



**ALFI 2020 Ambition:  
Serving the interests of investors and the economy**

**ALFI commits to further enhance Luxembourg’s position as the international fund centre of reference, recognised as open, reliable and innovative by investors, policymakers and industry alike.**

Thanks to its progress over the years, Luxembourg can build upon its many strengths. Yet the world is evolving fast and the fund centre’s stakeholders are increasingly demanding. Meeting their expectations is a considerable challenge: it requires above all proving that the industry best serves the interests of investors and the economy.

To achieve its 2020 Ambition, ALFI has set itself five equally important key objectives:

- Promote practices that align the interests of investors and industry
- Articulate the essential role of investment funds for the global economy
- Connect investors with worldwide market opportunities
- Ensure Luxembourg remains the fund centre of choice for asset managers
- Stimulate innovation, research, education and talent development

This ambition paper discusses why and how.

***A fast-changing world***

In defining its ambition for the coming years, ALFI identified a number of factors that will impact the fund industry, which may be labeled “global macro drivers”. Some are linked to consumer trends, demographics or technology, whereas others are specific to asset management. Taken together, they represent major shifts that the Luxembourg fund centre must anticipate and address.

At the consumer or retail investor level, the global macro drivers are:

**Demographics**

As the baby boomer generation approaches retirement and life expectancy continues to improve, public sector pension liabilities will grow. This will lead to a drawdown of assets, but also reinforce the need for greater personal savings and retirement income. Once investors see the implications, demand for capital preservation and income yielding strategies will increase,

creating opportunities for new products and services.

### **Growing wealth in Asia and Latin America**

Demand for a greater choice of more investment products will increase as wealth creation continues in the more dynamic economies. Alongside the development of domestic solutions, the need for international exposure will grow.

### **Digital generation**

Technology and big data are key disruptive forces across all industries which will also affect asset management, as they fundamentally change the way investors interact with service providers. They also create opportunities to innovate in service delivery and enhance the customer experience, especially for the next generation of investors. Asset managers will require support to develop new business models.

### **Quest for return**

Having experienced near zero interest rates, investors will search for higher yielding products, driving stronger asset flows towards investment funds, with increased allocations to the alternative sector. Related risks and opportunities will need to be clearly explained to properly manage performance expectations.

At a political level, the macro drivers include:

### **Protectionism versus globalization**

Recent developments within the European Union and beyond show a growing risk of trade barriers being erected that could impact cross-border distribution models. Potential national decisions are often driven by protectionism, however harmful this may be for citizens. Fund centres will need to support asset managers' evolving cross-border and domestic strategies.

### **Increased focus on taxation**

As governments seek to balance their budgets, an array of international and national taxation initiatives are taking shape. The focus will be on legitimate concerns about harmful tax practices or aggressive tax planning, as well as issues of transparency, reporting and compliance. Luxembourg will lead the way in adopting and promoting best practices.

## **Financial services under strict scrutiny**

With investors, policy makers and regulators demanding more data and transparency from financial advisers and institutions, asset managers will be increasingly held accountable through tough sanctions for non-compliance. Well-regulated fund centres with a strong governance and risk management framework will offer the industry an obvious advantage.

In terms of business strategy and management, the main macro drivers are:

### **Shift in investment strategies**

Passive versus active investing, proliferation of ETFs and growth in responsible investing will impact investment practices and business models, as well as product and distribution strategies. Growth in the passive sector will have significant spill-over impact on active managers and will also give rise to further product innovation, rationalisation and efficiencies.

### **Governance and risk management**

Asset managers will take care to ensure that all the latest regulations are adequately anticipated and addressed. Effectively navigating the increasingly complex regulatory environment at global, regional and local levels will be a key challenge and could be a source of competitive advantage.

### **Operational efficiency and cost management**

With margins under pressure, asset managers will redesign their business operating models to improve efficiency, enhance productivity and reduce costs. As firms review their existing processes and systems, they will also seek to address new market opportunities.

### **Consolidation, growth and scale**

The cost of regulatory compliance and the impact of further banking divestments will drive consolidation, as global firms position their businesses for growth. Expansion into new geographic markets, particularly emerging economies, will continue to be a major focus of the industry.

## ***Luxembourg moving forward***

In keeping with its long tradition of facilitating international trade and investment, its skilled, multilingual talent pool and sound economic and regulatory framework, Luxembourg has built up a strong position in

the asset management industry. It is currently the largest fund centre in Europe and second largest worldwide.

Having grown since the 1980s with the development of cross-border UCITS, the fund centre has in recent years attracted private equity, real estate and hedge funds, and successfully promoted responsible investment. The Luxembourg fund industry currently employs 14,000 people and represents 8% of the country's GDP.

Its future development will depend on its ability to adapt to rapid change within the international asset management industry and beyond. The Luxembourg public and private sector all understand the need to foster a sustainably attractive environment for investment funds. This requires helping the industry prove that it best serves the interests of investors and the economy.

The ALFI 2020 Ambition addresses that imperative... and each word counts:

*ALFI commits to further enhance Luxembourg's position as the international fund centre of reference, recognised as open, reliable and innovative by investors, policymakers and industry alike.*

### ***One ambition, five objectives, multiple initiatives***

ALFI has a clear ambition and five supporting objectives for the coming years.

Several concrete initiatives are already identified, and more will be introduced within its annual action plan to reflect the evolving environment and opportunities.

The five objectives, and related initiatives, are the following:

#### **1) *Promote practices that align the interests of investors and industry***

Domestic and international regulators seek to protect investors from risks throughout the value chain. Each regulation is based on good intentions. Taken all together, they can however create a compliance challenge, as well as costs for industry players and therefore their clients. Going forward, asset managers expect their fund centre partners to help them ensure that their practices, products and services match their clients' needs in an era of global, digital distribution.

To support this objective, ALFI will:

- Pro-actively engage with national and international stakeholders to promote "investor value-added" regulatory measures and best practices.
- Work on improving the adoption of state-of-the-art, cost-effective solutions to set up and operate funds and management companies, and drive global distribution.
- Support the development and implementation of technology and digital solutions for investors and the fund industry.

## **2) *Articulate the essential role of investment funds for the global economy***

Investment funds provide an important link between investors' savings and those parts of the economy that require capital to drive growth. They also provide individual investors with a range of solutions according to their own financial needs. Funds help resolve the twin long-term issues of funding pensions and financing innovation and infrastructure. Increasingly, funds are deployed for social impact too.

To help citizens understand these opportunities, public and private decision-makers should encourage them to take responsibility for their savings, think about their long-term projects and retirement needs, and how they can invest in a better world for their children.

To support this objective, ALFI will:

- Share information and insights on how to invest, building on the successful "[www.understandinginvesting.org](http://www.understandinginvesting.org)" platform, to help individuals think about "what's good for me, my family and the world".
- Promote the real and practical role that investment funds play in meeting the financing needs of the economy, by working closely with policymakers, regulators, investor associations and industry bodies.
- Support the development of responsible investment.

## **3) *Connect investors with worldwide market opportunities***

Investment funds are the ideal mechanism to provide a wide variety of investors with infinite investment opportunities in many different asset classes worldwide.

Thanks to its long established track record in global distribution, Luxembourg is already recognised as the axis point for international investors and asset managers seeking exposure to markets worldwide. Luxembourg will continue to facilitate cross-border fund distribution for the benefit of the global community of investors who wish to participate in economic growth practically anywhere in the world.

To support this objective, ALFI will:

- Engage with investors, policymakers and the industry worldwide to clearly understand their needs and requirements.
- Promote UCITS and AIFMD as regulated cross-border solutions.
- Support regulatory and taxation initiatives aimed at improving cross-border distribution.

## **4) *Ensure Luxembourg remains the fund centre of choice for asset managers***

In a highly competitive international landscape, ALFI recognises the need for Luxembourg to continue its progress in offering asset managers the best access to global distribution, deep

and competitive talent and servicing infrastructure, outstanding corporate governance, efficient and effective approval and oversight process, and a clear regulatory and taxation framework.

To support this objective, ALFI will:

- Extend global distribution and support services for Luxembourg and non-Luxembourg domiciled funds.
- Promote policies that allow Luxembourg to attract and retain a skilled workforce.
- Engage with policymakers to further improve the cost-effectiveness of the Luxembourg domicile.
- Enhance Luxembourg's unique brand through effective communications with stakeholders, using digital platforms, media, conferences and meetings.

#### **5) *Stimulate innovation, research, education and talent development***

As the world changes and the asset management industry seeks new business models, innovation will once again become paramount. Thanks to its international openness, Luxembourg is ideally positioned to source innovation and best practices worldwide. It also constitutes a living lab, with a multi-cultural population and workforce encapsulating global trends and investor expectations on an ideal scale for market research.

Once innovation and research is underway, management needs to deploy it rapidly throughout its organisation. International education and talent development become key concerns, and Luxembourg needs to improve its support to the industry in these areas. Developing talent in international risk management and compliance will be a primary area of focus.

To support this objective, ALFI will:

- Encourage academic research related to the investment fund sector.
- Support the development of new retail investor technologies and applications, with a particular focus on the next generation of investors.
- Expand professional training programs and workshops, as well as e-learning solutions, to broaden and deepen the talent pool in Luxembourg and abroad.

ALFI Board of Directors, Luxembourg, June 17, 2015