€23.78 trillion
Mutual fund assets worldwide increased 7.3 percent to €23.78 trillion at the end of the first quarter of 2013.

2 539. 200 billion euros
Net assets under management in Luxembourg investment funds at the close of September 2013.

14 out of the world's top 15
real estate fund managers are present in Luxembourg.

81%
of funds have fewer than 25 investors.

LUXEMBOURG OFFICIAL

Friday 15th November, 2013 – "2013 european alternative Investment Funds conference" coverage – www.luxembourgofficial.com

Is AIFMD becoming a brand?

"Luxembourg UCITS" means attracting investors and problem solving. Can the country work the same magic for AIFMD? The rough edges have been knocked off the original draft directive and now many see the emergence of globally recognised brand. Or is this still a long way to go?

LUXEMBOURG IS CONVINCED
Will AIFMD become a brand? In a poll of conference delegates, around a half said "yes but it will take a long time" with a third thinking it would happen quickly. Only 11% dismissed the idea entirely. Although a Luxembourg-based audience could be biased, such an overwhelmingly positive result indicates that the talk is probably becoming a reality.

THE REST OF THE WORLD IS LOOKING
"When I visit New York, lawyers ask me about Luxembourg funds. Five years ago they would have politely changed the subject," is how conference chairman William Jones, Managing Director of ManagementPlus described the trend. Jeff Rupp, director of public affairs at European Association for Investors in Non-Listed Real Estate Vehicles agreed that change is in the air. "Institutional investors are increasingly asking funds to be AIFMD compliant and there is recognition that AIFMD was created to protect investors."

BRANDING SUCCESS REQUIRES DELIVERY
That said, the directive still presents major challenges even if it

© DR

is no longer the mess that was dumped on the industry by panicking politicians in 2009. "It is already a brand. But it must become a success too," cautioned Jiri Krol of the Alternative Investment Management Association. He pointed out the EU has to go a long way to match the US in regards generating alternative investments. As well, unlike the mass-market UCITS, alternative funds are targeted at sophisticated, institutional investors. He noted that most will spend three to six months on due diligence before investing, so being AIFMD compliant is just one part of this story. William Jones remains confident though, saying "it took UCITS years to become trusted. This experience will be vital as we build the reputation of AIFMD."

Growing appetite for alternatives

Alternative investments are meeting investor expectations and institutions are set to increase their allocations. Data presented at the conference also suggested that alternative investments in the four main asset classes now account for around $5.5trn globally. So if these strategies are becoming mainstream this is great news for Luxembourg. What other trends are out there?

BECOMING MAINSTREAM
Depending on the asset class, 75-90% of current alternative fund investors are having their expectations met. Thus 40-60% are planning to increase their allocations with only 10% foreseeing a cut. These figures from the research firm Prequin underline how investors have needed to innovate in an era of low returns. This is despite returns in hedge funds, for example, having underperformed recently in comparison with simple index trackers. But hedge funds have been much less volatile.

MERGING WITH TRADITIONAL INVESTMENT
So where to now? A panel of industry executives were asked for their predictions at the conference. David Reid of fund administration and software firm SS&C Globe Op highlighted several trends. He sees greater convergence between traditional and alternative investment strategies. This will be accompanied with greater regulatory pressure as well as more consolidation of service providers, managers and depositories. This will all contribute to increased ▶▶

To be continued page 2

Making a virtue from a necessity

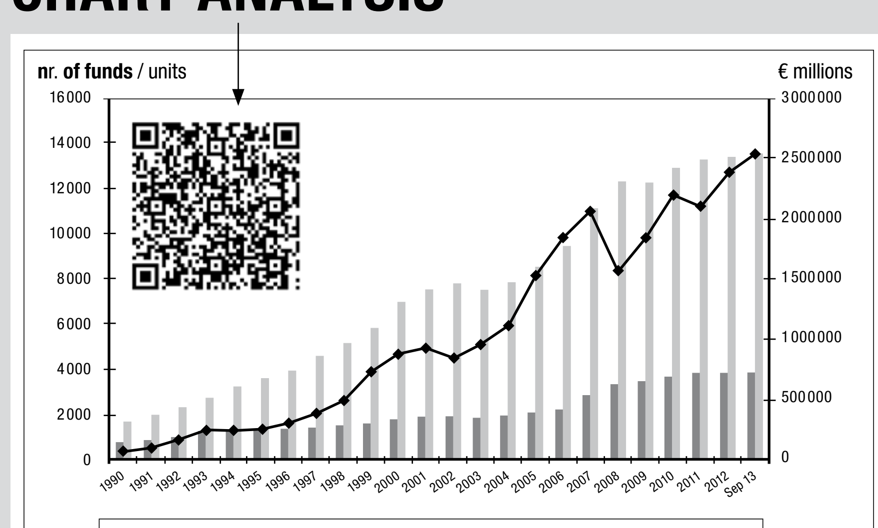
From being «Europe's attempt to commit regulatory suicide», successful lobbying made the final version of AIFMD "better than expected" even if implementation has occasionally being "hair raising". These quotes from conference discussions illustrate the extent of the birth pains of this politically motivated regulation.

DIFFICULT, BUT NOT IMPOSSIBLE
"A nightmare" was how only 6% of conference delegates characterised the process of AIFMD compliance. "Difficult, but not impossible" was the view of 56% with a third even thinking it was "not as bad as expected." Law makers and regulators were put under enormous pressure by the industry to mitigate the effects of the initial high-level political decisions. Reportedly, lobbyists even doorstepped decision-makers on their way to work in the morning. Several speakers praised lead-regulator ESMA's openness to discussion.

CHALLENGES REMAIN
Still, many challenges need to be faced ▶▶

To be continued page 2

CHART ANALYSIS



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Continuation of the page 1 1 – « *Making a virtue from a necessity* »

before the new rules can work smoothly. Many aspects of regulation are still to be defined and practitioners do not always have road-tested systems. Hence, when asked what was their biggest worry, 41% of delegates cited “reporting”. Substance (20%), remuneration (13%) and distribution (12%) are also causing sleepless nights. It had been hoped that at least EU and US regulation would be aligned. However, according to Jiri Krol of the Alternative Investment Management Association less than a quarter of the new rules are identical. There are also concerns that some national governments yet to transpose the directive may introduce elements such as charging to use the marketing passport.

A PRICE WORTH PAYING?

Much of the debate has centred on the increased responsibilities for depositary services. One practitioner said the extra cost amounted to only a single-digit basis-point increase and that day-to-day dealings only need slight change. If AIFMD can become a globally accepted brand then this could be a price worth paying. Not everyone is convinced. Others suggested that service providers are best placed to benefit. While the on-going macro-economic worries have been the main hindrance to fund raising in Europe, some feel AIFMD uncertainty has also contributed. One panel was asked whether the industry should support an AIFMD II to iron out rough patches, a suggestion which brought hollow laughter from the audience. Consensus was that the industry needs a long period of stability before any reform is attempted.

Continuation of the page 1 – « *Growing appetite for alternatives* »

competitive advantage to larger hedge funds. He also foresees growth in customised strategies.

TRIPLING FOR INFRASTRUCTURE

A tripling of investment in infrastructure funds was predicted by **Jerome Wittamer of Genii Capital, Luxembourg,** the private equity and financial advisory company. He highlighted how currently this accounts for just 3% of assets of key pension funds, but he sees demand from the developed and developing world continuing to grow. In the real estate sector, Christopher Garbe of Garbe Group reckons that as returns will disappoint in core countries, there will be increased interest in secondary markets such as Spain, Italy, Poland, central Europe even Russia. All of this gives Luxembourg to get its teeth into.

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Jerome Wittamer
of Genii Capital, Luxembourg

New government set to be pro-business

“Luxembourg crisis” screamed a front page Financial Times headline shortly after the 20th October general election. Although this is a major exaggeration, the new three party government is a novelty and will have something to prove. So what could be the implications for the fund industry?

NO CRISIS

“I want to reassure our friends at the FT that forming a new coalition government after an election is not a political crisis,” Marc Saluzzi noted with irony in his introductory remarks to the conference. Still, ALFI had sufficient concerns before the election that it felt the need to warn voters about the dangers of trying to squeeze the fund industry. A communiqué pointed out that tax increases could see international investors relocating, putting at risk the 14,000 jobs, 6% of production and 10% tax-take generated by the fund industry.

SENSITIVE TO INDUSTRY NEEDS

Although unable to announce policies during the coalition negotiations, the parties have made reassuring noises about the need to maintain financial sector competitiveness. That Alain Kinsch Managing Partner of Ernst & Young Luxembourg is participating in the coalition negotiations has caused a stir. He has been negotiating in the same Democratic Party team as Xavier Bettel, the future prime minister. There has even been press speculation that Mr Kinsch could be in line for a government job. It is sure, however, that he will have been a strong advocate for the financial sector during the coalition talks.

DEBT THREAT

So, there appears to be no immediate threat of an increased subscription tax, or even a change in the country’s opposition to an EU financial transaction tax. However, the level of state debt could become a longer term worry. At 7% of GDP before the crisis, it is now 21% and could reach 30% by the end of the decade. This is low by international standards, but of concern to a small country. If this issue is not addressed, it could impact on Luxembourg’s cherished stability. Then there are wage costs. Will the new administration be able to do anything about automatic salary indexation? The government may find it tough with a majority of just two in the 60-strong chamber of deputies. Not least because the relatively conservative Democratic Party will be governing with the left of centre Socialists and Greens. The three party leaders all seem to understand what businesses need, but can they bring their parties with them?

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Targeting a trillion

There are around €500bn alternative fund assets under management in Luxembourg, with ALFI Chairman Marc Saluzzi targeting €1trn by 2018. Introducing the European Alternative Investment Funds Conference of 19/20 November he said that the country now had the necessary “tool-kit” to make an even greater impact.

REAL ESTATE & HEDGE FUNDS

As for hedge funds and funds of hedge funds, ALFI counted 644 with total net assets of €129bn at the end of 2012. More recent, detailed ALFI data is available for real estate funds. At the end of Q3 2013 there were 270 funds with total net assets under management of €30bn. This represents respective compound annual growth rate of 35% and 26% since 2003. When gearing is taken into account, ALFI estimates these funds ultimately account for as much as €90bn in assets. Investors are mainly European and 81% of funds have fewer than 25 (mainly institutional) investors.

TOOLED-UP FOR ALTERNATIVES

The alternatives industry is voting with its feet in support of Luxembourg. Currently, 14 out of the world’s top 15 real estate fund managers are present in Luxembourg as are 8 out of the 10 leading hedge fund service providers and 9 of the 10 top private equity houses. Held (more or less) 100 days after the government transcribed the Alternative Investment Fund Managers Directive (AIFMD) into law. With the introduction of limited partnerships and new interest taxation rules ALFI believes this will enable managers to reach a wider range of clients.

CHINA AND US ACTION

Away from alternatives, the biggest news of the month was the CSSF’s approval for a UCITS fund to invest in companies based in mainland China. This is the first Luxembourg-based UCITS fund to get the regulator’s OK to apply for access under the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme. Final approval rests with the China Securities Regulatory Commission. This boosts further Luxembourg’s position as the leading eurozone hub for RMD business. As of June 2013, 18 asset managers have established RMB funds in Luxembourg with a total of more than RMB 220bn assets under management.

On the other side of the world, Marc Saluzzi announced the near agreement of a plan to mitigate the worst effects of Fatca for Luxembourg funds. A deal should be signed by the end of the year.

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