



# UCITS: the Global Opportunity

Moderator:

Michèle Eisenhuth, Arendt & Medernach

Panelists:

Rafael Aguilera, EY

Yannick Arbaut, Allen & Overy

Germain Birgen, Banque de Luxembourg

Jefferson Oliveira, PwC

# Luxembourg fund environment: a safe and well regulated environment (1)

---



- **UCITS: Undertakings for Collective Investment in Transferable Securities (product regulation)**
  - **Investor protection at the level of the product**
  
- **AIF within scope of AIFMD: Alternative Investment Fund, subject to the Alternative Investment Fund Manager Directive (manager regulation: several products)**
  - **Investor protection at the level of the manager, the AIFM (alternative investment fund manager)**



**Aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorisation from one member state**

# UCITS evolution

|                                  |                                     |                                 |                                |
|----------------------------------|-------------------------------------|---------------------------------|--------------------------------|
| <b>UCITS</b><br>20 December 1985 | <b>UCITS III</b><br>21 January 2002 | <b>UCITS IV</b><br>13 July 2009 | <b>UCITS V</b><br>23 July 2014 |
|----------------------------------|-------------------------------------|---------------------------------|--------------------------------|



| <b>Benefits</b>  |  |   |  |
|--|--|---|--|
| <ul style="list-style-type: none"> <li>▪ Harmonization of investor protection rules</li> <li>▪ Marketing through simple notification process - passport</li> </ul> | <ul style="list-style-type: none"> <li>▪ Widening of investment power and product offering in UCITS</li> <li>▪ Enhanced risk management procedure</li> </ul> | <p>Principal amendments to UCITS regime:</p> <ul style="list-style-type: none"> <li>▪ Simplified notification procedures</li> <li>▪ KII</li> <li>▪ EU-wide fund merger regime</li> <li>▪ Management Company Passport</li> <li>▪ Master-Feeder structures</li> </ul> | <ul style="list-style-type: none"> <li>▪ Harmonize EU approach on eligible entities acting as depositories</li> <li>▪ Clarify depository responsibilities</li> <li>▪ Reduce conflicts of interest</li> <li>▪ Facilitate enforcement</li> </ul> |

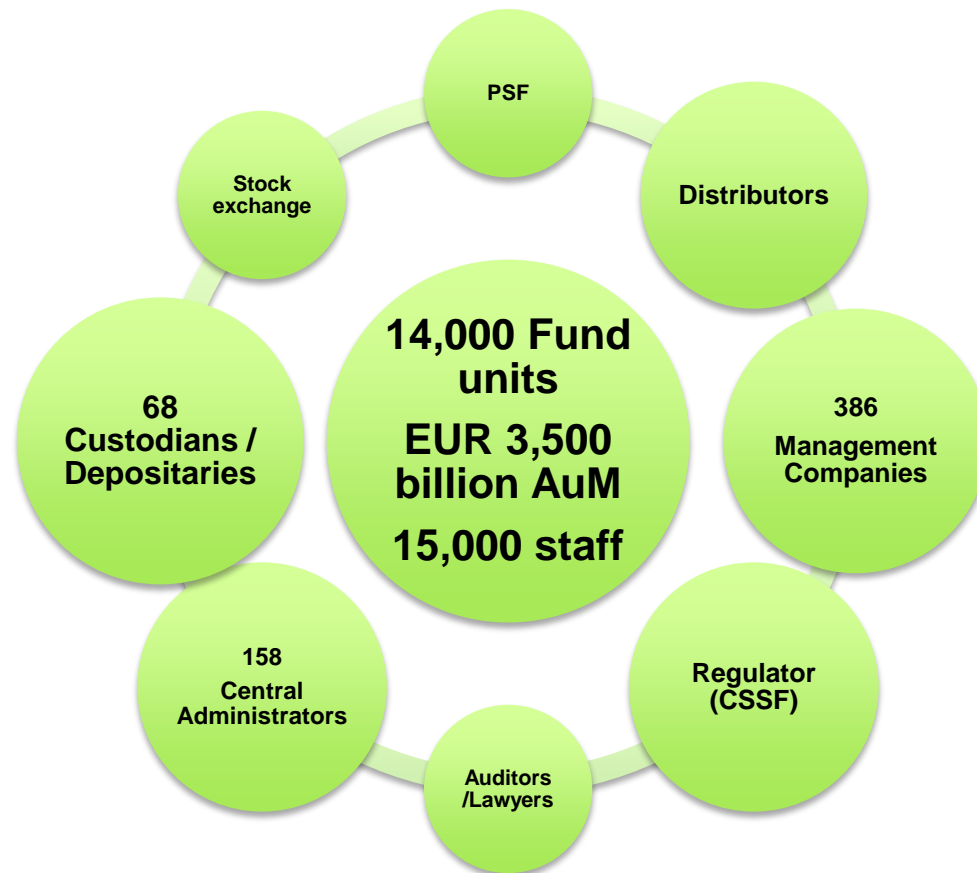
## Luxembourg's UCITS toolbox

---

- Corporate (SICAV) vs contractual (FCP)
- «Stand alone» (single compartment) vs «umbrella» structure
- Investment Manager / Adviser
- Distribution – share classes
  - Frequency: accumulation vs dividends
  - Models: retail vs institutional
  - Currency: alternative vs hedged

## Luxembourg: a full-fledged market infrastructure

---

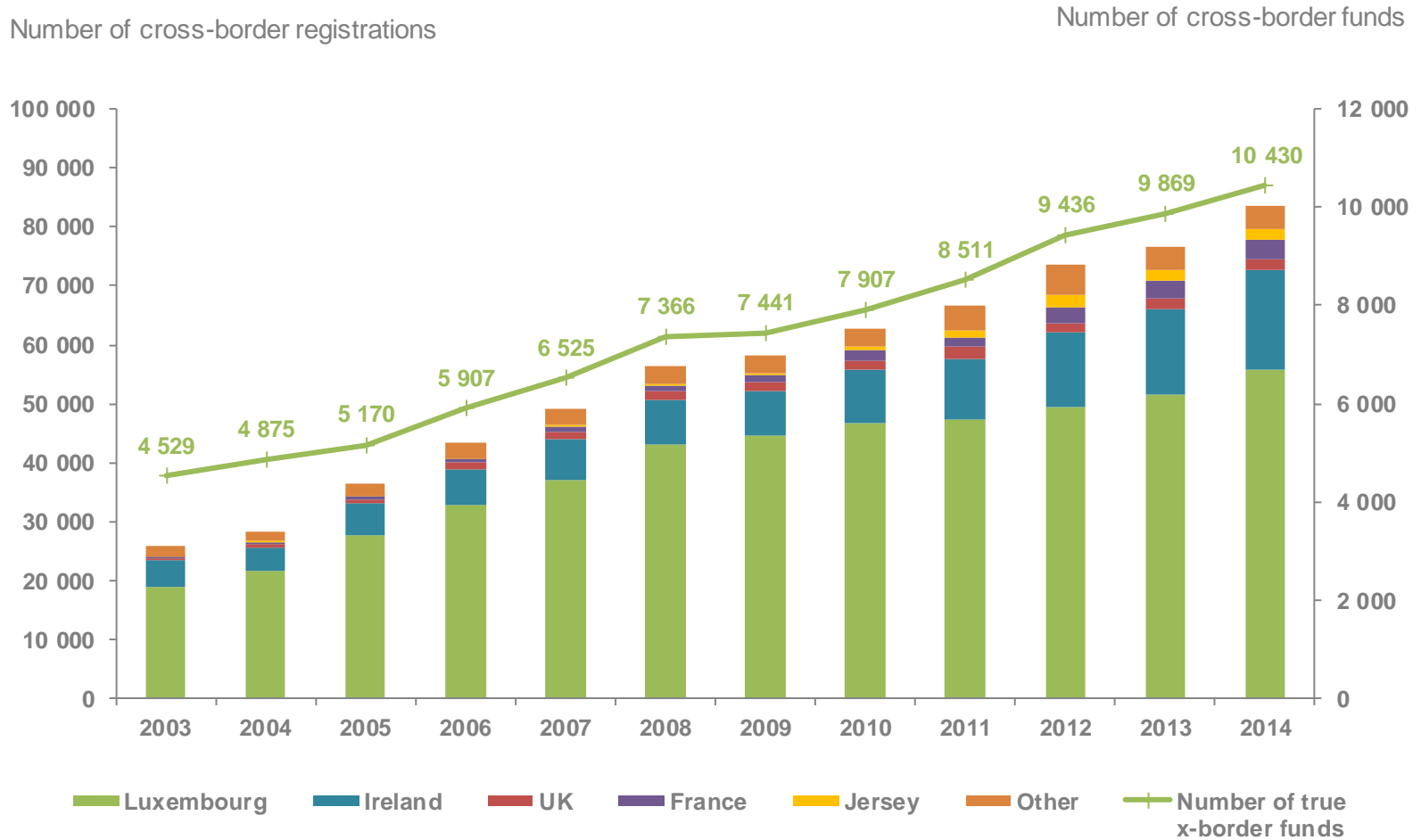


## Management companies and host structures

---

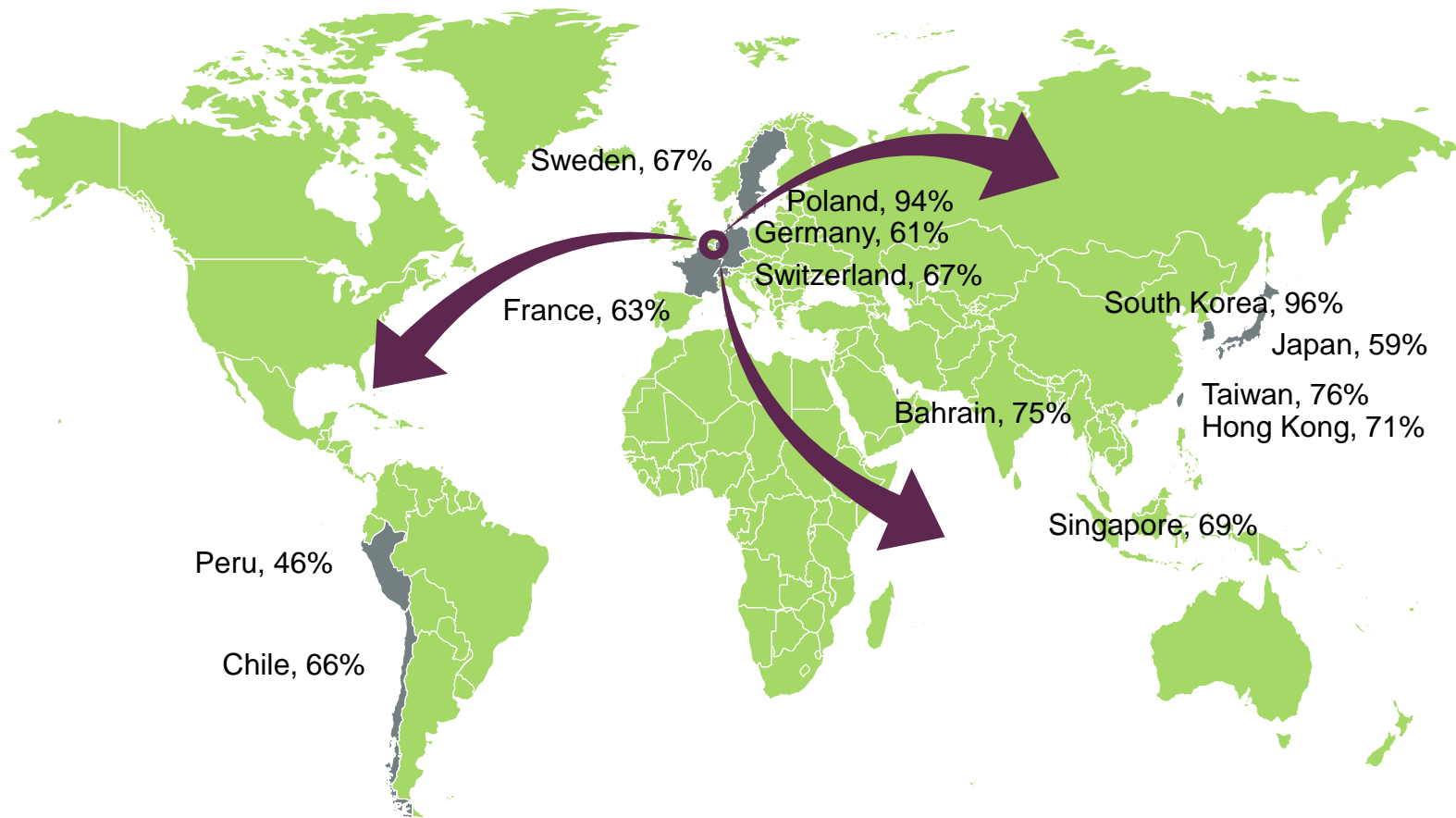
- UCITS ManCo, AIFM and Super ManCos
- European passport if authorised in one EU member state
- Third party ManCo services
- Host structures
  - Existing umbrella funds, fully set-up and authorised
  - Possibility to «rent» one or several sub-funds
  - Possibility to change into a «stand-alone» structure at a later stage

# Evolution of cross-border fund distribution



# Luxembourg funds: the vehicle of choice for cross-border distribution

Luxembourg market share of foreign cross-border funds registered for sale



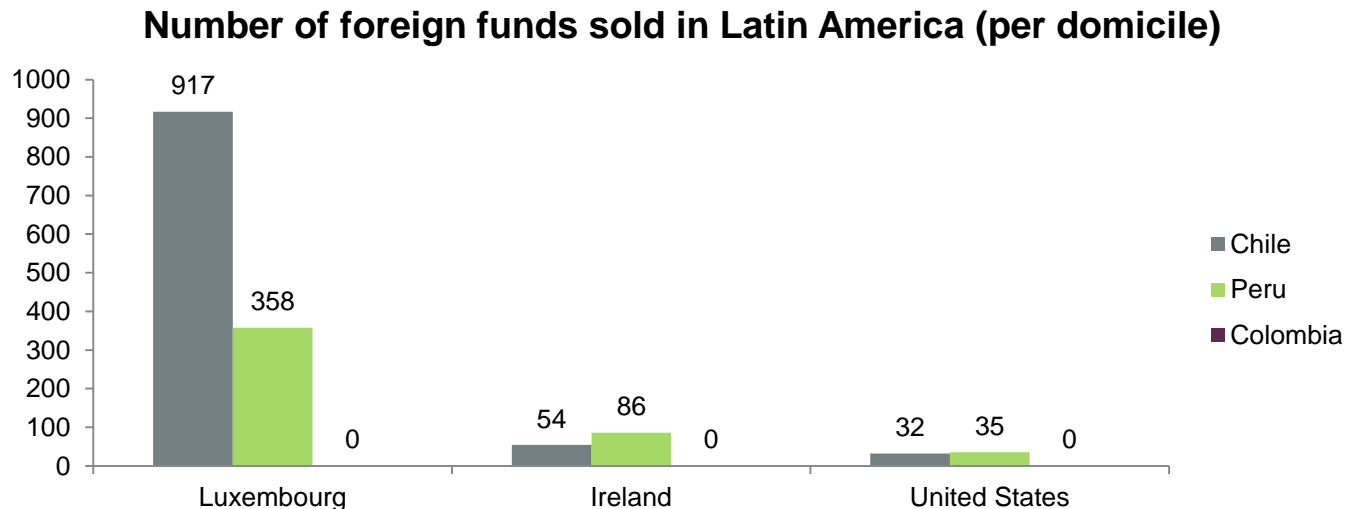
Source: Global Fund distribution analysis – December 31, 2014



## Local recognition of Luxembourg fund vehicles

---

- Luxembourg vehicles take the lion share of products sold in main Latin American markets compared to other popular fund domiciles (e.g. Ireland, United States, ...)

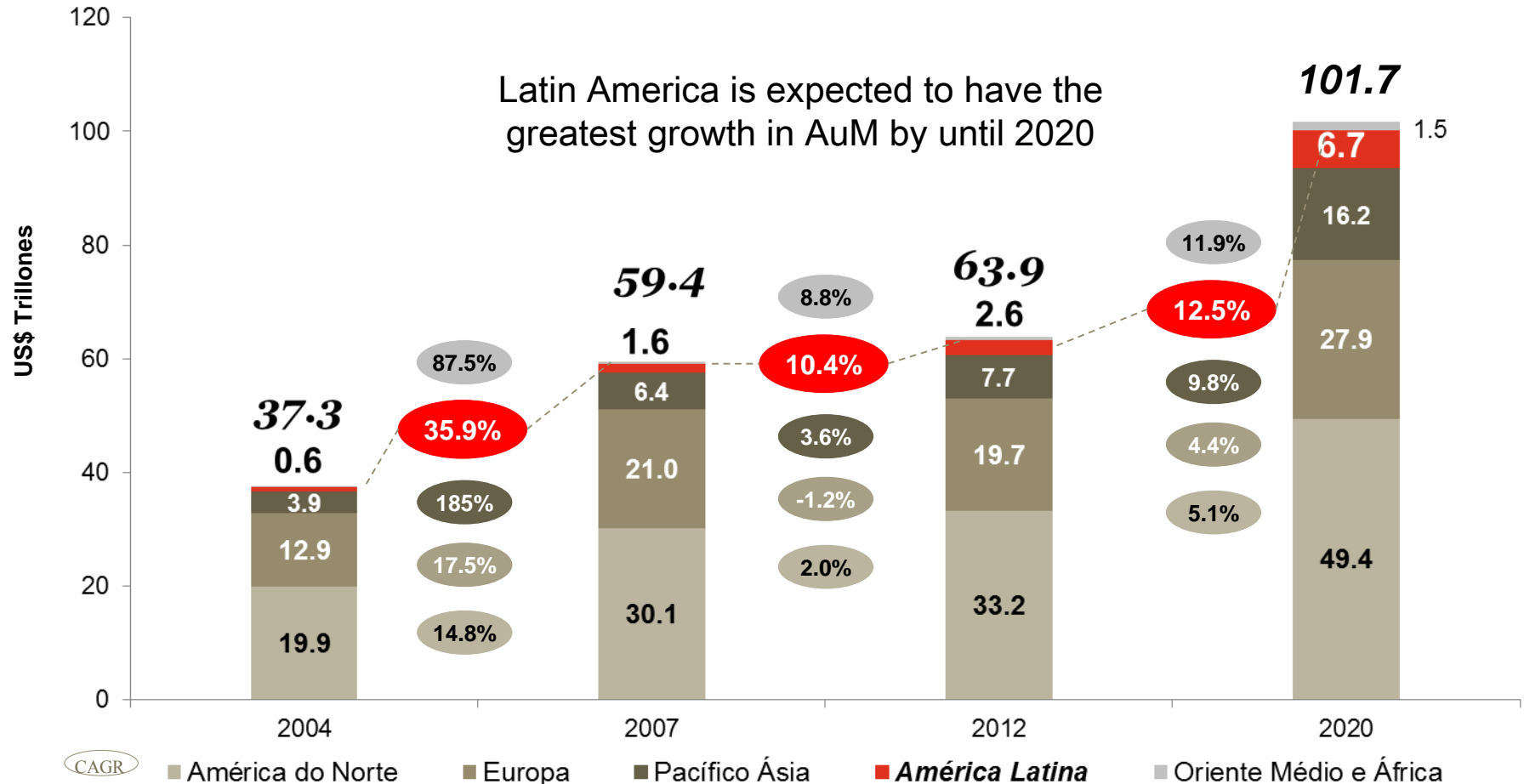


## The possibilities to distribute globally

---

- Notification process under UCITS
- Notification process under AIFMD from 2015
- Private placement

# Expected growth for LATAM (1)



Source: PwC Asset Management 2020  
 Historical data based on Hedge Fund Research, ICI, Prequin, Towers Watson, and the City UK data.

## Expected growth for LATAM (2)

| Country                       | Investment Fund |                 | Pension Fund |                 |
|-------------------------------|-----------------|-----------------|--------------|-----------------|
|                               | AuM (US\$ Bi)   | Number of Funds | AuM(US\$ Bi) | Number of Funds |
| <b>Argentina</b> <sup>1</sup> | 11              | 254             | ND           | ND              |
| <b>Brazil</b> <sup>1</sup>    | 1.019           | 5.618           | 321          | 321             |
| <b>Chile</b> <sup>1</sup>     | 39              | 1.912           | 162          | 6               |
| <b>Colombia</b> <sup>2</sup>  | 23              | 105             | 71           | 6               |
| <b>México</b> <sup>1</sup>    | 121             | 434             | 154          | 13              |
| <b>Peru</b> <sup>2</sup>      | 6               | 52              | 36           | 4               |

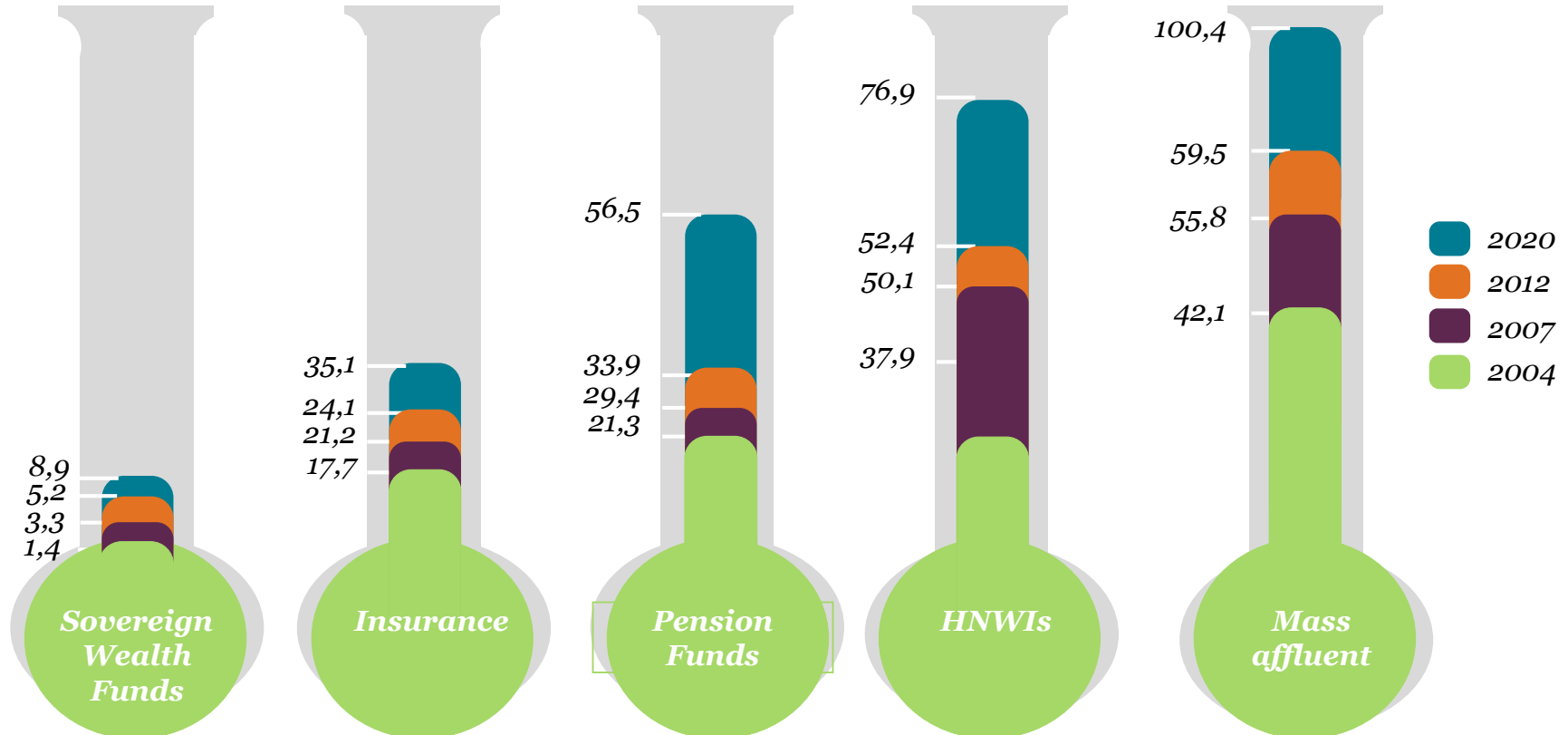
Source :

1 Investment Company Institute (ICI) - <http://www.ici.org/research/stats/worldwide>

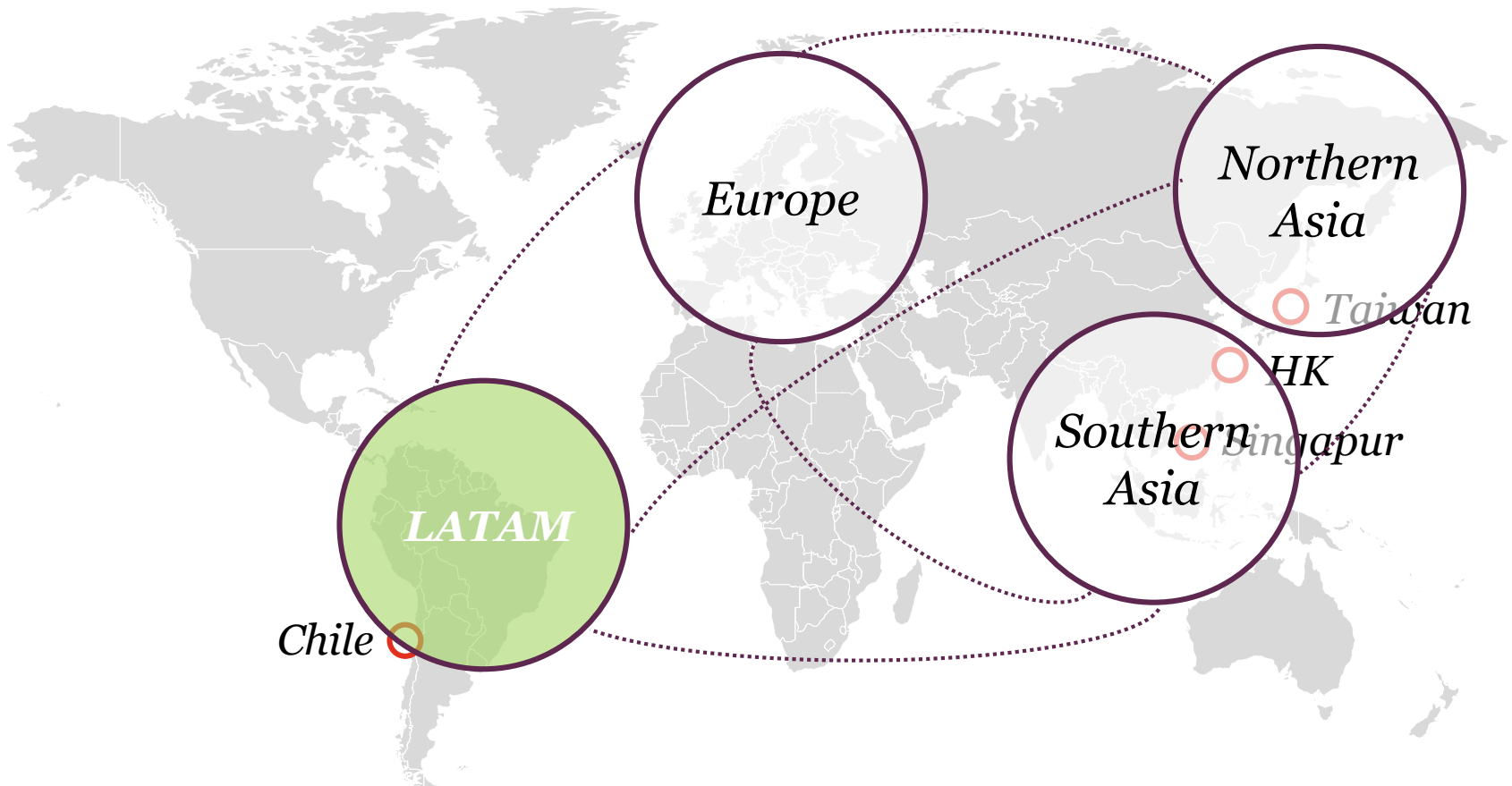
2 Federación Iberoamericana de Fondos de Inversión (FIAFIN) - <http://www.fiafin.org/estadisticasdinamicas.aspx?idRep=PaiTri>

## Need for investment diversification outside LATAM

- Qualified investors will have to seek diversification of their investments outside LATAM



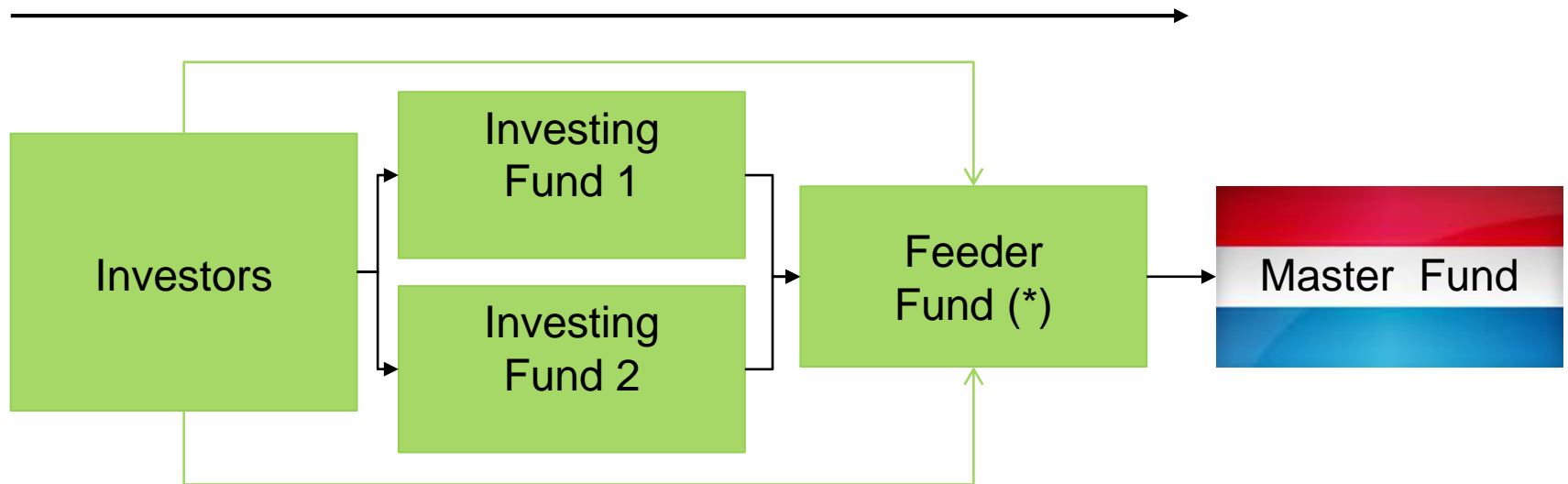
## Expected regional blocs for fund distribution



In 2020 there will be four regional blocs for fund distribution

# Master-Feeder structures

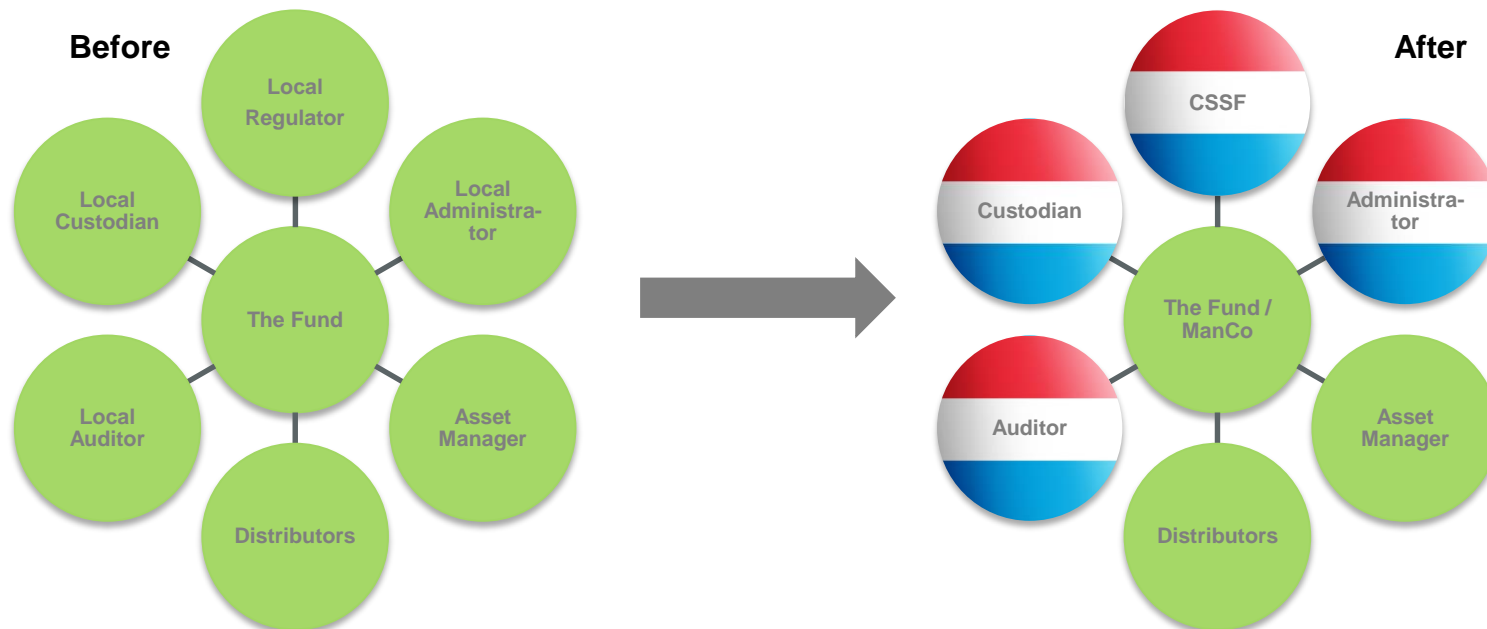
LATAM origin



(\*) Tax rates on capital market income vary widely between LATAM countries

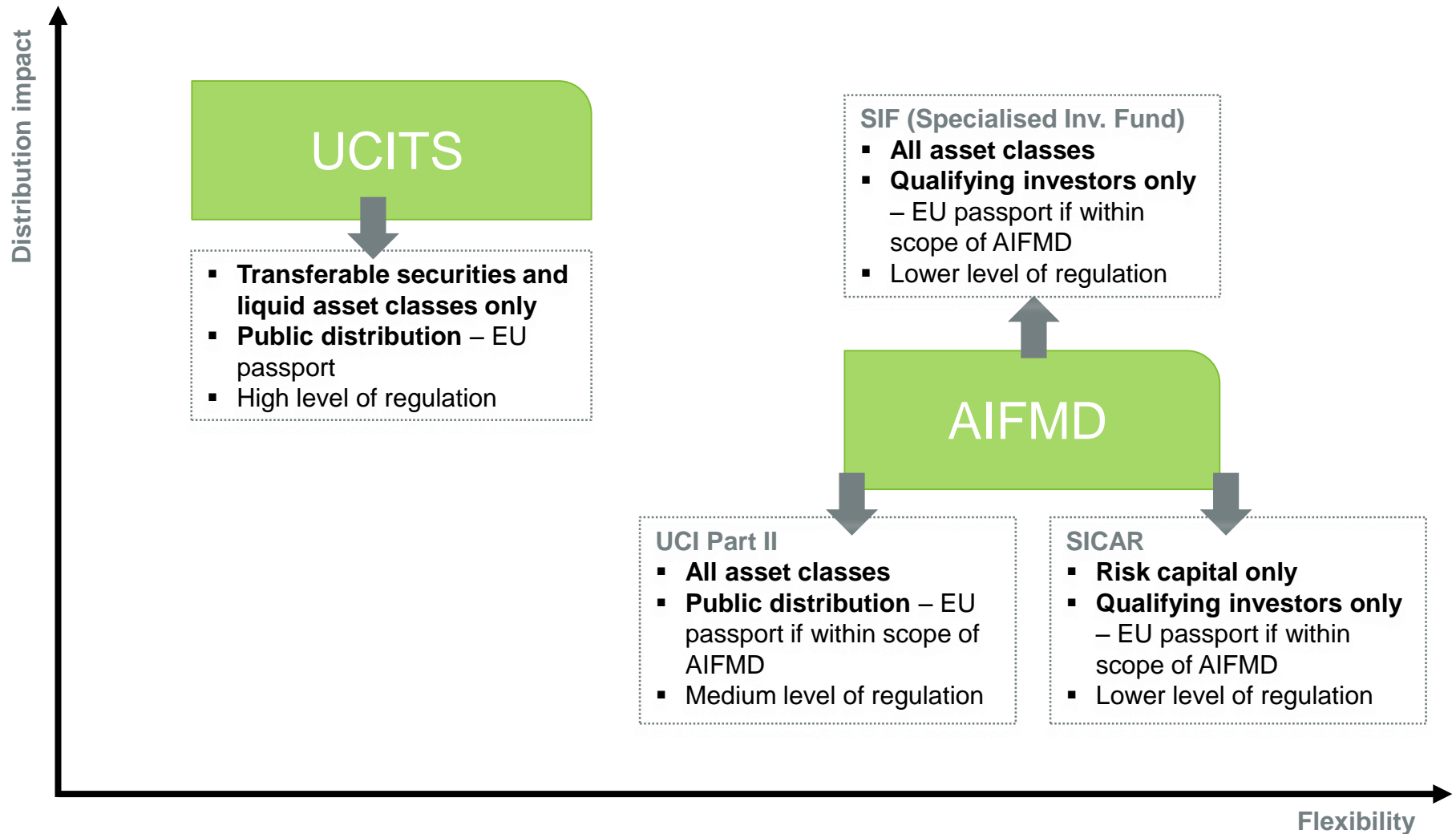
## Luxembourg: your way to Europe

- All type of investment vehicles can be re-domiciled to Luxembourg
- Simple and straightforward options and processes
  - Transfer of the registered office, continuity of legal personality, track record maintenance
  - Contribution in-kind of the local assets/liabilities





# Luxembourg regulated investment vehicles



- **The new LLP in a nutshell:**
  - **no autonomous legal personality**
  - **non-incorporated** commercial companies, created by way of a **limited partnership agreement (“LPA”)**
  - rapid set-up, **confidentiality** guaranteed
  - from a legal and an operational standpoint, **easy to organize and operate**
  - **highly tax efficient**, with a potential total tax neutrality

## Offering a range of products and opportunities

---

- Private equity and real estate funds
- **Environmental, Social, Governance (ESG) funds:** microfinance, impact, infrastructure
- **European Long-Term Investment Fund (ELTIF)**
  - New EU Regulation on long-term investment funds
  - Sub-category of EU AIF, to be managed by EU AIFM
  - Product regulation with detailed investment criteria
  - Available to retail investors
  - EU passport
- **Renminbi Qualified Institutional Investor (RQFII)**

## New range of opportunities

---

- EU level: European initiative for a capital market union (CMU):
  - credit funds
  - loan originated funds
  - strengthening of the passport
  - securitisation
  
- Luxembourg level: constant shaping of the fund industry to reflect market needs, while respecting investor protection rules



# Thank you