Asset & Wealth Management Community

The Monthly Briefing

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17 May 2018

Executive Summary

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Funding the Future

Dariush Yazdani | PwC Luxembourg

Huge financing opportunities and demographic changes are driving Asset and Wealth Managers (AWMs) to the fore of the global financial industry. New opportunities to generate alpha through the financing of real assets will be paramount. At the same time, as the world ages, AWMs are stepping up to the plate to play a larger role in investing for retirement.

This trend has seen infrastructure funds' assets under management (AuM) grow at a 25.9% compound annual growth rate between 2010 and 2016 to reach US$645 billion. With infrastructure growth expected to outpace all other assets up to 2025, and banks' lending activities curtailed by regulations, AWMs are already beginning to fill the funding gap. This gap is only expected to grow as urbanisation and, consequently, the need for facilities, such as transport and water, increases. In Asia alone, the Belt and Road Initiative, is likely to generate up to US$5 trillion in infrastructure investments in the coming years. Another positive impact for the AWM industry stemming from the burden of regulation on banks is the rise of debt funds. We saw AuM of private debt funds grew at a CAGR of 11.3% between 2010 and June 2016, reaching US$595 billion.

Additionally, as populations become greyer, longer life expectancies and low fertility rates are placing increasing pressure on already stretched pension schemes. Some economies are responding by increasing the retirement age and boosting saving incentives. In light of this, we are seeing AWMs moving into the retirement space and providing much needed relief. Across the globe, the switch from defined benefit (DB) to defined contribution (DC) pension plans is a windfall for AWMs and is set to be a large driver of the growth in assets under management up to 2025. The rise of Target Date Funds in the US, whose AuM has grown at a staggering 25.2% CAGR between January 2009 and January 2018, is testament to this.

In fact, we expect that pension funds will account for US$64.6 trillion of client assets. As these funds debate insourcing or outsourcing their asset management, AWMs have the opportunity to show their skills and seize hold of an ever-growing portion of the industry.

21st CEO Survey: What's on the mind of 1,293 CEOs around the world?

"A majority of AWM CEOs continue to report being confident about their company's future revenue over the next 12 months and 3 years."

Steven Libby | AWM Leader, Partner, PwC Luxembourg

Despite concerns about over regulation, geopolitical uncertainty and the disruptive potential of AI, our global survey reveals that CEOs are optimistic about the worldwide economic and business environment.

AWM CEOs expect growth to be organic, and fewer are planning cost cuts compared with CEOs in other sectors. Meanwhile, as the Markets in Financial Instruments Directive II (MiFID II) in Europe, like other similar regulations globally, puts pressure on asset management fees and demands greater transparency, it is understandable that about half of AWM CEO's top of mind concern is over-regulation. Their second concern, at 38% is geopolitical uncertainty, including the impacts of Brexit.

About a third are concerned about cyber threats, speed of technological change and the availability of key 'data science' skills within their companies and industry-wide. This calls into question on how they need to position themselves as value chains get disrupted, and what capital investments they need to make to assure their relevance into the future. AWM CEOs are introducing more flexible ways of working, and modernising the work environment to attract or develop digital talent.

On globalisation, AWMs invest in international markets and 96% see the benefits of flows of capital, goods and people. Naturally, they are concerned about any retreats from globalisation and its multiple economic models. However, only 17% believe that globalisation is closing the wealth gap!

The world economies are buoyant and set the mood for optimism, however, internally there is a lot for individual asset & wealth managers to do to stay relevant and to benefit from future anticipated growth in the sector. The full 21st CEO Survey Report is available at: https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2018

Panel: Fund tax is not only a tax advisory topic!

Moderator: Sidonie Braud | PwC Luxembourg

Panelists:
Alain Guérard | Managing Partner, Mont Blanc Consult,
Benoit Willers | Head of Securities Banking Operations, SGSS,
Richard Marshall | Head of Product, Fundrock Management Company.

"Tax needs to be on BoD Agendas. Tax implications and strategies should be part of the regular discussion."

Benjamin Franklin is credited for noting in 1789 that "in this world nothing can be said to be certain, except death and taxes". Today's certainty about tax, given rigorous reporting requirements, transfer pricing and cross-border trading and jurisdictional differences, is that it is important and complex. That was something that all our panellists agreed upon.

Tax implications (compliance and efficiency), especially in the UCITS Funds world, are important to investors, businesses and fiscal authorities alike. Given its reporting and associated liabilities, tax and reclamation are important elements that warrant special consideration on BoD Agendas and strategies.

Taxation, noted one of the panellists, should be part of BOD training. It would also be advisable for Boards, who have a duty to ensure that taxes are paid, to publish guidance on a Tax Approach as a mandate on Risk Management and Governance. The Tax Approach would include contracts, SLAs and descriptions of roles and responsibilities that span ManCos, AMs, TAs and custodians. As important as a Fund Advisor, it may be equally important to have a Fund Tax Advisor who is aware of all the tax consequences to which a fund may be exposed as part of its distribution strategy.

Tax, 10 years ago, may have been just a process, today the authorities are more exacting. We live in an integrated context of MiFID II transparency rules, industry consolidation, fee pressures and investor expectations. Perhaps with the advent of Blockchain we can build smart contracts that will foster trust and efficiency as transactions proceed through the fund value chain.

Management Companies: Focus on M&A market

Grégoire Huret | PwC Luxembourg

Given the complexity and cost of complying with financial regulations, ManCos provide services related to fund management, regulatory compliance and operations.

In the Luxembourg funds industry, UCITS ManCos continue on their strong employment trend, and currently employ over 4,000 people; having almost doubled since 2011. Similarly, over the same period ManCos have almost doubled their AuM to nearly €b 3,000. Meanwhile, AIFM ManCos continue to replace Self-Managed SICAVs. The average profile of a Luxembourg-based ManCo is that it will have €51B AuM, 23 Funds, 52 staff and 136 Sub-Funds.

Seemingly, life and interest in Luxembourg for ManCos is good. Their valuations are on the rise, and M&A activity is buoyant.

Observatory for Management Companies: Latest Key Figures and Trends

Laurent Carême | PwC Luxembourg

PwC's ManCo Index measures ManCo activities in Luxembourg by considering the growth in the number of UCITS ManCos and AIFMs, the evolution of their AuM, and the number of employees in UCITS ManCos. The index, starting at 100 in 2010, reached 195 points in December 2017 with a 6.3% increase over the preceding year.

SuperManCos, carrying both UCITS and AIFM licenses and constituting 76% of Luxembourg's ManCos AuM, grew their AuM by 11.7%. AuM growth was faster in AIF than in UCITS funds over the past year. According to ALFI, Responsible Investment Funds are likely to grow at a fast pace in 2018. This is encouraging for Luxembourg as it holds 45% of such funds; up from 35% in the previous year. Similarly, the number and AuM Luxembourgish ManCos is anticipated to increase due to companies relocating there post-Brexit.

UCITS ManCos now employ over 4,000 people, building on a rising trend established in 2011, with an 8% increase over the preceding year. For the numbers, Luxembourg has 204 UCITS ManCos (stable), 228 Licensed AIFMs (plateauing) and 124 SuperManCos (plateauing). For the Top 50 ManCo average AuM is €56,988 million, 26 funds, 145 sub-funds and 55 members of staff. The AuM for the top ranking ManCo is €296,028 million.

The major concerns for Mancos, as identified through our annual ManCo survey, are the availability of resources, limitations on delegation models, intrusive regulatory delays, technology developments and the need to increase substance.

For a more detailed snapshot, our 2018 Barometer poster is available at the following site:

https://www.pwc.lu/en/asset-management/docs/pwc-observatory-management-companies-barometer-2018.pdf

Latest recommendations on substance and governance – what should ManCos pay attention to?

Laurent Carême, Olivier Carré & Xavier Balthazar | PwC Luxembourg

"Governance is more than just observing the law. It is about sound decision making and exercise of good judgement in all areas of the board's responsibility."

As of 2017, ESMA considers that "at least three full time employees" are required to provide a minimum level of substance, and these employees are required to be in the areas of portfolio management/risk management and monitoring of delegates.

According to the PwC ManCo survey, 79% of the Luxembourg ManCo respondents expect to add staff in 2018, and 11% expect it to be more than 15%. However, it is not just about adding staff for meeting CSSF substance expectations; the staff recruited should be qualified and involved in core functions (control of delegation, risk management or compliance, typically). Over half of the ManCos have certain automated workflows in place to handle the mix of Portfolio and Risk Management, On-boarding, Compliance and oversight functions.

Even though ManCos delegate Portfolio Management and Distribution functions, they maintain control internally (which is a legal obligation). Survey results suggest that the number of staff dedicated to performing these functions internally ranges from 6 as a minimum, to a maximum of 42.

Internal audit is generally delegated. Risk and compliance is generally not. Compliance and internal audit functions can be delegated as per the regulation. But the CSSF considers that, even if intra-group, these delegations must be (i) documented (procedure and SLA), (ii) controlled and (iii) operated according to Luxembourg standards (work programs, etc.). An initial due diligence before appointment should also be done – even if intra-group. The staff for these functions in the survey set ranges from a minimum of 3, to a maximum of 47.

Regulatory update

Xavier Balthazar | PwC Luxembourg

During the period April 15th to May 15th the notable regulatory updates were:

- **19 April** – The EU Parliament voted on the 5AMLD
- **23 April** – The PRIIPs implementing law was entered into force.
- **23 April** – the EC issued a proposal for a Directive on Whistleblowing.
- **27 April** – There was the first issue of ALFI GDPR Q&As.
- **04 May** – ESAs provided consultation on EMIR RTS amendments.
- **15 May** – The Luxembourg Parliament voted on MiFID II Bill 7157.

Spotlight on a PwC solution

Assistance in the Due Diligence Process

Dimitri Palate | PwC Luxembourg

"Our solution saves time and allows you to focus on risks associated with delegates in the Due Diligence process."

Our solution is designed to assist management companies in the whole Due Diligence process. We develop and distribute web-based questionnaires, analyse the feedback and produce reports that highlight Due Diligence related risks. Our Due Diligence Process solution will help you save time, money and avoid needless trouble.

Join us on
Thursday 21 June
for the next session

Agenda

Thursday 21 June 2018

08.30 – 09.00	Welcome coffee
09.00 – 09.05	***Introduction*** **Christelle Crépin**, PwC Luxembourg
09.05 – 09.30	***Outcomes matters: the 4th key trend of our AWM 2025 report*** **Dariush Yazdani**, PwC Luxembourg
09.30 – 09.55	***Compliance is going Digital: survey and key findings for the AWM Industry*** **Stéphane Rinkin**, PwC Luxembourg
09.55 – 10.20	***Fund Distribution: who is the data controller under GDPR? Feedback from the market*** **Xavier Balthazar,** PwC Luxembourg **Grégory Nicolas,** Head of Legal and Compliance, FundRock Management Company S.A.
10.20 – 10.50	Coffee break
10.50 – 11.10	***VAT group: what you need to know to save VAT on intragroup transactions*** **Marie-Isabelle Richardin,** PwC Luxembourg
11.10 – 11.35	***Brexit: 9 months to go, but to what? How to prepare within such political uncertainty?*** **Christopher Edge** & **Xavier Balthazar,** PwC Luxembourg
11.35 – 12.00	***Regulatory update*** **Nathalie Dogniez**, PwC Luxembourg
12.00 – 12.05	***The last 5 minutes: Spotlight on a PwC solution***
12.05 – 12.10	***Wrap-up*** **Christelle Crépin**, PwC Luxembourg
From 12.10	Walking lunch

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