

Press release

Luxembourg, 31 January 2018

2018 BRINGS OPPORTUNITIES BUT ALSO CHALLENGES FOR THE FUND INDUSTRY, SAYS DENISE VOSS, CHAIRMAN OF ALFI

ALFI reports a growth of 12% of AUM in 2017

The Luxembourg fund industry had a very good year in 2017 with solid growth as reported by ALFI.

- Luxembourg domiciled funds marked a milestone development in September when assets under management reached 4000 billion euros. This means that assets under management in Luxembourg funds have risen from EUR bn 3000 to 4000 in just 3 years.
- At the end of November 2017, AUM stood at 4135 billion euros, an increase of 458 billion euros or over 12% growth over the last 12 months.
- Since last January, 73% of the growth in AUM was from new money being invested into Luxembourg funds – most into UCITS but also into alternative strategies such as private equity and real estate, with the remaining increase due to the impact of global markets.
- At the end of September, 32% of new investments into European funds since January 2017 were invested into Luxembourg-domiciled funds.
- Luxembourg funds are held by investors in more than 70 countries, making the cross-border dimension of the Luxembourg fund centre unequalled¹. The global reach of Luxembourg funds remains the backbone of the continued success of Luxembourg's fund industry worldwide.

Denise Voss, chairman of ALFI, explains: "The Luxembourg Fund Industry had a very good year in 2017 and 2018 brings plenty of opportunities, with the progress of Europe's Capital Markets Union, the plan to introduce a Pan European Personal Pension Product, pick up in sustainable finance and the development of new technologies.

She continued: "However, challenges still exist for the fund industry, particularly in regard to regulation, where ALFI is currently busy on 17 pieces of regulation, together with the 1,800 members of our 150+ working groups. All of them are important and our efforts to make sure that regulation works in the interest of both the investor and the asset manager alike is a fundamental part of ALFI's mission."

¹ PwC Global Fund Distribution 2017

ALFI sets out its priorities for 2018:

- **Distribution opportunities worldwide**

ALFI is celebrating its 30th anniversary this year and it will continue to facilitate international distribution opportunities around the globe.

It will continue to develop its contacts in Latin America, where Luxembourg UCITS are amongst the preferred investment solutions for local pension fund administrators looking to diversify their portfolios internationally in a well-regulated environment. In Asia, rapid growth of personal wealth is encouraging, and ALFI will continue to nurture its close relationship with the many fund markets it serves in the region.

- **Capital Markets Union (CMU)**

ALFI believes that the key element of the European Commission's plan to create a 'Capital Markets Union' is the overall thrust of the CMU 'to mobilise capital in Europe and channel it to all companies and, in particular, SMEs and infrastructure projects that need to expand and create jobs'. In practice, this entails, among other things, removing obstacles to the cross-border distribution of investment funds, which ALFI strongly supports.

Denise Voss explains: "In ALFI's 2020 Ambition Paper, we highlight the essential role investment funds play in funding the economy, linking investors' savings with those parts of the economy that require capital to drive growth. Over the past few years this has been somewhat downplayed given the focus on regulation, so it is good that the spotlight is once again on the positive contribution that investment funds make to the economy. The CMU should help investors have access to a larger choice of investment solutions."

- **The Pan-European Personal Pension Product (PEPP)**

Increasingly European households need to assume more responsibility for their own financial well-being, including retirement. At the same time, if the European economy is to be strengthened, mobility of workers must also increase, however, fragmentation between national markets and limited portability of personal pension products make this difficult.

Denise Voss comments: "The European Commission's plan to create a standardised pan-European Personal Pension Product (PEPP) comes at the right time. The PEPP will link the investment product to an individual rather than to an employment relationship and provides interesting opportunities not only for workers and job seekers, but also for the asset management industry. As providers of investment solutions, asset managers should be keen to offer the PEPP and we believe that Luxembourg, with its longstanding expertise in cross-border distribution of retail investment products, is an ideal hub for PEPP providers."

- **Sustainable finance/ Responsible investing**

ALFI was an early mover in actively promoting responsible investing opportunities for asset managers and investors. We have organised annual conferences and commissioned surveys on responsible investing since 2006, with the aim to bring this topic to the forefront.

Denise Voss comments: "We believe asset managers can play a key role in fostering sustainable finance, which has been increasingly requested by investors. The market growth that we have seen in recent years – the European responsible investing fund market almost doubled between the end of 2010 and the end of 2016 - has strengthened our conviction. The Luxembourg investment fund industry

is also well placed to contribute to moving climate change financing forward and is already the leading fund domicile for all environment-related investment funds in Europe with 45% of AUM.

- **Brexit and the ESA Review**

Denise Voss says: “ALFI follows the Brexit negotiations with interest. The City of London is Europe’s leading financial centre and will remain so for years after Brexit. Its interconnection with the EU’s financial and economic system is undeniable and future relations with the United Kingdom should be determined in this light.”

She continues: “Luxembourg has a long standing working relationship with the UK, evidenced by the fact that over 17% of assets under management in Luxembourg funds are managed by UK asset managers. Our efforts will focus on how we can continue this constructive relationship even after Brexit.”

Whilst in principle separate, the links between the Commission’s Proposal on the review of European Supervisory Authorities (ESAs) and the Brexit negotiations can’t be denied. In September 2017, the European Commission published its proposal on the revision of the ESAs, where it intends to extend the powers of the European Securities and Markets Authority (ESMA) to include direct supervision of some investment funds, namely ELTIF, EuSEF and EuVECA, as well as the ability to review authorisation requests from fund houses wishing to delegate or outsource part of their activities to non-EU jurisdictions.

Denise Voss states: “ALFI does not see any benefits of these proposals for the end investor. We do not embrace direct supervision by ESMA, as we believe that the close oversight of market participants and products by National Competent Authorities guarantees the best and most efficient level of investor and market protection. Furthermore, we are very concerned about the proposed review by ESMA of delegation arrangements and outsourcing to third countries. This would introduce an extra layer of regulation, additional costs and delays in time to market. Delegation is a tried and tested practice in the fund industry for 30 years, and there is no evidence of a market failure resulting from delegation. The delegation model is a cornerstone of the global success of the European asset management industry and as such provides investors with access to expert asset management from around the globe.

“We are calling for a significant change in the Commission’s Proposal and have had dozens of meetings with important stakeholders in Europe and internationally to express our concerns about this proposal and we will continue to make ourselves heard on this topic.”

- **FinTech**

FinTech and technology in general have been an important focus for ALFI. The Association’s Digital/FinTech Forum aims to raise awareness, identify the challenges and develop the opportunities inherent in new digital technologies for the fund industry. In 2018 ALFI will continue its regular interaction with FinTech players to monitor and develop Regtech and Blockchain tools, which will reduce costs and increase efficiency in the industry which will ultimately benefit investors.

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Notes to editors:

The Association of the Luxembourg Fund Industry (ALFI) is the representative body of the Luxembourg investment fund community. Created in 1988, the Association today represents over 1500 Luxembourg domiciled investment funds, asset management companies and a wide range of service providers such as custodian banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax experts, auditors and accountants, specialist IT providers and communication companies. The Luxembourg Fund industry is the largest fund domicile in Europe and a worldwide leader in crossborder distribution of funds. Luxembourg-domiciled investment structures are distributed on a global basis in more than 70 countries with a particular focus on Europe, Asia, Latin America and the Middle East. For further information, do not hesitate to consult our website at www.alfi.lu

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