association of the luxembourg fund industry

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Fund industry galvanised to channel savings into productive investment in EU's revamped Savings and Investments Union (SIU)

The debate within the European Union about how to best unlock investment, especially from household savings, in order to enhance the continent's economic growth and international competitiveness, and the optimal regulatory structure to oversee these developments, were among the central themes addressed by speakers at ALFI's 2025 Global Asset Management Conference held at the European Convention Center in Luxembourg on March 25 and 26.

At a time of geopolitical disruption and an uncertain economic outlook in Europe, the role of the fund industry in channelling assets into productive investment is more important than ever, conference participants heard, particularly in addressing the economic imbalances and funding needs resulting from an ageing population and governments' growing difficulty in shoring up the solvency of national pension schemes.

At the same time, new investment approaches are coming to the fore that promise to help address these challenges, such as the emergence of actively managed exchange-traded funds – a segment targeted by Luxembourg's government and financial regulator as a key avenue for expansion and diversification – and the growing role of private credit investment in compensating for restrictions on bank lending across the economy.

At the same time, the fund industry continues to explore the opportunities offered by the use of artificial intelligence in areas ranging from portfolio management and investment processes to onboarding procedures, know-your-customer due diligence and anti-money laundering screening. Meanwhile digital advances are making their way into the mainstream with the launch of Europe's first bitcoin investment vehicles and tokenised funds harnessing digital ledger technology.

Government responsiveness

ALFI chairperson Jean-Marc Goy opened the conference by acknowledging the extent to which the Luxembourg government has addressed the industry's requests for changes to improve its own and the country's competitiveness: lowering corporate income tax by 1%, with the ambition of implementing further cuts to come; the exemption of active ETFs from the subscription tax on fund assets; legislative changes to offer legal security in the use of blockchain technology and dematerialised securities; and revision of the tax regime for 'impatriates' to help the financial services industry attract skilled recruits from abroad.

Much of the credit for those changes, Mr Goy said, must be attributed to the country's finance minister since late 2023, Gilles Roth, whose keynote speech argued that Luxembourg's asset management industry can play a critical role in realising the EU's blueprint for a SIU, as the union's long-planned Capital Markets Union has been renamed.

Mr Roth expressed support for the European Commission's goal of simplifying regulatory compliance and reporting, in areas including sustainability, to ease the administrative burden particularly for small and medium-sized businesses. He also advised policymakers: "Don't waste time inventing new products, but instead adapt existing regimes to make them fit for purpose, as with the ELTIF 2.0 legislation."

He also made clear that Luxembourg's government does not favour fundamental changes in the balance between European and national oversight of the financial industry, saying the grand duchy would make all efforts to dissuade EU member states from agreeing to the shifting of fund supervision to the European Securities and Markets Authority. "We should maintain a decentralised European supervisory system that leverages national expertise and avoids unnecessary bureaucracy," Mr Roth said. Instead, he argued, the focus should be on issues such as national gold-plating of EU legislation, which increased fragmentation, and unnecessary complexity of regulation.

Protectionist measures

The barriers to completion of a cohesive SIU also include explicit protectionist measures by some member states. ALFI CEO Serge Weyland pointed to rules in France on eligible investments for life insurance products, which exclude Luxembourg-domiciled alternative investment funds, while domestic products in Spain and Italy benefit from tax incentives. It's up to the European Commission to dismantle these obstacles to a genuine single market, he said.

Mr Weyland also warned about the potential disruption that could arise from restructuring of the regulatory system, saying policymakers should recognise the expertise and capabilities of national authorities such as France's AMF and Germany's BaFin in portfolio management, and Luxembourg's CSSF in product structuring and distribution both within and outside Europe. He said: "We should not try to fix what isn't broken, distracting us from priorities such as pan-European savings products and pensions."

Europeans need to understand the motivations of the Trump administration as it imposes a range of tariffs of imports from abroad, with the aim of addressing the perceived unfairness of a deficit in the trade of goods, according to Carl Tannenbaum, chief economist of Northern Trust. He said Washington policymakers believe that exporters will eventually capitulate and shift production to US locations, while consumers and markets will be patient.

But Mr Tannenbaum cautioned that this was a simplistic analysis that ignored a fundamental cause of the US deficit – Americans' low savings rate and the abundance of consumer credit that sucked in imports. He pointed to the example of tariffs on washing machines imposed by the first Trump administration in 2018; although Siemens and LG opened US manufacturing plants, they were highly automated and created just 1,500 jobs. Meanwhile US producers did not increase their market share but simply but their prices up, at the expense of American consumers.

Biggest losers

Essentially tariffs are simply taxes that restrict business activity, Mr Tannenbaum said. US tariffs are set to rise from an average of 3.5% to around 14%, approaching the level reached during the Great Depression of the 1930s – which levies on imports did not cause, but made significantly worse. Ultimately, he argued, the biggest loser from the disruption of global trade this time is set to be China – followed by Canada and the United States.

Luxembourg is now the domicile for Europe's first ever fully tokenised UCITS fund, whose tokens are issued on the Stellar public blockchain using a proprietary transfer agent platform, according to Catriona Kellas, international legal lead for digital projects at Franklin Templeton. The Franklin OnChain U.S. Government Money Fund, which is available to institutional investors in eight other European countries, offers benefits including enhanced security of assets and full transparency of transaction history to investors as well as custodian, intermediaries and regulators, she said.

"The CSSF has been very positive – they have a genuine commitment to technological neutrality as long as we meet the challenges and principles they set, and demonstrate that we comply with their requirements," Ms Kellas said. "We don't always see that level of executive commitment and open-mindedness." She believes that Web3 infrastructure holds out great promise for increased efficiency and savings on operational costs, adding: "It is an opportunity to think about how we serve our clients, and how technology can provide a personalised experience."

Artificial intelligence is the other key technological development on which financial institutions are intensely focused, according to Matthew Goldblatt, head of securities services sales for Luxembourg at JPMorgan Asset Management (Europe). He cited a survey indicating that 35% of financial organisations were already actively using AI and a further 40% were looking at doing so, of whom 15% were planning to launch operations over the next 12 months.

Improving productivity, lowering cost

A wide range of use cases have already emerged, especially in automation of repetitive tasks, in areas including accounting, customer relationship management and human resources functions, noted Arendt & Medernach partner Astrid Wagner, although in many cases AI projects are driven by parent organisations abroad. However, she said that here too, the CSSF has been active in providing the industry with guidelines; its 2018 recommendations are still highly useful, although they are currently being reviewed by the regulator together with the Luxembourg Central Bank.

Mr Goldblatt said AI was capable of improving productivity and accuracy while lowering costs, although it requires a culture of adoption within businesses – and awareness that it is not infallible. He points to the benefits in processing and analysing huge quantities of data for trading, portfolio optimisation, client profiling for marketing and customer segregation,

and detecting anomalies in trading models, in addition to the now well established uses such as due diligence and drafting of RFPs.

Luxembourg has set out its stall to attract active ETFs by eliminating the subscription tax, in line with passive funds, and through the CSSF offering providers the option of publishing portfolio data not daily but monthly, a month in arrears. Even then, they would offer greater transparency than traditional actively-managed investment funds, along with the liquidity benefits of exchange trading and in general significantly lower costs.

Philippe Ringard, CEO of JPMorgan Asset Management (Europe), noted that asset managers will need to continue offering a range of different types of fund vehicles or share classes, pointing out that some types of clients are constrained from investing in ETFs. Michael Mohr, global head of Xtrackers products at DWS Investment, argued that technological advances are needed to tighten bid-offer spreads on active ETFs, while Marie-Sophie Pastant, head of ETFs and index portfolio management, highlighted the need for a range of market-makers and to efforts to avoid disconnection of the secondary market.

Global recognition and acceptance

Nevertheless, Ms Pastant underlined the importance of the establishment of the first active ETFs as a UCITS, offering the protection for investors of a fund structure rather than a certificate, custody segregation requirements and eligible asset rules – and the enormous benefit of a product regime enjoying investor recognition and regulatory acceptance in many markets around the world.

One of those is Brazil, where the domestic fund industry is also enjoying an upsurge amid the lifting of regulatory constraints, according to Ana Flávia Lopes, head of international affairs at the Brazilian Financial and Capital Markets Association. For example, the country's private equity funds will see the proportion of their portfolio that can be invested abroad rise from one-third to 100%, and active ETFs are likely to be authorised next year.

A particular focus in Brazil for foreign investors is the country's vast and highly productive agribusiness sector, which offers investment opportunities ranging from private credit to carbon credits. Ms Lopes says managers of European UCITS also have the option of establishing feeder funds to attract capital from the country's retail investors, or to establish partnerships with domestic asset managers.

Private credit funds are among the fastest-growing areas of Luxembourg's asset management industry, driven by a combination of investor demand and the inability of traditional lenders to meet the needs of businesses, including smaller businesses and those without a long track record, according to a panel led by Elvinger Hoss Prussen partner Frédérique Lifrange and including Jean-François Carpantier, head of the CSSF's macro risk division.

Complex private creditor structures

They noted that private credit investment is characterised by complex structures, reflecting disparity in legal treatment between EU member states, as well as the increasingly blurred boundary between the closed-ended fund structures typically offered by institutional investors and open-ended vehicles intended also to cater to high net worth investors and wealth management clients. With the entry into effect of the ELTIF 2.0 legislation last year, private investors' capital is increasingly being targeted to help drive investment in the broader European economy through lending as well as equity investment.

To tap these new sources of investment, asset managers are increasingly looking to digital platforms, especially since the Covid-19 pandemic, according to Nabeel Ansari, director of global solutions at data services provider Broadridge Financial Solutions. He argued that this is particularly true of younger investors, while 75% of exchange-traded fund transactions are carried out via digital channels.

Amelia Sykes, chief operating officer and head of strategy, global distribution and product at M&G Investments, said trends included an ongoing shift to discretionary management, focus on a smaller number of managers and rising expectations among investors. Raoul Blondet, head of business development at Tikehau Capital, identified a shift in preferences to alternative strategies because they are less volatile than traditional assets – not least in not being market to market daily.

He also pointed out that private debt is currently especially attractive, with a very low spread against returns from private equity, and floating-rate notes offering protection against interest rate movements. However, Mr Blondet cautioned that so far there have been very few defaults, but with a large volume of lending going to private equity deals and some of that needing refinancing, the default rate is likely to rise in the future, with troubled loans made by already significantly leveraged funds representing a dangerous combination.

Supervisory convergence

Mr Weyland opened the second day of the conference noting that ALFI's submission to the European Commission's consultation on the SIU pointed out that €10trn of EU household savings were "sitting idle" in cash and savings accounts. The biggest opportunity to mobilise new sources of capital, he argued, was occupational pensions, along with efforts to provide new stimulus to the Pan-European Personal Pension Product regime.

The SIU is now among the main priorities for ESMA as part of a new focus on competitiveness and strategic autonomy for Europe, along with more effective and responsive regulation and the reduction of the bureaucratic burden whenever feasible, according to the EU regulator's chairwoman Verena Ross. She said measures already announced to ease financial and sustainability reporting are not part of a deregulatory race to the bottom, but adopting the right regulatory balance for attractive European capital markets.

Ms Ross argued that a clear and consistent regulatory framework that avoided 'gold-plating' of legislation, implemented through directly applicable EU regulations rather than directives and accompanied by supervisory convergence to prevent regulatory arbitrage, would boost investors' confidence. A common supervisory approach overseen by ESMA would avoid fragmentation and ensure greater uniformity of supervisory outcomes, she said; otherwise there would be calls for more clearly defined and prescriptive rules.

She argued that this goal raises the question of whether supervisory powers should be shared between European and national regulators or transferred to EU authorities, for instance in areas such as oversight of central counterparties and crypto-asset service providers. However, Ms Ross also acknowledged the importance of co-operation between national regulators, such as measures agreed between the CSSF and the Central Bank of Ireland in 2024 to address the liquidity risks of sterling-denominated liability-driven investment funds.

Trust between regulators

The CSSF's head of fund supervision, Marco Zwick, highlighted the success of EU passporting rules over the past three-and-a-half decades, starting with UCITS funds and in recent years alternative investment funds. He argued that the single market in investment funds is underpinned as much by trust between regulators as the EU rulebook, and highlighted the need to avoid market fragmentation through protectionist measures, such as restricting eligibility for insurance and pension investment to domestic Eltifs.

While acknowledging the need for regulatory convergence, and insisting that in his capacity as a regulator he was agnostic as to whether supervision in certain areas should be carried out at European or national level, Mr Zwick argued that there could be a danger of over-centralisation and convergence needed to be balanced with autonomy. Colleges of national regulators to oversee the biggest cross-border market players had proved a sophisticated and powerful mechanism, he said.

The development of the SIU was also addressed by Andrea Beltramello, head of the Capital Markets Union at the European Commission, who repeated the calls of earlier speakers for greater regulatory harmonisation and efforts to curb legislative gold-plating. The goals of greater integration, he said, were more efficient supervision, equality of treatment and broadly similar decision-making, to which end the Commission will propose the transfer of certain supervisory tasks from national to EU regulators in the coming months.

An example of how Luxembourg has emerged as a central hub of the single market was provided by Luis Ussia Bertrán, CEO of Mutuactivos, the €16bn asset management arm of Spanish insurer Mutua Madrileña. The establishment of the operation in the grand duchy was crucial to expanding its asset management operations from in-house assets to third-party clients, he said: "No Spanish groups are selling funds out of Spain, except into their own networks – you have to come to Luxembourg. Here we have volume, performance, a strong team, and a good interaction with the CSSF."

Rethinking the purpose of business

Oxford University professor of management studies Colin Mayer said the contemporary focus on how excessive regulation represents a cost to companies that discourages entrepreneurship and innovation is not down to a current political agenda but is at the heart of the capitalist system, one that can be traced back to Milton Friedman's argument that companies had a sole moral duty, to increase their profit.

He argued that instead the purpose of business should be to produce profitable solutions that benefited people and the planet, rather than profiting from creating problems for either. Prof. Mayer cited as an example Denmark's Novo Nordisk, until last month Europe's largest company by market capitalisation, which by refining its purpose, from manufacturing insulin to treatment and prevention of type 2 diabetes, had increased its revenue while lowering costs – creating value by solving problems.

Revitalisation of employer-funded and personal pensions are not just a means of channelling private savings into productive investment, but a necessity as public pension schemes start to totter under the weight of increasingly unfavourable demographics, noted Lalux-Vie director Claudia Halmes-Coumont. She warned that even though Luxembourg's pension scheme has currently €30bn in reserves, it is particularly vulnerable because of its relative generosity, paying out on average 75% of the country's average salary, compared with 58% in France and 44% in Germany – and is automatically indexed to inflation.

The Pan-European Personal Pension is intended to fill the gap, but Gad Amar, head of Western Europe at Natixis Investment Managers International, argued that the cap on providers' fees in the original EU blueprint meant that very few companies were interested, mostly judging that the business would not be profitable.

Anne de Lanversin, CEO of Generali Global Pension, argued that the best approach would be the most inclusive, incorporating tool for collective investment and pooled products to deliver scale. She advocated simplicity in the product and the system, close to the approach of the wealth management industry: "It has to be easy to understand for participants and easy to manage for companies."

Economic benefits of gender finance

Jennifer de Nijs, head of the Luxembourg Finance Ministry's Department of the Development of the Financial Centre, said gender finance was a priority for the government, in both its aspects: creating equitable access to financial products and services for women, and encouraging diversity within the financial sector, not just for the sake of equality but to boost innovation and competitiveness throughout the industry.

The prize is tangible economic and business benefits, she said. Improving female access to financial services and capital could add as much as $12 trillion to the world's GDP.

Meanwhile studies have found that diverse teams in the financial sector achieve profitability on average 21% greater than non-diverse ones, while companies with gender-diverse leadership are 25% more likely to outperform their peers.

But the first progress report of the Luxembourg Women in Finance Charter indicates that the grand duchy still has some way to go: while 47% of all employees in the financial sector were women in 2024, they accounted for 38.8% of middle and junior management, 30.9% of senior management, 29.9% at executive committee level and 29.8% of board members. Still, all the categories showed an improvement from the previous year.

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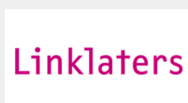

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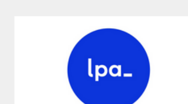

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