Luxembourg: The Global Fund Centre
Welcome to Luxembourg!

For those of you who have yet to discover the Grand Duchy, I am confident you will be impressed with the benefits it can offer your business.

With more than EUR 2,400 billion in net assets under management, Luxembourg is the largest investment fund centre in Europe and the second largest in the world after the US. It is the largest global distribution centre for investment funds, with its funds offered in more than 70 countries around the world.

Luxembourg’s investment funds have a dominant share in both the retail and the institutional marketplace in Europe, and are the vehicle of choice in many parts of Asia, Latin America and the Middle East. Luxembourg is also a major centre for alternative asset classes with more than 20 per cent of assets managed by alternative fund managers.

How did Luxembourg build these strong positions in the global investment industry? It comes down to three concepts: international orientation, excellence and stability.

A founding member of the European Union (EU), Luxembourg is also a member of all the principal international organisations. The country’s strategic location at the heart of Europe and its traditional openness towards cross-border integration, established it very early on as a major international financial centre.

Furthermore as a “AAA” economy, Luxembourg has sound public finances and is politically stable.

Its social stability, based on a culture of consensus, makes it a great place to work and do business, and its high quality of living makes it a pleasant place to live.

This backdrop has, over the decades, attracted thousands of investment firms and service providers, who collectively contribute unrivalled knowledge and expertise to the global investment industry players, whether they operate from Luxembourg or not.

This brochure is a guide to all that Luxembourg has to offer the asset management industry and the people who work in it. We look forward to welcoming you soon.

Marc Saluzzi
Chairman
ALFI
ten reasons why the fund industry chooses luxembourg

1. It has a stable political and social environment and a strong economy.

2. It is a founding member of the European Union and is situated at the heart of Europe, with about 500 million European consumers on its doorstep.

3. Luxembourg’s legal and regulatory framework for investment funds is state-of-the-art, and recognised as such by the global asset management community.

4. Luxembourg is the largest European fund domicile and the second largest fund centre in the world after the US, with about EUR 2,400 billion in assets under management.

5. It leads the way in investor protection and has a highly experienced and responsive regulator.

6. It has a unique concentration of investment fund experts specialised in all aspects of product development, administration and distribution.
7. It has established a competitive framework for UCITS (Undertakings for Collective Investment in Transferable Securities), funds “passported” within the EU, and non-UCITS funds.

8. Its fund lawyers, audit firms and tax advisors are highly experienced in cross-border registrations of both UCITS and non-UCITS funds, facilitating fund distribution around the globe.

9. Its laws provide for so-called umbrella funds, which have several compartments under a single legal structure, and each compartment can invest in a different asset class.

10. Luxembourg is endowed with an international and multilingual workforce. English is the language of the financial sector, and French, German and other European languages are also spoken.
Luxembourg is the largest investment fund centre in Europe

Net assets under management in Luxembourg total more than EUR 2,400 billion, and are managed across more than 13,000 investment fund units.

Luxembourg leads cross-border market in Europe

Luxembourg is the leading centre for cross-border distribution of investment funds with 72% of the European market.

The Main UCITS exporting countries in Europe

% of fund registrations from each country

Source: Global fund distribution (March 2012 PwC)
Funds come to Luxembourg from every corner of the globe

Asset managers from all over the world use Luxembourg as their gateway to Europe and to the rest of the world. In fact, fund companies set up funds in Luxembourg because they know that they are recognised all over the world as high-quality investment products. The two largest promoters of Luxembourg investment funds are the US and Germany.

Luxembourg funds are exported across the world

Luxembourg-domiciled investment funds are distributed in more than 70 countries throughout the world. They are recognised everywhere, including in Asia, Latin America and the Middle East.

Export of UCITS outside Europe

The top 10 countries of distribution outside Europe

Source: Lipper LMI and PwC analysis as at December 31, 2011 - Benchmark your global fund distribution (March 2012 Poster PwC)
Most of the top names in asset management have chosen Luxembourg as the base for their global distribution. The table below shows the top 25 cross-border groups in Europe classified by the number of countries into which they are selling.

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<th>Management group name</th>
<th>Countries of sale at group level (including domicile)</th>
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<tbody>
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<td>48</td>
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<tr>
<td>FIDELITY WORLDWIDE INVESTMENT</td>
<td>43</td>
<td>LU</td>
<td>42</td>
</tr>
<tr>
<td>HSBC HOLDING</td>
<td>40</td>
<td>LU</td>
<td>37</td>
</tr>
<tr>
<td>BNP PARIBAS</td>
<td>39</td>
<td>LU</td>
<td>37</td>
</tr>
<tr>
<td>BLACKROCK</td>
<td>37</td>
<td>LU</td>
<td>31</td>
</tr>
<tr>
<td>SCHRODERS</td>
<td>35</td>
<td>LU</td>
<td>28</td>
</tr>
<tr>
<td>DEUTSCHE BANK</td>
<td>32</td>
<td>LU</td>
<td>25</td>
</tr>
<tr>
<td>ALLIANZ GROUP</td>
<td>31</td>
<td>LU</td>
<td>30</td>
</tr>
<tr>
<td>AMUNDI</td>
<td>31</td>
<td>LU</td>
<td>27</td>
</tr>
<tr>
<td>UBS</td>
<td>30</td>
<td>LU</td>
<td>29</td>
</tr>
<tr>
<td>JP MORGAN</td>
<td>29</td>
<td>LU</td>
<td>29</td>
</tr>
<tr>
<td>ING GROUP</td>
<td>29</td>
<td>LU</td>
<td>27</td>
</tr>
<tr>
<td>INVESCO</td>
<td>28</td>
<td>LU</td>
<td>27</td>
</tr>
<tr>
<td>HENDERSON GROUP</td>
<td>27</td>
<td>LU</td>
<td>26</td>
</tr>
<tr>
<td>ABERDEEN ASSET MANAGEMENT</td>
<td>27</td>
<td>LU</td>
<td>26</td>
</tr>
<tr>
<td>PIONEER INVESTMENTS</td>
<td>26</td>
<td>LU</td>
<td>24</td>
</tr>
<tr>
<td>PIMCO</td>
<td>26</td>
<td>IE</td>
<td>23</td>
</tr>
<tr>
<td>BNY MELLON / WESTLB MELLON</td>
<td>26</td>
<td>IE</td>
<td>22</td>
</tr>
<tr>
<td>GOLDMAN SACHS</td>
<td>26</td>
<td>LU</td>
<td>21</td>
</tr>
<tr>
<td>LEGG MASON</td>
<td>26</td>
<td>IE</td>
<td>21</td>
</tr>
<tr>
<td>BARCLAYS GROUP</td>
<td>25</td>
<td>IE</td>
<td>17</td>
</tr>
<tr>
<td>INVESTEC</td>
<td>24</td>
<td>LU</td>
<td>23</td>
</tr>
<tr>
<td>PICTET &amp; CIE</td>
<td>24</td>
<td>LU</td>
<td>23</td>
</tr>
<tr>
<td>THREADNEEDLE</td>
<td>24</td>
<td>LU</td>
<td>18</td>
</tr>
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<td>RBS GROUP</td>
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<td>22</td>
</tr>
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Source: Lipper LMI and PwC analysis as at December 31, 2011 - Benchmark your global fund distribution (March 2012 Poster PwC)
Hot spots distribution

The heat map indicates the total number of registrations at the end of 2011 while the percentage shows the number of Top 100 cross-border management groups distributing in each market.

Total number of cross-border registrations as at 31 December 2011:

- Over 3,000
- Between 1,000 and 2,999
- Between 500 and 999
- Between 100 and 499
- Less than 100

_percentage of Top 100 management groups distributing cross-border funds in each market

Source: Global fund distribution (March 2012 Poster PwC)
the three world-leading pillars of the Luxembourg Investment Fund Centre
Luxembourg is a favoured destination for fund management firms, in no small part due to its long history of embracing regulation and creating products that enable firms to develop their business.

In particular, Luxembourg is the world’s acknowledged leader in UCITS funds. UCITS is the acronym for “Undertaking for Collective Investment in Transferable Securities”, which were created in December 1985 by a Directive of the European Union. They were a key plank in the EU’s goal to implement a single regulatory regime across the EU for open-ended funds investing in transferable securities such as shares and bonds. Investor protection was at the heart of the Directive, which regulates the organisation, management and oversight of the fund and imposes rules concerning diversification, liquidity and use of leverage.

Importantly, investment funds that fulfil the requirements of the UCITS Directive can be freely marketed, under the European passport, throughout the European Union. This means that once established in one European Union country, they can be distributed throughout the whole bloc. This has both reduced costs and time to market, and increased the distribution capabilities of asset managers across the continent.

Although UCITS were initially intended only to be marketed across the European Union, the UCITS brand is now recognised as the only truly globally distributed investment fund product. As a result, an increasing number of asset managers are establishing UCITS funds with a clearly defined global distribution strategy and Luxembourg plays a key role in this strategy.

A growing number of countries in Asia and Latin America have accepted UCITS because they are convinced that the UCITS framework provides a stable, high quality, well-regulated investment product with significant levels of investor protection. And Luxembourg has successfully positioned itself as the global leader for cross-border distribution of investment funds, with the result that today more than 72% of UCITS funds distributed internationally are based in Luxembourg.

Luxembourg UCITS are distributed in 70 countries worldwide. Luxembourg UCITS funds have now become a strong global brand but it really all started as a first mover advantage: the fact that Luxembourg was the first country to implement the UCITS Directive into its national law attracted international fund promoters to Luxembourg very early on. These funds needed services providers: expertise in the administration, the custody and the distribution of funds quickly developed in Luxembourg, which in turn attracted more promoters. Today, Luxembourg has become a centre of excellence for investment funds with a skilled and multilingual workforce able to service funds sold in so many different countries.
The successful UCITS brand is subject to constant monitoring and change to ensure it is still relevant, applicable and offers the protection that investors expect of it. The UCITS vehicle has therefore been refined and improved through a number of iterations, allowing funds to invest in a wider range of financial instruments, UCITS III also made it possible to establish money market funds, index-tracking funds and derivative funds as UCITS. The inclusion of derivatives as eligible assets for UCITS funds has encouraged the use of more innovative investment strategies. Today there is a huge range of strategies and assets within UCITS funds, while at the same time the highest investor protection standards have been maintained.

UCITS IV, introduced in 2009, introduced a passport for management companies which allows a UCITS to be managed by a management company authorised and supervised in a EU Member State other than its home Member State. It also facilitated mergers between funds so investment firms can achieve economies of scale with greater ease and less expense. It also replaced the simplified prospectus with the Key Investor Information Document (KIID), which contains clear and fair information to guide the investor. Last, but not least, it allowed a regulator-to-regulator notification procedure to speed up cross-border marketing of UCITS within the EU.
Luxembourg has always been and will remain at the forefront of all these changes and improvements to the European investment fund regime. It both helps to shape new rules and regulations, and implements them efficiently to the benefit of the funds it serves. Thanks to the full support of the Luxembourg authorities to the investment fund sector, Luxembourg was again a first mover by implementing rapidly the UCITS III Directive as well as the UCITS IV Directive into national law.

Further changes will be introduced by UCITS V, to harmonise the responsibilities of depositaries across Europe and to introduce new provisions on the remuneration of UCITS managers.
pillar 2: regulated alternative investment funds

While Luxembourg is best known for its expertise in UCITS funds, it has developed parallel expertise in alternative investment funds and manages some EUR 500 million in alternative assets. It has bespoke structures for all the main alternative asset classes and investment strategies including:

- Hedge Funds
- Funds of Hedge Funds
- Private Equity and Venture Capital
- Real Estate

The advent of the European Union’s Alternative Investment Fund Managers Directive (AIFMD), is currently transforming the way that the global alternatives industry operates. Through AIFMD, the European Union is creating the first regulated environment for alternative investment funds worldwide.

AIFMD presents a welcome opportunity for Europe to create a brand in the alternative investment fund market, similar to the global brand it has created with UCITS.

The directive puts the Luxembourg financial centre, which is already well-established in the alternative sphere, in a strong competitive position to develop the hedge, real estate and private equity activities even further. In Luxembourg, alternative funds have been subject to specific regulation aiming at protecting investors and offering flexible structuring opportunities to asset managers for many years. Therefore, the Luxembourg industry and regulator are already well positioned for the advent of the AIFMD.

Furthermore, a key measure of the AIFMD involves the introduction of a European passport for alternative investment fund managers who wish to access the entire European market. Given Luxembourg’s position as the European leader in the cross-border distribution of funds, AIFMD will further enhance Luxembourg as a leading domicile for fund and management companies in the alternatives sector.

The Luxembourg law transposing AIFMD into national law provides interesting additional features which help investors and industry players to take full advantage of the benefits that the Directive offers. The limited partnership structure, which surely appeals to investors familiar with the Anglo-Saxon limited partnership model, is one example of this. The law also clarifies the taxation of carried interest.

Hedge funds

The Luxembourg hedge fund sector has grown rapidly and Luxembourg is recognised as a premier hedge fund domicile. The Grand Duchy now has approached EUR 150 billion in hedge fund assets under management and more than 700 hedge funds and funds of hedge funds operate here.

Six of the top ten global hedge fund managers have domiciled funds in Luxembourg.

Private Equity and Venture Capital

Luxembourg offers a host of services for the private equity industry. It provides competitive structures for setting up private equity and venture capital funds, with a view of facilitating private equity acquisitions either within individual countries or on a pan-European basis. Assets under management in Luxembourg-domiciled private equity vehicles have doubled in the last three years.
Real Estate

Luxembourg is continually investing and innovating to provide investors with flexible real estate investment products. The growth in real estate investment vehicles set up in Luxembourg has outstripped the European average and Luxembourg is now a leading European domicile for investments in international real estate. The number of real estate funds established and operated in Luxembourg is now more than 200, with total assets approaching EUR 30 billion.

Real estate investment funds (REIFs) are becoming increasingly attractive to investors across Europe, as real estate represents a diversification of assets from equities and bonds. Luxembourg has played a major part in the resurgence of the REIF market, thanks to the range of legal structures available and the flexible regulatory requirements.

SIFs

Special Investment Funds (SIFs) are flexible non-UCITS vehicles that are subject to lighter supervision by the Luxembourg regulator, but therefore restricted to “well-informed” professional or private investors. They are an excellent vehicle for alternative funds and highly recognised amongst industry players. They are now well in excess of 1,000 SIFs. Allowing for the concept of the “well-informed” investor, they are an excellent vehicle for alternative funds.

SICARs

The Investment Company in Risk Capital (SICAR) regime allows for the creation of a private or public company that can raise funds and invest in risk-bearing capital. It has a simplified status under Luxembourg company law and is subject to favourable regulatory and tax rules.
Responsible investing represents the start of a tectonic shift in the investment industry to different models and different ways of managing assets. The fallout of the financial crisis has encouraged investors to reconsider their strategies and, as a consequence, interest in long-term or socially responsible savings products has increased. The Responsible Investing community is growing in Europe: there are today some 1,200 investment fund vehicles in Europe, with assets under management in the responsible investing fund sphere of about EUR 130 billion.

In terms of numbers of Responsible Investment funds, Luxembourg is the leader in Europe.

More precisely, a large number of Environmental, Social and Governance (ESG) funds have elected to have their domicile in Luxembourg. Funds in this category invest in multiple sectors and strategies, applying a range of environmental, social and governance criteria. At the same time, Luxembourg is also leading the way for the development of thematic Responsible Funds, like “Environment” funds, which invest in sectors such as renewable energy, climate change, ecological, water, carbon and forestry.

Furthermore Luxembourg has developed particular expertise in the fast-growing area of Microfinance.

The first ever registered microfinance fund was launched in Luxembourg in 1998 and the Grand Duchy now has about 90 such funds, containing more than half of the world’s registered microfinance assets. The know-how developed in this area is currently deployed and adapted to also foster the development of social impact funds and social entrepreneurship funds.

Luxembourg is additionally the leading European domicile for Shariah-compliant funds with more than EUR 4 billion under management in 41 separate funds. Most service providers in Luxembourg have teams for Shariah investments and a number of Shariah-compliant funds have been launched as UCITS, meaning they can be sold around the world.

LuxFLAG, of which ALFI is a founding member, is an important element of Luxembourg’s Responsible Investing landscape. This not-for-profit organisation was set up in 2006 to help investment firms raise capital for microfinance and environmental funds. It awards a recognised label that reassures investors that the fund actually invests in the relevant sectors. More than 30 funds have been awarded the LuxFLAG label.
Over the last 25 years, Luxembourg-based fund managers and service providers have accumulated a deep knowledge of the entire asset management industry value chain, including alternatives and socially responsible investment. As a result, fund management firms can tap a unique reservoir of skills and expertise to support the development of their international fund business. This knowledge has been the key enabler for the impressive development of our fund centre over the past quarter of a century.

Today, fund managers, custodians, lawyers, auditors and other service providers, all active members of ALFI, aim at adding ever more value to the global asset management industry. They increasingly service not only funds domiciled in Luxembourg, but also funds based abroad, thereby contributing to the evolution of Luxembourg from a fund domicile to a fully-fledged fund servicing centre.

This evolution has been underpinned by state-of-the-art market infrastructure, in which Luxembourg is constantly investing to meet the requirements of the most sophisticated global fund managers.
Luxembourg is not just a great place to run an investment business and locate investment funds. It also offers a fantastic and varied lifestyle.

Luxembourg is an international country with nearly half of its residents coming from other countries. Additionally, some 166,000 daily commuters come to work from neighbouring countries.

It is a safe country and offers a high quality of life. According to a Mercer survey, Luxembourg has the highest level of personal safety in the world.

It offers a tailor-made international school system with access to a number of renowned international schools, such as the International School of Luxembourg, the European School, St George’s International School and the Lycée Français Vauban. Luxembourg recently announced a new investment programme to create more international schools to meet rising demand.

For higher education, there is the Luxembourg School of Finance, as well as the University of Luxembourg, which offers a wide variety of Bachelor’s and Master’s Degrees and Doctorates.

The old town of Luxembourg city and its fortifications offer huge historical interest. Medieval houses in the outlying areas blend with the avant-garde architecture of the Kirchberg plateau.

Shopping and eating: there is a wide choice of international cuisine, as well as an attractive shopping district with a choice of boutiques and high-end shops.

Culture: theatres, museums, cinemas and concert halls. Must-sees include the internationally acclaimed Luxembourg Philharmonie concert hall and the Museum of Modern Art (Mudam).
The Association of the Luxembourg Fund Industry (ALFI), the representative body for the Luxembourg investment fund community, was founded in 1988. Today it represents more than 1,300 Luxembourg-domiciled investment funds, asset management companies and a wide variety of service providers including depositary banks, fund administrators, transfer agents, distributors, law firms, consultants, tax advisers, auditors and accountants, specialist IT providers and communications agencies.

Luxembourg is the largest fund domicile in Europe and its investment fund industry is a worldwide leader in cross-border fund distribution. Luxembourg-domiciled investment structures are distributed in more than 70 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

ALFI defines its mission as to “Lead industry efforts to make Luxembourg the most attractive international centre”.

Its main objectives are to:

- Help members capitalise on industry trends

ALFI’s many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond, to identify threats and opportunities for the Luxembourg fund industry.

- Foster dedication to professional standards, integrity and quality

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organizing training at all levels, defining codes of conduct, transparency and good corporate governance, and supporting initiatives to combat money laundering.

- Shape regulation

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg’s competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, implementation of European directives and regulation of new products or services.

- Promote the Luxembourg investment fund industry

ALFI actively promotes the Luxembourg investment fund industry, its products and its services. It represents the sector in financial and economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

ALFI is an active member of the European Fund and Asset Management Association, European Federation for Retirement, International Investment Funds Association and Global Impact Investing Network.

For more information, visit our website at www.alfi.lu and follow ALFI on