

WEALTH MANAGEMENT

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LUXEMBOURG'S WEALTH MANAGEMENT ECOSYSTEM

01

LUXEMBOURG'S WEALTH MANAGEMENT ECOSYSTEM

INTRODUCTION

We are living through a time of rapid and comprehensive change. The Covid-19 crisis, the digital revolution, existential threats like climate change are transforming the way we live. Wealth management is not immune to these trends. Wealth management, with its emphasis on long-term and bespoke investment advice for wealthy private individuals, must understand and get to grips with the new circumstances as swiftly as possible.

The global financial crisis of 2008 was a game changer and ushered in a new paradigm for the wealth management industry. The crisis brought new regulatory standards in its wake. Sound regulation, good corporate governance and transparency were the main fruits of the global financial crisis. Twelve years on, the economic and financial effects of the crisis still linger, with interest rates remaining persistently close to zero or even negative in some regions.

At the time of writing, the Covid-19 pandemic is still with us, causing widespread concerns in the healthcare sector and presenting an enormous economic challenge for businesses and societies the world over. The extent of

the adjustments that the crisis will force upon us is not yet clear, but it will certainly leave its mark. Many industry participants anticipate a strategic realignment and the emergence of new service models.

Among the immediate key challenges for the wealth management industry are market volatility, heightened operational risk and increased reliance on digital channels. Many features of this “distance economy”, emphasising remote working, omni-channel customer service, and digital interaction, are likely to become permanent. Digitalisation permits the development of more customized advice and services. It also creates cost savings, which can in turn be ploughed into investments in productivity and process optimisation.

The economic consequences of these trends will be far reaching. That said, the (Ultra-) High Net-Worth Individual ((U)HNWI) segment will remain a key growth area. Client needs, stricter regulations and milestone developments in technology are reshaping future business models in this area.



118+ international banks from
25 countries



22.8% solvency ratio
(EU minimum is 8%)



€585 billion
Private Banking Assets under
Management (AuM)

expertise

Banks in Luxembourg have established several areas of **expertise**, including private and institutional wealth management, corporate banking, retail and commercial banking, as a full range of investment fund services



The **EU passport** allows banks in Luxembourg to offer their services throughout the **European Single Market**



With more than **€5.2 tn** in assets under management (as of September 2021), Luxembourg is the number **one** investment fund centre in Europe and **second** worldwide. It is the undisputed global leader in the cross-border distribution of funds



Luxembourg funds are distributed in over **80 countries** worldwide

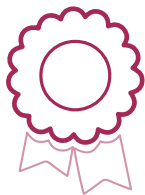


Luxembourg has played a crucial role in establishing **UCITS** as a truly European financial product and turned it into a **globally recognised brand**



Luxembourg offers bespoke structures for all the main alternative asset classes and investment strategies, including

hedge funds, funds of hedge funds, private equity and venture capital and real estate



Luxembourg is widely recognised as a **centre of excellence** for the distribution of insurance products in the EU



LuxSE is the pioneer in listing new products like **Green Bonds**, **Dim Sum Bonds** and **Sukuk**

282+

insurance and reinsurance companies hosted in Luxembourg

1,800+

LuxSE enjoys strong market recognition by more than **1,900 international issuers from over 100 countries** and its securities are listed in **70+ different currencies**, including supranational financial institutions.

58%

of insurance premium income is written for **cross-border life insurance** policies



From listing and trading to clearing and settlement, Luxembourg offers a **robust and reliable capital markets** environment



Home to Clearstream, **leading international** post-trade service provider, and four Central Securities Depositories



LUXEMBOURG STOCK EXCHANGE

The Luxembourg Stock Exchange (LuxSE) is a global specialist in the listing of international securities

"It is true, there are many challenges for the Private Banking sector. There are, however, just as many opportunities. Private banks have to continue to develop new products, particularly in the field of sustainable finance, and the digitalisation of services will continue to accelerate. With our AAA rating, our exemplary compliance with regulations and our highly qualified international workforce, the future of private banking remains bright."

Yves Maas,
CEO ABBL

LUXEMBOURG, THE EU'S WEALTH MANAGEMENT HUB

In the 1980s, Luxembourg-based banks began offering wealth management services to private clients. Over time this developed into a complete wealth management ecosystem, bringing together investment advice, asset management, wealth planning, real estate management, succession planning and philanthropy.

Luxembourg today acts as a centre of excellence for multi-jurisdictional wealth management. Many banking groups have set up their intra-group competence centres in Luxembourg in order to cater to the needs of such clients. This particular role in the value chain of international wealth management has been significantly reinforced by the decision of major financial institutions, including JP Morgan and Bank of Singapore, to set up their post-Brexit EU wealth management operations in Luxembourg.

The transition to a tax-transparent cross-border wealth management centre in the aftermath of the financial crisis had already strengthened Luxembourg's position as an onshore EU hub for private banks, wealth managers and their clients. The country's private banking sector has continued to diversify into (ultra-)high-net-worth client segments, with assets

under management reaching €585 bn at the end of 2022.

The reputation of a reliable and stable financial centre is grounded in Luxembourg's political stability and strong economic performance. With growth rates above the EU average and low public debt, Luxembourg is consistently rated AAA by the three major credit-rating agencies. This is an important factor because individuals and families pay, not only close attention to the political, legal and financial environment of their country of residence, but also to that of the one where their estate is managed.

Over the last decade, a shift toward a 360-degree servicing model for international clients has emerged. Such demanding and discerning customers often have highly complex requirements and need to spread their wealth across several jurisdictions to diversify risks. The ability to meet the needs of clients with business ventures and property in several countries, children studying abroad, as well as diverse leisure, cultural, and philanthropic interests, is what makes the Luxembourg wealth management industry unique.

There is a meeting of minds when such individuals choose to manage their wealth out of Luxembourg. Living and working across borders is very common in the Grand Duchy. Four-fifths of financial sector employees are foreign nationals, coming from across the globe. Luxembourg's wealth managers are drawn from a cosmopolitan workforce and have an intimate understanding

of the languages and cultures of their international clients and partners.

Cross-border wealth management is not just about specialist financial advice but also requires knowledge and understanding of the different regulations that apply, depending on the domicile of the client.

"J.P. Morgan recently established its Wealth Management business headquarters in the Grand Duchy. This has allowed us to seamlessly support clients in multiple EU markets with goals-based, bespoke private banking advice and counsel."

David Ashworth,

Head of Wealth Management, J.P. Morgan Private Bank

It takes a special expertise to understand the legal, fiscal and financial implications of living international lives and managing investments across borders. Each country has its own rules and ways of doing things. Luxembourg's international focus, its multilingual workforce, with its deep understanding of cultural differences in target markets, as well as the country's central location in the EU, mean that its wealth managers can provide customised services for customers from anywhere in the world.

Luxembourg is unique in its ability to satisfy all these requirements, enabling assets and interests to be managed seamlessly and in full compliance with applicable regulations. The industry provides additional services around its core wealth management offer, drawing on specialist advice as and when needed from resident experts.

An entire ecosystem of financial service providers has developed in Luxembourg over the years, providing bespoke legal, tax and consultancy services. Ease of access to legal professionals, structuring specialists, consultants, management companies

and other experts is one of Luxembourg's unique advantages. These professionals work together to offer European and global clients a one-stop shop where even the most complex needs can be satisfied. The experience gained from running Luxembourg's world-leading investment fund industry enables private banks to develop cross-border transaction hubs in the Duchy, serving group entities located elsewhere. Instead of establishing a team in each jurisdiction, a bank may draw on the expertise of its Luxembourg staff to adapt its products to the requirements of each different market.

Luxembourg has won recognition for its regulatory expertise and the ability of its wealth management ecosystem to provide international entrepreneurs and their families with tailor-made cross-border solutions. The continuous training which its wealth management professionals undergo has been a key factor in the development of Luxembourg's wealth management industry. This high level of expertise ensures clients have total peace of mind when it comes to the management of their wealth in line with national and international standards.

PRIVATE BANKING

Luxembourg private banking entities are often designated as EU centres of excellence for wealth management within their own corporate group. The specialised skills that Luxembourg has developed over the years make it a prime location for such intragroup competence centres. The financial ecosystem that Luxembourg has built up over the years, attracts players from outside and inside the EU. The largest group of foreign institutions come from inside the EU - French and German banks for instance have adopted this model. Non-EU banks from Switzerland, the US and Canada use Luxembourg as a gateway to the EU market for wealth

management, capital market, treasury and other financial services.

Following Brexit, Luxembourg has consolidated its position as an attractive financial hub, with many banks opening subsidiaries and branches in the Duchy. In addition to its attractions as an established cross-border financial ecosystem, its reputation for economic and political stability, transparency, as well as the multi-disciplinary talents of its workforce have been among the key reasons many private banks have decided to move to Luxembourg. Several leading universal banks have also opened private banking subsidiaries in the Grand Duchy.

"We have deliberately made a decision to be with our Private Bank in Luxembourg. We see the country developing as a European, even as a global wealth management hub. Our own platform is a reflection of the European and global footprint of our clients and will continue to grow that way. Luxembourg is a strong supporter of the FinTech scene. Citi, across the Commercial Bank as well as the Private Bank, has a specific focus on servicing the technology ecosystem and it is an important source of widening our relationships. Luxembourg and the Private Bank are also aligned when it comes to sustainable and impact investing. We share Luxembourg's strong ambitions in this field as it is close to the heart of our clients."

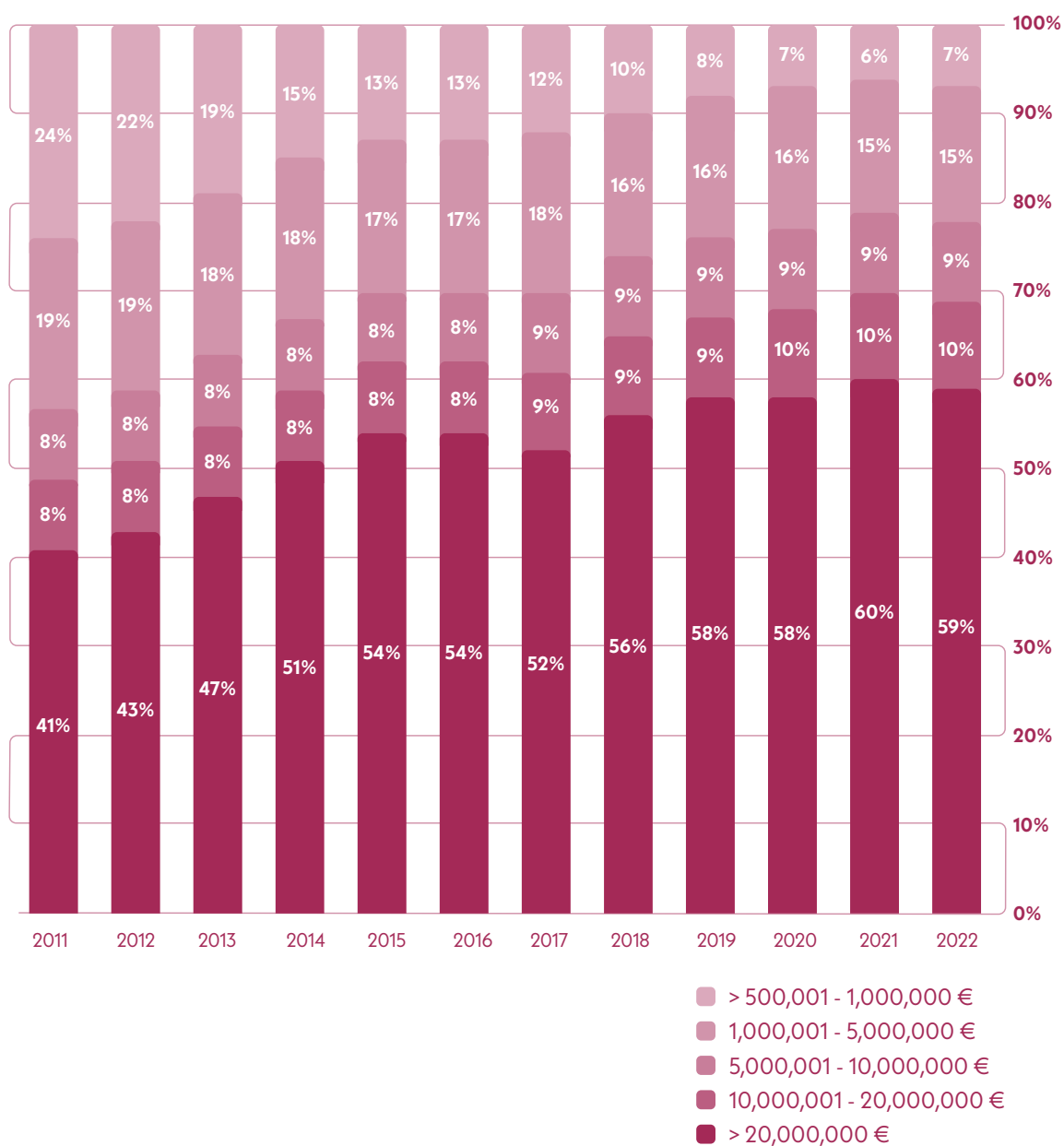
Gregor Bollen,

Managing Director and Regional Head of Northern Europe, Citi Private Bank

RISING ASSETS UNDER MANAGEMENT

Private banking assets in Luxembourg totalled €585 bn at the end of 2022, 160 percent higher than the amount recorded just before the onset of the financial crisis in 2008 (€225 bn). After over twelve years of continuous growth in private banking assets Luxembourg's wealth management professionals have clearly proven their expertise in wealth management.

Evolution of the distribution of client wealth bands (2011-2022)

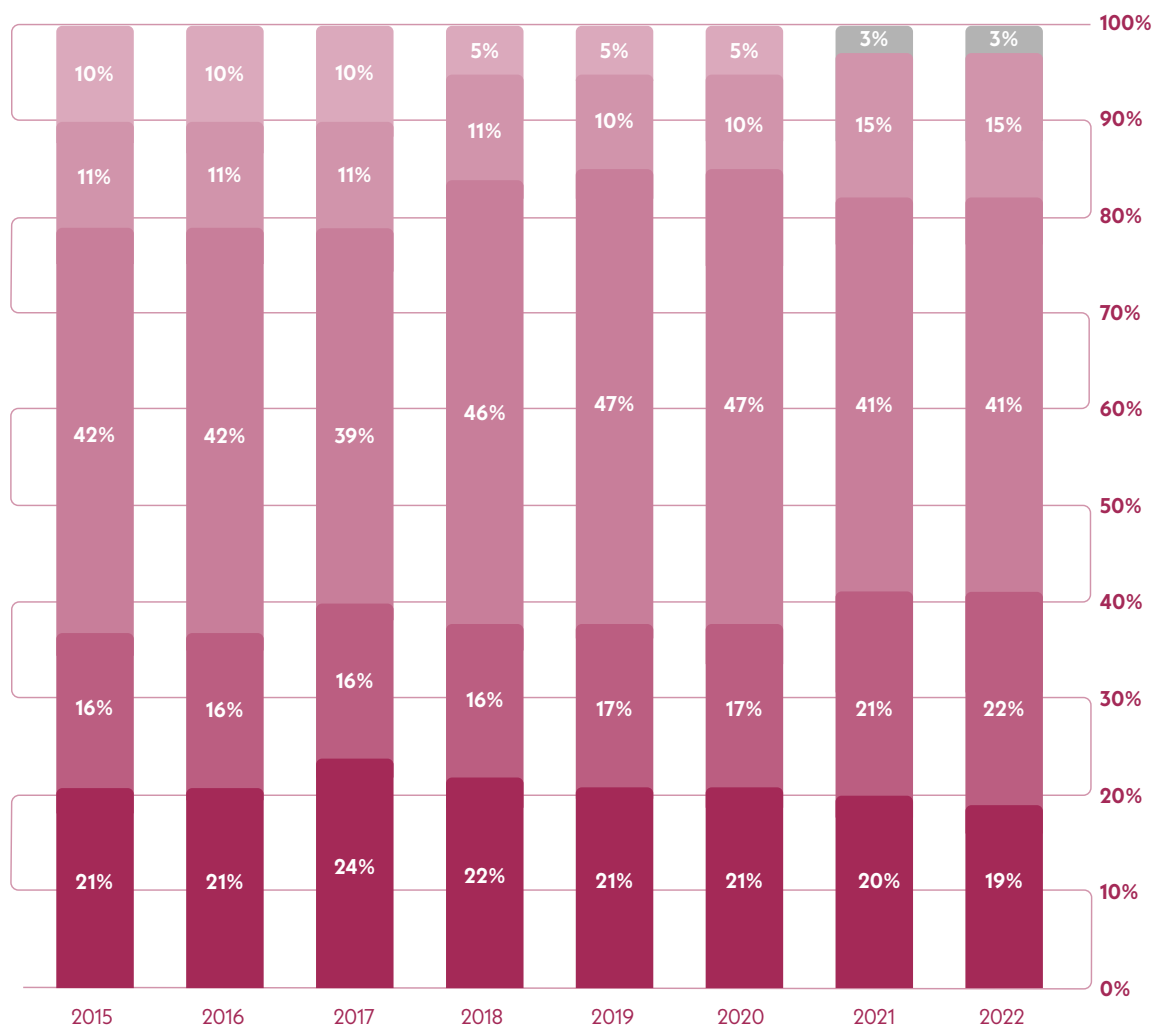


Source: KPMG-ABBL Private Banking report

Since the implementation of MiFID II private banks have increasingly focused on their wealthier clients. In 2022, clients with assets of more than €20 million represented 59% of total AuM, further proof of Luxembourg's attractions for an international, mobile, sophisticated and demanding clientele.

Such clients benefit from Luxembourg's a triple-A credit rating and its comprehensive "toolbox" of instruments, providing precise solutions crafted for each unique cross-border financial and estate management need.

Geographic origins of client assets (2015-2022)



*Multi-jurisdictional assets: these are accounts of customers residing in multiple jurisdictions, or customers grouped under life insurance contracts (the accounts are opened in the name of the insurance company).

- Multi-jurisdictional Assets
- Rest of the World
- Rest of Europe
- FR, BE, GER
- Luxembourg
- Latin America

Source: CSSF / ABBL Private Banking Group Survey 2021 – figures as of end 2023

FAMILY OFFICE SERVICES: INDEPENDENT SOLUTIONS FOR CROSS-BORDER WEALTH

Entrepreneurs or families dealing with complex financial circumstances often have a greater need for support services. In this situation, a family office can assume the day-to-day administration and comprehensive management of a family's assets. Whether wealthy individuals have their personal wealth management

and business banking handled under one roof, or whether they decide to keep their personal and business banking apart, Luxembourg's ecosystem offers a large pool of professionals with the skills and ability to craft holistic and multidisciplinary solutions for such clients.



A “family office” can take several different forms, depending on the needs and wealth of the family in question.

Independent Financial Advisors

Independence is the main advantage of the family office. This autonomy allows clients to freely choose the specialists best able to serve their family interests. The performance of each service provider can be continuously monitored and assessed.

Family offices build and maintain relationships with a variety of service providers, such as asset managers, tax lawyers, insurance firms, domiciliation agents, auditors, real estate agents, fiduciary companies, private equity firms, high-end real estate agents, custodian banks, and more. Some family offices go beyond an advisory and supervisory role, handling services such as risk management and investment advice.

Multi-Family Offices

While independent financial advisors offer investment management, wealth and estate planning, multi-family offices provide a holistic overview and customized outsourced solutions, blending lifestyle and financial needs into a single package. Next to financial wealth management, the multi-family office offers additional services often going beyond financial considerations, such as taking care of household expenses and

employees, overseeing rental properties, handling artworks or other assets, or conducting employment services for household staff.

Family offices tend to work with a maximum of four or five families, but it can be fewer depending on the level of services required. Families with wealth in excess of €200 million generally opt to establish their own offices.

A UNIQUE REGULATED ENVIRONMENT FOR MULTI-FAMILY OFFICES

Luxembourg passed a law in 2012 to regulate multi-family offices, helping to position the Grand Duchy as one of the few countries in the world with comprehensive rules to ensure a high level of service and investor protection.

- › Only certain professionals and institutions can become regulated multi-family offices. These include banks, investment advisers or managers, domiciliation agents, lawyers or notaries, auditors or chartered accountants, as well as other qualified and regulated financial sector professionals.
- › Remuneration transparency: Family offices must inform clients if they receive commission from service providers. Therefore, many offices provide services on a client-fee basis only.
- › Transactions must comply with national and international rules against money laundering and terrorism financing.
- › Consumer protection is enhanced by the fact that the regulator must confirm that the family office is able to provide a quality service and to keep client data confidential.

“Luxembourg is one of the few countries to offer institutional solutions to ultra-high net worth families. The unique range of legal solutions and of regulated and unregulated vehicles facilitates the organisation of their assets.

More and more international families create their investment vehicle in Luxembourg to administer their interests in Europe or internationally.”

Serge Krancenblum,

President of the Luxembourg Association for Family Offices (LAFO)

Single-Family Offices

A single-family office is an organisation dedicated to the management of the affairs of one family, providing a high-end and tailored service to meet their needs. Luxembourg hosts a large number of single-family offices dedicated to serving the wealthiest families. As these family offices do not market their services to third parties, they do not require further regulation beyond that required of all financial firms.

According to estimates there are about 90 single-family offices operating in Luxembourg.

Popular single-family office investment tools:

- › Special Limited Partnership for succession planning
- › Life insurance policies
- › Private Wealth Management Company

A FULL RANGE OF WEALTH MANAGEMENT SOLUTIONS

02

A FULL RANGE OF WEALTH MANAGEMENT SOLUTIONS

A ONE-STOP SHOP FOR WEALTH MANAGEMENT

Luxembourg's wealth management industry has developed and matured alongside a diversified ecosystem of financial sector experts and service providers.

Wealth managers use their know-how to design personalised strategies to fit each client's particular needs. They work with specialists in the banking sector, asset management and fund administration, life insurance and capital markets, providing value propositions to international institutional and private clients.

Succession planning

Among the primary concerns for many families and entrepreneurs are inheritance and succession planning for their personal wealth or the hand-over of businesses. These can be complex and emotional topics. In most cases, personal fortunes are accumulated in

several countries and shaped by a large number of individual decisions taken at various stages of life. Clients want reassurance that their succession will be managed efficiently. A well-structured and professionally managed international succession process adds value to family wealth by helping its preservation.

Real estate

Real estate and property investments in multiple European countries (residences, holiday homes, or buy-to-let investments) are often an important component of a client's portfolio. Experts in Luxembourg are not only familiar with regulations and tax considerations in multiple jurisdictions, they also offer tailor-made financing solutions, cross-border loans, as well as assistance and management of specific insurance policies.

"Historically, the families that we have managed were owners of significant industries who needed a place for the organisation of their private wealth. As the tendency of these ultra high-net-worth clients to have relatively complex and international needs was reinforced, we have had to adapt our activities to their expectations."

Olivier Lecler,

Head of Private Banking, Société Générale Luxembourg

The value of high-quality service

While clients are better able than ever before to understand and manage their own investments, it requires a skilled adviser to understand the changing needs of a family and to manage its assets and interests accordingly. In a context where greater focus is placed

on the quality of advice, Luxembourg's multinational, highly skilled workforce is uniquely placed to meet the most specific requirements. Embracing and adapting to change presents a good opportunity for wealth managers to reinvigorate and add an extra element of trust to long-term relationships.

LUXEMBOURG'S INVESTMENT VEHICLE TOOLBOX

A diversified toolbox

































Wealth management professionals rely on a comprehensive "toolbox" of well-designed legal instruments. Precise solutions can be crafted for each family's unique cross-border financial and estate management needs. Depending on the individual's requirements, options include flexible, non-regulated solutions, specialised investment funds or risk capital investment companies. A range of contractual tools, such as fiduciary agreements and insurance products is also available.

Many of these have been successfully used for many years, while others such as the Common Limited Partnership (LP) or Special Limited Partnership (SLP) and the Reserved Alternative Investment Fund (RAIF) have been introduced more recently. This level of innovation in the field of wealth management attests to Luxembourg's capacity for continuous adaptation to international developments and client needs. Luxembourg has to date signed double tax treaties with more than 80 countries and 11 more are under negotiation.

"Key differentiators for Luxembourg are its toolbox, the proven delegation and oversight model for sourcing best of breed institutional asset managers globally both for liquid and illiquid assets as well as its best in class regulatory environment. These features enable wealthy families to design tailored solutions which can match their most sophisticated asset management and transmission needs whilst ensuring strong governance and investor protection."

Serge Weyland,
CEO at Edmond de Rothschild Asset Management (Luxembourg)

LUXEMBOURG'S
INVESTMENT VEHICLE
TOOLBOX

	Asset management vehicles							Multi-purpose vehicles				
Vehicle	UCITS (Undertaking for Collective Investments in Transferable Securities)	UCI Part II (non-EU UCITS)	SIF (Specialized Investment Fund)	SICAR (Société d'Investissement en Capital à Risque)	RAIF (Reserved Alternative Investment Fund)	SCS & SCSp (Limited Partnership including special)	IORP (Pension fund vehicle)	SOPARFI Financial Holding Company	Securitisation vehicle & fund	Fiduciary contracts	Family Wealth Management Company (SPF)	Life insurance contracts
Investible assets	Restricted to transferable securities	Unrestricted assets	Unrestricted assets	Investment in risk capital	Unrestricted assets	Unrestricted assets	Investible assets defined by IORP Directive	Holding a portfolio of investment assets	Securitised assets	Unrestricted	Unrestricted	Holding a portfolio of investment assets
Level of regulation	✓✓✓	✓✓	✓	✓			✓		*			✓
Target investor & clients	All investors	All investors	Professional investors	Professional investors	Professional investors	Professional investors	Employees	Natural and legal persons	Natural and legal persons	Natural and legal persons	HNWI	HNWI
Cross-border passporting	EU Passport	National rules	EU Passport (if AIFM)	EU Passport (if AIFM)	EU Passport (if AIFM)	EU Passport (if AIFM)	EU passport via employer scheme					EU Freedom to Provide Services
	 	 	 	 	  	  		 	 			 
	 Fund industry	 Alternative funds	 Private equity	 Wealth management	 Multi-purpose	 Multinationals	 Financial holdings	 Capital markets	 Insurance industry	* Regulated if shares are issued to the public on a regular basis.		

LUXEMBOURG LIFE INSURANCE

Luxembourg-based life insurance policies are a key part of many wealth management strategies and an effective tool for wealth planning. Life insurance contracts can be tailored to individual preferences and adapted to specific geographic locations. Policies can be purchased through banking groups, from major international insurance companies, or from specialised boutiques.

Subscribers have access to a range of tailor-made solutions. It is the only investment formula allowing a choice of a beneficiary or several beneficiaries in case of death, the capital transfer taking place outside the usual succession process.

When drawing up the beneficiary clause, the subscriber can:

- favour an heir or a third party
- designate multiple and/or successive beneficiaries
- designate children yet to be born
- designate living or represented beneficiaries
- set different amounts for different beneficiaries

(all subject to compliance with the legislation of the subscriber's country of residence)

With guaranteed-return life insurance, the issuer pre-defines the annual return on an investment. In a low interest rate environment, this strategy is useful for clients focused on wealth preservation.

Unit-linked policies enable wealth managers to integrate highly personalised investment strategies into life insurance. Investment funds can be used so that clients can pursue strong growth or adopt a sophisticated, defensive strategy. Exposure to any mixture of asset class is possible, including money market instruments, bonds, equities, real estate, private equity or derivatives. Even personal business interests, property and assets can be incorporated into a fund and linked to a life insurance policy.

Luxembourg has world-class expertise in cross-border funds catering to every strategy, from standard mass-market products to funds reserved for sophisticated clients. Whether the client wants a simple index tracker fund, or private equity investments in emerging markets mixed with hedging instruments, Luxembourg life insurers have the expertise to develop the right solution.

“The success of Luxembourg life insurance in Europe is essentially based on the possibilities that it offers for tailor-made financial management and the legal security that is provided by the country. The Luxembourg life insurance policy offers substantial advantages when planning clients’ personal estate. From managing the succession and wealth planning needs of an internationally mobile family, to navigating the complexities of cross-border regulation, Luxembourg insurers offer tailored, sophisticated solutions to meet clients’ individual needs in accordance with the highest standards of compliance. Luxembourg’s protection regime for insurance policyholders, which is popularly known as the Triangle of Security, provides one of the strongest policy protection regimes in the world and is one of the major assets of a Luxembourg life insurance policy. The mastery of these different parameters is a specificity of Luxembourg insurers, who have been gradually building up their unique expertise in Europe since 1992.”

Marc Hengen,

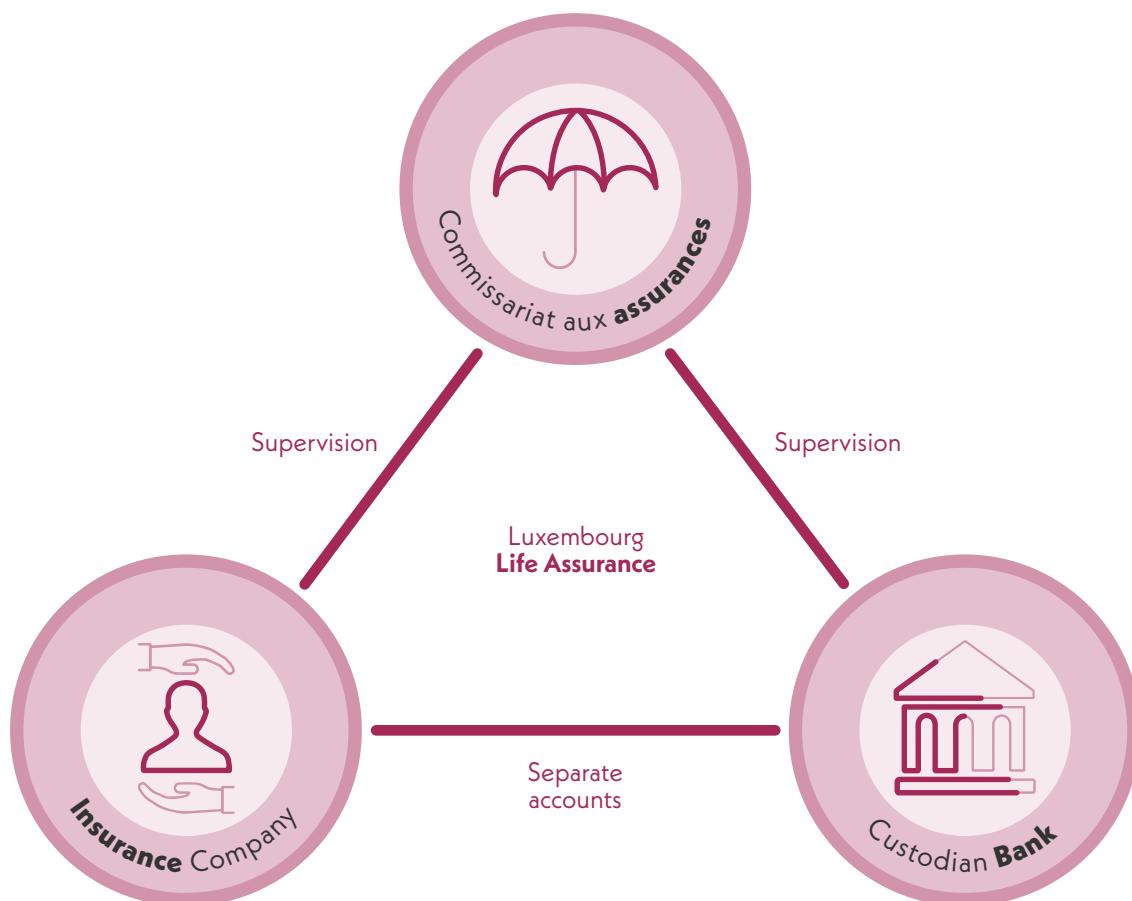
Managing Director, Chairman of the Executive Committee
at the Luxembourg Insurance and Reinsurance Association (ACA)

Policies can be sold cross-border throughout the EU and the European Economic Area. Insurers working from Luxembourg have extensive experience advising clients on cross-border arrangements in Europe and beyond. Policies can be established in most currencies. The geographic portability of the life insurance contract is particularly relevant to international entrepreneurs, executives, as well as for retired people dividing their time between several countries.

Life insurance related taxes have to be paid in the client’s country of residence. Luxembourg is fiscally neutral, with no tax on premiums and capital gains. For unit-linked policies, interest, dividends and capital gains are reinvested gross of tax.

Luxembourg's long-standing political, economic and social stability makes it one of the safest places in the world in which to base assets. The insurance profession is governed by strict, EU-based regulations, to ensure that investments are safe. With a separate, dedicated regulator, the "Commissariat aux Assurances" ("CAA"), companies benefit from a sound legal and regulatory framework. Insurance companies must have sufficient own funds to cover full liabilities contracted on behalf of insured parties. Underlying assets must

be deposited with a regulator-approved custodian bank, and these must be clearly segregated from other assets and held in separate accounts. This mechanism is known as the "Triangle of Security". Clients' assets are legally separated from those of shareholders and creditors and the regulator monitor this on a quarterly basis. The 'Super Privilege' guarantee ensures that holders of insurance contracts have a preferential claim over all other creditors concerned in case of default by the insurance company.



EVOLUTION IN WEALTH MANAGEMENT

03



EVOLUTION IN WEALTH MANAGEMENT

REGULATORY ENVIRONMENT

The global financial crisis has led to increased regulatory compliance and risk management requirements. Luxembourg has embraced this development and maintains the highest international regulatory standards.

Luxembourg is a founding member of the EU and implements all EU rules on financial services. In addition, the Grand Duchy is an active member of all international standard-setting bodies, including FATF, the OECD, IOSCO and the Basel Committee and adheres to all global regulations and standards. This is

the framework within which the country has developed a palette of onshore, tax-compliant services, tailor-made for an international clientele.

Luxembourg fosters a strong culture of investor protection. Financial institutions are closely and strictly supervised by Luxembourg's two supervisory bodies, the Financial Sector Supervisory Commission (CSSF) and the Insurance Commission (CAA), so assuring financial stability.

“The evolution of the wealth management sector has created a complex environment littered with acronyms and shaped by both national reforms at European level and international guidelines. It is essential that financial institutions receive expert advice and legal certainty as they seek to develop commercially viable solutions in a changing landscape.”

Eliane Dejardin Botelho,
Capital Markets and Banking Counsel Linklaters LLP

Like any other global banking centre, the Luxembourg financial centre has undergone profound structural changes, driven by supranational regulation. Private banks have embarked on a journey to implement these new standards, creating a need for significant adjustments to bank business models and even more so in cross-border wealth management.

A value proposition based on transparency

The EU's second Markets in Financial Instruments Directive, MiFID II, which was implemented in 2018, aims at further increasing investor protection. The legislation transformed the way wealth

and asset management products are distributed and how private banks service their clients. The new rules have made a significant contribution to transparency in the wealth management sector.

MiFID II focused on fees and price disclosure, extending transparency requirements into this key area. Prior to MiFID II, wealth management advice often appeared free of charge as fees were just added to product costs. This model has now disappeared and the industry is required to explain the change in the remuneration structure and demonstrate that it provides all the value of a personalised and expert service.

Worldwide, many wealth managers and private banks have optimised their operating models, aligning their operations and costs with the new market and regulatory realities. The benefits brought about by MiFID II clearly outweigh any specific administrative challenges. Luxembourg is particularly well positioned to adapt to these changes and to offer clients a substantial value proposition.

In 2014, anticipating the global push towards transparency on tax matters, Luxembourg and the United

States signed the intergovernmental agreement 'FATCA' (Foreign Account Tax Compliance Act). Since 2015, the Luxembourg Government has also been firmly committed to the adoption of the OECD's rules on the automatic exchange of information (AEOI) as a new global standard, along with all other member states of that organisation. Among many other important measures, the Luxembourg parliament's 5th anti-money laundering directive and the Directive on Administrative Cooperation (DAC6) have increased transparency in the wealth management sector.

INVESTING IN EXPERTISE

Expertise in navigating the regulatory framework governing financial services is a particular strength of Luxembourg, and local private banks are continuing to invest in vocational training (in particular in the field of MiFID II and AML). Recruiting and training competent financial professionals is essential to meeting the changing needs of international clients. Both changing client profiles and preferences, as well as the evolution in the required skills and expertise of bankers, are key aspects of the development of private banking in Luxembourg.

The Department of Finance of the Faculty of Law, Economics and Finance (FDEF) at the University of Luxembourg offers a Master in Wealth Management, which has attracted more and more interest since its set-up in 2013. It combines traditional finance subjects, such as accounting, asset pricing and financial analysis, with personal, legal and tax-centric subjects such as interpersonal skills, cross-cultural communications, personal portfolio management, estate planning, ethics, international tax planning and communication courses. From 2019, the Master in Wealth Management also includes large segments on sustainable and green finance, socially responsible and impact investment, with more modules being added all the time.

"The Master in Wealth Management of the Luxembourg School of Finance is visionary, innovative and was developed in close collaboration with experts in our industry to meet the needs of a rapidly growing sector in Luxembourg and worldwide", says Pierre Etienne, Managing Director of Pictet Luxembourg and current Chairman of the Private Banking Group in Luxembourg (PBGL).

Luxembourg has also set up the 'House of Training', a key institution in the push for continuous education and professional certifications. It offers dedicated courses and certification programmes in financial services, including private banking.

Wealth managers will be required by law to comply with strict anti-money laundering and anti-terrorism standards, which expand the range of persons to whom the rules should apply.

This new law will further strengthen the commitment of the Luxembourg wealth management sector to transparency in several ways:

- › enhanced customer due diligence measures (in particular, in the context of financial transactions involving high-risk third countries)
- › increased reporting obligations from intermediaries (for example wealth managers, consultants and law firms).
- › increased transparency measures, such as access to beneficial owner registers

DIGITALISATION AND AMAZONISATION OF WEALTH MANAGEMENT

Digitalisation is transforming the very nature of wealth management activities. This trend is particularly clear in platformization of service provision. While processes are being automated, professionals in the private banking sector will always care about understanding clients' long-term objectives, passions, fears, and dreams. Personal relationships and trust are at the heart of wealth management and the targeted use of information and communication technology is an increasingly important and helpful tool. Digital innovation will take current capabilities to new levels. Luxembourg wealth managers, researchers and the government are working together on specific applications. Technology is constantly evolving, with developers testing the potential of big data, artificial intelligence, and blockchain to boost communication, service quality and efficiency.

The demand and need for digital solutions can vary depending on the client. Wealth managers use the opportunities presented by technology, but only when they are appropriate, efficient and secure. Mobile applications are now replacing desk-based internet as a faster and more efficient way for clients to keep track of their portfolios.

Technology enables clients to take decisions and make transactions on the move. Whereas most clients put faith in the long-term investment strategies they have established with their advisers, for some, greater access to information requires a greater need for real-time advice or reassurance. Specially designed and secure video conferencing technology is becoming central to maintaining relationships, supplementing traditional face-to-face and telephone connections.

Investing in Digital

In Luxembourg and across Europe, private banks are expected to continue to invest significantly in digitalisation over the coming years. The biggest efforts will be concentrated in digitising end-to-end processes (e.g. client onboarding or mortgage applications), building online advice capabilities (e.g. portfolio health checks with recommended actions or simulation tools) and improving front office interaction, such as remote advice.

Private banks are in a process of adapting their business models to suit a new generation of clients, while improving their service provision to existing customers. Millennials are set to become the dominant demographic group in the consumer population, driving Amazonisation in financial services. The search for these new customers will spur the drive to online platforms, where financial services providers can offer their products. Tech-savvy and younger clients are less loyal to any particular institution than traditional private banking clients and more willing to switch their private bank if they find a better alternative.

KYC / digital onboarding project:

Know-Your-Customer (KYC) is a very important, if not the most important, consideration when starting a relationship in wealth management. This mandatory obligation has an important impact on banks' expenses - a cost which could be reduced via digital onboarding solutions - digitizing and automating onboarding for new clients could get advisers to spend more time with clients on value-added activities.

Example of KYC using applied blockchain technology

ABBL / SNT joint research project on the distributed ledger prototype and data analytics for KYC This blockchain-based database project, conducted in collaboration with the Luxembourg Bankers' Association (ABBL), has met with real enthusiasm in Luxembourg, where many people have international backgrounds and complex banking needs.

Ecosystem approach to FinTech

To better win and serve these new clients, the wealth management industry is embracing FinTechs and the complementary support they offer. FinTechs offer a means to streamline infrastructure and boost efficiency. They can also transform the service and product offering. This collaboration between

wealth management and FinTech involves the use of different building blocks - robo-advisors, a holistic advisory approach, digital research, and wealth platforms. The importance of these new players and technologies, together with its robust and reliable regulatory environment make Luxembourg a welcoming and forward-leaning EU wealth management hub.

Wealth Management is set to welcome a new generation of clients. They have new attitudes and expectations of the wealth management business and they think differently about advisory services. Wealth management is a people business and is founded on personal trust. Nevertheless, technology, used wisely, can strengthen these relationships and improve customer experience. Luxembourg is committed to leading the drive towards digital financial services. To explore new possibilities, the industry is working closely with public authorities, the research community and new FinTech players. The driver of this transformation is a massive intergenerational wealth transfer, from older generations, such as the baby boomers or Gen X, to their younger and much more tech-savvy successors. This change in client needs is already a reality. Robo-advisory services offer a new opportunity for wealth managers to better target these new clients. Backed by

automation and assisted by research and insight tools, the wealth manager of the future will be able to add more value by delivering a more personalised service to clients.

Some clients appreciate the use of digital tools that help experienced advisers explore every angle as they seek the right options for their client. Artificial intelligence-based portfolio modelling, for instance, allows different and complex parameters to be taken into account, such as national fiscal and regulatory regimes. In this way a client can explore different investment strategies with their advisers, and question preconceived ideas. In Luxembourg, established banks, as well as start-ups, offer such services domestically and Europe-wide, leveraging European passporting, together with Luxembourg's strong investment fund and advisory sales experience.

“Ultimately participating banks will be able to accept more clients and transactions than they currently can, because our solution improves the efficiency and accuracy of KYC compliance, keeping costs down and enabling new, more attractive banking products.”

Robert Norvill,

Research Associate, SEDAN groupSnT Interdisciplinary Centre for Security, Reliability and Trust UNIVERSITÉ DU LUXEMBOURG

INVESTMENT TRENDS

04

INVESTMENT TRENDS

Faced with the persistently low interest rate environment in Europe, complex regulatory changes and the digital revolution, wealth managers are tending to diversify their clients' portfolios and are generating new investment trends.

THE RISE OF PRIVATE EQUITY

Assets invested outside of banks – art, residential and commercial real estate, or private equity – represent a separate but important fraction of total (U)HNW client assets. According to industry estimates, investors hold average return expectations for these investments of 10 to 20 percent, making this a significant opportunity for private banks to integrate these types of investments into their investment advisory offer.

According to the McKinsey European Private Banking Survey (2018) of entrepreneurs and families, risk-bearing investments are taking an increasing share of entrepreneurs' and wealthy families' portfolios. This is being driven by the higher return momentum on such investments, as well as by clients actively shifting money into these alternative assets. From 2013 to 2017, this shift to risk resulted in a rebalancing away from fixed income (from 26 to 20% of total AuM) and into equities (rising from 26 to 30%). Holdings of alternative assets

also increased their share, growing by nine percent annually during this period. Private equity also grew at a rapid pace of 12 percent annually, and is the rising star of the alternative asset universe. Globally, PwC expects private equity holdings to reach US\$21.1 trillion by 2025.

Luxembourg is well known for being an international hub for Private Equity (PE) deals and attracts an increasing number of PE houses. 19 out of the top 20 Private Equity firms and General Partners worldwide have operations in Luxembourg. This market is expected to grow at least 10 percent annually in the coming years.

As a result of Brexit, many major UK Private Equity firms are relocating to Luxembourg to ensure continuity of their business models. With its wide range of fund solutions, Luxembourg offers some unique and favourable options for supervision, tax and legal regimes.

“At LPEA level we are endorsing this growing trend and appetite for the PE/VC asset classes and the emergence of new investor types interested by strong returns, a long-term perspective and some value creation. Our goal is to demystify further the asset class, raise the awareness about the importance of patient capital regarding the portfolio construction and investment diversification, increase the accessibility and facilitate the increasing role of Luxembourg not only as leading place of structuring but also progressively of investment management.”

Stéphane Pesch,

CEO at Luxembourg Private Equity & Venture Capital Association (LPEA)

SUSTAINABLE FINANCE

The rise of environmental, governance and social awareness is leading to an increased demand for sustainable finance products and is a major consideration when wealth managers review their clients' investments. Sustainable investing has been an area of increasing interest to wealth management clients in recent years. The rise of the millennial generation has been a major factor in this. Surveys consistently show that millennial investors regard investment strategy as a way of furthering their philanthropic, social and environmental views.

Sustainable Finance and impact investing

With the EU actively backing the transition to a low-carbon and more sustainable future, sustainable finance is gaining significant momentum. Luxembourg has been a pioneer in this new field, thanks to an approach based on close cooperation between the public, private and civil society sectors. The Luxembourg financial centre has built up an ecosystem for the support and promotion of responsible investment.

Luxembourg is the primary centre for listing sustainable bonds (green, social, sustainability), the leading European domicile for impact funds, and has been a pioneer in the area of sustainable finance labels for over a decade.

In discussions with their financial advisers, HNWI and family offices increasingly and almost automatically bring up sustainability as a topic. Wealth managers and financial advisers are well equipped to help these investors find exactly the right investment to produce the impact they desire.

Luxembourg has a strong track record in socially responsible and impact investing. 50% of AuM in global microfinance funds are domiciled in the Grand Duchy, thanks to an experienced regulatory authority and 20 years of raising private capital for microfinance projects. In the coming years, Luxembourg will further push the boundaries in the field of European impact investment.

PHILANTHROPY

Wealth management can be an invaluable tool to help others. Luxembourg provides solutions to maximise the impact of giving.

As global citizens, the current generation of wealthy individuals is increasingly aware of the potentially existential problems the world faces. Luxembourg's knowhow and worldwide connections help philanthropists make a positive difference.

Philanthropy fulfils needs neglected by markets and the public sector. It supports innovation by developing, demonstrating and sharing new ideas, to instil values and educate the next generation in the need to be responsible global citizens.

Over the last decade, philanthropy has become integral to wealth management. It is a highly symbolic and significant activity for many clients and the Grand Duchy is leading this trend.

Luxembourg's experts help at each stage of a philanthropic endeavour in order to understand the donor's aspirations and work out the legal, fiscal and estate planning implications. Once the right solution for the client has been found, experts will coordinate with any third parties involved and oversee the implementation of the project. Ongoing follow-up will help ensure that the project meets its impact and efficiency goals.

"Today's philanthropists are called upon to address ever more complex global issues. The Fondation de Luxembourg combines international expertise with an emphasis on innovation and sustainability in order to guide donors looking to find long-lasting solutions to current issues. Through a personalized, hands-on approach, the Fondation de Luxembourg enables international philanthropists to make a positive difference through new approaches to giving."

Tonika Hirdman,

Director General Fondation de Luxembourg

The Fondation de Luxembourg ("The Foundation"), established in 2008, is the Grand Duchy's specialist service provider for philanthropic projects. It is an umbrella organisation for the creation, management and supervision of charitable foundations through which long-term commitments can be managed. The Foundation acts as an expert adviser, offering a simple, secure and rapid

solution to individuals and corporate donors. It is a fully independent, not-for-profit initiative, and benefits from government support.

Over the last 12 years, the Foundation has established 100 foundations, representing over €330 million in donations and bequests.

WHEN ART BECOMES AN ASSET CLASS

Portfolio diversification is key when taking a holistic view on an (U) HNWI's financial situation. Over the last decades we have witnessed the rise of a different and new asset class: art - a niche investment class among wealth management services.

Several factors have generated stronger interest in art as an asset class in recent years. These have included: volatility in stock markets; historically low interest rates; political and economic uncertainty; increased regulation around the art market (the EU's fifth Anti-Money Laundering Directive includes the art trade) and, last

but not least, the financialisation of art markets. This means that new business opportunities for private banks and family offices have risen over the past few years.

Although demand for art fluctuates, the growing trend of viewing art as an asset class has meant increased interest among wealth management professionals. According to the Deloitte Art and Finance Report 2023, 63% of wealth managers said they had integrated art into their wealth management offering. With estate planning taking on an increasing importance for wealthy individuals, art-related services have become a key building block in holistic wealth management strategies. The same report suggests that opening up to art as an asset class can provide investors with emotional satisfaction and helps create closer ties between wealth managers and clients.

Advising clients about art goes well beyond number-crunching to determine if they can afford a piece of art. Different (financial sector) art-related services are involved when it comes to handling this part of the client's portfolio, including: art advisory; financing vehicles; audit of art pieces; tax issues and storage and insurance, to name a few.

Luxembourg's status as an alternative investment fund administration jurisdiction and leader in the design and execution of innovative financial solutions offers an appropriate and supportive ecosystem for the art investor. It is a "source of diversification" for the Luxembourg economy and the various different players involved in the art financial services market have been present here for many years.

First of its kind in the EU, "LE FREEPORT" Luxembourg was inaugurated in 2014 and has made a major contribution to the development of art services. "LE FREEPORT" is the ideal platform for securing, servicing and preserving works of art and other valuables. "LE FREEPORT" Luxembourg operates fully in line with EU regulations and is supervised by Luxembourg Customs. It is subject to a tax and customs framework which requires that goods only access and leave "LE FREEPORT" through Licenced Freeport Operators. Freeport Operators keep detailed inventories, documenting the movements and physical locations of stored goods.

"Assembling a successful art collection takes more than spending big bucks!

It is more about accessing market-moving information, risk assessment through professional due diligence and valuation of an artwork, or understanding the tax implications of multi-jurisdictional transactions."

Aude Lemogne,

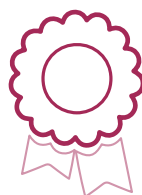
Managing Director and Co-founder LINK Management

ART FINANCIAL SERVICES INCLUDE:

- > **Buying and Selling** of fine art in all sectors of the art market
- > **Authentication and Valuation** for market and insurance purposes
- > **Independent Risk Assessment** and loss prevention strategies
- > **Auction Representation** and Private Treaty sales
- > **Logistics Management** including shipping, import and export licenses, restoration, hanging, museum framing, object mounting and storage

ABOUT LUXEMBOURG / QUALITY OF LIFE

47.4% of the population are non-nationals and come from **more than 180 countries**
(STATEC 2023)



Luxembourg ranks **1st** in the world **for attracting talent** and is the **world leader** in Knowledge-intensive employment

(INSEAD Global Talent Competitiveness 2023; Cornell-INSEAD-WIPO Global Innovation Index, 2023)

1st in Europe for **work-life balance**
(2023 European Life-Work Balance Index)



1st in the world for **safety and security**

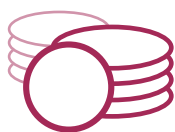
(Expat insider 2023)

4th **most attractive** city for Expats worldwide and second in the EU
(AIRINC's 2023 Global 150 Cities Index)



11th in the World in terms of **level of English proficiency** and is the leading EU country for multilingual skills

BEST Best country for **salary and job security**
(Expat Insider 2023)



Luxembourg offers the **highest purchasing power** in the EU
(Quality of life Index 2023)

61% of the population able to speak at least **three languages** in addition to their mother tongue

(EF Education First's English Proficiency Index 2019)

2nd best country worldwide for **working abroad**
(Expat Insider 2023)



World-class pension system and social protection

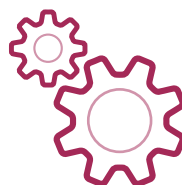
(INSEAD Global Talent Competitiveness Index 2023)

“More than 47% of the Luxembourg population are foreigners which is quite unique in the world and makes it a land of opportunity and openness. It’s a safe and modern country with great architecture, an amazing countryside, a high quality of life, lots of culture and one of the best ecosystem for companies and startups.”

Stéphane Compain,
Co-founder and CEO at LuxRelo



2nd 2nd in the top ten small European regions of the future
(fDi Magazine: FT FDi Intelligence Cities of the future 2023)



1st in the EU and **2nd** in the world for Digital Readiness
(CISCO 2021)

1st

in household income and **financial wealth worldwide**
(OECD Better Life Index, 2020)



2nd worldwide in terms of digital legal framework
(WEF-Global Competitiveness Index 2020)



Located only a few minutes driving distance from Luxembourg City Centre, Findel Airport offers direct flights to **87 destinations**



Luxembourg has led the way in **international education** for decades and has a wide selection of **multilingual schooling** options



With **9 Michelin stars**, Luxembourg City boasts the most stars per capita of any city in the world 1st for technological readiness worldwide

1st

In 2020, Luxembourg became the first country in the world to make **all public transport free**
(Ministry of Mobility and Public Works, 2020)

USEFUL CONTACTS

05

USEFUL CONTACTS

PUBLIC SECTOR

Luxembourg Government

www.gouvernement.lu

Ministry of Finance

www.mf.public.lu

Luxembourg for Finance

www.luxembourgforfinance.com

Luxembourg Private Equity and Venture Capital Association

www.lpea.lu

Luxembourg Association of Family Offices

www.lafo.lu

Association of the Luxembourg Fund Industry (ALFI)

www.alfi.lu

The Luxembourg Bankers' Association (ABBL)

www.abbl.lu

Insurance Companies Association

www.aca.lu

Fondation de Luxembourg

www.fdlux.lu

REGULATORS

Luxembourg Financial Services Regulator (CSSF)

www.cssf.lu

Luxembourg Insurance Regulator (Commissariat aux Assurances)

www.caa.lu

LEARNING AND DEVELOPMENT

House of Training

www.houseoftraining.lu

The University of Luxembourg

www.uni.lu

SOCIAL

Just Arrived

www.justarrived.lu

Bierger-Center

www.vdl.lu

atHome (Property Search)

www.athome.lu

Caisse Nationale de Santé (CNS)

www.cns.lu

Doctena

en.doctena.lu

Meetup

www.meetup.com/cities/lu/luxembourg/social

House 17

house17.lu

GLOSSARY

06

FIDUCIARY CONTRACTS

→ p. 22

A fiduciary contract enables a principal to confer ownership rights over fiduciary assets to certain entities, under certain conditions. Ownership rights to assets can be conferred to a regulated entity for a limited period. This facilitates investments, gifts and inheritance. The principal will be deemed to be holding the assets for the purposes of income taxes and wealth tax. Neither the assets nor income are reflected in the tax balance sheet of the fiduciary agent.

LIMITED PARTNERSHIPS

→ p. 22

These flexible vehicles permit financial interests to be divided between partners, including family members. They enable the parties to specify the rules governing the transfer of partnership interests, how profits and losses will be shared, reimbursements, voting rights, and representation of the partnership interests by securities or capital accounts. They are free of personal and corporate income tax and net wealth tax if they carry on private wealth management activities.

The partnerships come in two forms: 1) the Common Limited Partnership (LP) and the Special Limited Partnership (SLP), neither of which entail legal personality. Both the LP and SLP may be established as regulated or non-regulated vehicles.

They are established using a partnership agreement (for a limited or unlimited term) between one or more general partners, with unlimited liability and one or more limited partners (whose liability is limited to the amount of their investment). Partners do not need to be based in Luxembourg.

SIF – SPECIALISED INVESTMENT FUNDS

→ p. 22

The Specialised Investment Fund (SIF) facilitates the management of many types of assets for sophisticated investors, including private individuals. It is particularly useful for hedge funds, private equity, real estate investments and managing private wealth. SIFs can be used to create separate investment strategies for assets allocated to different family members, in such a way that one portfolio does not affect the others. These funds are exempt from corporation tax, wealth tax and withholding tax, but are subject to an annual subscription tax.

SOPARFI

→ p. 22

The SOPARFI is a commercial company through which investments and the shares of other firms can be controlled. It creates a hub for managing assets and investments for individuals, companies and groups. This vehicle provides an effective way of managing exposure to withholding taxes, although it is liable to income and wealth taxes. It can be incorporated as a public or private limited company, or as a partnership.

SPF – FAMILY ESTATE MANAGEMENT COMPANY

→ p. 22

Used to manage private wealth for individuals (and vehicles acting on their behalf), this type of company supports the acquisition, holding and management of financial assets, but cannot carry out any commercial activity. Qualifying assets include cash on deposit, shares, bonds, depository certificates, trade receivables, money market instruments, options and commodities.

An SPF cannot acquire real estate directly, nor grant interest-free loans to companies in which it holds a stake. It may be set up as a public or private limited company, a partnership, or a cooperative. It is exempt from corporation tax and wealth tax but is subject to an annual subscription tax.

RAIF – RESERVED ALTERNATIVE INVESTMENT FUND

→ p. 22

The RAIF provides investors with both flexibility and security. By leveraging the opportunities of the alternative fund managers directive (AIFMD) to focus on regulating the fund manager rather than the fund itself, the RAIF provides a flexible fund vehicle that can be set up quickly and without regulatory approval and supervision by the Luxembourg regulator. At the same time it provides an added layer of security and legal certainty for international investors because of the requirement laid down in AIFMD that it be managed by an EU-regulated alternative investment fund manager (AIFM). The AIFM regulation is fully and thoroughly applied as regards its investor protection measures. RAIFs also benefit from the fact that the alternative investment manager is eligible for an EU financial services passport. Modelled on the highly successful Luxembourg specialized investment fund regime (SIF), the RAIF can be set up within a matter of days and provides all the asset allocation and structuring flexibility global alternative asset managers expect.

ABOUT LUXEMBOURG FOR FINANCE

Luxembourg for Finance (LFF) is the Agency for the Development of the Financial Centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). Founded in 2008, its objective is to develop Luxembourg's financial services industry and identify new business opportunities.

LFF connects international investors to the range of financial services provided in Luxembourg, such as investment funds, wealth management, capital market operations or advisory services. In addition to being the first port of call for foreign journalists, LFF cooperates with the various professional associations and monitors global trends in finance, providing the necessary material on products and services available in Luxembourg. Furthermore, LFF manages multiple communication channels, organises seminars in international business locations, and takes part in selected world-class trade fairs and congresses.

Source used:

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European Private Banking in 2018 - Running for scale

McKinsey&Company

European Private Banking : April 2020

McKinsey&Company

McKinsey On Wealth Management - The “Netflixing” Of Advice

Deloitte

Innovation in Private Banking & Wealth Management

PwC

Banking in Luxembourg Trends and Figures 2019

Knight Frank

The Wealth Report 2020

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