

Imagine a future  
**like this....**



**ALFI Ambition 2025**



ALFI Board of Directors  
ALFI Strategic Advisory Board

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	Page
<b>Foreword</b>	<b>4</b>
<b>Imagine a future like this</b>	<b>5</b>
<b>This is the world we live in</b>	<b>6</b>
<b>Ready for tomorrow</b>	<b>7</b>
<b>Our 2025 ambition</b>	<b>7</b>
<b>Stepping stones in the financial journey</b>	<b>8</b>
<b>Savings and pensions</b>	<b>9</b>
<b>Sustainable finance</b>	<b>10</b>
<b>UCITS</b>	<b>11</b>
<b>Alternative investments</b>	<b>12</b>
<b>Innovation and transformation</b>	<b>13</b>
<b>This is how we will do it</b>	<b>14</b>

**Corinne Lamesch**'s first job as Chairperson, following her appointment in June 2019, was to outline ALFI's priorities for the next five years.

When the first draft was completed, the most profound challenge facing the fund industry – the coronavirus pandemic – had not yet hit. Within a matter of months though, the financial sector found itself in unprecedented times requiring new responses, pragmatism, a sense of unity and cooperation. This, however, makes ALFI's objectives and ambitions even more important than before.

The asset management industry in Europe is at a critical juncture where new macroeconomic and societal trends will bring both challenges and opportunities. Asset managers have a unique opportunity to strongly influence the strategies of companies globally so they are more aligned with the values of our changing society and better connected to the interests of future generations.

The last five years have seen some interesting megatrends develop with geopolitics increasingly creating barriers to cross-border trade and placing more importance on domestic markets. The climate change agenda has focused on the role that the financial sector and especially the asset management industry can play in channelling investments in sustainable assets and projects.

Changes in demographics, with ageing populations, and investor expectations mean there is a rising need for new investment fund solutions focused on sustainable finance and better pension products as well as a demand for increased transparency and for a much better customer experience.

### **Industry trends**

In financial markets, ultra-low interest rates are driving investors' appetite for asset classes offering higher returns. Alternative assets have become particularly attractive to investors globally.

Brexit has kept the asset management industry on its toes for several years. At ALFI, we are convinced that the future EU-UK relationship will see Luxembourg and London strive to keep their markets open, with a view to giving investors the greatest possible choice of investment solutions.

An ongoing topic in the industry is the continued rise of passives and ETFs. Active and passive investment solutions will co-exist. Pressure on margins and cost will continue in a time when firms already have had to make substantial investments in technology, and are having to comply with new regulations.

### **Consumer trends**

Improving financial literacy, succeeding in bringing investors back to capital markets, and providing adequate investment solutions and value for money are all of paramount importance. Today, European households keep some 40% to 50% of their savings in cash, effectively losing money after inflation is factored in.

### **ALFI's ambition**

It is our ambition at ALFI to empower investors in their financial journey and allow them to meet their financial goals. We aim to achieve this by driving innovation and change in the asset management industry and the next five years will be crucial in its transformation. We will accompany investors along each of the stepping stones in their journey to financial success.

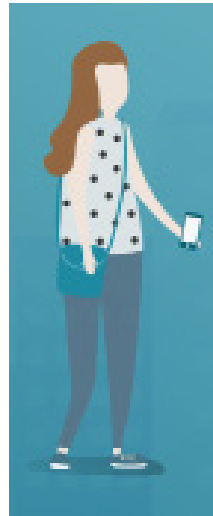
Our five key objectives will help the Luxembourg fund industry continue to transform itself and better meet the evolving needs of future generations and societies.

**Camille Thommes, ALFI Director General**

## Imagine a future like this...

Imagine what the next decade will be like for individual investors. Technology will have completely transformed the way we spend, save and invest for our futures – by making it as easy and as painless as possible, and by offering an added bonus: a feel-good factor.

**Sarah** is a typical “new generation” individual investor: she is much younger than the average investor today, more financially-savvy and truly cares about how she can make a difference to our planet. She took investing classes as a teenager and knows she must put her hard-earned cash to work from the day she receives her first salary. Sarah knows what she wants from her investments – those that offer a good return **and** allow her and her friends to pursue their shared passion for protecting the planet and building a better world. She can easily choose investments that match her preferences on her favourite investment app. When Sarah likes what she sees in her investment feed, a single click is all that’s required to subscribe and commit to either a one-time investment or monthly instalments.



Thanks to social media integration, Sarah has opted to share her investment activity with a close circle of friends, and many choose to follow her lead by investing in the very same investments that Sarah has selected. Even if her friends are now scattered around the globe, it has become much easier for them to invest in the same regulated funds solutions from well-known fund centres and providers: reputable funds are widely available, on a global scale.

Sarah is aware that her parents, **Natalie** and **Steve**, had less financial knowledge available at their fingertips at her age. They only recently started building up a private pension, unlike many of their peers who do not have private pension plans yet.



Sarah shows her parents how easy it is to know where they stand. With just a few clicks, Natalie and Steve can see how much they might receive per month when they retire and get a breakdown of where each euro is being put to work, be it their state, employment or individual pension plan. They can even see how much money is coming in from the three different European countries in which they worked earlier in their careers.

Natalie and Steve dream of a leisure-filled, comfortable retirement. They can simulate the annual cost of such a lifestyle with a simple calculator tool and see exactly how much they need to put aside each month until they retire. The investment app also suggests pension product options that might be of interest to them. Natalie and Steve are cautious: they prefer to validate their investments with a regulated adviser before subscribing.

This is only one of many possible future scenarios, yet it is more than plausible. If Sarah and her parents are to be given this future, the asset management industry will have to move quickly and evolve to shape itself around the needs of its future customers.

# This is the world we live in

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6

## Changing demographics

In many regions around the world, populations are getting older and living longer, meaning a higher proportion of people, like Natalie and Steve, expect to enjoy a long retirement well into their eighties. Numerous studies have shown that, generally speaking, the accumulated savings and pensions of this age category are not sufficient if the recipients are to sustain the lifestyle they expect at retirement. The vast majority may need to top up their state or work pension plans with additional savings. Usually, deposits and bonds might be an attractive option. However, in the current ultra-low interest rate environment, they will not generate sufficient income. Alternative solutions need to be found.

In emerging economies, on the other hand, populations are getting younger, while the middle class is swelling in size. Sarah has friends living in emerging countries and their quality of life increases year-on-year. Such a bright future will require a higher level of financing than that seen today, both from public and private sources. Living habits will change for generations to come. This will mean that a growing number of investors will need access to financial solutions that are protected from the risks that concern them, whether these arise from geopolitical or market events, currency fluctuation or types of investment. Not all financial solutions will be available locally, so Sarah's friends will need access to reputable financial solutions available worldwide.

## Investing beyond returns

For Sarah and her friends, the impact of their investments must go above and beyond financial gain. They are acutely aware of climate change issues, and worry about the decline in natural resources around the world. The majority of Sarah's generation deeply care about the positive impact that companies or industries should have on society and the environment, in contrast to previous generations of investors, who largely focused on financial returns. Sustainability criteria and environmental, social, and governance factors will increasingly influence how they decide to invest.

## Technology

Sarah is living an „always-on, never-off“ digital life, tapping away at her mobile on speedy internet connections, whether at home or elsewhere. She uses banking and payment apps for most of her day-to-day financial needs but is frustrated at the lack of truly great investing apps available on the market. She dreams of the day when she will be able to invest online with just a few clicks. She wants to see her entire investment portfolio at a glance and get an indication of the positive impact her investments are making around the world. She often wonders why it's taking so long for a world-leading app to come along.

## Regulation

The past 10 years have been marked by major extensions to existing regulatory frameworks, in a bid by regulators to provide a better level of protection for investors. Whilst we believe regulation will continue to evolve, incrementally and sometimes through step-change, we expect the next 5 years to be characterised by a focus on supervision, as regulators seek confirmation that financial services firms have fully integrated reforms into their everyday operations, and evolve regulatory frameworks which permit adoption of breakthrough technologies in a manner that ensures the security of investors. For such a system to work well, investors will also need to have more information but in an easy to understand form, and such information needs to be trustworthy.

How can we help investors achieve their financial goals? Over the past 30 or so years, asset managers and investors around the world have used Luxembourg as a platform to find solutions for their financial needs. The fact that some 4.5 trillion euros are invested in Luxembourg funds today speaks to the confidence that people have in our ability to make finance happen for them.

Our ambition at ALFI is to empower investors in their financial journey to allow them to meet their life goals.

We will tackle this with financial actors, stakeholders, regulators and government agencies, whether it be locally in Luxembourg, in the European Union or beyond. While Sarah's future is imaginary, the world in which she lives will inform our thinking about how we can be of service to our members, their investors, all relevant stakeholders and our communities in the medium-term: what is absolutely clear is that the next 5 years will be crucial in the transformation of the industry.

**Our ambition is to empower investors in their financial journey to allow them to meet their life goals.**

**We aim to achieve this by driving innovation and change in the asset management industry in alignment with the evolving needs of investors and our society.**

# Stepping stones in the financial journey

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Our ambition is to empower investors in their financial journey to allow them to meet their life goals.

We will do this by accompanying investors along each of the stepping stones in their journey to financial success.

To be future-ready, investors need pensions and savings products with built-in sustainability features, a recognised brand name, a reputable product and a wealth of online possibilities.

We have therefore defined our objectives as follows:

To lead the development of innovative cross-border **savings and pensions** products **1**

**2** To create a framework that helps **sustainable products** flourish

To extend the **3** global reach of **UCITS** as a multi-purpose solution

**4** To broaden access to **alternative investments**

**5** To drive **innovation** and the **digital transformation** of the Luxembourg funds industry

We believe that achieving our ambition will help the Luxembourg fund industry continue to transform itself and better meet the evolving needs of future generations and societies.

We will explore each of these objectives in the following chapters and outline our focus areas in the medium-term.





## To lead the development of innovative cross-border savings and pensions products

Europe is facing ageing populations as people are getting older and birth-rates are on the decline. This is placing an increasing strain on public pension systems throughout the EU. Although no two systems are alike, a well-rounded multi-pillar pension approach is of paramount importance if future EU citizens are to have sufficient income after retirement. Pension products inherently have a (very) long investment horizon and can span up to 40 years. Combining the long-term nature of these investments with sustainable (ESG) characteristics will further increase the attractiveness of these products as investors pursue environmental or societal objectives in addition to financial returns.

The new Pan-European Personal Pension product (PEPP) complements existing retirement provisions in the EU. It will complement national pension systems and has the potential to become the next UCITS: a recognised brand in the investment world.

We will work to develop new Luxembourg PEPPs that will be available for sale in Luxembourg and throughout Europe, including ESG-labelled pension products. Therefore, a new ESG label tailored to pension products will also be considered.

In terms of fund industry infrastructure, we will help support the development of digital solutions for cross-border pension servicing, and contribute towards building an ecosystem and talent pool for international pension service providers.

We will help savers understand their long term saving needs, and show the crucial role that investment funds can play in meeting them. Luxembourg UCITS and Alternative Investment Funds (AIFs) are solid building blocks for pension funds, and we will continue to share knowledge of how successful strategies work in practice.



Natalie and Steve – but most importantly for them, their daughter Sarah – will hence have a number of options to save for retirement. As Sarah will want to gain work experience in different countries, she will be able to subscribe to a flexible and portable personal pension plan early in her career. When she moves on to new employers either locally or in other European countries she will be able to take her PEPP along with her.



## To create a framework that helps sustainable products flourish

Sustainability has become a must-have for many investors. We want Luxembourg products to be sustainable, and support investor demand for choice, in terms of impact, social responsibility and much more. Working on sustainable funds will remain a top priority for ALFI, with a view to encouraging market growth while at the same time making sure the rules work in practice and do not become too prescriptive or stifle innovation.



We will mobilise policymakers and the fund industry ecosystem to embed sustainable finance across all asset classes and the entire fund value chain. We will encourage new entrants to the industry to support asset managers on their sustainable finance journey.

We will take the lead to define best practice guidelines that assist asset managers with their sustainable finance solutions. These guidelines will focus on standardisation and efficiency, covering areas like data and measurement, non-financial reporting and other disclosures, and integration of ESG in the investment process.

We will work closely with policymakers, the industry, academia and other stakeholders to develop and attract the talent needed to support and drive sustainable finance in the fund centre.

We will play a key role in the development and transmission of sustainable finance education for the industry and for investors, including facilitating a common understanding of terminology and the regulatory and operational framework to ensure that the industry delivers sustainable finance solutions in accordance with investors' and regulators' expectations.

We will also work to show how investment solutions can boost sustainable development, be it economic, social, environmental or a mixture of all three. We will illustrate how this can be done in a balanced and integrated manner that contributes to the UN's sustainable development goals (SDGs). We will also help the Luxembourg fund centre explain its key role in the setup, administration, management and distribution of sustainable finance solutions to investors in Europe and around the world.

We aim to help Sarah and her friends to make a true difference for our planet through their investments.



## To extend the global reach of UCITS as a multi-purpose solution

UCITS are the definitive standard for retail investment funds, with built-in protection and worldwide renown. Luxembourg is the world’s leading centre for UCITS and international fund distribution. We want to ensure it remains so, and we will continue to take actions that help extend the global reach of UCITS to investors worldwide.

UCITS are a core building block for both pensions and sustainable finance solutions. We will seek to further refine and improve the Luxembourg legal and tax frameworks so that they support innovation and the growth of UCITS-based solutions.

In terms of digital infrastructure and customer experience, there is currently a large gap between customer expectations and the structure of the industry. We seek to drive change and innovation that will make it easier for investors like Sarah and her friends to buy investment funds. We will aim to support more streamlined and cost-effective tools for the benefit of everyone in the industry whether in terms of on-boarding, processing, regulatory compliance or reporting.



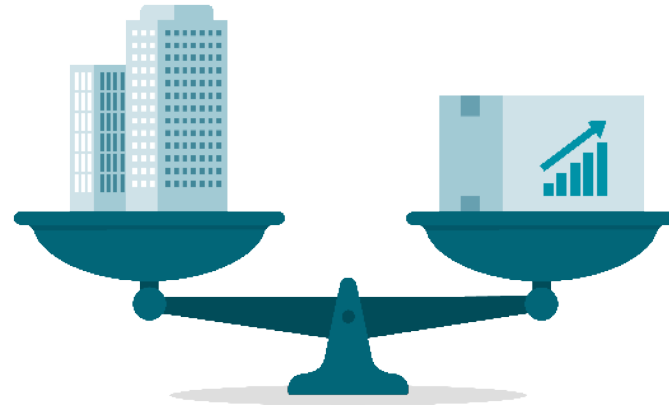
# Alternative investments

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## To broaden access to alternative investments

As demand for alternative investments grows, investors are increasingly looking for innovative solutions that keep pace with their new expectations. Alternative investments, for example, will appear as a building block in more and more pensions solutions.



The structuring toolbox has already been expanded in the past in terms of legal vehicles available for alternative investments. We will seek to develop the Real Estate Investment Trust (REIT) regime as one of the key elements of the Luxembourg toolbox, alongside a drive to refine and improve existing structures.

A challenge in the alternative investment industry is that, generally speaking, operations rely on a number of manual processes. Increased demand in alternative investment means that we need to use more technology and optimized workflows that will help to reduce costs and protect investors while allowing for scalable growth and evolving regulation.

We will help attract and retain talent in alternative investments by supporting education and training opportunities in areas of direct or indirect relevance for the private equity and real estate sectors.

Luxembourg has built a reputation as a significant private equity and real estate cross-border investment and fund service centre. We seek to take further steps that will broaden its leading position in the Alternatives value chain towards investor relations, limited partnerships (LPs) and fundraising.

We seek to join forces with other industry bodies to promote Luxembourg as a leading hub for private equity and real estate investment solutions.

While Sarah and her parents may not currently have direct access to alternative investments, they may have indirect access via their pensions products.



## To drive innovation and the digital transformation of the Luxembourg funds industry

Breakthroughs in technology have already started to transform all links in the investment value chain, impacting our traditional way of interacting within and thinking about the fund industry and end investors. This disruption is facilitated by innovation from both existing market players and an increasing number of large and small technology companies interested in the industry. Other factors driving disruption include changes in consumer behaviour and pressure on costs from end investors.

For Sarah and her parents to be able to leverage breakthrough technologies and tap into a superior investor experience, the Luxembourg technology ecosystem must continue to develop. We will facilitate this by bringing together the experts who built the financial centre, and the technology innovators who are disrupting finance. This will be supported by a rapid evolution of legal and regulatory framework which protects investors.

Working with the Luxembourg House of Financial Technology (LHoFT), other public and private technology communities and initiatives, competent authorities and others, ALFI will bring its technical, regulatory, product and market experience to foster collaboration and innovation, for example in proof-of-concepts applied to the fund industry. Digital solutions for investors, namely those that streamline on-boarding and investing, can be made smarter and more efficient. ALFI will seek to play a key role in making this happen.

One of the major challenges when embarking on a digital journey is the preparedness of talent. We will seek to build a digital talent pool by collaborating with educational organizations to offer relevant education and training.

Asset managers who seek to set up funds in Luxembourg need an easier, faster and cheaper cycle than currently available. In collaboration with other stakeholders, we seek to explore the technological possibilities that can help resolve current pain points in an innovative way, while meeting the many requisites essential for regulated products.



## This is how we will do it

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Through the above-mentioned and other initiatives, we will proactively engage with consumer groups, the industry, government and regulatory authorities, and various stakeholders so as to collaborate in building a common vision. We will seek to make a positive impact on society and the Luxembourg fund ecosystem as a whole. Boosting

diversity and inclusion in the asset management industry will be a recurring theme over the coming years.

We will make our objectives a reality by building our activities around the five main pillars shown in the diagram below.

### 5 SIMPLE STEPS FOR EXECUTING OUR OBJECTIVES



Enable growth  
and innovation



Streamline  
operations  
and help  
reduce costs



Build talent  
fit for the  
future



Educate  
investors



Broaden  
access to  
Luxembourg  
funds

## **Enable growth and innovation**

As the pace of change accelerates, we need to continuously adapt our legal, regulatory and tax frameworks to enable and encourage growth and innovation in our industry, while keeping investors safe. The work of the ALFI Regulation Advisory Board (RegBo) guides our thinking and actions in achieving this objective.

## **Streamline operations and reduce costs**

Delivering strong performance to investors can be achieved more easily if the cost structure is kept to a strict minimum. Other industries are already rethinking data, processes and workflows to the benefit of consumers. We will support initiatives which help the asset management industry to navigate this journey through the work of our operational committees set up at ALFI.

## **Build talent fit for the future**

Because our customers demand the best products, there is a crucial need for diverse talent and skillsets to support industry growth and deliver top quality pensions, sustainable finance, alternative investments and digital transformation. We will seek to scale up talent in the fund industry by focusing on education, training and industry placement programmes.

## **Educate investors**

Awareness and understanding are essential to consumers if they are to make positive choices at each stage of their lives. We will support initiatives that engage both the younger generations and the elderly in learning more about investment funds, and in making more informed decisions about how their financial needs can be met throughout their lives.

## **Broaden access to Luxembourg funds**

We will regularly share best practice, market statistics and industry experience with market actors, regulators, industry associations and stakeholders around the globe. We do this through our roadshows, engagement with authorities and associations and our support for Luxembourg official trade missions. By creating further awareness of how Luxembourg funds work in practice and getting further understanding of different requirements in various jurisdictions, we will work towards bridging current gaps and then providing more investors around the world with access to Luxembourg funds. To deliver the best possible results for existing and future investors we will accelerate progress towards building an inclusive culture within the Luxembourg fund industry.

**Imagine a future like that.**

What's your ambition?

