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The first publication connecting professionals of the financial sector from Spain and Luxembourg

Editorial

Dear members and friends:

By way of preamble, I would like to thank my colleagues on the Board of Directors for my recent appointment as Vice-President, responsible for our Chamber in Luxembourg. It is an honour and a commitment that I assume, continuing the excellent work of José Luis Rodríguez.

At first glance, we may think that the international recognition and positive brand image of Luxembourg funds comes from their legal certainty and high investor protection, but this would only be the tip of the iceberg. Over the past few decades, **the Luxembourg authorities have encouraged and supported the creation of an investment fund industry** that has managed to add value not only in the funds' own portfolio management, but also in the whole chain of operations and distribution.

Luxembourg has become an international hub where ManCos and funds benefit from a **multicultural, multilingual, specialised and qualified centre of excellence** in administration, depositary, legal, audit and consultancy services in which Spanish companies actively participate.

The added value of Luxembourg funds also comes from the great commitment of successive Luxembourg governments to **transpose European rules** as well as to design their **own investment vehicles** with great flexibility, such as the RAIF law of 2016 or the first transpositions of the AIFMD directive in 2013. This regulatory framework and the knowledge acquired means that fund managers can accommodate new and more complex investment strategies not only focused on specialised investors, but also on private banking and retail investors. The international marketing and sales efforts of ALFI (*Association Luxembourgeoise des Fonds d'Investissement*), which has been making presentations on literally all five continents for more than 20 years, should not be overlooked as a factor for its success.

All these factors mean that the **Luxembourg investment fund has qualities and added value that allow it to differentiate itself from its competitors** and to expand internationally more easily.

Spanish asset management companies have demonstrated in the domestic market that they have first-class managers for all asset classes. Combining the investment expertise of Spanish fund managers with the qualities offered by the Luxembourg fund industry results in a high value-added investment product that can be crucial for internationalisation not only in European markets, but also in other markets that are close culturally, such as Latin America. This combination of value can also be used to penetrate other markets that are less natural for Spanish companies, such as Asia or the Middle East.

In short, **the Luxembourg investment fund industry has is an opportunity and should be perceived as such**. Spanish companies can benefit from its strengths by using it as a tool to promote Spanish management from Spain.

Joseba Arriortua
Vice-President of the Official Spanish Chamber of Commerce in Belgium and Luxembourg and President of the SFF

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About the **SFF**

The **Spanish Financial Forum in Luxembourg** (SFF) is a Committee of the **Official Spanish Chamber of Commerce in Belgium and Luxembourg.** It was launched in 2019 at the initiative of professionals linked to the Luxembourg financial services industry.

Through the SFF, the Chamber aims to create both in Luxembourg and in Spain, a space for opinion and debate on economic and financial issues, where professionals working in companies related to the provision of financial services can share experiences, establish collaborations, exchange information on sector trends and develop business opportunities.

Organizational structure

More than 50 companies and over 100 professionals are involved in the SFF. Its organizational structure is composed of a President and four coordinators who lead respectively the following sub-sectors:

- Banking
- Asset Management
- Tax
- Insurance

Join the SFF

All financial services providers that are members of the Official Spanish Chamber of Commerce in Belgium and Luxembourg can apply for free to join the SFF.

Access HERE to more information about membership application and benefits offered by the Chamber to its members.

SFF Magazine

THE OFFICIAL PUBLICATION OF THE
SPANISH FINANCIAL FORUM IN LUXEMBOURG

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The SFF Magazine is a **quarterly and digital publication** addressed to financial professionals linked to the Spanish, Luxembourg and Latin American markets. It is published in **bilingual**, Spanish and English edition.

Most of the content is provided by SFF members and financial stakeholders. If you are interested in participating in the next future editions providing contents, do not hesitate to contact us by sending an email to luxemburgo@e-camara.com. The Chamber also offers the possibility of advertising and sponsoring contents.

Interview

In this edition of the SFF Magazine, we interview Álvaro Hermida Santos, CEO of CaixaBank Wealth Management Luxembourg.

Álvaro's professional career has been closely linked to private banking from the beginning, starting at Morgan Stanley as a wealth manager and later in different areas such as large clients, business development and product development. He was director of liability product development at CaixaBank, and in 2020 he led the project to launch the bank in Luxembourg. This success, he confirms, would not have been possible without the CaixaBank team in Luxembourg, of whom he is extremely proud for their human and professional qualities.

Álvaro Hermida Santos
CEO
CaixaBank Wealth Management Luxembourg

CaixaBank opened its private banking subsidiary in Luxembourg in mid-2020. What is your assessment of these first months of activity?

We are really satisfied with the evolution since the beginning. 2020 was a year of frenetic activity with the creation of the **new bank**. In the first part of the year, we focused on the final preparations to be able to provide services to customers. This allowed us to start the bank's own activity, with a very positive response from customers, enabling us to exceed our targets in the first few months.

What added value does your Luxembourg subsidiary bring to CaixaBank's customers?

In addition to all the power of CaixaBank's Private Banking and the Luxembourg bank's team, **proximity is key for the model.**
There is a global trend that leads investors to apply jurisdictional diversification in the country where they deposit their wealth. In this environment, our objective is to offer a solution to this need through **proximity**, i.e. to bring the bank that is in another country or jurisdiction closer to the customer's location, providing them with a banker who has a presence in Spain for their relationship with CaixaBank Wealth Management Luxembourg.
In addition, our value proposition is based on independent advice. We can say that **we are the first bank in Luxembourg to declare itself with 100% independent advice**, with all the advantages that this brings to the investor.

What do you see as the benefits of independent advice in private banking?

Independent advice offers the private banking client numerous advantages, starting with **transparency** in the relationship between the bank and the customer, as well as the alignment of interests between both parties to achieve their objectives.

It is also important for the customer's interests not only to say that you are independent, but also to be obliged by regulation and contract with the customer to base your relationship on the explicit payment previously agreed between the two.
Likewise, in the **customer portfolio construction process**, we always look for the best alternative in terms of profitability and cost, evaluating a wide range of different providers and offering our own product as an alternative.

What do you think of the ecosystem that Luxembourg offers in the financial services industry?

In addition to transparency, political and financial stability, Luxembourg offers an **environment that is conducive to business development,** and this is perceived from the first day you land in the Grand Duchy. But not only that, it also offers an innovative climate for financial services, with regulation that is pioneering for the evolution and future of the asset management, insurance and banking industry.
The country has also demonstrated, through the measures taken during the pandemic period, a **flexibility** to adapt to radically different settings and a greater resilience than many other countries in the region, which is key for banks and other financial services institutions.
Thanks to all this, Luxembourg has managed to become an international hub for the financial industry with a robust regulatory environment and high supervisory standards.

CaixaBank leads the world rankings in corporate sustainability. What trends do you think will shape the future and how is the private banking sector adapting to the new demands of its customers?

At CaixaBank we want to be a major contributor in the application of sustainability criteria in private banking. We do not believe that this is a passing trend, and we want to take advantage of the recent implementation of the disclosure and taxonomy regulations so that they become a **lever for transforming the business** and not just another regulation to comply with.
We aim to be active agents of change together with our customers. That is why we are working in a number of areas. The first is **training our bankers** to be able to explain sustainability concepts to clients in a simple way and to ensure they see the differences in approaches to sustainability as well as avoiding greenwashing.
Secondly, we are preparing the way in which we will implement sustainability preferences in the **suitability test** in order to adapt the customer value proposition.
And thirdly, we are modifying the range of products we offer, both from third parties and our own. In this regard, CaixaBank is carrying out a profound **transformation** of its family of multi-asset funds to art.9, focusing on five SDGs under the heading of people and planet.

Do you think that COVID-19 has affected private banking clients' decision-making about their wealth? What role does the financial advisor play in this context?

In recent years, we have experienced a moment of **profound change in the private banking business model** that goes beyond the effect of COVID-19. There has been, and we believe the trend will continue, a significant increase in **discretionary management** and this helps to weather crises in a different way. Delegating decision-making to asset management allows decisions to be more rational and less emotional, which is an undeniable value, especially in times of crisis.

The COVID-19's endorsement of the **digital relationship with costumers** confirms a trend that is not temporary and that is consolidating the relationship between advisor and costumer.

What are the challenges that CaixaBank Wealth Management Luxembourg faces in the medium and long term?

We have a clear challenge, which is to **consolidate our position as an alternative for investors when it comes to managing their wealth outside their country of origin**, and to become a benchmark in independent advice in Luxembourg.

Opinion

Reinsurance captive companies in Luxembourg

Captive insurance companies are insurance companies established with the specific objective of **financing risks** emanating from their parent group or groups, but they often also insure risks of the group's customers as well. Using a captive insurer is a risk management technique, by which a business forms its own **insurance company subsidiary** to finance its retained losses in a formal structure.

A captive can present commercial, economic and fiscal advantages to their owners resulting from the **reduction in risk management costs**. This will enable a business to provide a **cover** more suited to their needs than policies available on the traditional insurance market or alternatively not available on the market whatsoever - essentially bespoke **Risk Management**. Couple with this the ability to build up and set reserves assists in risk transfer management.

The Luxembourg financial centre provides the ideal legal framework and administrative infrastructure for captive reinsurance solutions. With over **240 licensed reinsurance** undertakings, most of which are captive companies, Luxembourg has become the largest domicile for reinsurance captives in the European Union and one of the largest in the world.

In this section, an expert shares his opinion on the establishment and management of this type of company.

Captive: a risk financing tool

The Luxembourg reinsurance captive market has been growing since 1984.

On the 1st January of 2016, the 1991 law was repealed and replaced by the insurance sector law of the 7th December 2015, in order to transfer the provisions of the **European Directive 2009/138/EC** on Solvency II into national law, while maintaining the obligation for reinsurance companies to set up a **Provision for Claims Fluctuation** (PFS).

The Grand-Duchy of Luxembourg, as a member state of the European Union, offers to the reinsurance companies established on its territory the benefit of the freedom to provide services across the EU. This law has also introduced the supervision of the reinsurance sector by the *Commissariat aux Assurances* (CAA).

A reinsurer can apply for a licence to operate worldwide as a reinsurer in the non-life and life insurance sectors. In addition to its location and anchorage within the EU, the Grand Duchy of Luxembourg offers significant benefits that have contributed to its success as a **location for captive insurers and reinsurers** over the past thirty years.

This new regulation allows captives to be managed by a Captive Administrator to which all the tasks involved in the management of the company are delegated to, such as administration, accounting, actuarial, legal, legal and technical reinsurance.
The legislative ecosystem offered by Luxembourg makes it possible to think about how to manage and assess risks in an industrial company, banking group, etc.

Why to consider a captive?

We are experiencing difficult times in the International Insurance Market. Renewals of Corporate Programmes are proving to be very complicated and large companies are also suffering notable increases in the cost of their **renewal premiums**, not to mention restrictions on coverages. The years of the soft market are now history and, at Risk and Reinsurance Solutions (2RS), we believe that it is time to plan a new strategy for the future that will allow insurance managers to **plan and adjust costs**. It seems this will be a tough adjustment for the entire large risks market over the next few years.
As you know, Captive Companies are playing a very important role in terms of compensating and **adding value f**or their owners, especially in these times of indiscriminate increases in the cost of premiums with restrictions on coverage. In this sense, we offer our services to jointly study the viability of an **alternative project** to traditional insurance programmes. This will lead to a reduction in costs for a group of companies and at the same time it will improve the position in the definition of insurance coverage.

In addition, the creation of a captive provides the Risk Manager of a group with an enormous amount of **added value**, such as the centralisation of the Group's integral risk and insurance management, total transparency in the costs of all intermediaries and great autonomy in the design of coverage and wordings. Additionally, the Group will be less dependent on the fluctuations of the insurance markets and will have direct access to the international reinsurance market which, in many cases, can be cheaper than the direct insurance market.
In short, a captive is the risk financing tool that any business group would have to develop itself, in order not to be subjected to the pressures that are inherent in insurance operations.

Georges Michelena
Partner
Risk & Reinsurance Solutions SA

Dossier Cross-border fund distribution

The ecosystem offered by Luxembourg in the investment fund industry has turned the country into a **centre of operations** for many international fund managers as a way to grow in Europe. This has been demonstrated by the proliferation of Spanish UCITS funds in recent years.

Spanish fund managers mainly use Luxembourg as the gateway to reach **international institutional clients**, a major challenge for the Spanish industry.

According to Morningstar Direct, Spanish asset managers' business in Luxembourg reached **14,000 million euros** at the beginning of 2021. Although this figure only represents 5% of the total assets in funds of Spanish group managers, it represents a significant growth compared to the volume achieved in previous years. In the last 12 months, the volume has grown by 14%.

In this dossier, we count with the collaboration of professionals who work in the Luxembourg fund industry, and provide their point of view based on their experience in relation to international fund distribution.

Markus Schwamborn
Director
Deloitte Luxembourg

François-Kim Huge
Partner
Deloitte Luxembourg

UCITS - a European success story

Short history of cross-border fund distribution in the European Union

In 1985, the foundation for the cross-border distribution of investment funds within the European Union (EU) was laid by the **European Commission's Directive on "Undertakings for the Collective Investment in Transferable Securities"** (UCITS). It provides a harmonised regulatory framework for all EU Member States to **create, manage and market** investment funds to retail investors across EU borders. This allows UCITS funds domiciled in one Member State to be easily offered to investors in another Member State, which benefits the European Union's vision of the single market.

As UCITS funds are retail investment products, they feature a high level of **investor protection and prudential supervision** under the UCITS Directive—boosting their success in countries outside the European Union, in particular in Asia and Latin America, where they are a well-known brand.

Luxembourg as the most important domicile for cross-border funds

According to the European Fund and Asset Management Association (EFAMA), at the end of June 2021, EUR12.9 trillion[1] were invested in UCITS funds. Of this amount, 36% were invested in UCITS funds domiciled in Luxembourg and 2.1% in those domiciled in Spain.

Luxembourg is the biggest domicile of UCITS funds and the second biggest worldwide domicile for investment funds after the United States. Compared with the United States' huge internal market, **the vast majority of Luxembourg-domiciled UCITS funds** have attracted investors outside the country. According to figures provided by PwC[2] and the Association of the Luxembourg Fund Industry (ALFI), Luxembourg boasts a **56.5%** share of all authorisations for the cross-border distribution of investment funds, making it the leading domicile for these types of funds. The reasons for Luxembourg's unique position are manifold.

Luxembourg was the first EU Member State to transpose the first UCITS Directive into local law in 1988. It was able to **attract asset management firms** from the United States, the United Kingdom and Switzerland, who were keen to offer their expertise to continental European investors. Since Luxembourg transposed the Directive without any changes, it also attracted asset managers from other EU Member States that transposed the Directive with further conditions.

[1] https://www.efama.org/sites/default/files/files/EFAMA%20Fact%20Sheet%20%28June%202021%29.pdf
[2] https://www.alfi.lu/getattachment/fd9703bc-baa9-46a9-a70e-82d5fcec51c7/app_data-import-alfi-global-fund-ditribution-poster-2021-web.pdf

Over time, several service providers specifically dedicated to the investment fund industry either established a presence in Luxembourg or were created locally. This created a **highly specialised cluster** that transformed Luxembourg into the ideal environment for those wanting to create and distribute cross-border investment funds. Asset managers in financial centres such as London, Paris, Frankfurt and Milan have established a presence in Luxembourg and offer Luxembourg-domiciled UCITS funds in their home countries and other markets.

At the end of August 2021, of the asset managers with UCITS funds domiciled in Luxembourg, the top countries of origin were[3] the United States (20.5%), the United Kingdom (16.9%), Germany (14.0%), Switzerland (14.0%), France (10.3%), and Italy (6.4%).

Spain as a market for foreign funds

At the end of 2020, **almost 7,700 foreign funds were offered to investors in Spain**—making it Europe's seventh most important market for foreign funds, just behind Italy[4]. Almost 4,400 of the foreign funds offered in Spain, or 57%, were domiciled in Luxembourg. Therefore, Spain is an attractive market for foreign asset managers, especially for those with funds domiciled in Luxembourg.
According to INVERCO[5], the Spanish fund association, foreign asset managers managed EUR238 billion of assets for Spanish investors at the end of June 2021. As EUR300 billion was managed by asset managers based in Spain[6], **foreign managers represented 44% of the investment fund market in Spain in terms of assets.** The five biggest foreign managers offering funds to Spanish investors are Blackrock (representing 17.8% of assets managed by foreign managers), Amundi (11.1%), JPMorgan (9.5%), DWS (6.7%) and Morgan Stanley (4.9%).

Spanish asset managers in Luxembourg

Spanish asset managers manage only a **relatively small part** of the total assets of Luxembourg-domiciled funds. The main Spanish asset managers with funds domiciled in Luxembourg are to our understanding Banco Santander, Asesores y Gestores Financieros, MAPFRE Asset Management and BBVA. As such, Spanish promoters play a relatively minor role in the Luxembourg fund industry compared to the size of the Spanish financial market and of its financial institutions. One reason could be that Spanish promoters prefer to offer Spanish-domiciled investment products to their clients in Spain and may have a **greater focus on Latin America**, where they are strong actors in the local financial markets.

[3] https://www.cssf.lu/en/2021/09/origin-of-uci-initiators-in-luxembourg/
[4] https://www.alfi.lu/getattachment/fd9703bc-baa9-46a9-a70e-82d5fcec51c7/app_data-import-alfi-global-fund-ditribution-poster-2021-web.pdf
[5] http://www.inverco.es/archivosdb/2106-nota-de-prensa.pdf
[6] http://www.inverco.es//documentos/estadisticas/fondos_inversion/2106_Junio-2021/2106_01-PatrimEuros.pdf

Luxembourg, the platform for access to global distribution

Santander Asset Management (SAM) is strengthening its activity in Luxembourg, with the aim of **consolidating the unit as the fund manager's global distribution platform**. This project is achieving excellent results. In the last three years, the asset management company's turnover in the Grand Duchy has practically quadrupled, from EUR 3,000 million at the end of 2018 to just over EUR 11,000 million today.

Santander Asset Management's global capabilities, with a presence in European countries (Spain, UK, Portugal, Germany and Poland) and Latin American countries (Brazil, Mexico, Chile and Argentina), allow Luxembourg to be used as a **platform to create global products**, which are distributed in all the geographies where the asset manager is present, resulting in a gain in efficiency. Santander AM Luxembourg also serves the various private banks of the Santander Group, including those in Switzerland and Miami.

The move to Luxembourg has many advantages. Among them, gaining more **visibility** in the showcase of international investment funds to market products among foreign investors and favouring the diversification of the target segment. This allows reaching the **institutional investor** more easily, one of the most coveted abilities by managers who want to gain size outside their local markets and take a place in the league of the big international players, something SAM has also been investing in over the last few years.

Santander Asset Management aims to continue focusing on Luxembourg as a global distribution platform. This complements the localisation of other key functions such as investments or risk control that SAM has recently undertaken: the European hub, which is based in Spain, and the Latin American hub, in Brazil. Looking to the future, the goal is that the business generated in Luxembourg will continue to register increasingly significant growth and **increase its current weight** (6%) of total assets under management at the global level. To consolidate and accelerate the achievement of this goal, the organisational structure was recently reinforced with the appointment of a new business manager for SAM Luxembourg, to promote the unit as a distributor of the SAM product in all its units as well as to increase the share with third party clients.

From the Luxembourg hub, Santander Asset Management exports global investment strategies, such as the **Santander GO** range (funds mandated to third parties with strategies such as US Equities, Global Equities or Flexible Fixed Income), the **Santander Future Wealth** fund (a fund that invests in megatrends) or systematic management products such as **Santander MultiAsset Low Volatility**. The figures reflect the good reception by investors, with close to EUR 4,000 million captured in the Santander GO range and more than EUR 1,000 million in the thematic Future Wealth fund.

Emilio García de la Sierra
Head of Business and Member of the Board of Directors at SAM Luxembourg and Global COO at Santander Asset Management Luxembourg

“At CaixaBank AM Luxemburg, we bring our values to Europe’s financial centre”

Ignacio Nájera-Alesón Sáiz
General Manager of CaixaBank AM Luxembourg

At the heart of Europe's global asset management industry, Luxembourg is the largest investment fund centre in the continent, only outweighed by the US worldwide. Indeed, the reliable, safe and stable **AAA Luxembourg economy**, together with a state-of-the-art ecosystem focused on embracing technology and driving sustainability, have been crucial to lead the country's investment funds cross-border distribution. In addition, the **quality of service provided to international fund houses**, and ultimately to final investors, has played a major role in helping financial organizations to cross the bridge into Luxembourg[1].

Therefore, Luxembourg´s fund services offer asset managers a **“One Stop Shop”**, enabling them to outsource part of their administration, reporting and accounting duties, and to take advantage of the third-party alternative investment fund manager model. In fact, one of Luxembourg's biggest attractions as a jurisdiction is its **flexibility towards alternative investment funds.** This has been updated to appeal to the needs of all private equity groups, regardless of whether they are based inside or outside of Europe, offering fund managers a comprehensive suite of fund structuring options and flexibility.

In numbers, net assets under management (AUMs) in the Luxembourg hub have almost tripled over the past decade, from about €2 trillion in 2011 to over €5.5 trillion in 2021[2], **growing 20% just in the last 12 months[3]**. Moreover, to illustrate the country's diverse international role, it is worth highlighting that only 3.6% of the undertakings for collective investment (UCI) initiators in Luxemburg are originated within the country, being the 8th most relevant source of investments. In fact, as of August 31st 2021, the largest share of the net assets managed in Luxemburg come from North-American investors, corresponding to 20.5%. US-based UCI initiators, closely followed by Great Britain, with 16.9% of net AUMs and Switzerland and Germany – both with about 14%. To close the list, we can find French, Italian and Belgian investments, with weights amounting to 10.3%, 6.4% and 4.3%, respectively[4].

With that in mind, both **investors and asset managers based in Iberia are also becoming increasingly comfortable allocating their resources in Luxembourg.** Such appeal for Luxembourg-registered funds in the Iberian market has been essentially underpinned by the wide and efficient network of legal, accounting and banking services; the country's strong economic and political stability; and the highly qualified financial workforce.

CaixaBank Asset Management Luxembourg integrates the **talent and experience of the specialized teams** of the CaixaBank Asset Management group in the management of investment vehicles domiciled and registered in Luxembourg. We have managed Luxembourg SICAVs since 2013 (CaixaBank AM Spain) and Fonds Comun de Placement, FCP since 1997 (BPI GA). Our experienced team works to design and manage a complete range of investment solutions.

Our way of creating value is by our specialization and methodology. Our competitive advantage relies in our ability to be consistent and reliable.

Association of the Luxembourg Fund Industry:
[1] Luxembourg, the global fund centre.
[2] Funds, sub-funds and net assets.
[3] Net assets under management in Luxembourg funds.
[4] Market shares of fund initiators by country of origin..

Israel Cuesta
Senior Business & Relationship
Development Manager at Fundsquare

"With a politically and economically stable environment, Luxembourg benefits from an extremely qualified workforce and is historically known for its **proactive and flexible role** in adoption and implementation of European financial regulations.

Just as Luxembourg is an agile financial marketplace, it is also a highly oriented business one. Luxembourgish government and financial supervisory authorities are known to be facilitators for business development rather than hindrances.

Thanks to a combination of all these elements, Luxembourg sits at the epicentre of cross-border distribution and passporting for UCITs funds which translates into a speedy time to market and the reason why Luxembourg hosts **more than 300 ManCos holding a UCITS or AIFM licence, or both.**

Fundsquare, a wholly owned subsidiary of the Luxembourg Stock Exchange, is historically known for **regulatory reporting services.** Currently 100% of regulatory reporting for Luxembourg domiciled funds is managed by Fundsquare. This expertise and long-standing experience has allowed us to establish **privileged connections** with close to 70 foreign regulators facilitating cross-border distribution. Fundsquare is increasing its accessibility to European NCAs to facilitate AIF/M reporting and passporting thereby replicating this great success outside of Luxembourg.

As Fundsquare is the **golden source for fund data for Luxembourg domiciled funds**, receiving data directly from the data owners (asset managers, ManCos) or fund administrators, without any intermediation or transformation of the data, we are capable of not only covering regulatory disclosure but also **accompanying our clients for publication and information dissemination purposes.**

Data is part of our DNA; we have placed an utmost importance on data governance. For us, the best way we can serve our clients is to allow them to maintain control over their processes throughout the funds life cycle via transparent governance and efficient risk mitigation.

How and when asset managers and asset owners' data is being sent to either the National Competent Authorities or distribution platforms is essential. Through our proprietary tool, **FundLifeCycle,** clients can make sure that their data and regulatory reporting is compliant with and distributed to financial national and supranational Regulatory Authorities as well as their data and document dissemination that they manage or outsource to third-party service providers.

With a 360-degree vision of their data and document lifecycle, Fundsquare seeks to **simplify the data journey** for our clients. Currently Fundsquare is serving all Spanish Asset Managers and funds who have an established presence in Luxembourg a who supporting them in their fund registration for passporting to other EU jurisdictions including Spain. It is worth to highlight that of the largest ManCos in Europe who are currently established in Luxembourg, 18% have set-up branches in Spain."

Eric Nolen
Managing Partner at
Nolen, Winkler and Partners S.a.r.l.

"UK based fund managers **can no longer market funds in the EU under the UCITS and AIFMD marketing passports**. Those wishing to keep distributing investment funds in the EU can: (i) market funds based on an authorisation under the relevant EU Member State's NPPR regime, or (ii) set up a marketing function in a licensed EU branch or subsidiary or (iii) use a licensed third-party entity.

Luxembourg's well-known robust and competitive legal and regulatory framework, including its focus on investor protection made it the perfect "go to" for UK investment funds managers. Instead of going through the time and costs consuming process of applying for each Member State's marketing authorization, managers can trust Luxembourg's **unique concentration of investment funds experts** to assume this role.

The challenge for UK fund managers is to select and integrate within their day-to-day operations the licensed entity or team they will partner with to distribute their products in a compliant manner across the EU. The necessity for a clear internal distribution process for Brexit not to have a severe operational and regulatory impact on funds distribution is something NoW Partners has witnessed when assisting clients in the setting up of such a function in Luxembourg.

This is an **opportunity** for Luxembourg to keep growing as the European largest investment fund centre and extend the core substance of the responsibilities undertaken for the fund industry within its territory."

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- Top regulatory trends in Spain and Luxembourg

- Low interest rates: what are the options?

- Private equity and SRI funds: long-term and sustainable invetments

Top regulatory trends in Spain and Luxembourg

While the entire world continues to face great challenges derived from the COVID-19 pandemic, the supervisory financial authorities put efforts in keeping their agendas busy and addressing **critical objectives** for the rest of the year 2021 and next 2022.

Both the *Comisión Nacional del Mercado de Valores* (the "CNMV") and the *Commission de Surveillance du Secteur Financier* (the "CSSF") have developed a set of **priorities** to be implemented, in order to ensure that their activities match the trends that the new political realities and markets are demanding. Amongst others, their most important priorities which are aligned in the two countries are the following:

1. Sustainable finance: a global increasing priority

Luxembourg

In the context of the United Nations Agenda (2030) for Sustainable Development, the CSSF has in its Circular CSSF 21/773 flagged that one of the key themes which is prioritised is the financial institutions' awareness on the need to consider **climate-related and environmental risks** in order to approve policies to mitigate them.

In addition, on 7 December 2020 the CSSF published a major update to its Circular 12/552 on central administration, internal governance, and risk management, making for the first time a reference to a **'sustainable' business model for banks**, requiring them to take into account all material risks, including environmental, social and governance risks to ensure its viability.

Finally, following the implementation of the procedures derived from the European Regulation relating to ESG disclosure ("SFDR"), and in particular in relation to UCITS and AIFs' prospectuses, the CSSF put in place the **SFDR fast track procedure**, making it easier and more efficient to submit updated prospectus/issuing documents where the changes resulted directly from the SFDR requirements.

Spain

A regulatory framework is being launched with the aim to promote **transparency and the dissemination of non-financial information** by issuers and listed companies, the commonly-known sustainability related disclosures. The CNMV has integrated the new obligations as established in SFDR and has already published certain rules and guidelines which are pending to be developed by the relevant European technical standards. It is clear that these new regulations which require financial service providers and owners of financial products to assess and disclose environmental, social, and governance – ESG - considerations publicly will keep busy both, supervisory authorities and entities, the latest dedicating great efforts to comply with all ESG relevant requirements in due time and manner.

2. Financial innovation: technology-based innovation in financial services and markets

Luxembourg

Financial innovation is reshaping the way all financial sector activities are executed and how the public is approaching and interacting with the actors of the financial markets. In this context, the CSSF has set-up an **innovation hub** allowing any persons to present their views and suggestions regarding the development of the **FinTech industry.** The CSSF is also adapting itself to the new technological reality by, amongst other things, updating its website and improving online applications for applications and contact with them.

Furthermore, the Luxembourg supervisory financial authority is prioritizing the creation of an effective framework for the financial activities involving virtual assets (including virtual currencies, cryptocurrencies or tokens), artificial intelligence and robo-advice. The final objective of the CSSF in this sphere is to correctly understand how the financial markets are evolving due to technological innovations and in particular to understand the risks derived from them.

Spain

Financial innovation is also another quite strategical aspect and where the CNMV is adding emphasis for the year 2021 is the impact of **technological developments** in the financial sector and the far-reaching application of new digital technologies in the financial services industry. New financial products are being designed on the financial market. **Crypto-assets** are canvassing investors and, consequently, the CNMV is paying careful attention to it, having already established that all advertising activities related to crypto-assets will be supervised by the CNMV. Additionally, the CNMV will focus on other phenomena such as robo-advisors or data storage and their impact towards investors and the securities market in general. We do expect that **harmonisation** at an EU level on these aspects is completed at any stage so that lack of regulation and derived uncertainty has critical impact on the investor side, especially when it concerns retail investors.

3. National Equivalence Regime: adaption to Brexit

Luxembourg

In the context of the adaption of the Luxembourg financial markets to the post-Brexit reality, and after doing an extensive analysis of the legislation applicable to financial activities in different jurisdictions, Luxembourg was the first to introduce its **National Equivalence Regime** (the "NER").

The NER applies to Canada, Hong Kong, Japan, Singapore, Switzerland, the US and the UK which are all considered to be equivalent jurisdictions. This means that third-country firms can provide **MiFID investment services or activities** as well as ancillary services to eligible counterparties and per se professional clients in Luxembourg, without having to set up a branch in Luxembourg or have any additional or other licences or approvals. This does not allow the provision of investment services to retail clients.

Spain

Attention should be paid to the recent criteria published by the CNMV, which finally allow UK entities, now falling under the category of third country firms, to be able to **obtain authorisation to provide investment services** in Spain on a cross border basis and without the need of setting up a branch in the territory, upon compliance of reciprocity principles. The above will be subject to certain conditions that entities are trying to meet, which are: limiting investment services to (i) eligible counterparties, or (ii) to professional clients per se, but with a maximum of 20, or income from the provision of these services under two million euros. In this regard, it is our expectation that UK entities will not refrain from including Spain in their expansion business plans and that activity in Spain coming from the Anglo-Saxon country will continue.

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LOW INTEREST RATES
What are the options?

In a low interest rate environment, managing the wealth is becoming increasingly complex. The current low returns on savings products seem set for the long term. How can you make the right choices for managing your wealth?

Over an entire stock market cycle (2005-2020), an investor who invested €100,000 in a discretionary management portfolio (Banque de Luxembourg fund management – balanced profile) in 2005 would have seen their capital almost double to €198,800 by the end of December 2020.

Low interest rates, low yields - a dispiriting context?

Interest rates remain low in many parts of the world. While this may be good news for people wanting credit, it is not helpful for investments. It is becoming increasingly **difficult to find risk-free financial returns**. And this trend looks set to continue.

What are the best type of investments?

When not zero or even negative, returns on savings products are now historically low. There is also considerable doubt as to whether interest rates will rise in the short or medium term. The majority of economists **are not expecting interest rates in the eurozone to rise before 2023**. But despite these uncertainties weighing on the markets, there are real opportunities for investors to grow their assets over the longer term. It is more important than ever to opt for an approach with a priority on risk control by entrusting your assets to a specialist. **Discretionary management** exemplifies this approach.

Discretionary management: what are the advantages for the investor?

First of all, the costumer gets the benefit of experienced active management, which focuses on **preserving and enhancing capital** and generating consistent performance over time. Over the long term, unlike investments in a savings account, the return will be significantly higher than inflation. With help from your adviser, you define the level of risk most appropriate for you, from the most prudent to the most dynamic. This ensures that your portfolio will be perfectly tailored to your investor profile. Discretionary management frees you from all the hassles of daily portfolio monitoring.

Investors often focus too much - sometimes exclusively - on the **prospects for returns**, overlooking the key component of risk.
The notion of risk is reflected in volatility. Volatility measures the fluctuation in a portfolio's performance. The higher the volatility, the greater the risk for the portfolio.

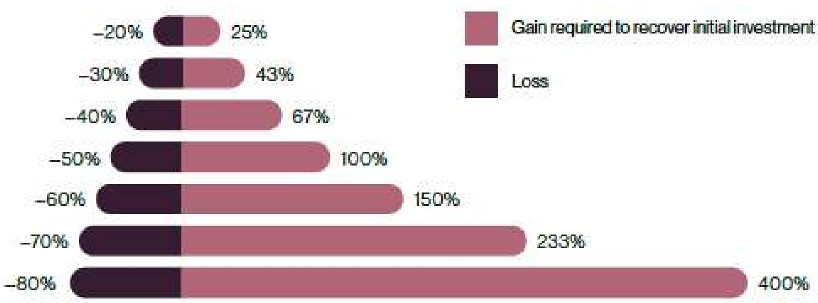
During periods of market euphoria, investors often disregard the inherent risk in their investments, favouring trendy, speculative or lower quality stocks. Unfortunately, it is only when the market crashes that they become aware of the risk as they see the low resilience of this type of portfolio - and watch its value plummet or even incur permanent loss of capital.

When an investment (or whole portfolio) loses 50% of its value, it needs to grow back not by 50% but by 100% to regain its initial value. In other words, the investment has to double in value to erase the loss.

As the chart below shows, the heavier the loss in value, the greater the rebound needed to recover from the fall. This is why, **within the various discretionary management solutions, the objective is to generate the most favourable risk/return trade-off for clients.**

This objective, which combines the search for a good return with the desire to limit risk, guides us in managing our portfolios. By focusing on quality assets, our portfolios have demonstrated significant resilience during the major market crises of the past decades.

GAIN REQUIRED TO RECOVER INITIAL INVESTMENT



Juan Carlos Durán
Senior Private Banker
Banque de Luxembourg

ONE LIFE
GROUPE APICIL

Private Equity and SRI funds: long-term and sustainable investments

We focus on two asset classes that are highly strategic for wealth planning in a context of significantly low or negative interest rates

Incorporating private equity funds into a life assurance policy

Investing in private equity funds consists essentially of investing in companies that are not listed on financial markets. As this investment type is less affected by market fluctuations and interest rate movements (unlike other investment options such as stocks and bonds), it increases the overall return of a portfolio by diversifying assets and decoupling it from stock market fluctuations.

Due to the nature of the investment, private equity carries a long-term investment perspective, perfectly in line with the long-term view of the life assurance contract. In addition, investing in private equity within a policy allows you to benefit from the particularly favourable regulatory and tax framework for life assurance in different jurisdictions.

In this respect, it should be noted that the open architecture of Luxembourg life assurance allows for the contribution of private equity assets with great flexibility through internal dedicated funds and specialised insurance funds.

"Sustainable financing", an accelerating trend in financial markets

Are sustainability and financial performance compatible?

SRI ("Socially Responsible Investment") is based on the conviction that considering environmental, social or governance factors guarantees the financial performance of the sums invested over the medium and long term, as potential risks and conflicts are better analysed within this timeframe. In parallel, this approach has a true positive impact on the performance of a company and, therefore, on the investment funds that invest in it. Moreover, recent precedents have shown that SRI is resilient in a context of financial and economic crisis.

A booming sector

In listed companies and the investment funds that invest in them and which are subject to strict regulation, ESG performance is generally well scrutinised as the financial market demands more transparency in this area. However, there are some private equity funds where ESG management and reporting systems are lacking and we expect to see developments in this area in the future.

In our regular practice, we observe that the number of investment fund managers including SRI and ESG factors in their investment criteria is increasing significantly. At OneLife, we are convinced that such investments can increase significantly in the medium to long term and we are already in discussions with several managers in order to incorporate such funds that strictly comply with SRI and ESG criteria into our range of investment solutions.

The keys to success

Flexibility of Luxembourg unit-linked life insurance products

While guaranteeing a framework of protection for policyholders and lives assured, the Luxembourg regulator ("Commissariat Aux Assurances") has for several years now allowed for a very competitive range of options in terms of underlying investments within a unit-linked life assurance contract.

One of the main advantages of the Luxembourg market is the possibility of accepting regulated assets (eg. hedge funds) or non-regulated assets (eg. holding companies or "alternative" funds). Indeed, as mentioned above, private equity funds remain very attractive and popular in the non-regulated asset class and OneLife actively promotes such solutions to partners and clients.

Regardless of the investment strategy applied and the risk profile of the policyholder, there is a minimum liquid asset requirement within the unit-linked life assurance contract of approximately 10% in order to ensure an appropriate level of liquidity within the policy.

Experience and expertise

The insurer remains the owner of all policy assets, including unlisted assets. Therefore, the insurer must establish an acceptance framework with sound technical expertise in order to be able to justify to the regulator at all times the proper management of potential risks. Indeed, the presence of a team of unlisted asset experts within an insurer is essential to support partners and policyholders in developing effective solutions within a regulated and supervised framework. This is undoubtedly a key success factor of the Luxembourg insurance industry and OneLife can confidently claim to have such expertise and teams in place.

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Flash News

Latest news and events from SFF members and collaborators

Video series

Private Placement Life Insurance for Latin American HNW and UHNW families

LOMBARD INTERNATIONAL ASSURANCE

Key benefits of PPLI for Latin American clients

Unit-linked life insurance as a solution for Latin American HNW and UHNW families. Used by clients in Mexico, Colombia, Peru and other Latin American countries, PPLI is fast gaining traction as part of a holistic wealth planning strategy and is used for tailor-made wealth and inheritance planning.The following video describes the main advantages of unit-linked insurance:

Watch video

Asset Protection provided by Luxembourg Unit-Linked Life Insurance Policies

The need for wealth protection has always been a concern for clients residing in LATAM and its importance has increased in recent times. Unit-linked life insurance policies are also an internationally recognised and secure estate and succession planning solution for HNW and UHNW families. The following video describes the main advantages of the Luxembourg protection scheme known as the Security Triangle:

Watch video

With the collaboration of our sponsor and benefactor members that are part of the SFF :

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