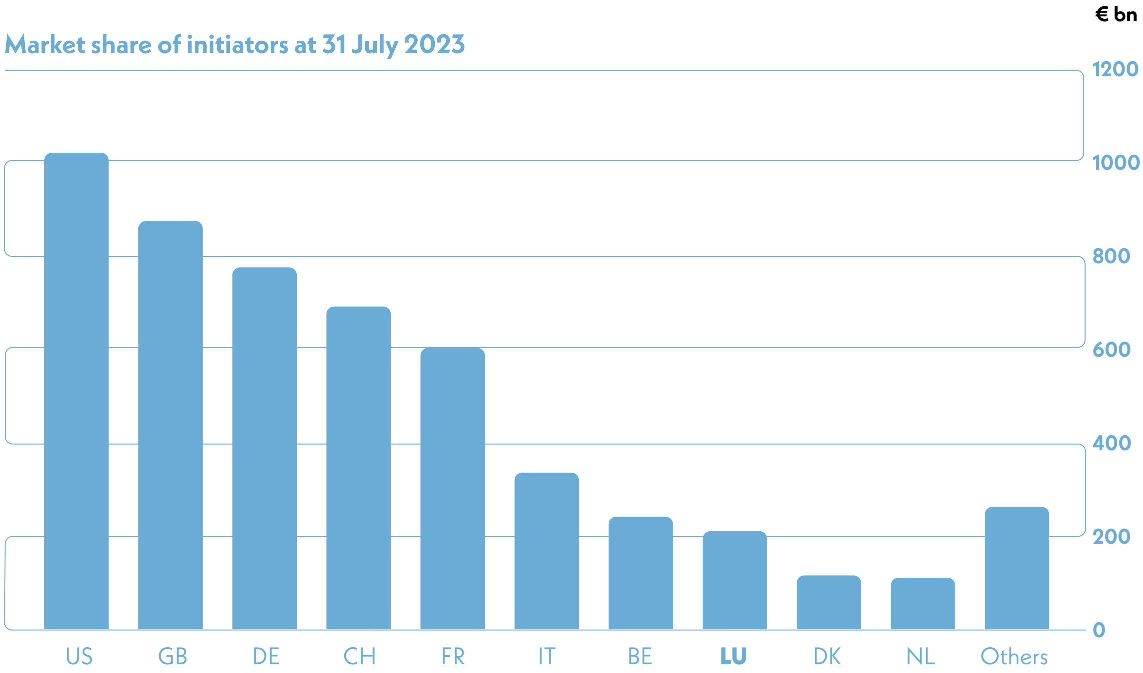
Asset managers can be regulated as investment firms (MiFID license), Management Companies, Alternative Investment Fund Managers (AIFMs), or banks.

Generally speaking, investment firms can manage individual portfolios and segregated accounts, but not funds. UCITS funds may only be managed by Management Companies, and Alternative Investment Funds (AIFs) may only be managed by specific Management Companies called AIFMs. Management Companies may, however, apply for both licenses, and be authorized to manage both UCITS and AIFs.

Regulatory pressure and political instability have also greatly increased the need for more oversight of investment decisions. In Luxembourg, this has meant a growing number of Management Companies taking out AIFM and MiFID licenses and so opening a whole new area of growth for the local industry and a bigger asset-servicing footprint.

Investment managers frequently use Luxembourg to develop their Europe-focused asset allocation strategies. In the last five years Luxembourg has seen some key players moving at least some of their advisory capacity to the country.

Market shares of fund initiators in Luxembourg by country of origin (in terms of assets under management)



"We launched our Luxembourg-registered fund range in 1990. This could accommodate investments in multiple currencies, making it available to investors across continental Europe and Asia. Luxembourg became our main platform for distributing our fund ranges in over 35 countries around the world.

We also developed a pan-European distribution service for investment funds across continental Europe, as well as portfolio management services for clients with segregated mandates."

Corinne Lamesch,

Head of Legal – Europe at Fidelity International and CEO at Fidelity International Luxembourg

MANAGEMENT COMPANIES FOR UCITS AND AIFS

Every investment fund needs an entity that is responsible for its overall performance, risk management, compliance, administration and marketing.

The main operations of such an entity can include investment management, as well as checks to ensure that the fund is:

- managed in accordance with the overall investment policy
- compliant with applicable regulations
- in line with its constituting documents (prospectus)
- behaving appropriately in terms of risk and compliance
- only accepting funds from eligible investors ('Know Your Customer')
- distributed according to local requirements
- fulfilling its regulatory filings and reports
- administered appropriately in terms of subscriptions, redemptions, and dividends, as well as fund accounting and calculation of net asset values

The entity responsible for governance can be constructed in several ways:

- self-management (where legal form permits)
- management by a separate UCITS Management Company
- management by a separate AIFM Management Company
- management by a separate Super Management Company (dual license of UCITS Management Company and AIFM)

While certain funds are "self-managed", the more common approach is to have a fund managed by a Management Company or an AIFM, as increased regulatory obligations requirements since the financial crisis can make the mandatory tasks for a self-managed fund quite costly. The Management Company or AIFM model allows the same controlling entity to oversee a number of funds at the same time.

A Management Company is authorised to manage UCITS funds, while an Alternative Investment Fund Manager (AIFM) is a Management Company authorised to manage alternative investment funds (e.g., SIFs, SICARs, RAIFs, SCSs and other categories of AIFs).

UCITS and AIFs benefit from a European "passport", meaning they can be marketed in any EU Member State with a simple notification.

AIFMs can be further differentiated into two groups – authorised AIFMs and registered AIFMs. Authorised AIFMs are required to comply with the AIFM Directive fully and benefit from a management passport valid across the EU. Registered AIFMs are exempt from many requirements, given their smaller asset size. The threshold for such exemptions is €500 million or €100 million if leveraged.

Management Companies authorised under the UCITS Directive may also apply for authorisation as Alternative Investment Fund Manager (and vice versa), to manage both UCITS and AIFs. These are known as "Super Management Companies".

If an asset manager wishes to provide direct investment advisory services through the Management Company, an additional MiFID license will also be required and it will then be known as a "Management Company Plus".

Under certain conditions, a management company may also offer discretionary portfolio investment services to individual clients, including pension funds under mandates given by those investors. Management Companies can provide investment advice and safekeeping and administration of units of funds as non-core services.

Some activities of Management Companies and AIFMs can be delegated to service providers, where the Management Company/ AIFM retains the oversight role and responsibility for such activities. For example, specialised and labour-intensive functions, such as reporting obligations and asset valuations can be delegated to specialised asset servicers.

Largest 20 Luxembourg Asset Management Groups

RANKING	Management Company and/or Alternative Investment Fund Manager Group	Nationality of the Group	Assets under Management in € millions
1	JP Morgan Asset Management	US	381,749
2	DWS Investment (Deutsche Bank)	DE	273,342
3	UBS Fund Management	CH	207,633
4	Amundi Luxembourg	FR	212,789
5	BlackRock	US	199,959
6	FIL Investment Management (Fidelity)	US	169,882
7	Eurizon Capital	IT	140,702
8	Schroders Investment Management	GB	135,212
9	HSBC Investment Fund	GB	129,150
10	EQT Fund Management	SE	124,320
11	Pictet Asset Management	CH	123,693
12	BNP Paribas Asset Management	FR	121,095
13	Universal-Investment	DE	118,941
14	Hauck & Aufhäuser Fund Services	DE	104,758
15	Carne Global Fund Managers	LU	101,280
16	Nordea Investment Funds	FI	94,283
17	FundRock Management Company	LU	90,876
18	M&G Luxembourg	GB	90,732
19	Franklin Templeton International	US	79,742
20	Aberdeen Investments	GB	75,670

Source: PwC's Observatory for Management Companies, 2023 Barometer

THIRD-PARTY MANAGEMENT COMPANIES

The third-party Management Company is a modern approach to improving fund governance and access to funds for asset managers. The concept is to allow professionally overseen investment vehicles to be used by external asset managers. The third-party Management Company focuses on the fund's governance, risk, compliance, administration and reporting, and the investment manager on the fund's investment performance. This allows the investment manager and Management Company to stick to their areas of expertise.

This model is mainly targeted at those asset managers wanting a Luxembourg-based fund, but not yet ready to create their own local oversight structure (and so incur set-up costs). Here, overall oversight remains the ultimate responsibility of the third-party Management Company (e.g. compliance, portfolio management, risk, audit and, distribution), but investment management is delegated to an investment manager.

This model is cheaper and quicker to set up for the asset manager. Third-party Management Companies also allow the asset manager to focus on investment decisions and reduce administrative requirements.

The third-party management model is widely understood by the industry and the quality of service providers in Luxembourg allows all types of asset managers, from boutiques and mid-range funds, to large players, to set up vehicles for global distribution without having to create large oversight teams.

While independent contractors often provide this service, many banks also set up their own third-party Management Companies in order to vertically integrate their fund services offer, creating internal synergies with their other departments, notably for the future distribution of funds.

Asset Managers looking to launch only a few funds in Luxembourg can also opt for setting up a sub-fund in an existing umbrella fund, operated by a third-party Management Company. Some service providers offer this possibility where the umbrella fund hosts various sub-funds from different asset managers. This can be a cost-effective solution for smaller players or for non-European players willing to distribute their funds locally with the support of a well-known brand.

"Luxembourg has become the default setting for alternative assets due to its stable legal system and government, as well as the presence of the world's biggest asset managers. They all have their centres of operations here, which makes the Luxembourg financial centre very powerful and makes a huge difference to our ecosystem. There are solid and high-level teams of experts managing fund accounting, the AIFM work, risk management, etc. They are highly skilled – and you do not find that in other places in the world.

The world's top 18 private equity houses all operate out of Luxembourg. They are at the heart of some of the most significant transactions happening in the world of finance. You also see those in London and New York, but not much anywhere else. All this speaks in Luxembourg's favour."

Enda Fahy,
Director of Alternative Investments, FundRock

FUND DISTRIBUTION

Distribution – i.e. the "marketing" or "sale" of funds – is one of the most critical aspects of the asset management lifecycle and is crucial to the success of any fund.

However, distribution is a complex business. Investors can have local preferences and may take a traditional approach to buying funds, be that via fund platforms, intermediaries (e.g. banks or insurers), or direct sales. Countries differ greatly as to how funds are traditionally purchased and there are vast legal differences between jurisdictions (e.g. language and documentation).

The Luxembourg fund industry is now the global leader in international fund distribution. The local ecosystem has the necessary expertise to overcome most obstacles that arise in worldwide fund distribution because of its understanding of the legal, technical, operational and cultural complexities of the global asset management industry. Luxembourg's highly experienced and multicultural workforce as well as the strong international connections of its regulators and industry associations are the keys to its success.

Traditional fund distribution is an intermediated business – with many asset managers delegating their fund sales to a global distributor, who in turn has several sub-distribution networks and platforms for each region and sales channel. As a result, funds can have complex distribution networks, which need to comply with local regulations on the sale of financial products and must be overseen closely by those responsible.

In Luxembourg, there are banks specialising in fund services and the provision of a local and international network of private banking and corporate finance relationships, which can be used to efficiently distribute the funds, not only intra-group but also to other third-party investors.

Many service providers can also facilitate the direct international distribution of funds as well as oversight and control of a fund's distribution network.

FUND ADMINISTRATION

The administration of a fund includes all operational functions in the broadest sense of the term. Every fund transaction, subscription, redemption, investment etc. must be recorded according to applicable laws and market practice, and maintained on an ongoing basis, both at fund level and through the custody chain. Fund administration requires a significant number of distinct functions, the complexity of which increases where there are multi-jurisdictional investors and investments. Depending on the asset class, fund administration must be carried out multiple times per day, some even instantaneously (e.g. valuation of ETFs), while other asset classes have less frequent – but more complicated – tasks.

Some of the fund administration functions include:

- legal and fund management accounting services
- customer inquiries
- portfolio valuation
- regulatory compliance monitoring
- maintenance of unit-/shareholder register
- unit/share issues and redemptions
- contract settlements (including certificate dispatch)

"The Luxembourg asset management ecosystem is very robust. It has everything under one roof, a pioneering regulator, international asset managers, highly skilled lawyers, consultants, and trustworthy auditors. It's a very well-connected ecosystem and it works very well. In Luxembourg it is normal to sit around the table at the various associations with competitors, but we sit there for the good of the ecosystem itself. Everyone is part of making the ecosystem stronger.

The Luxembourg Association of the Luxembourg Fund Industry (ALFI), The Luxembourg Bankers' Association (ABBL) or The Luxembourg House of Financial Technology (LHoFT): they all do a great job and we work together in deep expert groups to really move the fund framework forwards. In Luxembourg, we drive the agenda along.

Another vital part of Luxembourg is the entrepreneurship. There is a real entrepreneurial culture, founded by years of expertise. People spend 20 years in the asset management industry and gain knowledge, and then start their own company. That is quite unique."

David Suetens,
Country Head, State Street Luxembourg

Luxembourg law requires some tasks related to fund administration to be carried out in the Grand Duchy. However, some of these can be outsourced to the wide range of specialist service providers present in Luxembourg. That said, most of these functions, including transfer agent, registrar, domiciliation agent and paying agent tend to be performed by the same entity.

Fund accounting – i.e. book-keeping, financial reporting and general audit obligations – also falls within the administrative functions of a fund. This core responsibility generates a large volume of calculations across multiple fund products and investment strategies. Due to increasing regulatory constraints, fund accounting is a major line of business.

The preparation and distribution of Net Asset Value (NAV) calculations is one of the main responsibilities of the fund accounting departments. The fund's current price has to be sent to all entities involved on an ongoing, and often intra-day basis (e.g. to investors, platforms, advisors, initiator, portfolio manager, sales person, distributors, auditors, regulators etc.).

BANKS AND FUND SERVICES

The banking industry plays an essential role in the development of Luxembourg's asset management industry. Banks provide core services to funds and asset managers, such as safekeeping fund assets (custody) and depositary solutions. They may also offer additional services that can also be performed by non-banking entities, including fund orders, subscriptions and redemptions or the distribution of investment funds. Banks may also act as investment managers of funds.

By the time the UCITS legislation was approved at the European level, Luxembourg already had a mature banking industry, providing cross-border corporate finance and was an acknowledged pioneer in the thriving Eurobond market.

Depositary and custody

All investment funds appoint a depositary to ensure safekeeping (custody) and segregation of fund assets. This requirement is mandatory, enshrined in European fund laws and must be carried out by licensed banks for most investable assets[14].

A depositary bank has a dual mission: safeguarding the assets of the collective investment scheme and monitoring the lawfulness of its activities. These responsibilities extend to monitoring the governance of an investment fund, specifically compliance functions and even day-to-day portfolio administration. These duties include verification that the calculation of the net asset value is carried out in compliance with the law, that management policy is respected and monitoring instructions from the fund manager to ensure they are in line with legal obligations and the fund's prospectus.

A depositary bank may also perform the role of registrar, paying agent, transfer agent and domiciliation agent. The role of depository bank goes beyond safekeeping assets as it plays a key role in the oversight of investment funds and it may also carry out a wide range of ancillary administrative tasks for the fund.

The European AIFMD and UCITS V directives increased the importance and scrutiny of banks providing fund depositary services, in terms of liability for assets held in custody on behalf of funds and increased transparency of holdings in intermediated custody chains.

[14] In the context of AIFMD, depositaries for certain assets do not need to be banks.

A bank providing custody for a fund will also process income received on behalf of the fundand handle corporate actions. It may also provide services related to intra-day trade instruction and reporting, proxy voting, class actions, trust and fiduciary and foreign exchange.

Intermediation chains are also an option in asset custody. For example, managers can request specific assets be custodied and serviced via a selected sub-custodian, who then reports to the fund's main custodian.

Banks in Luxembourg are particularly reliable in terms of solvency and liquidity, having a national average for Tier 1 Capital of 22%. The stability and financial health of Luxembourg's banks is also supported by the country's AAA sovereign rating, making it a very safe place to safeguard and domicile funds.

"J.P. Morgan is proud to have been part of Luxembourg's ecosystem for more than 45 years, supporting our clients' entry into Luxembourg as the UCITS brand was established and developed. By evolving our service we've been able to support our clients' ever more complex structures and investment strategies, and those first clients remain our clients today.

Luxembourg has been a domicile of choice for many of our global clients because the ecosystem in Luxembourg has provided the flexibility to structure their products effectively, while providing investors with the regulatory safeguards to protect their interests.

Looking forward, our clients' needs and behaviors are constantly changing, and we are investing and partnering to help meet those demands. By delivering the capabilities of a universal bank, while remaining fully engaged and committed to the Luxembourg ecosystem, J.P. Morgan is well positioned to match the ambitions of our clients and support the continued success of the Luxembourg funds industry."

Michael Fox,
Head of Securities Services, J.P. Morgan Bank Luxembourg

TRANSFER AGENTS AND REGISTRAR

It is rare that a Transfer Agent (TA) and a Registrar are not the same entity, although it is possible their activities can be differentiated. The Luxembourg Transfer Agent model is based on registered shares, and it is usually performed by a trust, a bank or a Professional of the Financial Sector (PFS) (see below). The TA records transactions, subscriptions and redemptions, processes investor mailings and issues registered certificates at investors' request. An independent Registrar limits its operations to keeping records of registered owners and depository entities responsible for a publicly issued security.

Registered shares can be in the name of the ultimate investor (physical persons or institutional investors, such as pension funds or insurance companies) or a nominee holding the shares for the benefit of other underlying beneficial owners.

Typical nominees that are found in a Luxembourg share register can be grouped into the following categories:

- holesale distributors, such as banks, IFAs or platforms which in turn hold such shares in custody on behalf of their underlying clients.
- (International) Central Securities Depositories ((I)CSDs) which hold these shares in custody on behalf of their participant credit institutions (usually in their role as wholesale distributors, institutional investors or custodians for other investors).
- Institutional investors, such as pension funds, mutual funds, insurance companies.
- Custodians which hold the shares on behalf of other underlying investors or wholesale distributors.
- Distribution platforms which provide order execution/routing and custody services to underlying investors or wholesale distributors.

In contrast, the operating model of funds domiciled in France or Germany is based on shares issued by the fund and held in custody at a CSD. Such shares can only be subscribed and maintained by an investor through a CSD participant (i.e. a financial institution). In the French and German models, the TA function (order processing, reconciliation, record keeping) is effectively carried out by the CSDs, the participating banks and their banking clients.

The Luxembourg TA model offers an advantage for investors who are named directly in the share register of the fund since they can avoid custody charges levied by an intermediary custodian. This increases its appeal to digital financial distribution platforms.

"Luxembourg acts as the global centre of excellence for servicing the asset management community. Luxembourg is the place where we keep our control tower, the most skilled personnel, and the real value-added tasks in this field. Easily outsourceable tasks are undertaken with the help of other hubs, for cost and timing efficiency, but for complex products (alternatives) we use Luxembourg.

Another important part of Luxembourg's attractiveness is language and culture. Our clients are globally diverse, which means we need appropriate teams of people as our clients like to speak their own language (e.g. German, French, English, Italian). We offer our clients local language servicing and staff that know the regulations of the client's country. We only find this necessary set of client servicing skills in Luxembourg, and this allows us to focus on our international business."

Georg Lasch,
Head of Client Development, BNP Paribas Securities Services

Other agents in fund administration

- **Domiciliation agents**: Usually this service is provided by the fund's custodian or by an independent domiciliation agent, who will be preparing and sending out tax recovery documents, statutory notices, organising general shareholder and board meetings as well as other regulatory publications as required by the Luxembourg authorities.
- **Paying agents**: Entities designated to make dividend, coupon, reimbursement, subscription and redemption payments to the security holder on behalf of the issuer. Some jurisdictions require local paying agents.

A 24/7 Service

Different time zones do not constrain fund administration activities in Luxembourg. Most of the financial actors have a global presence, liaising with their offices in other time zones. The Luxembourg office ensures that Net Asset Value (NAV) calculations and trading requests are quickly performed once the order is made.

Some of these services are performed out of Luxembourg on a 24-hour basis. A South American Asset Manager investing in U.S. equities through a Luxembourg fund, for example, will be able to perform its trades at any time of day, provided that the U.S. trading venue is open. On the other hand, it will also be able to sell its Luxembourg fund with an updated NAV to its South American clients at any time of day, given that the NAV is calculated on a pre-determined schedule and always respected.

PROFESSIONALS OF THE FINANCIAL SECTOR

Many independent service providers in Luxembourg offer one or more of these fund administration services. To do so, they operate under a specific licence as Professionals of the Financial Sector (PFS).[15] PFS are further subdivided into three categories: Support PFS, Specialised PFS and Investment PFS. These specialist service providers are authorised and regulated by the financial sector supervisory authority, the CSSF.

Investment PFS

Luxembourg law recognises ten different types of PFS investment firms, including companies in the business of providing financial advice, investment and brokerage services, market making, underwriters of financial instruments, financial intermediation firms and distributors of units/shares in investment funds. A firm may choose to be active in several of these. The PFS Investment Firm benefits from the European passport and can offer its services throughout the European Union, as part of the MiFID framework.

Support PFS

A Support PFS is a company that provides outsourcing services to a credit institution, investment fund, pension fund, insurance/reinsurance undertaking, UCI, or another PFS, such as an Investment Firm. These services include information technology infrastructure and security services, back office data processing, archiving services, dematerialisation services, as well as client and investor reporting services. The law covers a wide range of activities and a company may choose to be active in several. The Support PFS does not benefit from a European passport.

Specialised PFS

Luxembourg law recognises 11 different types of Specialised PFS firms, including registration agents, professionals specialised in depositary services, currency exchange dealers, debt recovery, professionals operating lending operations and securities lending, family offices, mutual savings fund administrators and domiciliary agents. A firm may choose to be active in several of these. The Specialised PSF does not benefit from a European passport.

[15] In French, such entities are referred to as Professionnels du Secteur Financier (PSF)

MARKET INFRASTRUCTURE

Financial market infrastructures is essential to ensuring the smooth functioning of financial operations, such as listing, payments (cash transfers), clearing and securities settlement (shares, bonds, fund units, etc.). Given the large volumes that market infrastructure handle, their operations are vital to ensure that all financial transactions are completed correctly and to maintaining financial stability.

Market infrastructure in Luxembourg include the Luxembourg Stock Exchange, fund platforms and International Central Securities Depositories. These are all part of the asset management value chain.

The Luxembourg Stock Exchange

Established in 1927, the Luxembourg Stock Exchange is today the primary centre for the listing of international securities and also lists UCITS, AIFs, and Exchange Traded Funds (ETFs).

Outside of ETFs, the majority of investment funds make use of a transfer agent to record additions or reductions in their fund register or process this themselves. The role of a stock exchange in this context is not to facilitate trading, but rather focus on listing. Listing financial instruments provides greater transparency around governance, and facilitates price formation and potential liquidity.

The Luxembourg Stock Exchange has three listed markets: The first is for securities admitted to trading on the regulated 'Bourse de Luxembourg'; The second is for securities admitted to trading on the 'Euro MTF' market; the third is for securities admitted to the LuxSE Securities Official List (SOL), without admission to trading on either of the two markets operated by the Luxembourg Stock Exchange.

The LuxSE Securities Official List was set up by the Stock Exchange in 2018 and is designed for issuers seeking visibility and for whom admission to trading is not a prerequisite. This is an interesting option for non-regulated Private Equity funds, which can comply with specific transparency requirements for listing on the Stock Exchange, without needing to be actually traded. This option gives investors more information about the fund and so enhances its credibility and reputation.

Fund platforms

Fund platforms support an open architecture model of fund distribution, providing many-to-many connections and order routing between fund initiators, fund distributors and investors. Platforms based in Luxembourg provide international distribution of fund information and documents, as well as order routing and information services aimed at facilitating cross-border fund distribution. They help to reduce the number of relationships and the necessary communications between the various parties involved in investment funds, including reporting to the regulator and helping investors and financial advisors access the fund documentation they need to make informed decisions.

Other actors provide a standardised order-routing platform to support cross-border distribution for both UCITS and alternative investment funds, some with direct links to the settlement and custody layer at ICSDs.

Central securities depositories

Luxembourg is home to one of only two international central securities depositories (ICSDs) worldwide. This ICSD acts as an issuer CSD for international securities, leveraging a global network of common depositories to ensure international issues can be distributed cost-effectively and efficiently in multiple currencies worldwide.

The ICSD also provides settlement and custody services for securities of other domestic markets worldwide through a global network of sub-custodians and cash correspondent banks.

Luxembourg also operates a national CSD, responsible for the issuance, settlement and custody of Luxembourg securities. This CSD also offers access to the European Central Bank (ECB) TARGET2-Securities (T2S) facility, allowing participants to make their transactions in central bank money, with settlement either with counterparties in Luxembourg's CSD or with counterparties maintaining accounts at any other T2S- connected CSD. The T2S platform currently operates in 21 European countries.

Luxembourg's CSD also acts as a provider of Local Entity Identifier (LEI) codes – a requirement for all EU counterparties entering into derivative trades under the European Market Infrastructure Regulation (EMIR).

Collateral management

Banks provide collateral management services to manage risk, improve front office decision making, and minimise the impact on portfolio performance, so sparing clients the heavy investment needed to comply with complex collateral requirements. Ideally, collateral management is offered by the same company serving as custodian and administrator of a fund, in order to increase the efficiency of the service.

Luxembourg has always been a step ahead in terms of collateral management due to its early exposure to cross-border assets and multiple currencies. It has also been home to trailblazers in the field, with Automated Securities Lending in the 1980s, and in 1992 with the Luxembourg-based Centrale de Livraison de Valeurs Mobilières (CEDEL – today known as Clearstream) organising the first European triparty repo transaction – a $50 million financing deal between SBC Warburg and the European Bank for Reconstruction and Development.

New European regulatory requirements for derivatives have added to the complexity of trading, increasing the scarcity of eligible collateral. The updated legal framework has intensified focus on improving collateral management in order to increase operational effectiveness, limit counterparty credit risk and control costs of trading and collateralising swaps. Collateral management will have a significant impact on asset managers' investment performance.

OTHER SERVICE PROVIDERS

Luxembourg is also home to a diverse range of other service providers, adding to its attractions for the global asset management community.

Legal support

Legal advisors play a key role throughout the life-cycles of all investment funds. This advice is particularly needed during the creation of funds, whether for complicated and highly regulated retail funds, distributed all over the world, or for alternative funds sold to only a handful of investors.

Many Luxembourg law firms specialise in such legal advice and in the actual set-up of asset management companies. Lawyers can assist in designing the optimal asset management structure, be it a UCITS Management Company, or an Alternative Investment Fund Manager, to guarantee complete compliance.

Luxembourg holds a special position in the realm of the law, in that it has been the seat of the European Court of Justice since its creation in 1953. It is also home to leading independent law firms specialising in investment funds, as well as a number of Magic Circle law firms that cater to the asset management industry.

More than 3,000 legal advisors, a quarter of them from abroad, are members of the Luxembourg Bar, their professional organisation.

Proceedings in Luxembourg's commercial courts can be conducted entirely in English.

Auditors

Almost every aspect of asset management is subject to the legal requirement of an audit. Virtually every fund and asset manager must provide an annual audited report (some even more frequently). Audits should provide clarity, legal certainty, and reliably account for investors' funds.

In Luxembourg, only registered auditors and registered auditing firms are authorised to perform the statutory audit of accounts of regulated entities. Membership of this profession is regulated, and the title "auditor" and "auditing firm" are granted by the Commission de Surveillance du Secteur Financier (CSSF), the financial sector supervisory authority.

Professional audit and accountancy services have grown significantly in terms of specialisation, headcount and international expertise in order to meet the needs of a thriving Luxembourg fund industry. Most Luxembourg fund vehicles are also required to have an independent external auditor, underlining how indispensable the role is.

In addition to the Big Four, Luxembourg is also home to a number of audit firms with roots in the country itself or in neighbouring countries.

Consultancies

A wide variety of large and specialised consultancy firms are present in Luxembourg, offering services to the asset management industry. These include management consultancy, corporate advisory, financing, taxation, distribution strategies, regulatory advice, strategy planning and implementation. The ecosystem consists of a range of players, including the major international firms as well as more specialised providers, offering insight and expertise in a wide variety of specific fields and asset classes.

Being the global leader in cross-border finance also requires knowledge of multiple taxation systems. Luxembourg has a unique selection of tax advisory firms, whose expertise in local and international tax rules can help increase a fund's efficiency and avoid double taxation or other complications. New regulatory and legal developments, such as the OECD's BEPS framework, Transfer Pricing and the EU's KIDs and PRIIPS regulations can be handled by Luxembourg tax advisers.

Luxembourg consultancies are highly specialised and knowledgeable in the area of asset management, in large part due to the increase in regulatory requirements and guidelines that asset managers must comply with.

FINANCIAL TECHNOLOGIES

RegTech solutions

A significant number of Luxembourg FinTech companies are focused on serving the regulatory and compliance needs of global asset management (RegTech). These FinTech firms have focused on key compliance needs, ranging from KYC and fraud detection to fund reporting and automated investor information tools. FinTech can help financial institutions reduce their regulatory burden and compliance costs.

Solutions developed in Luxembourg are assisting asset managers in numerous ways, ranging from the automated production of fund documentation and prospectuses in various languages and formats, to providing tools for oversight and transparency in their governance. Others use big data for compliance, counterparty risk management, fraud detection and competitive intelligence.

Distributed Ledger Technology

Originally designed to be the technical architecture for cryptocurrencies, distributed ledger technology, or blockchain, presents a variety of opportunities for efficiency gains.

In Luxembourg, several initiatives are focusing on the asset management space:

- **FundsDLT** – initiated by Fundsquare in cooperation with a number of leading transfer agents, aims to build a distributed ledger environment servicing the entire fund management lifecycle.
- **Fundchain** – has already deployed a proof of concept (PoC) using DLT as a smart transfer agent.
- **Infrachain** – a non-profit public-private initiative aims to build the first worldwide trusted cooperative blockchain environment that respects regulatory and compliance guidelines.

> **"Digital services are increasingly provided across national borders. We incubated our finance and technology driven, pan-European start-up in Luxembourg, located in the heart of Europe."**
>
> Sebastian Hasenack,
> Co-CEO & Co-Founder, Investify

Robo-advisory

Automated investment services offer a new opportunity for asset managers to better target a far broader range of potential investors and integrate their products into a variety of tools, online platforms and mobile apps. Another trend is "hybrid-advisors" – combining the professional expertise of an advisor with automated investment.

In Luxembourg, established banks, as well as start-ups, offer such services domestically and Europe-wide, leveraging European passporting, together with Luxembourg's strong investment fund and advisory sales experience.

The Luxembourg House of Financial Technologies (LHoFT)

The Luxembourg House of Financial Technologies (LHoFT) Foundation is a public-private sector initiative that drives technology innovation for Luxembourg's financial services industry, connecting the domestic and international FinTech community in order to develop solutions that shape the world of tomorrow.

The LHoFT is Luxembourg's national FinTech platform and plays an essential role in supporting the FinTech ecosystem in Luxembourg, as well as connecting with leading FinTech hubs around the world. It provides the FinTech community with training, education, research and a soft-landing platform for access to the EU market. It also supports the broader financial community in Luxembourg by providing access to new cutting-edge technology to help transform their businesses.

SUSTAINABLE FINANCE

In recent years, financial markets have developed instruments that are specifically designed to raise money for sustainable development goals. Luxembourg has been at the forefront of this development, thanks to close cooperation between the public, private, and civil society sectors. The Luxembourg financial centre has built up an ecosystem that is uniquely suited to raising international capital for responsible investment.

Today, Luxembourg is the primary centre for listing sustainable bonds, the leading European domicile for impact funds, and a pioneer in the area of sustainable finance labels for more than a decade.

LuxFLAG

The Luxembourg Finance Labelling Agency (LuxFLAG) is an independent and international non-profit association created in Luxembourg in July 2006 by seven public and private founding partners.

The agency aims to promote the raising of capital for the Responsible Investment sector by awarding a recognisable label to eligible investment vehicles. The objective is to reassure investors that the vehicle or fund actually invests in what it claims to. The applicant may be domiciled in any jurisdiction subject to supervision deemed equivalent to that of an EU jurisdiction.

The Luxembourg Green Exchange

Launched in 2016, the Luxembourg Green Exchange (LGX) is the largest platform exclusively dedicated to sustainable finance. By displaying their securities on LGX, issuers generate awareness of their projects and investment portfolios. The platform also caters to ESG- aware investors by providing full and unrestricted access to a comprehensive online database of information on sustainable instruments. LGX is a subsidiary of the Luxembourg Stock Exchange.

International Climate Finance Accelerator Luxembourg (ICFA)

ICFA Luxembourg is a Public Private Partnership, under the Luxembourg Climate Finance Strategy, launched by nine private entities of the Luxembourg financial sector, the Luxembourg Ministry of Finance, and the Ministry of Sustainable Development and Infrastructure. The initiative is also supported by the European Investment Bank.

Its mission is to enhance the climate finance ecosystem by creating an attractive and supportive environment for climate finance fund managers in Luxembourg. It does so by providing financial leverage, expertise, coaching and community-building activities.

Fondation de Luxembourg

The Fondation de Luxembourg was created in December 2008 by the Luxembourg State and the Oeuvre Nationale de Secours Grande-Duchesse Charlotte. Its mission is to promote private sector philanthropy.

The foundation was set up to meet the growing need for a centre of expertise in philanthropy in the Grand Duchy and to encourage and facilitate philanthropic commitments by private individuals and businesses.

PROFESSIONAL ASSOCIATIONS

The Association of the Luxembourg Fund Industry (ALFI)

The Association of the Luxembourg Fund Industry (ALFI), is the official trade body for the Luxembourg investment fund industry. It was set up in November 1988 to promote its development and represent the industry at a European and International level as a member of the European Fund and Asset Management Association (EFAMA) and the International Investment Funds Association (IIFA).

The Association manages multiple working groups in Luxembourg involving industry players and the regulator which aim to streamline the services industry and set new standards and objectives for innovative sectors, like climate finance and FinTech. ALFI's working groups provide an important forum for the industry to discuss its future development and to ensure it remains at the cutting edge of innovation.

ALFI organises multiple international and national conferences, not only to promote local Luxembourg products but also to discuss global trends and regulatory developments in the asset management industry.

ALFI plays a significant role in unlocking new markets for the Luxembourg fund industry when it approaches international regulators and sister associations to explain the safety and benefits of the European UCITS and AIFM model. A few examples of these developments are the recent agreement for UCITS distribution in the Canadian, Australian and Mexican markets as well as AIFM funds for the Chilean Pension Funds industry.

"True to its ambition, ALFI represents the Luxembourg fund industry: the international fund centre of reference, recognised as open, reliable and innovative by investors, policy makers and industry alike. Luxembourg-domiciled investment funds are distributed in 70 countries. They are recognised not only in Europe, but also in Asia, Latin America and the Middle East, as well regulated investment vehicles offering a high level of investor protection."

Camille Thommes,
Director General of the Association of the Luxembourg Fund Industry (ALFI)

The Luxembourg Bankers' Association (ABBL)

The Luxembourg Bankers' Association was established in 1939 and is one of the oldest trade bodies in the country. In addition to banks, its members include consultants, lawyers, auditors, the Luxembourg Stock Exchange, market infrastructure, payment institutions, electronic money companies as well as other financial sector professionals and professions.

The ABBL provides its members with the intelligence, resources and services they need to operate in a dynamic financial market and an increasingly complex regulatory environment. ABBL members have a long-established and influential association working in their interest and representing their interests at the highest levels in Luxembourg and in Europe.

Luxembourg Private Equity and Venture Capital Association (LPEA)

Created in 2010, the Luxembourg Private Equity and Venture Capital Association (LPEA) is the representative body of private equity and venture capital professionals in Luxembourg.

With over 200 members, LPEA plays a leading role in discussions and developments in the investment landscape and actively promotes the industry beyond the country's borders through working meetings and networking opportunities on a regular basis.

The Association focuses on the interests of General Partners (GPs) that use Luxembourg as a jurisdiction of choice for structuring and/or administration of their international Private Equity (PE) acquisitions and/or their PE funds. The association also promotes investments by PE funds in Luxembourg.

LPEA also represents the interests of service providers to the local PE industry, which are integral to the PE value chain and to Luxembourg's attraction for international GPs. These include law firms, accountants, tax advisors, banks and fund administrators that have set up dedicated PE-servicing practices.

REGULATORY BODIES

The Commission de Surveillance du Secteur Financier (CSSF)

The Commission de Surveillance du Secteur Financier, CSSF, is the supervisory authority for banks, investment managers and investment funds, and the securities markets in Luxembourg.

Given Luxembourg's strong presence in the global asset management ecosystem, the CSSF is among the most important regulators in this sector in the world. It has taken the lead on many regulatory developments and supervises the vast majority of the industry's assets.

The CSSF has signed memoranda of understanding with 20 countries in the EU as well as 39 countries around the world, including China, Brazil, South Africa, Chile, Singapore, Hong Kong, Japan, Switzerland and Australia. The regulator is also a member and active participant in the International Organisation of Securities Commissions (IOSCO).

Key strengths of the CSSF include:

- Strong focus on investor protection
- Communication and paperwork in English, French and German
- Open-minded, pragmatic and responsive: a strict regulator that understands the business and realities of cross-border products and services
- A regulator with a long track-record in authorising, supervising and regulating financial institutions which are active across multiple jurisdictions
- Numerous bilateral agreements and MoUs with third-countries

The European Securities and Markets Authority (ESMA)

The European Securities and Markets Authority (ESMA) is the EU's regulatory agency for financial markets and one of the three supervisory authorities composing the European System of Financial Supervision, alongside the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). Although independent, the Supervisory Authority reports to the European Parliament, the European Council and the European Commission.

ESMA was created in 2010 and started operating in January 2011. Its mandate consists of the following activities:

- Safeguarding financial stability in the EU and ensuring the integrity, efficiency and sound functioning of the financial markets
- Drawing up compulsory standards and intervening with binding measures
- Improving coordination between regulators of securities markets
- Intervening as a consultative group in collaboration with the European Commission, particularly when preparing or implementing measures affecting the securities markets
- Working to ensure the consistent and rapid implementation of EU regulations in member states

Recent regulatory developments

Substance

In late 2018, the CSSF issued an industry-wide clarification guideline (Circular 18/698) to all Luxembourg-based Investment Fund Managers (IFM), covering all aspects of their activities, which introduced a broadly harmonized regulatory approach.

Every fund manager must employ the necessary staff (e.g. management, conducting officers, etc.) and maintain permanent operational compliance, risk management and internal audit functions. In some instances, these activities may be entirely or partially delegated.

Depending on the nature and complexity of its activity, the IFM must adapt the size of the teams performing key functions and ensure its staff have the necessary skills, knowledge, and expertise to perform their duties. Fund managers are also responsible for having in place the technical infrastructure needed to support their activities.

Delegation

Circular 18/698 also lays out considerations around the delegation of activities.

Among the tasks that an investment fund manager may in principle delegate, under certain conditions and limits, are the following:

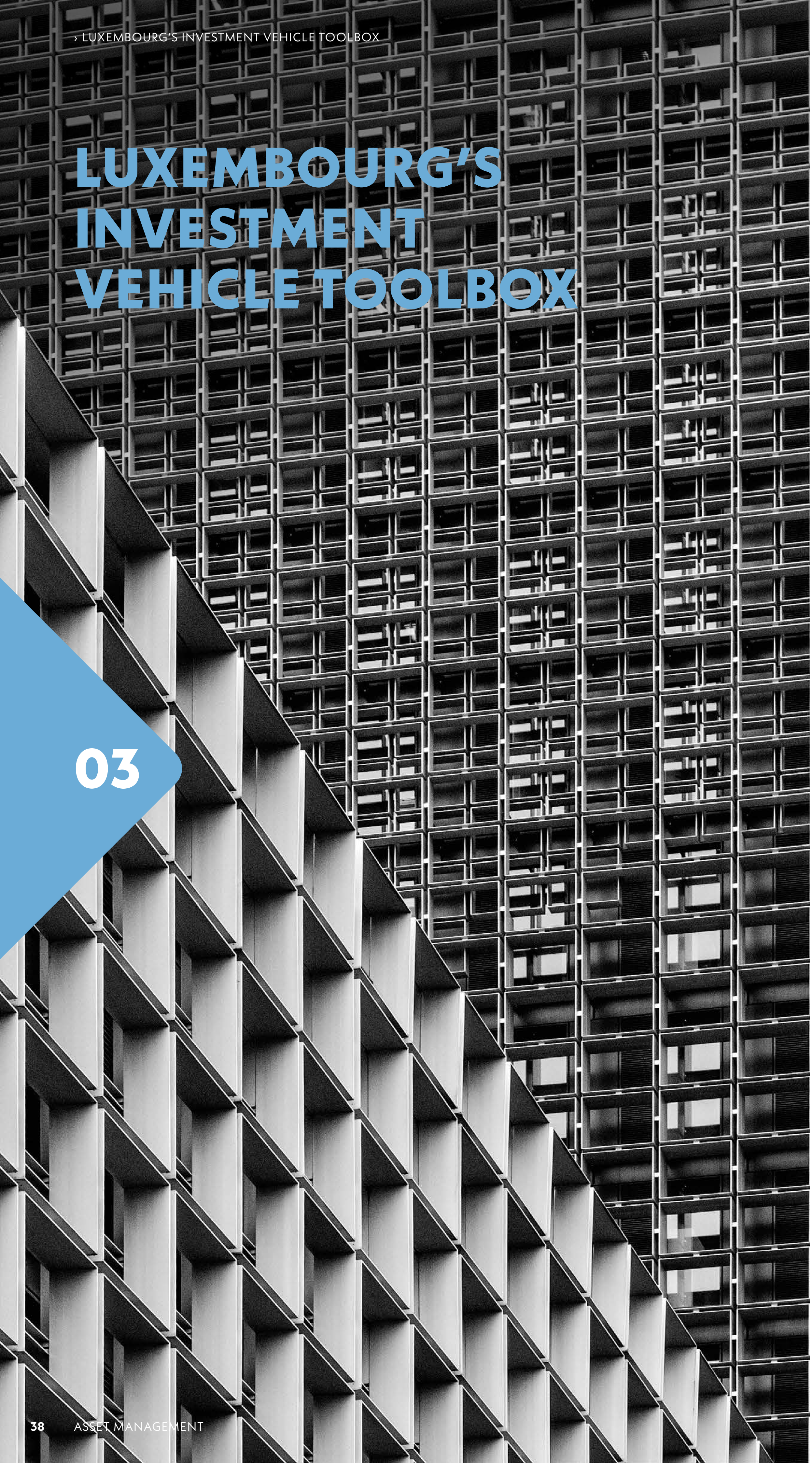
- Functions included in the activity of collective portfolio management
- Risk management
- Valuation
- Handling of complaints
- Discretionary management and non-core services
- Compliance
- Internal audit
- IT Operations
- Accounting

The fight against money laundering and terrorist financing

Every investment fund manager is subject to the laws and regulations in force regarding the fight against money laundering and terrorist financing. In this context, every investment fund manager has to comply with financial prohibitions and restrictive measures in respect of certain persons, entities and groups and must maintain ongoing due diligence in this context.

Investment fund managers must be organised so as to consider and apply new laws and regulations on this subject as soon as they become applicable and are encouraged to follow publications of the Financial Action Task Force (FATF) on this subject. This includes those related to financial sanctions on terrorist financing and the prevention, suppression, and disruption of proliferation of weapons of mass destruction and its financing. Investment fund managers must follow the "Guidance for Securities Sector" issued by the FATF.

Every investment fund manager must implement due diligence measures, in particular, on clients, initiators of funds, portfolio managers, to whom it delegates management, and on investment advisers. They must implement due diligence measures adapted to ML/TF risks which may arise from UCIs they manage, and must designate an AML/CFT Compliance Officer at senior management level as well as an AML/CFT Compliance Officer.



LUXEMBOURG'S INVESTMENT VEHICLE TOOLBOX

03

LUXEMBOURG'S INVESTMENT VEHICLE TOOLBOX

UCITS

Undertakings for Collective Investment in Transferable Securities (UCITS) have had an established legal framework in Luxembourg for 30 years, with the latest major amendment taking place in 2016 with the transposition of UCITS V into Luxembourg law. The goal of UCITS V was to provide a more aligned understanding of the roles and responsibilities of depositary institutions with those outlined in AIFMD.

The UCITS brand today represents a flagship EU product that is distributed globally. A growing number of countries in Asia and Latin America have also accepted UCITS based on the stability, quality and regulatory characteristics of UCITS-compliant funds.

Luxembourg UCITS are distributed in 80 countries worldwide, with Luxembourg's early transposition of the original directive providing it with a significant first-mover advantage.

The UCITS market: a geographical breakdown of nationally domiciled funds

COUNTRY	in € bn	%
Luxembourg	4,232	33.6
Ireland	2,975.6	23.6
United Kingdom	1,345.6	10.6
France	886.9	7
Switzerland	644.2	5.1
Sweden	506	4
Germany	496.8	3.9
Spain	310.1	2.4
Italy	239.9	1.9
Belgium	192.2	1.5
Denmark	163.7	1.3
Norway	148.1	1.1
Finland	123	0.9
Others	315	2.5

Source: EFAMA, Data from Q2 2023

A multi-purpose toolbox of investment vehicles and structures for all investors

	Asset management vehicles							Multi-purpose vehicles				
Vehicle	**UCITS** (Undertaking for Collective Investments in Transferable Securities)	**UCI Part II** (non-EU UCITS)	**SIF** (Specialized Investment Fund)	**SICAR** (Société d'Investissement en Capital à Risque)	**RAIF** (Reserved Alternative Investment Fund)	**SCS & SCSp** Limited Partnership (including special	**IORP** (Pension fund vehicle)	**SOPARFI** Financial Holding Company	Securitisation vehicle & fund	Fiduciary contracts	Family Wealth Management Company (SPF)	Life insurance contracts
Investible assets	Restricted to transferable securities	Unrestricted assets	Unrestricted assets	Investment in risk capital	Unrestricted assets	Unrestricted assets	Investible assets defined by IORP Directive	Holding a portfolio of investment assets	Securitised assets	Unrestricted	Unrestricted	Holding a portfolio of investment assets
Amount of regulation	✓✓✓	✓✓	✓	✓			✓		*			✓
Target investor & clients	All investors	All investors	Professional investors	Professional investors	Professional investors	Professional investors	Employees	Natural and legal persons	Natural and legal persons	Natural and legal persons	HNWI	HNWI
Cross-border passporting	EU Passport	National rules	EU Passport (if AIFM)	EU Passport (if AIFM)	EU Passport (if AIFM)	EU Passport (if AIFM)	EU passport via employer scheme					EU Freedom to Provide Services
TYPICAL INDUSTRIES:												
Fund industry	●	●										
Alternative funds			●	●	●	●						
Real estate				●	●	●						
Private equity												
Wealth management	●	●	●	●	●	●				●	●	●
Multi-purpose								●	●			
Other							Multinationals	Financial holdings	Capital markets			Insurance industry

This is a summary table for information purposes only; certain details may not automatically apply for a vehicle unless the necessary requirements are met. For more information, please see more detailed guidelines at ALFI's website (the *Association of the Luxembourg Fund Industry*), *www.alfi.lu*.

* Regulated if shares are issued to the public on a regular basis

REGULATED ALTERNATIVE INVESTMENTS

Luxembourg has also developed significant expertise in the field of alternative investment funds, including Hedge Funds, Private Equity and Venture Capital, and Real Estate.

With the entry into force of the EU's Alternative Investment Fund Managers Directive (AIFMD) in 2013, there is now space for further cross-border activity in the alternative funds space.

The Luxembourg UCIs sector has grown rapidly and the country is recognised as a premier alternative fund domicile, authorised for retail clients.

Half of all Europe-based hedge funds are now domiciled in the Grand Duchy – with the rest spread between Ireland and a small number of other jurisdictions.

SIFs

Specialised Investment Funds (SIFs) are flexible alternative vehicles for professional or "well informed" private investors. They are subject to supervision by the CSSF. Today there are more than 1,300 SIFs established in Luxembourg.

SICARs

Investment Companies in Risk Capital (SICARs) can be public or private companies that can raise funds to invest in risk-bearing capital. They benefit from a simplified status under Luxembourg corporate law and a favourable regulatory and tax regime.

There are currently more than 350 SICAR fund units in Luxembourg, representing more than €62 bn of AUM.[16]

UNREGULATED INVESTMENT STRUCTURES

RAIFs

Reserved Alternative Investment Funds (RAIFs) were created by the RAIF law of July 2016. RAIFs are an unregulated product and can be set up without prior approval from the CSSF. The RAIFs are, however, indirectly supervised via their management company since they must be managed by an AIFM that, in turn, is authorised by the CSSF.

RAIFs offer flexible features, such as complete freedom of investment strategies and a lighter regulatory framework than that imposed on traditional AIFs. Quick time to market is another attractive feature of the RAIF, given that they can be set up by notaries without the regulator's approval.

RAIFs can use the AIFMD marketing passport to be distributed internationally, with investor protection ensured by the compliance of their managing AIFM and depositary.

There are now 1,533 RAIFs established in Luxembourg, managed by AIFMs from various countries.

Limited Partnerships

The Luxembourg government used the transposition of AIFMD into Luxembourg law in July 2013 as a springboard to rework its limited partnership regime, resulting in the creation of the Common Limited Partnership and Special Limited Partnership fund categories (abbreviated as LPs and SLPs in English; SCSs and SCSps in French).

The Special Limited Partnership is a partnership without a legal personality, and has been designed to be close to the Anglo-Saxon common law investment partnerships. It has been used extensively in Luxembourg since its creation as a vehicle in the alternative sector, particularly for private equity investments, with currently over 5,600 SCSs /SCSps in existence in the Grand Duchy.[17]

[16] ALFI Global Statistics overview, updated October 2021 based on August 2021 data
[17] PwC, August 2021

LUXEMBOURG'S GOT TALENT!

Luxembourg gives you access to a large, highly skilled and multilingual talent pool

A DEEP TALENT POOL

+11 **million inhabitants** Luxembourg lies at the heart of Europe's largest cross-border region

5 million people live within a **1 hour commute to Luxembourg City**

+220,000 **daily cross-border commuters** from France, Germany and Belgium

+135,000 students **6 universities** within a 100km radius, cooperating closely as part of the **University of the Greater Region**

ATTRACTING TALENT FROM ACROSS THE WORLD

First globally for **job security** [1]

Visa-free Part of the Schengen **visa-free** travel zone
Availability of **EU Blue Card** work permits

Multicultural **47.4%** of the population is **foreign**
More than **180 different nationalities**

1st in the world for **attracting talent** [2]

A MULTILINGUAL, HIGHLY SKILLED WORKFORCE

One of **One of** the Eurozone's **leading financial centres** [3]

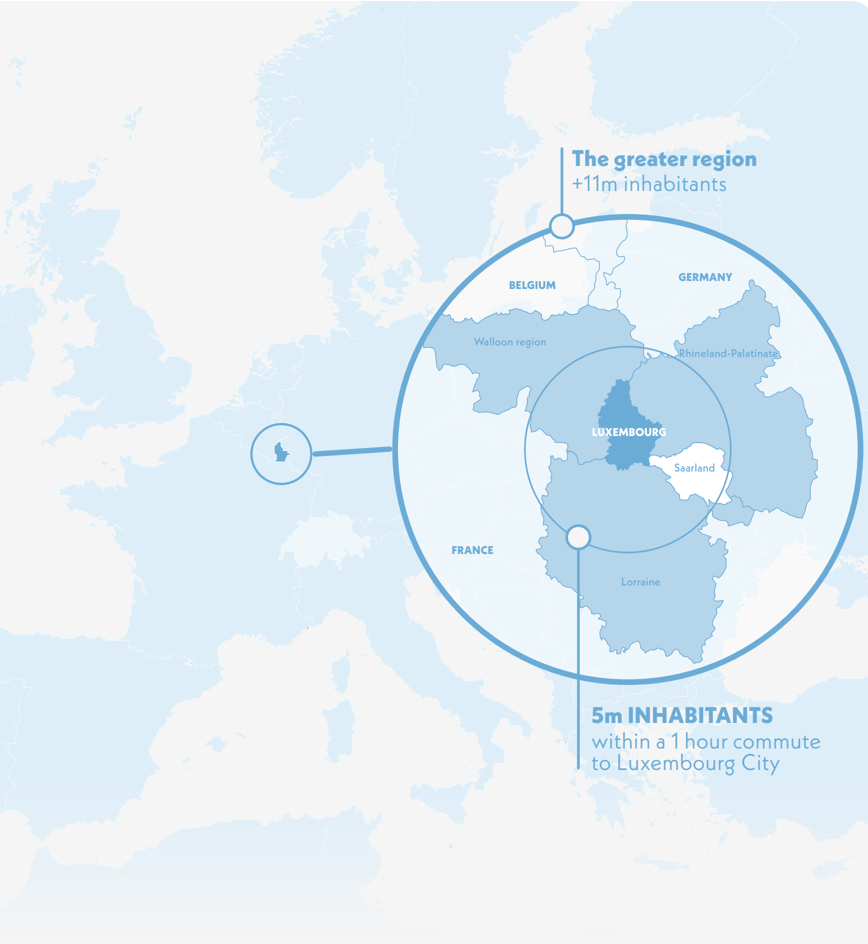
3.6 Most **multilingual** country in Europe: Luxembourg's population speaks an average of **3.6 languages** [4]

84% of the population speaks at least **2 languages** [3]

22nd Fluent in English: 11th in the World for **English proficiency** [5]

1st Luxembourg has the **highest labour productivity** in the world [6]

2.5% Average **annual employment growth rate** [7]



Sources: [1] Expat Insider 2021, [2] INSEAD Global Talent Competitiveness Index 2021, [3] GFCI, [4] Eurobarometer & European Commission, [5] Index 2023, [6] Portulans Institute Network Readiness Index, 2020, [7] Statec

USEFUL CONTACTS

04

USEFUL CONTACTS

The Luxembourg Bankers' Association (ABBL)
www.abbl.lu

Association of Insurance and Reinsurance Companies (ACA)
www.aca.lu

Luxembourg Association of Investment Funds (ALFI)
www.alfi.lu

Chamber of Commerce
www.cc.lu

Financial Sector Supervisory Commission (CSSF)
www.cssf.lu

Luxembourg House of Financial Technology (LHoFT)
www.lhoft.lu

Luxembourg Private Equity and Venture Capital Association (LPEA)
www.lpea.lu

Luxembourg for Finance
www.luxembourgforfinance.com

Ministry of Finance
www.mf.public.lu

ABOUT LUXEMBOURG FOR FINANCE

Luxembourg for Finance (LFF) is the Agency for the Development of the Financial Centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). Founded in 2008, its objective is to develop Luxembourg's financial services industry and identify new business opportunities.

LFF connects international investors to the range of financial services provided in Luxembourg, such as investment funds, wealth management, capital market operations or advisory services. In addition to being the first port of call for foreign journalists, LFF cooperates with the various professional associations and monitors global trends in finance, providing the necessary material on products and services available in Luxembourg. Furthermore, LFF manages multiple communication channels, organises seminars in international business locations, and takes part in selected world-class trade fairs and congresses.

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