

Press release, 24 May 2012

SUCCESSFUL FIRST QUARTER 2012 FOR LUXEMBOURG FUNDS INDUSTRY

ALFI London conference focused on:

- aims to foster the development of the alternative investment fund industry
 - improvements in UCITS
- building responsible investing as third pillar for the investment fund area

The first quarter of 2012 has been successful for the Luxembourg fund industry with net sales for Q1, to the end of March 2012, amounting to € 36.369 bio. Total AUM increased to € 2 217.206, thereby entirely recovering from the temporary decline caused by market depreciation in 2011. This places the Luxembourg fund centre second globally only to the US.

Marc Saluzzi, Chairman of ALFI, says: “These figures demonstrate that investors and asset managers alike continue to consider Luxembourg a fund centre of choice. The legal and regulatory framework is state-of-the-art, the locally available know-how and expertise is unequalled and the macroeconomic environment very stable. While Luxembourg, like Europe in general, has predominantly built its international reputation in the UCITS area, ALFI regards the new Alternative Investment Fund Managers Directive (AIFMD) as a huge opportunity to also foster the development of the alternative industry. The EU is indeed creating the first regulated environment for alternative investment funds worldwide and ALFI is looking forward to this.”

Fostering the development of the alternatives industry in Europe

While the Grand-Duchy aimed to be the first European country to transpose the directive, it is now going one step further and plans to adopt a ‘legal package’, including tax provisions and reforms of Luxembourg company law to accommodate a very diversified and international alternative investment fund community. ALFI was an active contributor to the legal and regulatory efforts that have been made on this over the last months. At ALFI’s conference in London on 23 May 2012, the **Minister of Finance of Luxembourg, Luc Frieden**, confirmed that “the implementation of the AIFMD into Luxembourg law is imminent. In order to exploit the full potential of the directive, we are going to implement not only the directive, but have added a number of provisions to facilitate and frame the development of the alternative industry as a whole”.

In a panel discussion chaired by **Michael Ferguson, ALFI Board member**, on ‘Responding to the Alternative Investment Managers Directive – Luxembourg positioning for the future regulatory landscape’, Luxembourg’s approach to implementing the AIFMD and a related series of regulatory measures was discussed. These measures are expected to further enhance Luxembourg as a leading fund and management company domicile for the alternative sector. In the detailed discussion, the panel expressed the view that the AIFMD will drive significant change in the alternatives industry, at both the product and at organizational levels. Therefore the AIFMD needs to be addressed at the highest level of the

organization before moving into compliance. Managers need to start with the investor: Investors are being offered a new choice between AIFMD-compliant products with their associated additional level of protection and costs, and non-compliant products. **Jacques Elvinger, ALFI Board member**, strongly believes that “in the long term, investors may come to value the ‘AIF Brand’. Should the passport develop as provided for in the AIFMD, it is expected that Luxembourg will be well placed to leverage its solid credentials in the cross-border space across to the alternative sector”.

Looking forward to improvements in the UCITS area

ALFI is closely monitoring advances in the UCITS area, in particular in the light of the upcoming UCITS V directive. The 2008 financial crisis caused loss of assets, sometimes due to insolvency or fraud, and a number of funds even went out of business. This has increased expectations for investor protection. Although the law regarding the depositary regime in Luxembourg is fully in line with current EU directives, ALFI welcomes the new regulations that aim to further harmonise the depositary’s responsibility throughout the EU. This is extremely important for UCITS funds which are a European success story for both EU retail investors and as an export to other countries around the world.

ALFI hopes that the final dispositions will strike a right balance of responsibilities and rights between all stakeholders of the fund value chain, including the end investors.

According to **Freddy Brausch, ALFI Board member**, “to ensure the UCITS V Directive further strengthens the development of UCITS, detailed discussions will be needed. Open questions remain:

- What level of responsibility can be reasonably expected of depositary banks?
- Should depositary banks cover all categories of risk, including insolvency and fraud?
- Which new governance, due diligence, compliance and risk management practices should become mandatory?
- What would be the cost to investors of these additional guarantees and risk management measures?
- is there a moral hazard associated with investors believing their investment is risk-free?”

On the question of ‘complex UCITS’ and their distribution to retail investors, ALFI’s priority is again investor protection. More complex investment techniques and their potential benefits may be very well suited for retail clients but any risks associated with such investment techniques and instruments need to be appropriately managed and disclosed. The categorisation of UCITS as complex or non-complex is unfortunate as it does not properly address the notion of risk for the investor and creates a doubt about the robustness of UCITS in terms of investor protection.

Building upon a third pillar for the investment fund industry: responsible investing

In addition to the existing two pillars - UCITS and AIFMD – ALFI fully supports the development of an emerging ‘third pillar’ for the investment funds industry, responsible investing. The Luxembourg fund industry is already a leader in the microfinance investment fund sector. Similarly, a large number of environmental funds have chosen Luxembourg as their domicile. Together with the industry and the Government, ALFI will foster and promote socially responsible endeavors and ambitions to analyse further how the centre can occupy a leading position in other socially responsible areas, like social businesses, ethical investing or renewable energy.

According to **Tom Seale, ALFI Board Member**, “a first step is to clarify the definitions and the terminology of responsible investing. The ‘European Responsible Investing Fund Survey’ by KPMG and commissioned by ALFI

http://www.alfi.lu/sites/alfi.lu/files/files/Publications_Statements/Press_releases/European-Responsible-

[Investing-Fund-Survey.pdf](#)), published by ALFI at their 'Responsible Investing Conference', shows that there are 1,236 Responsible Investment funds in Europe. Investor demand for such products is increasing'. Luxembourg has a 28% market share of the responsible investing fund market in Europe.

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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 one thousand Luxembourg domiciled investment funds, asset management companies and a wide range of service providers such as depositary 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 cross-border distribution of funds. Luxembourg-domiciled investment structures are distributed on a global basis in more than 60 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