



association of the  
luxembourg fund industry



**LUXEMBOURG  
SOLUTIONS  
FOR GLOBAL  
DISTRIBUTION**  
**Gateway to International  
Distribution**

September 2018

## Opportunities

- **Enter the marketplace for international distribution** that allows you to access different markets and clients
- **Benefit from the premium brand** in terms of product recognition at international level
- **Become a holder of the European passport**, the “green card for funds” within the EEC
- **Rely on leadership** both in the retail and institutional client segments
- **Best-in-class** industry skills and actors
- **Join an adaptable and always up-to-date funds ecosystem** that has everything for your needs
- **More than 61%** of funds distributed in a minimum of three countries are “made in Luxembourg”

## Challenges

- **Minimising time to market** to meet commercial goals
- **Reducing cost** to implement the most efficient set-up
- **Mastering regulatory specificities and complexities in different jurisdictions**
- **Choosing the best product structure** for each country of distribution and target client base
- **Achieving coherence** between product and business model design and funds distribution strategy

## Solutions

- **Thirty years** in cross-border distribution have resulted in experience and optimised efficiency
- **Access to first-class fund industry actors** and their custom solutions in Luxembourg
- **Multi-lingual and flexible** expert workforce at your service
- **Wide choice** of fund business building blocks such as CSD, distribution platforms, custodians, fund administrators and transfer agents, management companies and fund initiators, consultants, audit and law firms etc.
- **Digitally minded public and private stakeholders** set to advance the fund industry through innovative technologies

## Glossary of terms

<b>AIF</b>	Alternative investment fund	<b>RAIF</b>	Reserved alternative investment fund
<b>AML</b>	Anti-money laundering	<b>SCS</b>	<i>Société en commandite simple</i> , common limited partnership
<b>CRS</b>	Common reporting standard	<b>SCSp</b>	<i>Société en commandite spéciale</i> , special limited partnership
<b>CSD</b>	Central securities depository	<b>SICAR</b>	<i>Société d'investissement en capital à risque</i> , investment company in risk capital
<b>CSSF</b>	<i>Commission de Surveillance du Secteur Financier</i> , Luxembourg Financial Sector Supervisory Commission	<b>SIF</b>	Specialised investment fund
<b>ETF</b>	Exchange traded fund	<b>Solvency II</b>	Solvency II Directive 2009/138/EC
<b>FATCA</b>	US Foreign Account Tax Compliance Act	<b>SOPARFI</b>	<i>Société de participations financières</i> , financial participation company
<b>ICSD</b>	International central securities depository	<i>taxe d'abonnement</i>	Subscription tax
<b>KYC</b>	Know-your-customer	<b>TER</b>	Total expense ratio
<b>MiFID II</b>	Markets in Financial Instruments Directive II (2014/65/EU)	<b>UCITS</b>	Undertaking for collective investment in transferable securities
<b>NSCC</b>	US National Securities Clearing Corporation	<b>VAG</b>	<i>Versicherungsaufsichtsgesetz</i> , German Insurance Supervision Act
<b>Part II</b>	Part II of the Law of 17 December 2010 on Undertakings for Collective Investment	<b>VAT</b>	Value added tax
<b>PostIdent</b>	Identification process carried out by staff of Deutsche Post AG, the German postal service		
<b>PRIIPs</b>	Packaged retail and insurance investment products		

### Opportunities

Many asset managers who come to Luxembourg have successfully established products in their country or region of origin and would like to replicate existing strategies in other markets.

They use Luxembourg as the **Gateway to Global Distribution**.

#### Challenges

Avoiding an uncoordinated marketing and distribution strategy:

It might not be the best strategy to register a fund in all markets from day one without a clear strategy on how and where to distribute the fund. This can become costly for the fund, which would start out with a high TER and lack a plan for growth.

Passing the necessary thresholds to win the “big investors”:

To be considered by bigger institutional investors, a fund must build reasonable assets first. Most institutional investors apply thresholds, such as not to hold more than a certain percentage of assets in a particular product. Typical thresholds are EUR 50mn, EUR 100mn and EUR 500mn.

Also, many institutional investors expect to see a minimum track record of 3 years.

Differences in regulatory, marketing and distribution rules:

Marketing and distribution rules in the various target distribution markets differ. The requirements may be different in each market for sales documentation types of agents, notifications to and approvals from the regulator(s), regulatory fees, marketing rules etc.

Affordability of opening up new markets:

Asset managers coming to Luxembourg sometimes want to test cross-border distribution opportunities in an affordable way before launching their own fully-fledged vehicle.

#### Solutions

Defining a solid marketing and distribution strategy with an incremental growth approach:

- 1) Extend market by market as assets rise – with a clear plan for each individual market.
- 2) Identify max. 3 to 5 initial markets to build up assets.
- 3) Success in these initial markets will create the opportunity to attract more sizeable institutional investors.

Service providers in Luxembourg will be able to help you develop a dedicated marketing strategy for each market you are targeting. You will also be able to benefit from their global distribution knowledge regarding any required documentation, notifications, approvals, agents and regulatory fees for each market.

Benefit from white-label vehicles offering the opportunity to “rent a compartment” – where asset managers can launch a sub-fund in an existing umbrella fund to test their strategy for cross-border distribution in an affordable way and with a shorter time to market. Once this sub-fund has successfully raised initial assets, a full vehicle can be launched, with the option of merging the initial test sub-fund.

## Distribution channels

### Opportunities

Facilitating and supporting global and cross-border distribution from one central place

Challenges	Solutions
<p>Complexity of distribution channels and platforms: Each market requires different types of distribution channels, for example:</p> <ul style="list-style-type: none"> <li>• Technical order routing platforms (Fundsquare, SWIFT, MFEX, etc.)</li> <li>• CSDs/ICSDs (LuxCSD, VP LUX, Monte Titoli, Euroclear, FundSettle, Clearstream, Vestima, etc.)</li> <li>• Country-specific direct and indirect agents, e.g.               <ul style="list-style-type: none"> <li>o Germany and Austria: sub-transfer agents, local transfer agents</li> <li>o Italy: <i>Banca corrispondente</i></li> <li>o France: <i>Agent centralisateur</i></li> <li>o US: NSCC order routing and cash settlement</li> </ul> </li> </ul> <p>Depending on the type of investors targeted, the investor identification processes may differ:</p> <ul style="list-style-type: none"> <li>• Advice-only distributors do not handle AML/KYC procedures</li> <li>• Nominee-type distributors appear as unitholders and identify underlying investors</li> <li>• The German “PostIdent” procedure is an option for direct retail investors</li> <li>• Direct retail and entity investors that appear in the fund register</li> <li>• Packaging product investors, e.g. in fund-based insurance or retirement products, who are of particular interest for funds</li> </ul> <p>Some market segments prefer to use fund distribution platforms, e.g. fund platforms offering a single account to invest into multiple investment funds (fund supermarkets)</p> <p>Some funds are traded on stock exchanges, e.g. ETFs and non-ETFs</p>	<p>Luxembourg service providers support all types of distribution channels and distributors globally.</p> <p>Our market experts facilitate truly global distribution, targeting retail and institutional investors across the globe. They are familiar with all of these agents, distributors, distribution chains, distribution channels, investor types, platforms and trading venues and ensure that the funds can benefit from</p> <ul style="list-style-type: none"> <li>• A seamless chain of AML/KYC identification</li> <li>• A harmonised approach to distribution channels and platforms and existing domestic providers</li> <li>• Proper reporting to all investor types</li> <li>• Multilingual distributor and investor support</li> </ul> <p>As a central hub for cross-border distribution to more than 70 countries, Luxembourg concentrates specialist knowledge of distributor due diligence, both initial and ongoing.</p>

### Opportunities

Leveraging the advantage of one central hub handling the tax and reporting requirements of several countries

Challenges	Solutions
<p>Complying with tax and reporting obligations that come with global distribution</p> <p>Ensuring the fund can invest into a broad set of asset classes and markets, and getting transactions settled and income paid correctly</p>	<p>The Luxembourg fund industry offers reporting solutions facilitating the fund's and its investors' compliance with applicable regulations. Distributing funds globally does entail the burden of complying with the rules applying to funds and/or investors in each market. Available solutions include:</p> <p>For investors in the fund:</p> <ul style="list-style-type: none"> <li>• Daily investor taxes for investors residing in certain countries such as Belgium, Germany or Korea</li> <li>• Annual investor taxes for investors residing in certain countries such as Austria, Germany, Italy, Norway, Switzerland or the UK</li> <li>• Costs and charges reporting as per PRIIPs/MiFID II regulations</li> <li>• Adapting annual report disclosures to local requirements (e.g. regarding portfolio turnover or TER)</li> <li>• Solvency II and VAG reporting for insurance companies</li> <li>• Reporting to the Luxembourg tax authorities as part of the exchange of information schemes (FATCA and CRS tax reporting)</li> </ul> <p>For the fund itself:</p> <ul style="list-style-type: none"> <li>• <i>Taxe d'abonnement</i> and VAT return preparation</li> <li>• Reporting to Luxembourg authorities (CSSF, BCL) at regular intervals, as well as to foreign authorities where required (Hong Kong)</li> </ul> <p>Luxembourg depositary banks offer access to over 100 markets, and will apply appropriate relief at source or handle tax reclaims for income received by the fund.</p>



**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 1 400 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 investment fund 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.

### **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.

### **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 organising training at all levels, defining codes of conduct, transparency and good corporate governance, and supporting initiatives to combat money laundering.

### **Promote the Luxembourg investment fund industry**

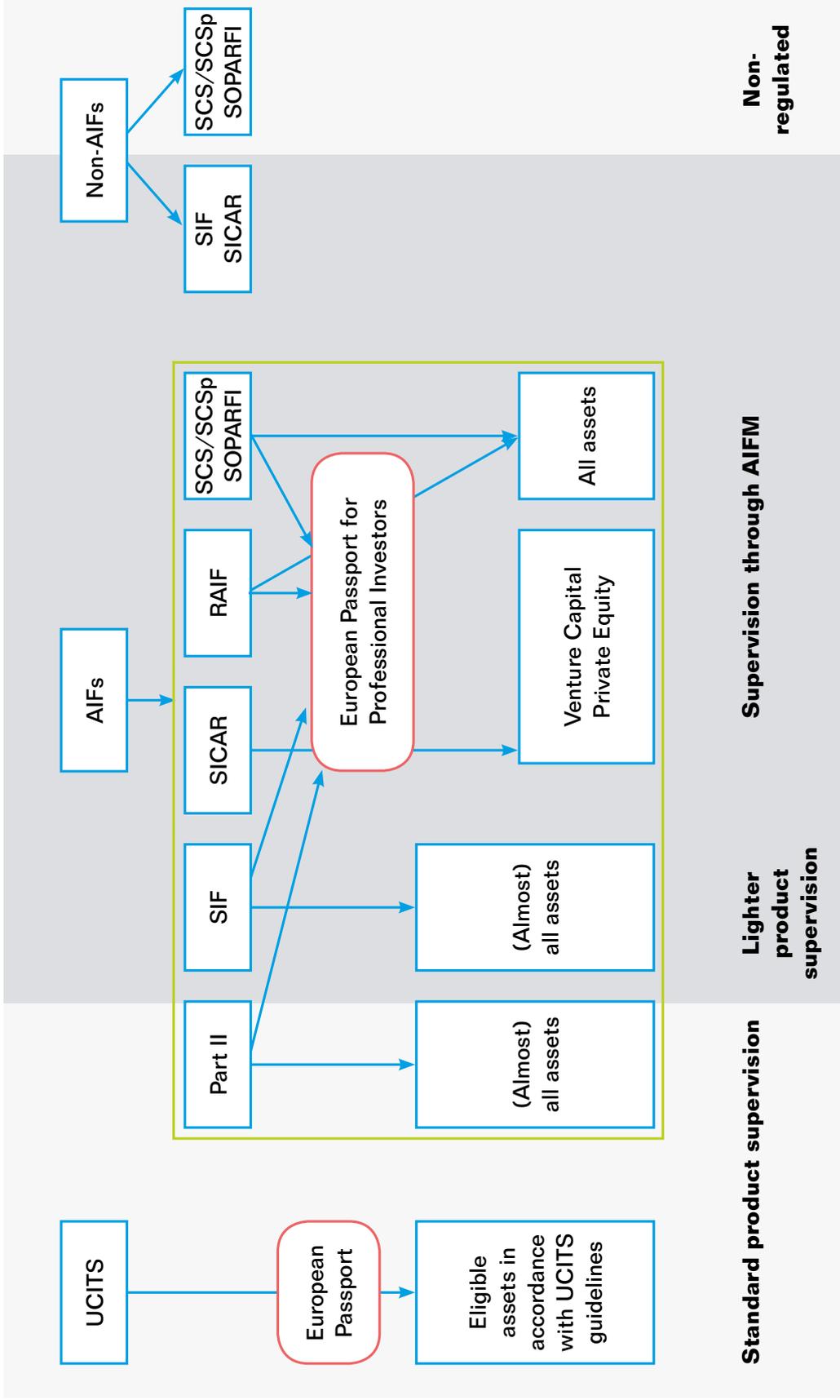
ALFI actively promotes the Luxembourg investment fund industry, its products and its services. It represents the sector in financial and in economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

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

To keep up to date with all the news from the association and the fund industry in Luxembourg, join us on [LinkedIn](#) (The Luxembourg Fund Industry Group by ALFI), [Twitter](#) (@ALFI-funds), [Youtube](#), [Vimeo](#) or visit our website at [www.alfi.lu](http://www.alfi.lu).



Available structures and applicable legislation



The key aspects for taking a structuring decision are:

- asset class
- target investors
- legal and tax considerations
- time to market
- distribution aspects

Refer to the brochure "Luxembourg Investment Vehicles" (<http://www.alfi.lu/sites/alfi.lu/files/ALFI-Luxembourg-Investment-Vehicles-final.pdf>) for additional information on available structures.

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