
TAPPING THE EU'S INVESTOR POOL

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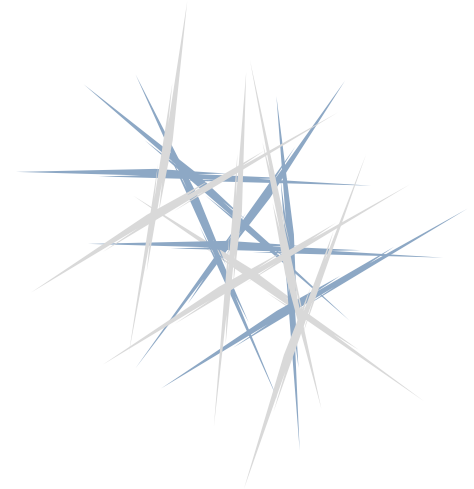


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GSK Stockmann

KEY THEMES

- 1** The fundamentals: Why is Europe an interesting place to do business for Chinese banks and asset managers?
- 2** Which products and services?
- 3** Investor segmentation
- 4** Cross-border distribution
- 5** Why Luxembourg?

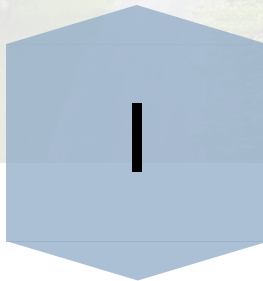


SECTION 1

THE FUNDAMENTALS: WHY IS EUROPE AN INTERESTING PLACE TO DO BUSINESS FOR CHINESE BANKS AND ASSET MANAGERS?



Four key drivers for future growth of investment funds



**Bank financing
vs. Capital
markets**



**Low % of
investment funds
in households**

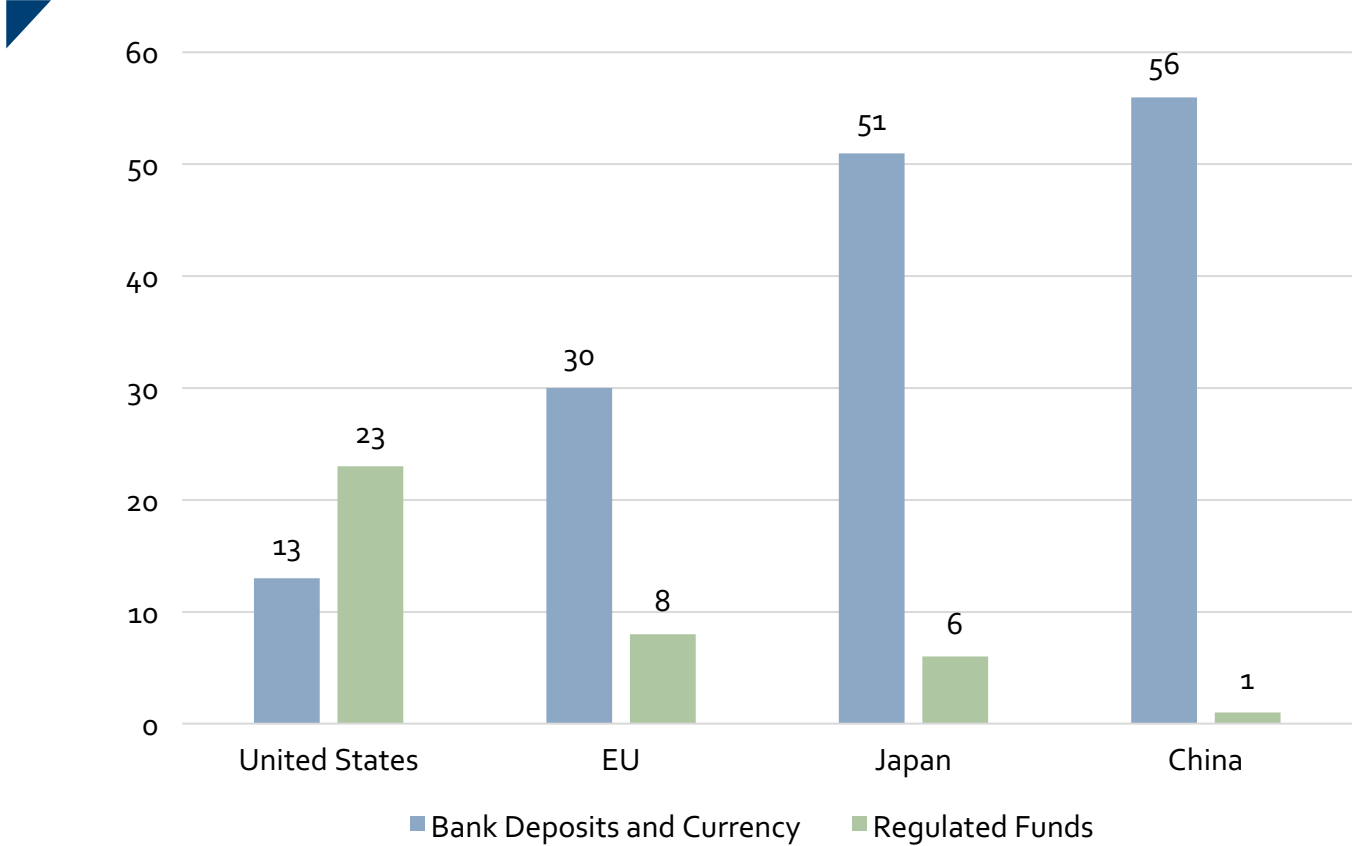


**Huge cash pile
held by
investors**



**Financing
pensions: the
next time bomb**

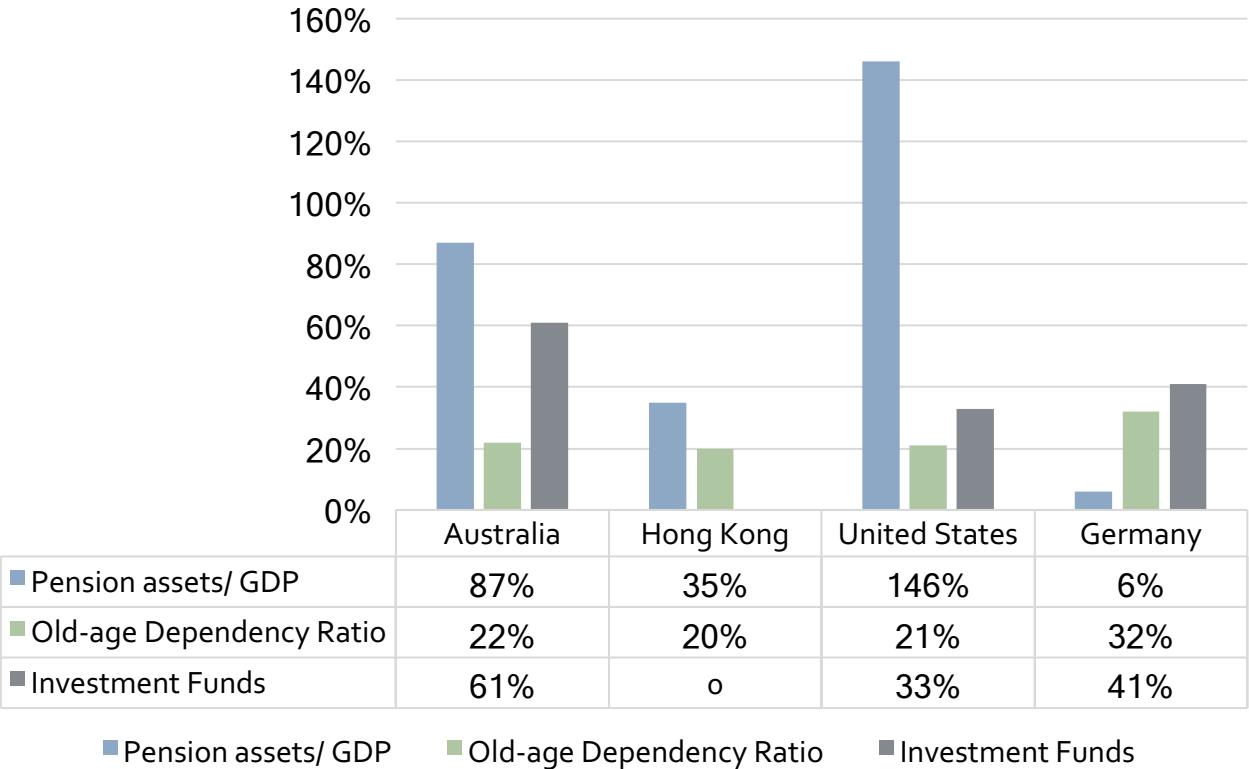
Households' financial wealth, 2017 – in %



Source: ICI Investment Company Fact Book 2018

Financing pensions: The next time bomb

IV



Source: Evolution of foreign investment by pension funds – pwc (ALFI), 2015

OPEN MARKET ECONOMY AND BUSINESS FRIENDLY
A WELL-ESTABLISHED REGULATORY ENVIRONMENT

European Investment Funds

UCITS

Undertakings for Collective
Intestments in Transferable
Securities

- Directive 2009/65/EC
- Retail and institutional investors

AIF

Alternative Intestment Funds

- Directive 2011/61/EU
- Institutional investors

„Specials“

ELTIF, EuVECA, EuSEF

- European long term investment funds COM (2013) 462
- European venture capital funds Regulation 345/2013
- European social entrepreneurship funds Regulation 346/2013

THE INVESTMENT FUND AS AN IDEAL TOOL FOR SAVING

There are good reasons to invest in investment funds

1

Low investment volume

- Enables investing by different types of investors.
- Investment fund units can be purchased with little money.
- Investors can invest in large companies and participate in growth.

2

Diversification and risk spreading

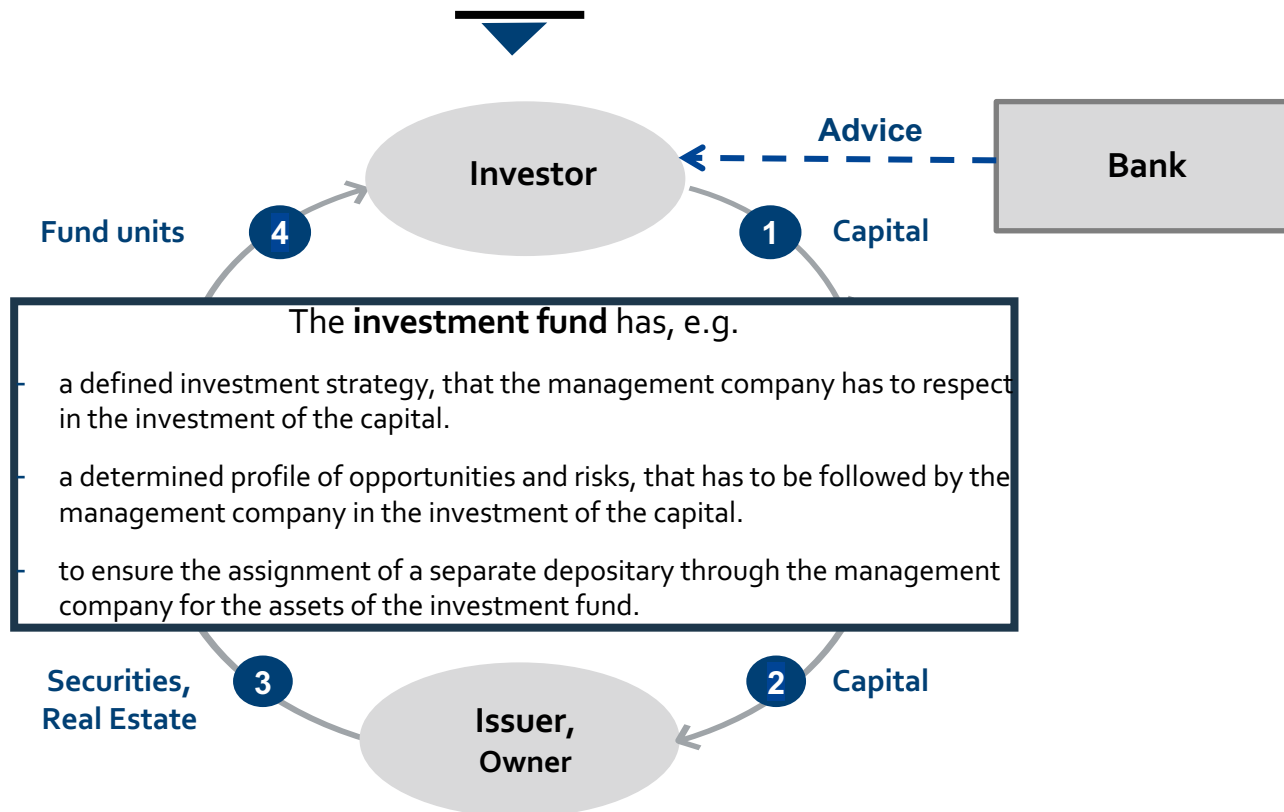
- Investment funds allow a high level of diversification.
- Risk spreading within a portfolio.

3

Liquidity and flexibility

Purchase and sale of investment fund units is generally (in a UCITS context) possible at all times.

The investment fund as the investment product in the cycle of investor and issuer/owner



DOES ESG MATTER TO EUROPEAN INVESTORS AND WHY?

What does ESG stand for?

Companies and countries are examined and assessed regarding their consideration of **ecological** and **social aspects** as well as their approach to **corporate governance**. The result is the **ESG-score**.

The **ESG-score** can vary depending on the rating provider.

The fundamentals

Does ESG matter to European investors and why?



E = Environmental

Climate change

Scarcity of resources

Scarcity of water

S = Social

Health

Demography

Food security



G = Governance

Corruption

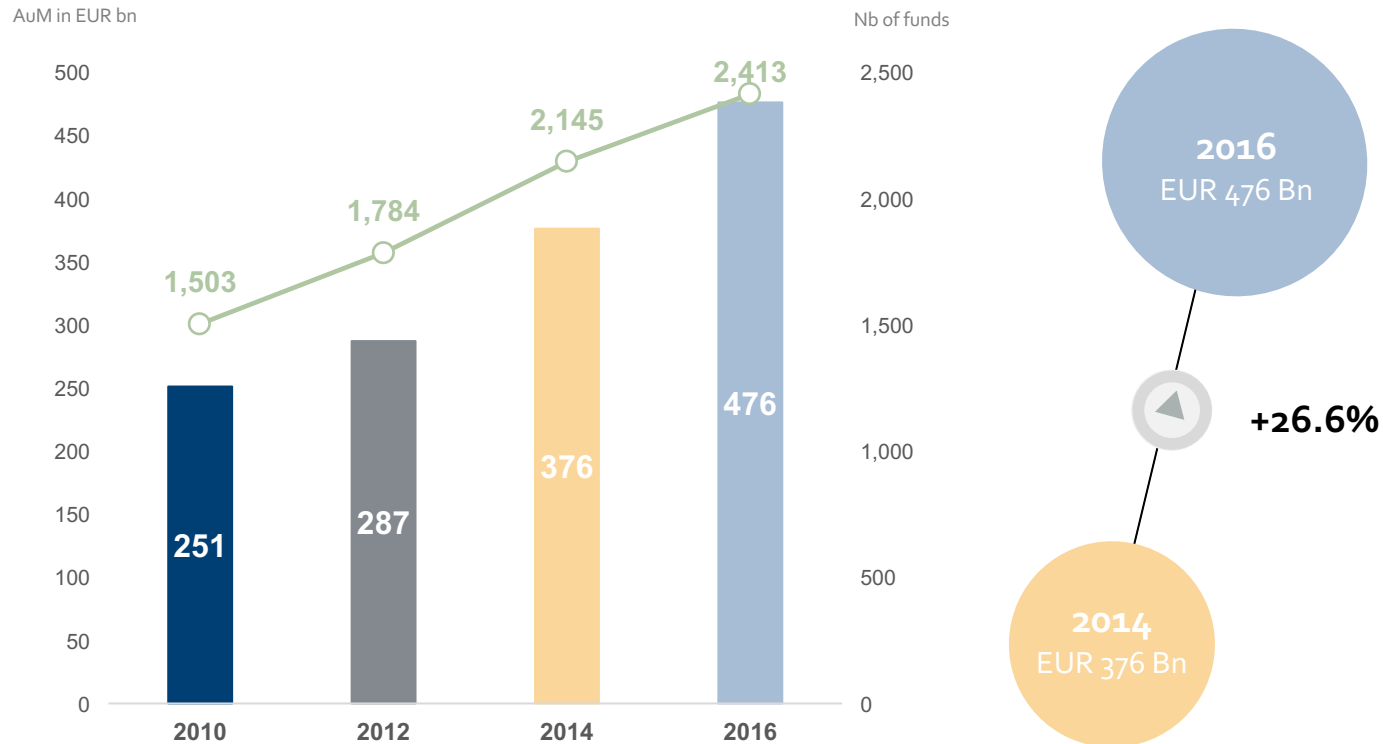
Compliance

Transparency



European RI funds evolution

The European responsible investing fund market continued to grow, almost doubling since 2010 to EUR 476 billion of Assets under Management at the end of 2016.



Source: European responsible investing fund market 2016 – ALFI & KPMG Survey

SECTION 2

WHICH PRODUCTS AND SERVICES ?

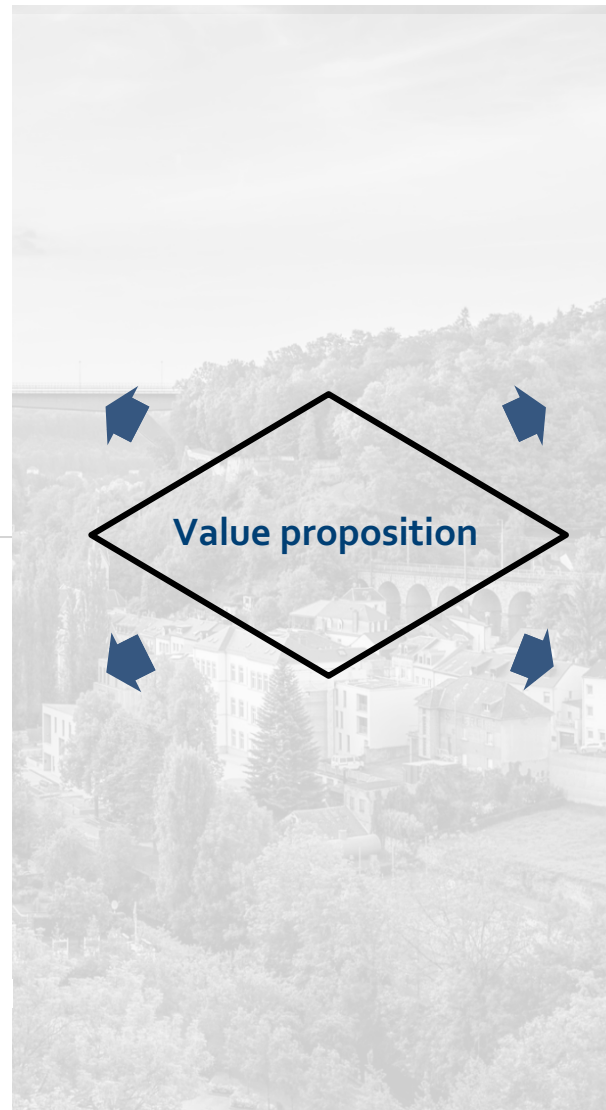


RMB Deposits

**Asset
management
solutions:
Investment Funds**

**Sub-advisory
Mandates**

Sub-custody



ACCESS TO EUROPE

Access to Europe:

first step - the key questions to ask

- The product: what will be offered?
- The client: which client will be targeted?
- The geographical focus: which European country does match with the product and the clients to target?
- Which channel to use: platform, cooperation partner, own presence?

Access to Europe:

Second step - the possible organizational structuring

3rd party EU-based management company/AIFM

Can manage either UCITS and/or
AIFs and serve as the EU
management company on behalf
of the non EU-based asset
manager

Subsidiary

Setting up of an own legally
independent company
(subsidiary) governed by the
law of the European country

Delegation

Part of activities within the
value chain is done by service
providers, e.g. portfolio
management, fund accounting

Joint Venture

Access to Europe can be achieved with joint ventures. The possibility of creating synergies between two organizations through a strategic alliance on a common project can lead to success. It provides companies with the opportunity to gain expertise, enter new markets or gain new technological knowledge and to bundle resources.

BRAND RECOGNITION

UCITS Brand

A brand build up with an experience of **30 years**

Fulfills its objective of creating a single European market for retail investment funds, while at the same time ensuring a high level of investor protection

- collective investment schemes (UCI) that invest in securities (such as shares and bonds) quoted on a recognized stock exchange
- the European passport allows the UCITS, once approved by its Home State regulatory authority, to be sold to the general public and registered for distribution in all EU Member States

Globally recognized brand, not only in Europe, notably in Asia or Latin America

In 2017, **9,731 billion euros net** assets have been managed in European countries (see EFAMA Fact Book 2018)

LuxembourgforFinance

Agency for the Development of the Financial Centre

Brand of my company: does it matter?

- Nowadays, trust in the brand has become a more important decision criterion for investments.
- Brands establishing themselves as sustainable succeed in gaining customers' trust.
- Brand reputation: Highly influences the company's level of attractiveness, concerning not only consumer behavior and willingness to pay, but also in the context of employee retention and recruitment.

SECTION 3

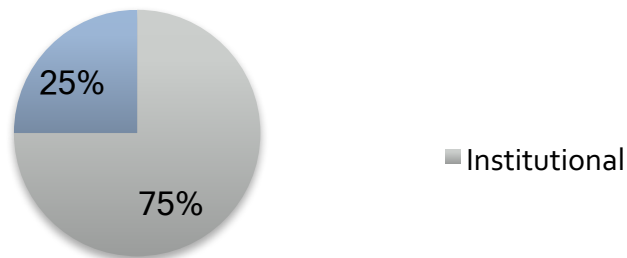
INVESTOR SEGMENTATION



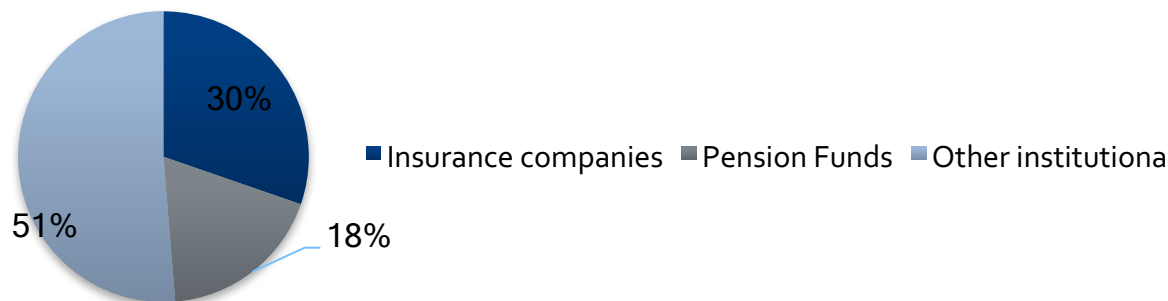
RETAIL VERSUS INSTITUTIONAL ASSET CLASSES

Breakdown by type of investors in UCITS

Retail vs Institutional



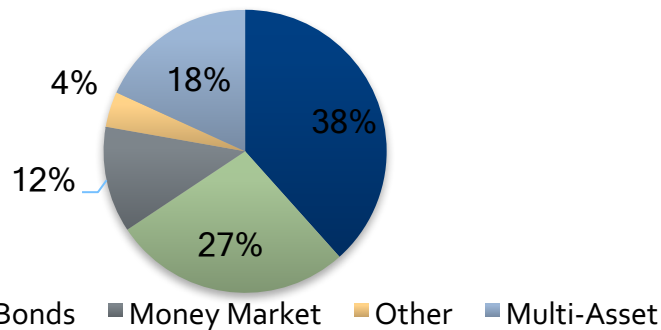
Institutional investors: Breakdown



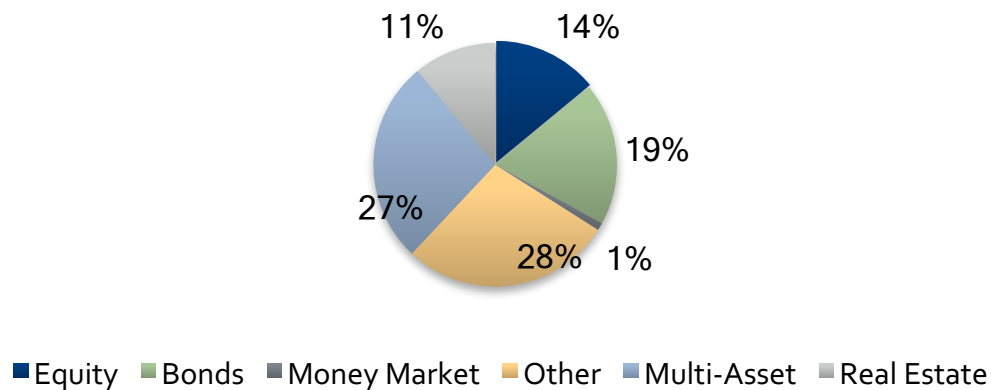
Source: EFAMA, end of 2017 figures

Breakdown by asset class

UCITS

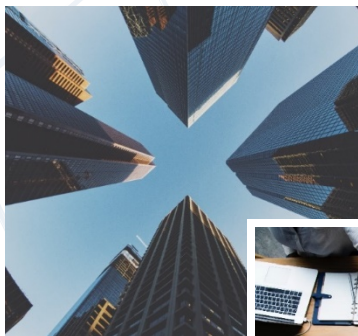


AIF



Source: EFAMA, end of 2017 figures

DISTRIBUTION MODELS IN EUROPE



Distribution models in Europe

1. Banks

are the biggest distributors of retail funds in many EU countries

offering in-house funds as well as third party funds

2. Independent advice

makes up only a small proportion of retail distribution in many EU countries

more common for high net worth clients

3. Direct sale

from investment manager to client

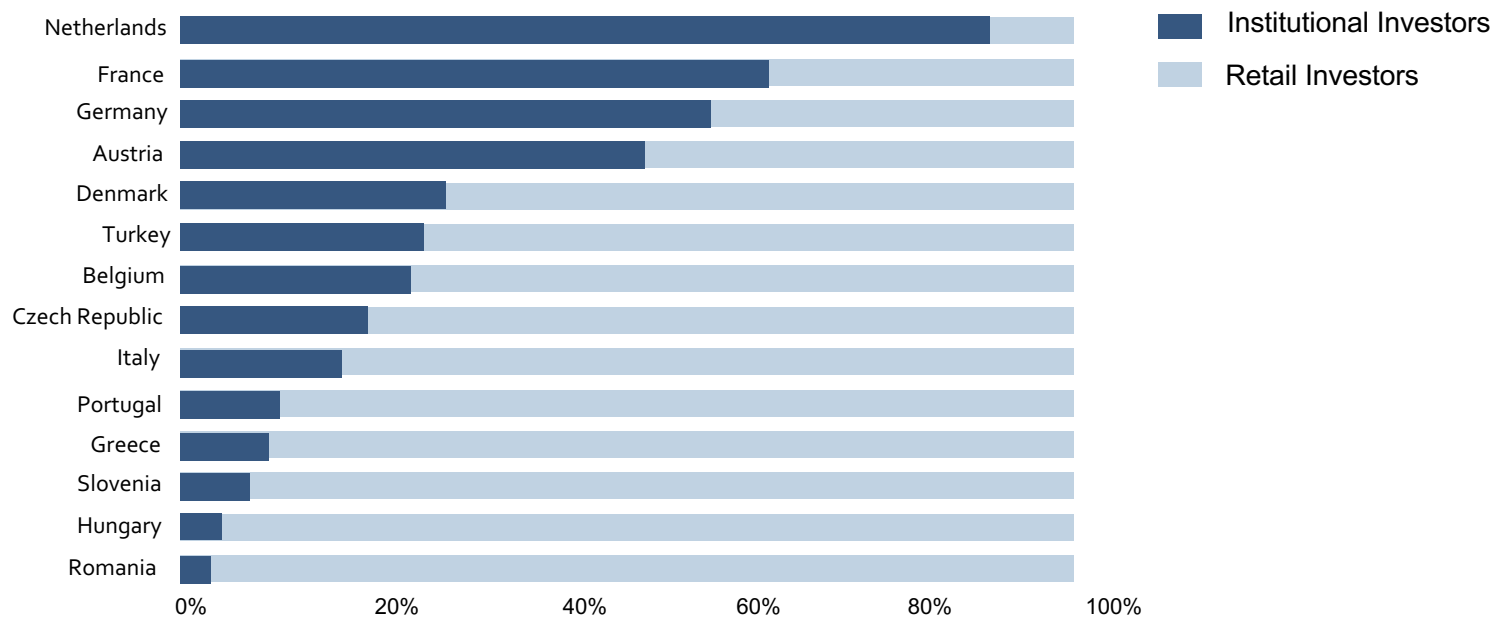
4. Platforms

in many countries they still focus on institutional investors

by contrast in the UK most distribution of retail funds is done via platforms

Source: Deloitte, „Fund distribution under MiFID II – Strategic considerations for investment managers distributing funds across the EU“

Distribution models in Europe – example: investment funds by units



Source: Efama Asset Management Report 2017

Performance matters, but...

Recommendation by fund professionals

Availability of products on platforms

**Referral by consultancy firms
(pension funds)**

Digital tools

**Interaction with distributors /
intermediaries**

SECTION 4

CROSS-BORDER DISTRIBUTION

Cross-border distribution: *from Luxembourg to EU 27*

- The process of notification (“**marketing-passport**”) for distribution in the EU is harmonized for EU UCITS and EU AIF (to institutional customers).
- The management company must submit the notification letter to the home country authority with the annexed documents (e.g. fund rules, latest report, KIID, etc.) before commencement of marketing in another EEA member state.
- The home country authority will inform the host authority within max. 10 days (for UCITS, 20 days for AIF) after the initial filing of the management company.
- The management company may begin marketing the units in an investment fund in another EEA country as of the date when home country authority have been delivered the file to the competent authority of the relevant EEA country.

Cross-border distribution: *from EU 27 to 70*

Next to the standardized notification for distribution in the EU the experts in Luxembourg have a great experience of filing the UCITS in further global target countries in the Asia Pacific region, the Middle East, Americas and Africa. Luxembourg-domiciled investment structures are distributed in more than 70 countries around the globe today.

The success of the global distribution opportunities is also embedded by individual mutual recognition schemes, fast track solutions of Luxembourg's legal and regulatory framework being recognized by the global asset management community and host country regulators.

Target Markets for distribution –

Key fund domiciles and their distribution markets

| | | Fund Domiciles | | | | | | Total Number of registrations as at Dec 2017 | Total Number of registrations during 2017 | % Growth 2016- 2017 | Trend over 5 years |
|----------------------|----------------------|----------------|---------|--------|--------|-----|---------|--|--|------------------------------|--------------------------|
| Distribution Markets | | Luxembourg | Ireland | France | Jersey | UK | Germany | Other | | | |
| EUROPE | Austria | 4565 | 1769 | 268 | 5 | 121 | 172 | 207 | 7107 | 321 | 4,73% + |
| EUROPE | France | 4690 | 2336 | 0 | 407 | 179 | 78 | 207 | 7897 | 803 | 11,32% + |
| EUROPE | Germany | 5574 | 2643 | 582 | 428 | 175 | 0 | 402 | 9804 | 1302 | 15,31% + |
| EUROPE | Italy | 3624 | 1654 | 409 | 318 | 78 | 54 | 61 | 6198 | 373 | 6,40% + |
| EUROPE | Netherlands | 3455 | 1879 | 312 | 146 | 100 | 65 | 86 | 6043 | 218 | 3,74% + |
| EUROPE | Norway | 2302 | 1039 | 49 | 104 | 41 | 21 | 104 | 3660 | 248 | 7,27% + |
| EUROPE | Spain | 3702 | 1654 | 290 | 185 | 97 | 44 | 75 | 6047 | 427 | 7,60% + |
| EUROPE | Sweden | 3144 | 1679 | 110 | 185 | 74 | 21 | 93 | 5306 | 308 | 6,16% + |
| EUROPE | Switzerland | 4,949 | 2003 | 381 | 9 | 146 | 132 | 203 | 7823 | 865 | 12,43% + |
| EUROPE | UK | 3,832 | 2764 | 391 | 157 | 0 | 31 | 82 | 7257 | 515 | 7,64% + |
| ASIA | Hong Kong | 882 | 195 | 0 | 0 | 38 | 3 | 26 | 1144 | -31 | -2,64% - |
| ASIA | South Korea | 470 | 40 | 0 | 0 | 3 | 1 | 0 | 514 | 42 | 8,90% + |
| ASIA | Singapore | 2157 | 698 | 38 | 14 | 79 | 5 | 186 | 3177 | 28 | 0,89% + |
| ASIA | Macau | 590 | 127 | 0 | 0 | 6 | 0 | 58 | 781 | -17 | -2,13% - |
| ASIA | Taiwan | 646 | 139 | 3 | 0 | 10 | 8 | 18 | 824 | 0 | 0,00% - |
| AMERICAS | Chile | 864 | 212 | 78 | 0 | 56 | 23 | 282 | 1515 | 23 | 1,54% + |
| AMERICAS | Curacao | 110 | 1 | 0 | 0 | 0 | 0 | 0 | 111 | 61 | 122,00% + |
| AMERICAS | Peru | 304 | 96 | 7 | 0 | 14 | 12 | 269 | 702 | -3 | -0,43% - |
| MIDDLE EAST | United Arab Emirates | 60 | 21 | 1 | 7 | 0 | 0 | 3 | 92 | 19 | 26,03% + |
| AFRICA | South Africa | 130 | 79 | 0 | 15 | 4 | 0 | 4 | 232 | 26 | 12,62% + |

Sources: Lipper LIM and PwC analysis, 31 December 2017 in: PwC „Benchmark your Global Fund Distribution 2018“

SECTION 5

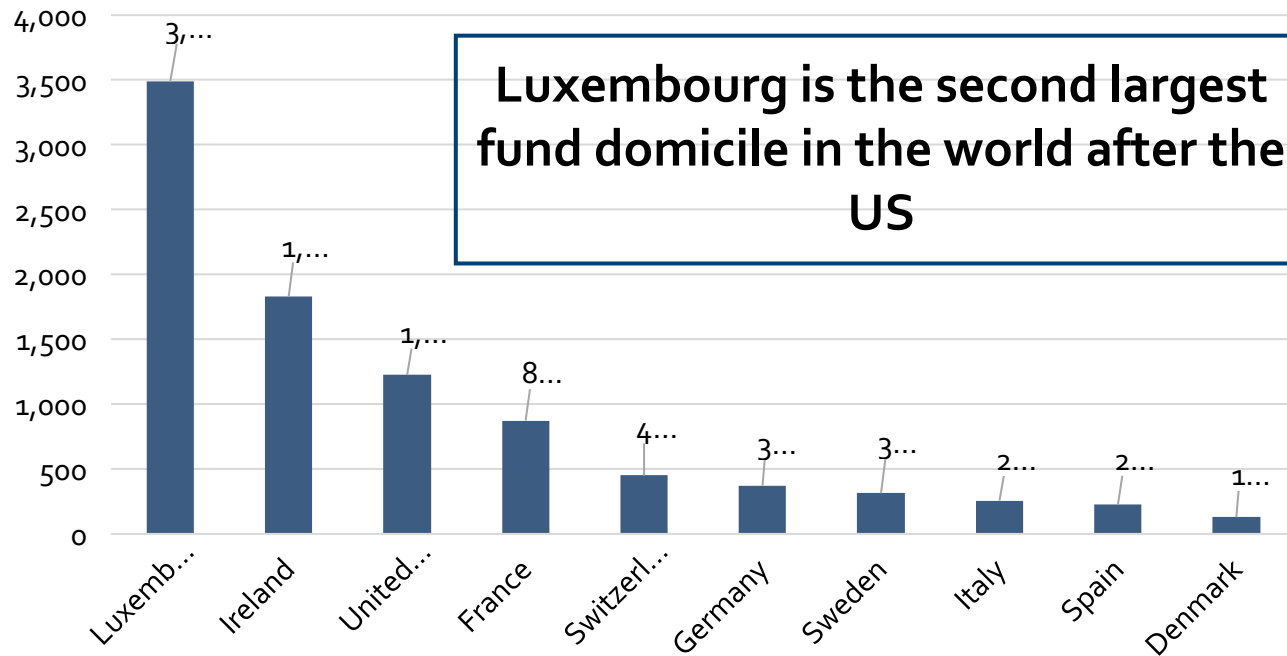
WHY LUXEMBOURG?



Number one investment fund center in Europe

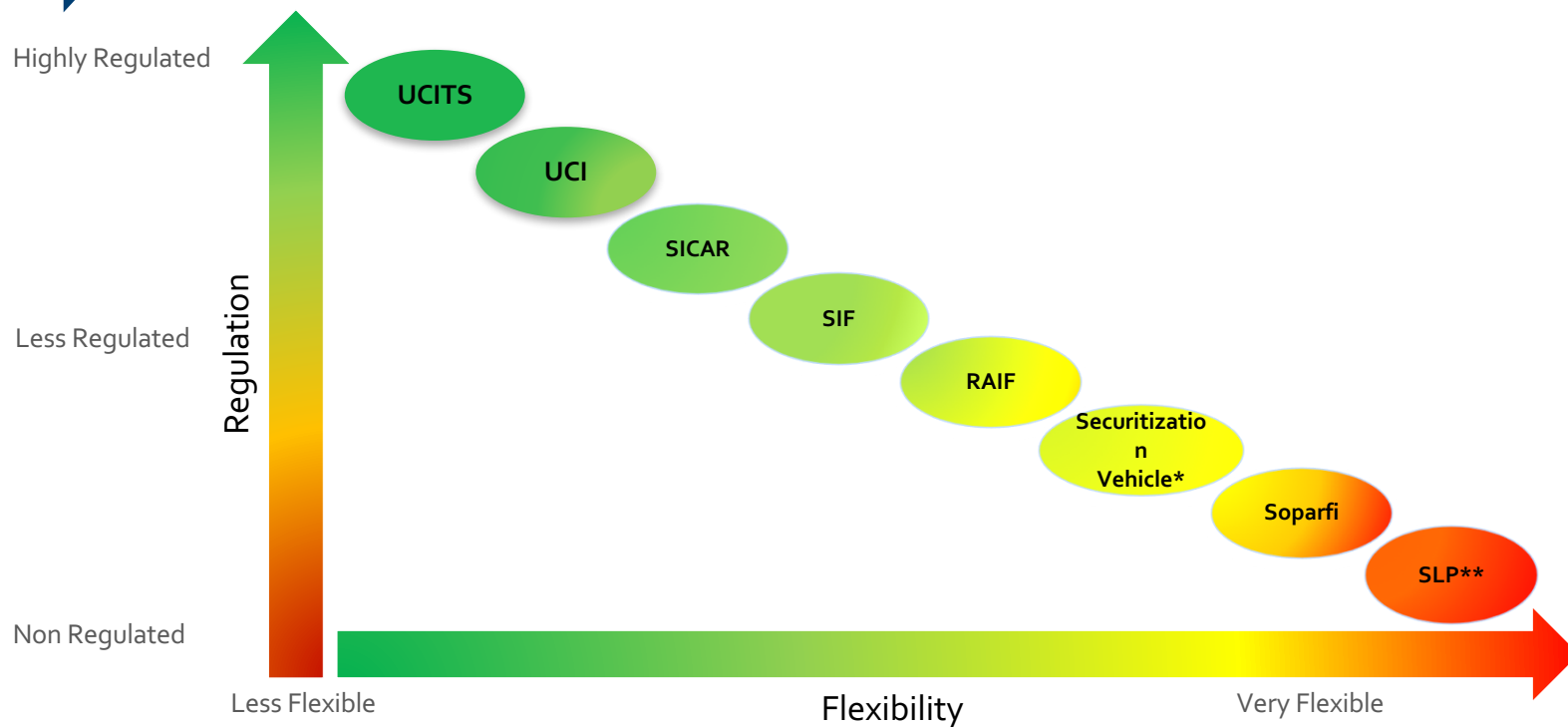
UCITS

■ EUR billion



Source: EFAMA, 31 December 2017

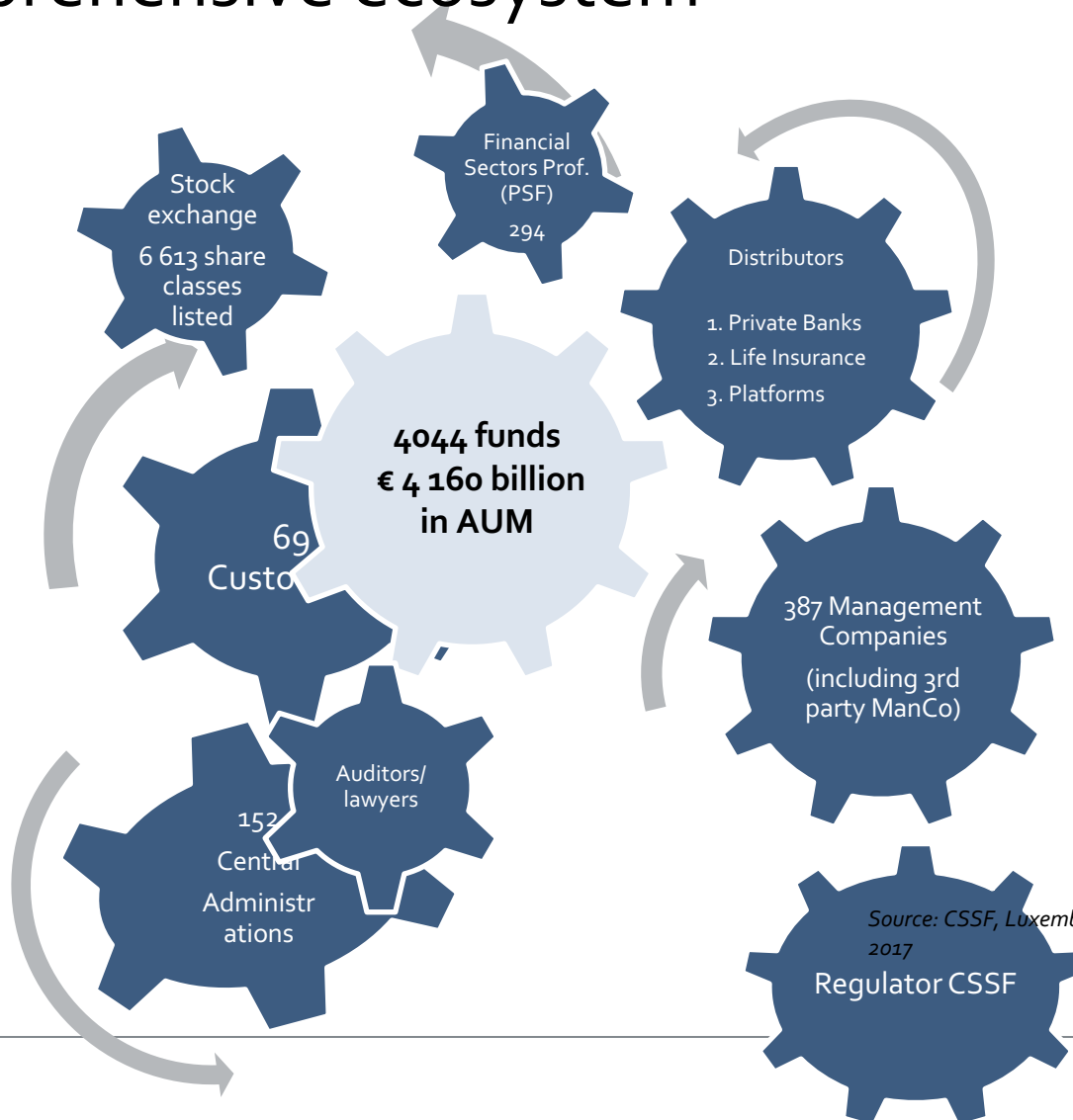
Comprehensive toolbox



* Unregulated unless issues securities to the public on an ongoing basis

** Could be indirectly regulated in case falls within AIFMD scope

A comprehensive ecosystem



Why Luxembourg?

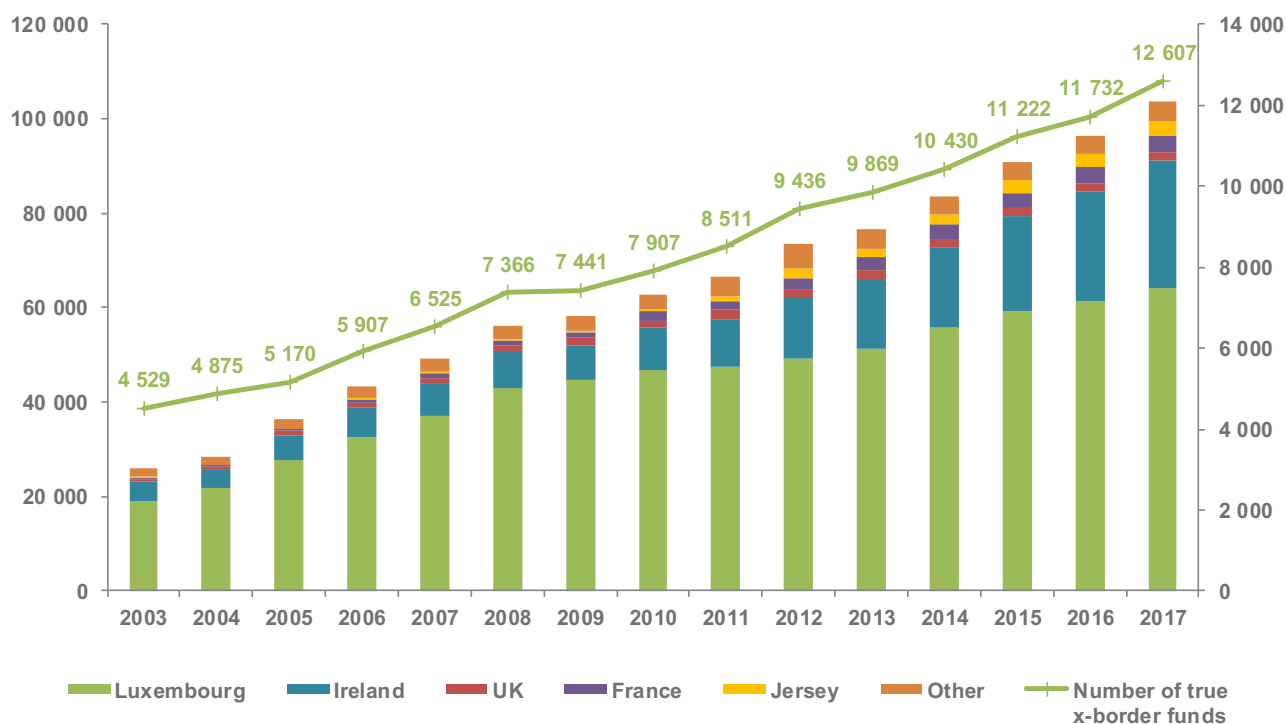
Expertise in cross-border distribution of funds

- More than 70% of asset management giants have chosen Luxembourg as the first domicile to set up their funds.
- Assets under management in Luxembourg UCITS stood 3,381 billion EUR, an increase of 1,000+ billion over five years.
- 2017 confirmed the good health of the industry with 12,607 funds distributed in at least three jurisdictions against 11,732 in 2016.
- As a center of excellence for the distribution, 62% of authorization for cross-border distribution comes from funds domiciled in Luxembourg.
- Number of cross-border registrations 103,531. Compound annual growth rate over past 10 years 7.7%.
Distribution footprint:
 - 32% 3-4 markets
 - 27% 5-9 markets
 - 22% 10-14 markets
 - 12% 15-19 markets
 - 7% 20+ markets

Evolution of cross-border fund distribution

Number of cross-border registrations

Number of cross-border funds



Source: PwC Global Fund Distribution 2018 – Figures as at 31 December 2017

Total cross-border registrations by geographical areas

Expertise in cross-border distribution of funds: Luxembourg is No 1 in terms of setting-up of cross-border investment funds (market share UCITS distribution)



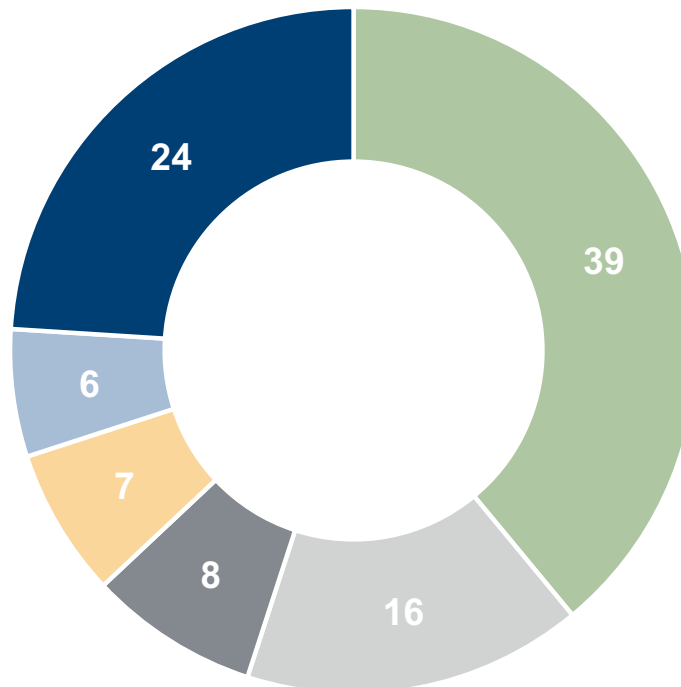
Source: PwC Global Fund Distribution 2018 – Figures as at 31 December 2017

RI funds evolution – by domicile

RI in % of AuM

Total = EUR 476 billion

- Luxembourg
- France
- Sweden



Luxembourg appears to be the favored domicile, in terms of Assets under Management.

The Luxembourg ESG sector is flourishing with more and more mainstream asset managers entering the market.

Source: European responsible investing fund market 2016 – ALFI & KPMG Survey

Why Luxembourg as a country?



- AAA rating, together with Australia, Canada, Denmark, Germany, Hong Kong, Liechtenstein, Netherlands, Norway, Singapore, Sweden and Switzerland (S&P, Moody's and Fitch)
- Most multilingual country in Europe with an average of 3.6 languages spoken by residents (European Commission)
- Luxembourg City is the safest capital in the world (Mercer Quality of Living Survey 2016)
- Predicted GDP growth for 2018 above 4% (OECD)
- Second highest GDP per capita in the world at \$105,000 (World Bank)
- Proximity to local politicians and authorities (financial regulator and tax administration)
- Social network provided by ChinaLux, the China-Luxembourg Chamber of Commerce, as well as the Chinese Bankers Club Luxembourg, led by Ms Zhou Lihong, General Manager of Bank of China (Luxembourg) S.A.

Why Luxembourg as a financial center?

- Luxembourg is the largest fund centre in Europe and second largest in the world (Luxembourg for Finance)
- Luxembourg is the second largest private banking center in the Eurozone (Luxembourg for Finance)
- Luxembourg is the largest renminbi center in the Eurozone and the largest recipient of Chinese FDI in the European Union - OBOR (Luxembourg for Finance)
- Luxembourg's financial center ranks 14 in the world; Shanghai ranks 16th, Frankfurt ranks 18th, Shenzhen ranks 19th and Beijing ranks 23rd (Global Financial Centres Index)
- 7 Chinese banks have chosen Luxembourg as their European platform, i.e. Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, China Merchants Bank, Bank of Communications and China Everbright Bank; 3 more Chinese banks have applied for a license to the Luxembourg regulator
- Luxembourg is Chinese investor friendly; Legend Holdings Corp has acquired 90% of Banque Internationale à Luxembourg for € 1.5 billion (the biggest takeover of a European deposit-taking bank by China so far)

Asian Banks in Luxembourg

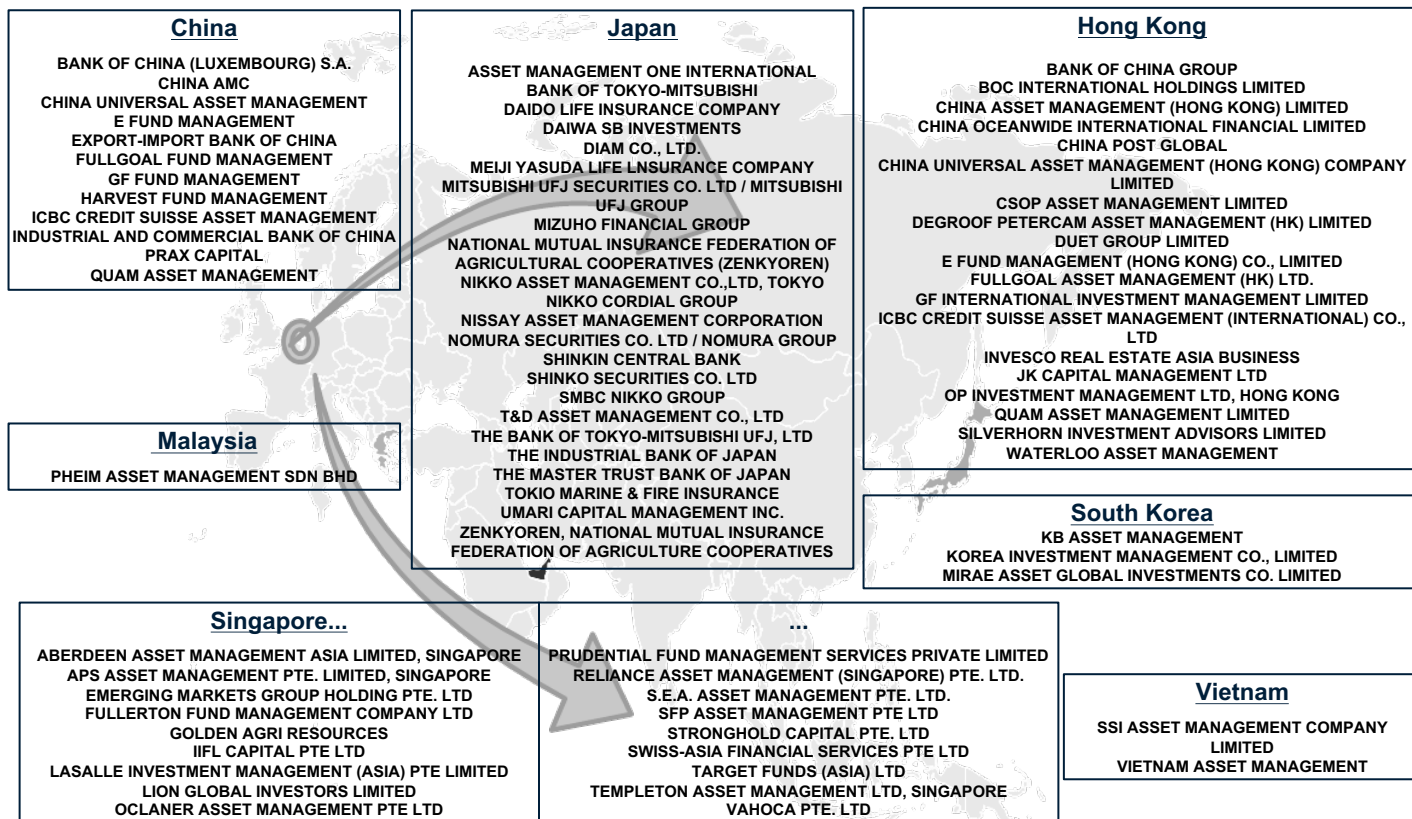
Chinese banks:

- Agricultural Bank of China (Luxembourg) S.A.
- Agricultural Bank of China, Luxembourg Branch
- Bank of China (Luxembourg) S.A
- Bank of China Limited Luxembourg Branch
- Bank of Communications (Luxembourg) S.A.
- Bank of Communications Co., Limited Luxembourg Branch
- China Construction Bank (Europe) S.A.
- China Construction Bank Corporation, Luxembourg Branch
- China Everbright Bank (Europe) S.A.
- China Everbright Bank Co. Ltd, Luxembourg Branch
- China Merchants Bank Co., Limited Luxembourg Branch
- Industrial and Commercial Bank of China (Europe) S.A. or ICBC (Europe) S.A.
- Industrial and Commercial Bank of China Ltd., Luxembourg Branch

Japanese Banks:

- Mitsubishi UFJ Investor Services and Banking (Luxembourg) S.A.
- Mizuho Trust & Banking (Luxembourg) S.A.
- Nomura Bank (Luxembourg) S.A.
- Rakuten Europe Bank S.A.
- SMBC Nikko Bank (Luxembourg) S.A.
- Sumitomo Mitsui Trust Bank (Luxembourg) S.A.

Asian initiators of Luxembourg funds



Sources: Monterey Insight, Luxembourg Fund report 2018 / Fundsquare / CSSF

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