

Press release, 18 September 2012

CROSS-BORDER DISTRIBUTION EXPECTED TO GROW DESPITE CHALLENGES, ACCORDING TO STUDY COMMISSIONED BY THE ASSOCIATION OF THE LUXEMBOURG FUNDS INDUSTRY

Record €2,297 billion assets under management in Luxembourg in July reflects growth

According to “Trends in Cross Border Distribution”¹ unveiled today by the Association of the Luxembourg Fund Industry (ALFI), although UCITS IV promised solutions for streamlining cross-border distribution and facilitating scale, there are still a number of obstacles which many fund managers have to overcome. However, despite the different challenges faced by large and small asset managers, all expect cross border distribution to grow over the next few years.

“The findings show that a stagnant economic climate and competition from banks are encouraging asset managers to look for opportunities and growth in new markets,” explains Marc Saluzzi, Chairman of ALFI. “This expansion to other markets increases the regulatory burden and administrative stress for asset managers, and places tremendous importance on economies of scale and business efficiencies. We are also seeing that distribution partners are becoming increasingly sophisticated, putting a greater strain on fund manager resources to meet demands.”

He continued: “Despite the challenges, we are still seeing significant increases in cross-border funds. The fact that in July Luxembourg, where 72% of true cross-border funds are domiciled, had a record €2,297 billion assets under management, reflects this growth.”

Key findings of the survey include:

- **Complexity** and **operational risk** are serious challenges facing asset managers as they look to expand their marketplace. Whereas large asset managers find issues around complexity and operational risk more of a challenge than their smaller, more nimble counterparts, smaller managers find lack of scale to be the main challenge, in particular around demand for different share classes and costs of distribution commissions. As the size of the manager increases, and with that the number of markets operated in, so too does the burden of local regulation
- Currently just over a third of asset managers use the **management company passport**, but they are confident they will make more use of them in time, reaching a majority usage of 55% in three years. The passport’s advantages are efficiency of administration services through the acquisition of scale, as well as reduction of country risk through reduction in exposure to multiple national regulators.

¹ “Trends in Cross Border Distribution” gives the views of 61 European asset managers about their attitudes around the distribution challenges they face, and the solutions available. It was conducted in August 2012 by the independent research firm Spence Johnson (www.spencejohnson.com).

- The majority of asset managers anticipate that they will use the **master feeder** structure in 3 years' time because it will allow them to bolt on an additional feeder structure to an already existing master vehicle, thereby increasing speed to market. However, a major challenge to the adoption of master feeders is the fact that, currently, national bodies haven't decided on how they would deal with a master feeder despite the UCITS IV measures already being in place. Customized share classes, an easier entry vehicle than installing a master feeder structure, will therefore remain the most widely used option for asset managers looking to distribute across markets.
- The **merger of cross-border funds** brings significant advantage in the control of central and administration costs, but cross border fund mergers will remain a solution used by the minority, with just over 30% of asset managers expecting to merge funds. The major obstacle to cross border mergers is the lack of a harmonized tax regime in the EU.
- Fund distribution is becoming **more institutionalised** with stringent selection criteria and due diligence. Demands for track record and proven expertise mean that asset managers are trying to anticipate market needs 3 years in advance.
- On average, asset managers are distributing to 18 markets in 2012. This number is estimated to increase to 22 by 2015. Smaller providers are being ambitious in terms of their **market coverage**. On average, small asset managers are currently operating in 14 markets and in three years' time they anticipate operating in 20.
- Medium and large asset managers expect relatively modest growth in market coverage in the next three years, and **cross-border distribution partners** will influence where managers place their resources as they request support in key markets.

Asset managers predict that the dominance of the cross border distribution model will only grow stronger in 3 years' time, driven by the fact that they have established centres of excellence for fund distribution, good local service providers, legal services and the national regulators being more engaged with the fund industry. Larger firms anticipate slightly increasing Luxembourg's majority share of their assets.

Mr Saluzzi continues: "The UCITS IV toolkit promised solutions for streamlining cross-border distribution and facilitating scale, but this survey shows clearly that there are still challenging times ahead.

He concludes: "ALFI continues to work on ensuring that cross-border fund distribution grows, as part of our Ambition Paper which we launched in September 2011. This survey enables us to prepare our programme of activity going forward, including negotiating with European and national regulators to ensure that measures are put in place to facilitate cross-border distribution."

The survey is available in full at www.alfi.lu under latest contributions.

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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 well 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 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.