



## Serving investors, fostering growth ALFI 2020 Ambition: the mid-term report

***ALFI 2020 Ambition: “To enable asset managers and investment funds to fulfil their role of serving investors and fostering economic growth, ALFI will continue to enhance Luxembourg’s position as the international fund centre of reference, recognised as open, reliable and innovative by investors, policymakers and industry alike.”***

When reviewing our ALFI 2020 Ambition, as it was defined in 2015, we decided that we should not only confirm our initial commitment, but also strengthen our focus on supporting the industry’s twin objectives of serving investors and fostering economic growth.

The world is changing fast. ALFI’s 2020 Ambition paper identified eleven ‘global macro-drivers’ linked to consumer trends, political changes or strategic shifts within the asset management industry. Since 2015, many of these factors have materialised or become even more prominent, including:

- **Protectionism, with Brexit** indicative of developments that create a growing risk of trade barriers being erected, however harmful this may be for citizens;
- **Increasing public sector pension liabilities** highlighting the need for greater personal savings and retirement income;
- **Digital technologies** fundamentally changing the way investors interact with service providers, including asset managers, and accelerating the adoption of FinTech solutions;
- **Near zero interest rates** driving investors’ search for higher yielding products, as well as the development of both passive investing and alternative strategies;
- **Industry consolidation** in pursuit of economies of scale, as margins decrease, regulatory and technological costs increase, and cross-border opportunities require additional resources.

Governments, the public at large, investors and intermediaries all have high expectations that the asset management industry will deliver solutions that can combine financial and economic goals. Indeed, one of the most significant recent developments is the EU Commission’s **Capital Market Union (CMU)** initiative, which highlights the role of capital markets in financing growth and creating jobs.

The CMU action plan tackles many of the challenges identified by ALFI, including facilitating personal savings to secure adequate revenues for retirement. Critically, it encourages greater cross-border distribution to allow funds to grow and ensure capital is allocated more efficiently across the EU. Providing an essential link between savings and new growth opportunities, the investment fund is highlighted as one of the main vehicles for both retail and institutional investors to participate in financial markets.

ALFI immediately declared and continues its strong commitment to support the CMU project. More than ever, the Luxembourg fund centre, which ALFI represents, works as an enabler for investors, asset managers and service providers alike. At mid-term, ALFI has decided not only to confirm but even reinforce its 2020 Ambition, by adding new initiatives that support its **five key objectives**:

- **Promote practices that align the interests of investors and the industry: In the interest of investors and the industry, ALFI underlines the benefits of sound and transparent delegation arrangements, in line with current legal and regulatory standards.** As another example of ALFI's ongoing work to support "investor value-added" regulatory measures and best practices, the recent creation of the ALFI Digital/FinTech Forum aims to raise awareness, identify the challenges and develop the opportunities inherent in new digital technologies;
- **Articulate the essential role of investment funds for the global economy:** ALFI is actively working on the implementation of the EU's proposal for a pan-European personal pension product (PEPP), as Luxembourg could serve as a hub for European PEPP providers. Regarding personal pensions, ALFI also intends to step up its efforts related to investor education.
- **Connect investors with worldwide market opportunities:** building on its success in Australia, which has given institutional investors easier access to Luxembourg UCITS, ALFI is stepping up efforts in Brazil, China, Mexico and South-East Asia. ALFI is also pro-actively working to limit the consequences of Brexit for asset management across Europe;
- **Ensure Luxembourg remains the fund centre of choice for asset managers:** a dedicated ALFI Management Company Technical Committee has been created to ensure the continued excellence of Luxembourg's management companies' operations and governance. In 2016, ALFI members' 200 working groups held 466 meetings and prepared 15 position papers;
- **Stimulate innovation, research, education and talent development:** ALFI is sponsoring a four-year project with the University of Luxembourg to create a database of Luxembourg investment funds. Modelled on a similar database of US mutual funds, it will lay the groundwork for academic research benefitting the industry and its stakeholders.

Our mid-term report on the ALFI 2020 Ambition explores the recent changes that affect the asset management industry, and details ALFI's achievements and ongoing efforts to meet its five key objectives.

Denise Voss, Chairman of ALFI  
Luxembourg, September 2017

## ***A fast-changing world: global macro-drivers in 2015 and now***

ALFI's 2020 Ambition paper identified eleven 'global macro-drivers' for the international fund and asset management industry. Some are linked to consumer trends, demographics or technology, whereas others are related to political changes or strategic shifts within the asset management industry itself.

Since 2015, these factors of change have not only proven to be accurate; many have had an even more profound impact on business models, products and strategies than expected. Some have evolved to become even more prominent, others have materialised in concrete, sometimes unexpected ways. Taken together, these global macro-drivers still represent major challenges that asset management in general, and the Luxembourg fund centre in particular, must continue to anticipate and address.

### *At the consumer or retail investor level:*

#### **1) Demographics**

2015: 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.

*2017: Confirmed! One clear indication of the need to act on personal pensions is the emphasis placed by the European Commission's CMU action plan on encouraging more savings to secure adequate revenues for retirement. The PEPP initiative foreseen in the CMU action plan will be of particular interest to the asset management industry.*

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

2015: 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.

*2017: Confirmed! Mass-affluent individuals as well as institutional investors in emerging and developing countries, including pension funds, are increasing their exposure to international assets. Regulated investment funds like UCITS represent an investment vehicle of choice in this context.*

#### **3) Digital generation**

2015: 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.

*2017: Accelerated! In the past two years, innovation has been vibrant. Numerous initiatives such as digital distribution and Blockchain or Know Your Customer (KYC) tools are going live to support asset managers*

as well as the servicing community.

#### **4) Quest for return**

2015: Having experienced near zero interest rates, investors will search for higher yielding products, driving stronger asset flows into investment funds, with increased allocations to the alternative sector. Related risks and opportunities will need to be clearly explained to properly manage performance expectations.

*2017: Confirmed! Yes, interest rates continue to stagnate and in some cases they are even negative. Yes, investment funds continue to prove attractive, especially when clearly presented as an efficient means for investing over short to longer time horizons.*

At a political level:

#### **5) Protectionism versus globalization**

2015: 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.

*2017: Dramatically accelerated with developments such as Brexit! With the CMU action plan, the European Commission aims for greater cross-border distribution to allow investment funds to grow and allocate capital more efficiently across the EU.*

#### **6) Increased focus on taxation**

2015: 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.

*2017: Confirmed! Luxembourg has been an early adopter of all the recent European and international initiatives aimed at facilitating exchange of information on tax matters and financial accounts. It is also proactively encouraging the translation of the OECD BEPS initiative into EU law.*

#### **7) Financial services under strict scrutiny**

2015: 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.

*2017: Reinforced! Sound governance, regulatory and business compliance have become basic requirements for all industry players, emphasising the advantage of choosing well-regulated fund centres such as Luxembourg.*

*In terms of business strategy and management:*

### **8) Shift in investment strategies**

2015: 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 a significant spill over impact on active managers and will also give rise to further product innovation, rationalisation and efficiencies.

*2017: Confirmed! Over the last two years, responsible investing, including climate finance and impact investing, has developed and is becoming more mainstream. ETFs and the passive sector have attracted asset flows. At the same time, alternative strategies have also grown significantly.*

### **9) Governance and risk management**

2015: 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.

*2017: Confirmed! Higher standards have been and must continue to be embedded in the industry. Luxembourg is recognised as a centre of excellence for governance and risk management and will continue to evolve to meet increasing demand from investors and regulators in these areas.*

### **10) Operational efficiency and cost management**

2015: 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.

*2017: Increased! The investment management ecosystem must become more efficient, but also provide a better customer experience if it is to succeed in the future. FinTech solutions and tools such as Blockchain and RegTech are proving increasingly relevant as asset managers seek enhanced operational efficiency.*

### **11) Consolidation, growth and scale**

2015: 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.

*2017: Confirmed! The search for economies of scale continues as the asset management industry adapts to a new global environment and the disruptive impact of technology. At the same time, the industry consolidates and continues to expand its global reach, notably through UCITS and AIFs.*

Under pressure from all these drivers, asset managers and service providers increasingly depend on their ability to anticipate and rapidly adjust their strategies. It is ALFI's mission to support them.

The Luxembourg fund centre, which ALFI represents, is uniquely positioned to serve the interests of the international asset management industry in a changing world. Building on its track record over the past three decades, especially its pivotal role in the global success of UCITS, Luxembourg has become the international fund centre of reference, recognised as open, reliable and innovative by all stakeholders.

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

At mid-term, ALFI confirms the five key objectives it defined in 2015 to achieve the ALFI 2020 Ambition. Many concrete initiatives have already been implemented and the focus is clearly to enable asset managers and investment funds fulfil their twin roles of serving the investor and fostering economic growth. This is reflected in ALFI's very strong commitment to support the CMU project.

In various areas, ALFI has decided to reinvigorate its initial Ambition by adding new initiatives. Amongst others, ALFI intends to step up its efforts related to investor education, notably in the context of personal pensions. ALFI will work pro-actively to limit the disruptive consequences of Brexit for asset management in Luxembourg and Europe. Furthermore, the focus on the continued excellence of Luxembourg's management companies' operations and governance will be further increased with the creation of a dedicated ALFI Management Company Technical Committee.

This mid-term report reviews ALFI's progress so far, and continued and new actions planned in each area.

#### **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 or misalignment, 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, technology-driven, digital distribution.

In 2015, to support this objective, ALFI committed to:

- 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.

These commitments will continue to guide ALFI's actions over the next years.

Important activities include:

- Regular meetings of ALFI with key policy makers in Luxembourg, Europe and abroad.
- ALFI's instrumental support in the implementation of the Reserved Alternative Investment Fund (RAIF) law in Luxembourg, further enhancing the Luxembourg toolbox for sophisticated and institutional investors.
- The creation of the ALFI Digital/FinTech Forum aiming to raise awareness, identify the challenges and develop the opportunities inherent in new digital technologies.
- ALFI's response to the FSB and IOSCO consultation on "Assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions", demonstrating that asset managers are not a source of systemic risk.
- Actions to further improve Luxembourg's positioning in the area of passive investment strategies, with a view to enhancing their value proposition.

## **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.

In 2015, to support this objective, ALFI committed to:

- Share information and insights on how to invest, building on the successful "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.

These commitments will continue to guide ALFI's actions over the next years.

Important activities include:

- ALFI's commitment to the CMU initiative from the very beginning, recognising it as one of the most relevant and directly applicable initiatives in light of the realisation of the ALFI 2020 Ambition. ALFI has inter alia been very active in the introduction of the ELTIF regulation, the

review of European Venture Capital Fund and the European Social Enterprise Fund regulations, the modernization of the Prospectus Directive and the proposal for simple, transparent and standardised securitisation (STS) which are part of the CMU initiative and aim at facilitating investments in the global economy.

- ALFI will actively contribute towards the implementation of the PEPP proposal, as Luxembourg – thanks to its unequalled cross-border experience - could potentially be one of the best suited jurisdictions within Europe to serve as a PEPP hub for European PEPP providers.
- ALFI's continued efforts in favour of the development of Responsible Investing, i.a. by updating its survey of the European Responsible Investment Fund market which shows that Luxembourg is Europe's leading domicile for responsible investing funds in Europe, accounting for 35% of total Assets under Management.
- ALFI has also continued to raise awareness for Responsible Investing at roadshows and conferences and organised thematic conferences on the specific area of Impact Investing. The participation at the conferences is rising, as is the awareness of the opportunities offered by Responsible Investing. As a founding member, ALFI also continues to support LuxFLAG.
- ALFI has published guidelines on infrastructure investment funds and on debt funds as an alternative source of financing for the European economy.
- ALFI continues to work on the content of ***www.understandinginvesting.org***. Ten educational podcasts were added in three languages on such varied topics as 'the cost of investing' or 'how can UCITS funds protect investors', and more. ALFI will also be pursuing more pro-active engagement with investor bodies.

### **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.

In 2015, to support this objective, ALFI committed to:

- Engage with investors, policymakers and the industry worldwide to clearly understand their needs and requirements.
- Promote UCITS and AIFs as regulated cross-border solutions.
- Support regulatory and taxation initiatives aimed at improving cross-border distribution.
- Engage into discussions with foreign stakeholders to open up new markets for the distribution of UCITS and AIFs.

ALFI will further work on these commitments in the years to come.

In this context:

- ALFI has already successfully negotiated an exemption from the obligation to hold an Australian financial services (AFS) licence to provide financial services in Australia. The exemption applies to Chapter 15 Management Companies and UCITS Self-Managed SICAVs regulated by the Luxembourg financial supervisory authority. This relief will enable Australia's institutional investors, including superannuation funds, to get easier access to Luxembourg UCITS.
- ALFI is in regular contact with counterparties in places like Brazil, China or Mexico in order to advise on the benefits of facilitating international investments through reforms of the local fund regulation.
- ALFI launched a working group in Singapore to promote increased collaboration between the fund management industries in Luxembourg and South East Asia.
- ALFI continues to travel to key locations to meet investors and asset managers. In the last two years, ALFI has organised 18 roadshows in 12 countries. Over 11,000 people attended these events. The international orientation of ALFI's activity will intensify in the years to come.
- In the context of CMU, ALFI provided detailed responses to the public consultation on cross-border distribution of investment funds issued in 2016, as the removal of barriers is considered a top priority.
- To give investors access to asset management expertise from around the world, ALFI advocates the benefits of sound and transparent delegation arrangements, notably of portfolio management activities.

#### **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.

In 2015, to support this objective, ALFI committed to:

- 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.

ALFI will further work on these commitments in the years to come.

In the meantime:

- ALFI has and will continue to develop Luxembourg's position as a centre of excellence for risk management and corporate governance via the organisation of conferences and seminars, as well as through important industry publications like the 'ALFI Principles of the oversight of financial intermediaries in distribution of funds'.
- ALFI provides its members with important guidelines or FAQ documents on relevant operational or regulatory aspects, e.g. PRIIPS KID Q&A, Swing pricing guidelines, Reporting under CRS Q&A, etc.
- ALFI communicates about investment funds to a broad audience via the press and social media. Over the past year, ALFI issued 13 press releases, published 300 articles and had 150 press meetings.
- ALFI members are continuing to work diligently in one of the close to 200 ALFI working groups and forums. Over the last year, 466 working group meetings took place and 15 position papers were prepared.
- ALFI is in continuous contact with the local actors of the thriving FinTech ecosystem, and participating in the exploration of the use of local Regtech and Blockchain tools to bring down costs and increase efficiency in the industry.

These initiatives were rewarded in 2016 when Luxembourg was recognised as the "Best centre for fund administration" by Investment Week.

##### **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.

In 2015, to support this objective, ALFI committed to:

- 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.

These commitments will continue to guide ALFI's actions over the next years.

Important activities include:

- The sponsorship of a four-year project with the University of Luxembourg to create a database of Luxembourg investment funds for the purposes of academic research. The database is modelled on a similar database in existence in the United States, which forms the basis for a large body of academic research on US mutual funds. This will lay the groundwork for research of a similar nature on Luxembourg funds.
- The participation in student job fairs to present the opportunities offered by the Luxembourg investment fund sector.
- The long-standing partnership with the Luxembourg House of Training to offer training programs to the professionals working in the fund industry.
- The organisation of targeted events with the University of Luxembourg featuring academic guest speakers to strengthen the relationship between the academic and the industry communities.