



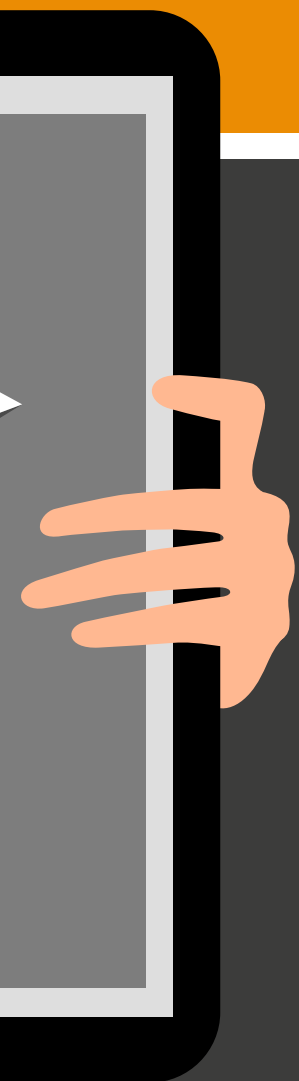
The Luxembourg User Experience in Asset Management

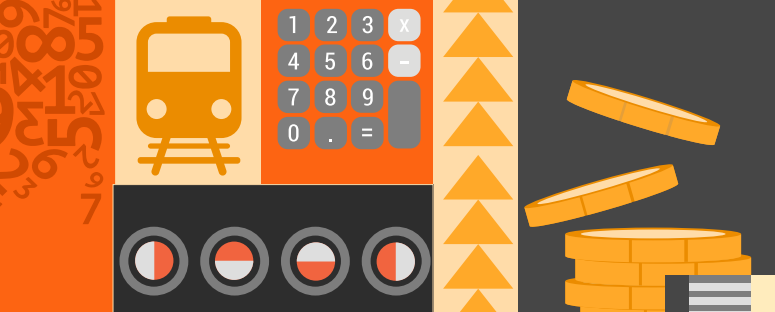




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1

Introduction

Representing the world's second largest fund domicile, the Luxembourgish financial centre has grown past the point of needing an introduction. Within its small borders, the Grand Duchy houses the entire spectrum of the global investment ecosystem – with all major players having long been active in the country.

Given this, it is no surprise that the global Asset and Wealth Management (AWM) industry has established a strong, immutable connection with the country, creating vast networks with the local financial ecosystem and promoting the nation and its products to their investors. This is by no means a unilateral relationship, either, with a recent article from Statec highlighting the extent of Luxembourg's reliance on its financial sector – which has strongly contributed to the country's economic growth. The persistent strengthening of this symbiotic relationship has seen the financial services industry become deeply entrenched within Luxembourg's history and DNA.





Over the years, Luxembourg has developed and acquired the perfect toolset to represent a solution hub for global, regional and local asset managers. Indeed, since the implementation of the UCITS in 1985, Luxembourg's financial centre has grown to represent the product domicile of choice. This growing prominence and sophistication is not limited to the traditional realm either, with recent years also seeing Luxembourg establish a similar foothold in the alternative funds space, as well as developing globally-renowned expertise in global distribution support, oversight and risk management for global fund ranges. This positioning within global and regional value chains has seen Luxembourg's reputation transcend the country's (and Europe's) borders, with the beneficiaries, asset managers and investors – the users of Luxembourg's solution set – often being based outside the country.

This paper represents a collaborative effort among the main asset managers active in Luxembourg, with the active participation of PwC. We have gathered insights from more than 30 participants, headquartered in Belgium, France, Germany, Switzerland, UK and the USA. Together they represent about 2/3 of the Asset under Management in the Luxembourg UCITS market. Our joint ambition in

the development of this paper was to assess the 'user experience' of those who rely on (or contribute towards) Luxembourg's solution set. In doing so, we hope to draw attention towards areas of strength and improvement, as well as identify potential for future development. In this regard, this paper represents a very large scale "Client Satisfaction Survey" of the "users of Luxembourg Inc.". It was important to all participants to hear the voice of the "real user" – the teams and individuals who are "domicile selectors".

In our view, this paper is only the starting point of a larger journey. After the present assessment of the wider satisfaction level of the global AWM community, we propose to develop actual work streams. Indeed, the key strength of "Luxembourg Inc." has always been the common aspiration of the actors to continuously contribute to the financial centre's sustainable development.

In Section 2 we summarise the feedback on the present solution set. Section 3 sets out recommendations and asks from the participants in order to further enhance the user experience and resolve any identified shortcomings. In the conclusion, we propose a series of workstreams in response to the feedback collected.

Our Approach

Over a period of four months, we conducted more than 30 interviews with the global senior management of the top 50 asset managers operating in Luxembourg. During the discussions, participants openly shared their insights and experiences, covering the advantages, shortcomings, opportunities and challenges they have experienced while operating in Luxembourg. We asked for their plans regarding their Luxembourg footprint, their views on talent, infrastructure, quality of life, service providers, the regulator and associations in the country, and we also asked them to benchmark their experience with respect to other financial centres.

To ensure unfiltered views and opinions, we agreed to anonymise all participant contributions. That being said, it became largely evident throughout our discussions that there is a large consensus between the participants in terms of key strengths and shortcomings, as well as opportunities and needs for improvement. The conclusions of this interview series can therefore be considered as a consolidated voice of a highly representative group of major asset managers active in Luxembourg.



2

Why Luxembourg? Key drivers for bringing products to the financial centre

In this section, we set out to highlight the distinct features that have contributed to the widely held “user” perception of Luxembourg as one of the most attractive global financial centres in terms of setting up products and operations.





Luxembourg's strong and stable political environment

Luxembourg's **triple A rating**, combined with its historical political and economic stability, creates a sturdy regulatory landscape that provides a high degree of investor confidence and certainty. Indeed, Luxembourg ranked 2nd out of 128 countries in MIMCO's 2019 political stability ranking. The smooth economic, social and financial policies are of great comfort to all companies and their investors. This unique characteristic of Luxembourg compared to other EU countries remains key for all interviewees, whose investors see Luxembourg as a safe place to invest as a result.

Luxembourg's government is strongly cognisant of the financial centre's contribution to the overall economy. Significant efforts have been made to diversify the country's economy and, while this may have resulted in a rebalancing of priorities in recent years, major trends in the AWM sector receive political backing. This includes the implementation of the UCITS directive many decades ago, establishing a competitive framework for real asset funds and establishing the country as a leader in the global ESG space.

Stable regulatory environment

Luxembourg's strong and stable regulatory environment represents one of the country's primary draws, with the country's well-regulated and well-managed market being a common point of praise among our interviewees. In particular, the country's geographical and diplomatic proximity to the EU institutions has proved essential in ensuring **ongoing alignment with EU regulations** – not only in terms of attaining regulatory compliance, but also in actively leveraging regulatory opportunities.

This alignment is key, enabling Luxembourg-operating companies to market their products all over the globe, all the while **ensuring investor protection through the provision of safe and regulated products**. The prominence of Luxembourg-domiciled UCITS, as well as the rapid proliferation of RAIFs, is a testament to the advantages reaped by the country's effective and proactive regulatory performance, with these products' security, short time to market, and favourability in terms of international distribution proving highly attractive to investors. This investor appetite is not solely limited to European investors, either, and in fact transcends continental borders – with Asian and US investors alike demonstrating unanimous demand for Luxembourg-based products in order to access the EU investor-base.

Expertise of the regulator and connection with authorities

Overall, our interviewees viewed the expertise of the CSSF as a major advantage to their everyday operations. Although certain concerns were raised regarding challenges faced by the regulator as a result of rapid staff growth, the vast majority of interviewees praised its expertise in all fields. Their level of technicity in particular was cited as a distinctive feature.

The players we interviewed also highly appreciated **the accessibility and responsiveness of the Ministry of Finance**, which creates a valuable connection that is rare in comparable financial centres. These players feel recognised and actively listened to as a result.

The AWM sector is currently facing two major market disruptions: the first being the outbreak of the COVID-19 pandemic in 2020, and the second being the immediate and knock-on effects of the Russia-Ukraine conflict earlier this year. Our interviewees highly value the approach taken by the CSSF in both situations. The regulator was diligently assessing the market, including issues faced, risks resulting for investors and the AWM sector. The actions taken on that basis were widely considered to be supportive of investors, while also taking into consideration the concerns of Luxembourg actors. At any point in time, the regulator remained highly accessible and proactive, which our interviewees found key to steer these situations.

A one stop shop with a clearly defined solution set

Luxembourg is also perceived as an extremely holistic, resourceful financial centre – containing the full spectrum of the financial ecosystem within its small borders. The country is home to an **extensive network of global players who lead in their respective fields** (banks, asset servicers, fund admins, ManCos, lawyers, and even translators) that enable AWM players to uncover and leverage opportunities and solutions in a timely and streamlined manner. This ultimately creates a **network spillover effect, in which every single financial player benefits from the presence of its peers** – further bolstering the country's reputation across the global AWM landscape.

In fact, what makes Luxembourg's vast investment network so unique is that it extends across the entire investment ecosystem; boasting the expertise to serve all asset classes – from traditional UCITS to Private Debt funds and all kinds of specialities in terms of countries, distribution or products focus. Across this wide range of products, Luxembourg's service



providers' dedicated expertise makes it such that they are able to provide services to IFM and AIFM organisations; regardless of asset classes specificities.

These conditions ultimately enhance the Luxembourg financial centre's strategic positioning, as it is widely/internationally accepted that when a product needs to be set up, choosing Luxembourg guarantees that you'll easily find all the service providers needed. One French interviewee, for example, solicits Luxembourg-based lawyers for issues regarding complex products targeted for the French market as they are likely to have already faced this type of situation – while a French lawyer is only able to tackle more mainstream questions.

Recent years have also seen Luxembourg developed widely recognised core competencies in the AWM area, particularly in the realms of oversight, control, risk management, KYC/AML. While these areas have long been regarded as less important factors in AWM value creation, they are today considered as absolutely crucial by many interviewees. They have expressed their recognition for the competencies developed in Luxembourg, with several respondents stating that the profiles available in Luxembourg cannot be found abroad.

International Distribution Hub

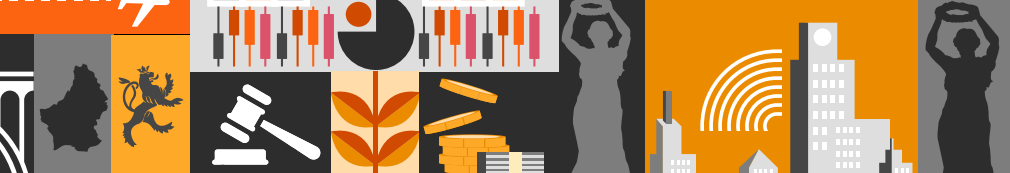
Luxembourg is a truly cross-border fund centre, with the international distribution process being far smoother when coming from Luxembourg. Indeed, the legal structure of the Lux-based products is specifically engineered to facilitate cross-border distribution - which is not always the case of French or German products. Our interviewees attest to this, with the vast majority confirming that the cross-border distribution process of their Luxembourg-domiciled product shelves is significantly less burdensome than that of their internationally domiciled products. Further, the aforementioned vast network of service providers specialised in international distribution, as well as the linguistic competencies of the workforce, further boost the comparative advantage of Luxembourg in this regard. Given this, it is no surprise that Luxembourg-domiciled cross-border funds accounted for 57% of total cross-border fund registrations in 2021 – attesting to Luxembourg's key role as a fund domicile.

A key driver for launching products in Luxembourg are investor preferences. Luxembourg funds are well known by investors and investment committees around the globe. The RAIF stands as quite possibly the most widely told success story in recent years, being recognised today among investment committees as the standard vehicle for investing in private assets. Interviewees mentioned that joint promotion activities of the financial centres are rarely targeting investors. Extending the target audience by promoting Luxembourg-based solutions could stand to further enhance this solution; particularly given the emergence of recent trends – such as Luxembourg's aspiration to be the domicile of choice for ESG related solutions.

A pool of international talent

Despite its minute size, Luxembourg is home to a **wide, multilingual pool of talent with strong competencies in areas relevant to the AWM industry.** Our respondents have strongly emphasised the fact that Luxembourg's strong, diverse and highly skilled workforce is highly conducive to further enhancing the positioning of its AWM industry. While talent availability has historically represented somewhat of a hindrance to the country's workforce development, most of the industry leaders we interviewed have observed a notable improvement in terms of talent attraction and retention in recent years (although the constraint remains for German speaking staff) – with Luxembourg drawing an ever-increasing number of international students with a finance background. Last but not least, the multicultural environment is very positively perceived, contributing to the productivity of the sector and the positive attitude observed in Luxembourg businesses.





Given Luxembourg's abovementioned important and distinctive features, the country's financial centre can be summarised through three key characteristics:

- **An international reputation:**

Luxembourg's strong reputation among global financial players and investors alike, along with its effective branding and communication efforts, have all contributed to the widely held perception of the Grand Duchy as an international financial hub of excellence; subsequently representing an attractive place to work for young finance professionals;

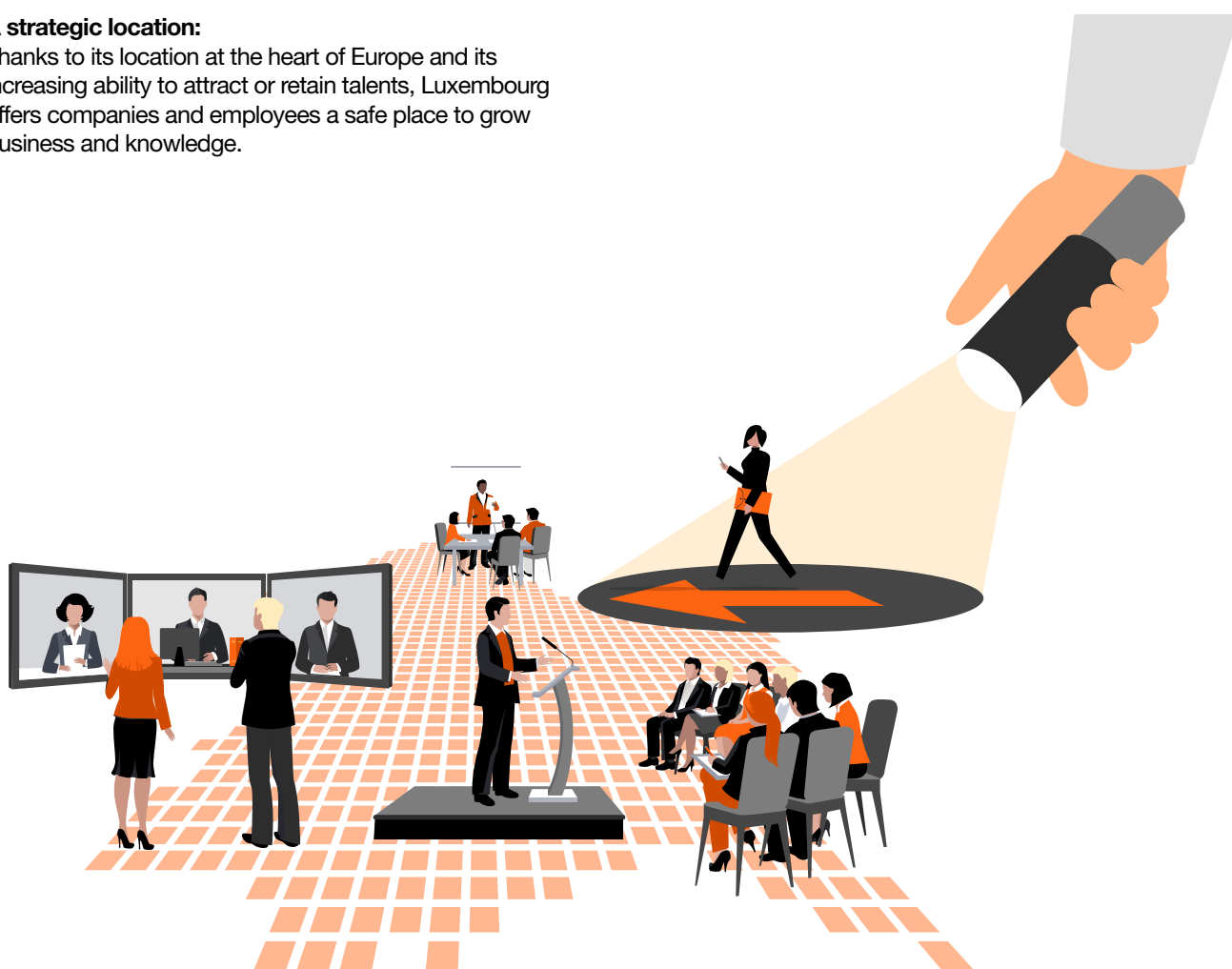
- **A place to capture trends:**

What matters is the unique ecosystem of experts based in Luxembourg that enable AWM players to identify upcoming trends, capture innovative ideas, and set up added value products through their Luxembourg operations;

- **A strategic location:**

Thanks to its location at the heart of Europe and its increasing ability to attract or retain talents, Luxembourg offers companies and employees a safe place to grow business and knowledge.

Strategic considerations and objective advantages notwithstanding, one would struggle to overstate the **emotional connection** that Luxembourg-operating companies have built with the Grand Duchy. While difficult to quantify, the fact remains that – whether they come from the US, UK, Germany or France – all of the CIOs/CEOs we interviewed (and their staff) share the same experience. At first, they were not particularly enthused to live in Luxembourg. And yet, years later, they remain in Luxembourg – singing the country's praises for the high quality of life and job satisfaction it provides. Some of the AWM leaders we interviewed have developed such a strong connection with Luxembourg that they have found themselves defending their local expertise and added value to their HQ despite rising concerns in certain areas.





3

Future-proofing Luxembourg's value proposition

Despite these above-mentioned advantages and positive characteristics, complacency is not in Luxembourg's DNA – as the Grand Duchy constantly seeks to reinvent itself alongside the winds of change. Indeed, there remains potential for further improvement – potential that must be unlocked in order to ensure the long-term prosperity of its financial centre and, subsequently, the long-term success of its economy.





3.1 Tactical Actions

Do good things and speak about it

It goes without saying that Luxembourg bears all the hallmarks of a truly innovative AWM centre. However, our interviewees believe that more could be done to market these characteristics internationally, broadcasting the Grand Duchy's various characteristics – namely its unique combination of technical and linguistic skills that represent the perfect toolbox for a centre of back-office excellence.

While dedicated organisations with the mission of promoting the Luxembourgish fund centre (such as Luxembourg for Finance and ALFI) already exist, our interviewees suggest further enhancing the marketing of Luxembourg – especially in the competencies in which it maintains a strong foothold – namely sustainable finance. Indeed, **Luxembourg already has a strong reputation in the ESG area** with Lux Flag and the Lux Green Exchange being important factors that bring credibility to Luxembourg as a sustainable finance centre. Further, **Luxembourg also boasts significant private market expertise** – especially in the private equity, real estate and infrastructure fund realms. In this context, additional marketing initiatives that can enhance Luxembourg's visibility in this area would be beneficial.

A number of interviewees also mentioned the bountiful opportunities that could arise from further **supporting asset managers (particularly those from the US) in establishing operations in Luxembourg** – informing them of the various benefits they stand to reap and actively supporting them in setting up their businesses. Regulatory questions notwithstanding, the above-mentioned entities charged with promoting Luxembourg could focus even further on business model and support queries coming from local businesses to help promote Luxembourg to their headquarters.

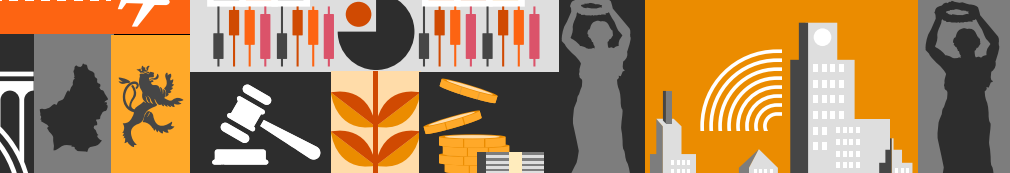
These entities can also play an active role in bolstering Luxembourg's talent attraction. While they are doing a remarkable job in promoting Luxembourg as a location for corporate domiciliation, further effort could be undertaken to bolster the perception of Luxembourg among young professionals – thus enhancing the diversification of financial profiles present in the country. This could be done through social media campaigns or innovative events based in Luxembourg.

Last but not least, Anti-money laundering (AML) requirements are causing a significant administrative burden that translates into increasing business costs for the large majority of financial actors. In this particular area, there is a unique opportunity for Luxembourg to stand internationally as an innovative and attractive place, in full compliance with the highest AML standards. This consists in establishing, through one of the entities in charge of the "Place Financière", a **Central Repository** through which all institutional clients (which currently account for the majority of the clients) would deposit all necessary legal documents. A dedicated agency would then check, approve and monitor the renewal of documents, and give access to these documents to all their business providers under defined conditions. This would create significant economies of scale, and position Luxembourg as an extremely safe and efficient centre for financial business.

The financial centre and its players have done an outstanding job in promoting the Luxembourg AWM toolbox to its peers around the globe. Indeed, there was a common consensus among the participants in this report that, in today's environment, the choice of the investment vehicle and its domicile is more than ever driven by investors. UCITS has become a global brand, the RAIF is on its way to achieve the same recognition in the alternative asset world. In light of this, it will become increasingly pivotal to target investors and investor groups through promotion efforts in order to attain a comparable predominance in more innovative solutions, such as ESG related products, ELTIFs (which will be a far more attractive product under the revised directive presently drafted) and many more. Some "users" also propose to extend the promotion of the financial centre to an ever wider group of stakeholders. This includes, but is not limited to, organisations and supervisory authorities in international distribution markets.

The AWM sector in Luxembourg is an outstanding success story, which has brought many jobs to the country and played a key role in the economic development of the last decades. The industry remained rather discrete on its crucial role and bundled promotion activities to its target markets. It may be surprising that the wider population in Luxembourg is not even aware of the contributions of the AWM sector to the country's development. Some of the (strategic) actions set out below require fundamental changes, which in turn require a wide endorsement. To make this happen, it is crucial that the AWM place lobbies its key stakeholders, Luxembourg's population.





Attracting talents

Although Luxembourg's ability to attract and retain talent has improved substantially over the years, there remains significant potential for improvement – the unlocking of which will prove absolutely essential in guaranteeing the sustainability of the country's economic growth. Indeed, a number of concerns were raised among our interviewees with respect to the attraction of talent to the Grand Duchy – with technology, portfolio management and risk/compliance profiles remaining few and far between.

In light of this, three key areas have been identified:

PROMOTION OF LUXEMBOURG AS A PROMISING JOB MARKET

Although Luxembourg's ability to attract and retain talent has improved substantially over the years, there remains significant potential for improvement. Luxembourg has a very small domestic pool for recruiting young talents. Despite its prominence in the global AWM sector, Luxembourg as a workplace and the AWM sector are rather unknown by students. Hiring and promotion activities are made today by players individually. This issue could be addressed through **enhanced communication and marketing targeted towards German universities**. Overall, it could be further communicated to recent University graduates (both in Europe and elsewhere), that Luxembourg can be a springboard to their career. The University of Luxembourg is already a formidable avenue to attract young international people in Luxembourg.

EDUCATION

The skills and staff members needed to run a well-oiled AWM sector have changed dramatically in recent times. Two decades ago, Luxembourg had a huge work force of fund accountants. Today, however, this job profile no longer exists. As pointed out by our "users", Luxembourg is seen as a global hub for high value oversight, risk management and distribution functions – activities which require dedicated skill sets that are hard to recruit. Many discussions have taken place in recent years on implementing education streams in order to overcome this issue e.g with the University of Luxembourg. If the players want to make full use of the present growth opportunities, they should "put some skin in the game" and take concrete actions in a joint / coordinated fashion, including funding initiatives with resources and money.

One concrete action to boost the visibility of Luxembourg for talents would be **the development of a Luxembourg CFA**, potentially with a sustainable finance dimension. As digitalisation quickly redefines the AWM industry, tech profiles will be increasingly needed. This could be relevant to already **develop upskilling/ graduate programmes able to attract tech talents** to Luxembourg.

WORKPLACE OF THE FUTURE

Today's talents developed new expectations in their workplace of choice. They require flexibility in terms of their place and time of work. They expect to work for a purpose driven organisation. They are seeking a totally different "work life balance".

Luxembourg has much to offer to respond to these evolving needs. However, little initiatives are made to promote this offering. Still, some of these expectations don't find an answer in today's work environment. The COVID-19 pandemic has enhanced the need to deal with these challenges.





Strengthen the communication with financial players and adopt agile regulation

Luxembourg's regulator has long been widely recognised and commended for its expertise and pragmatism. Our interviewees reflect this sentiment, praising the regulator's technical knowledge and efficiency in reacting to rising workload pressure resulting from the rapidly expanding financial centre, as well as the challenges related to staff growth in recent years. That being said, the relationship with the regulators could benefit from further enhancement, particularly for EU players:

RESPONSIVENESS

Time to market is absolutely key for all interviewees. This explains why RAIFs have been so successful. In years gone by, the regulatory approval process for the creation of a sub-fund/modification of a fund's strategy took between two to four months. Today, some players are seeing the process take over six months. This is detrimental to the end investors, giving rise to inefficiency and uncertainty. In some cases, this has resulted in a number of third-party managers or asset managers from the HQ complaining to their respective ManCo. Should this issue remain unaddressed, this could eventually result in a decrease in the legitimacy of Luxembourg branches in the eyes of HQs and investors alike.

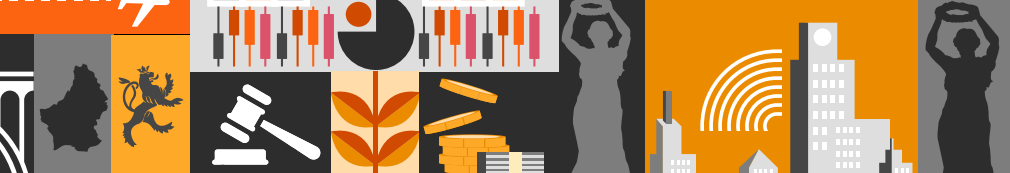
One potential solution could be to introduce a **"fast track" process** at the CSSF in which applicants are provided with a guaranteed product validation timeline and deadline, at least for standardised products. This fast-track may exist for certain ManCos who have been able to prove their diligence and rigour when submitting any requests to the regulator, showing that professionalism must go in both directions. The **standard prospectus** represents another hopefully promising example of the efforts that are being made to simplify processes. Further, ensuring smooth human resource back-ups would alleviate the time spent on regulatory processes.

CLARITY

The clarity issue is two-fold. Some players need further overall guidance and would really appreciate the regulator making further effort in its communication regarding the implementation of circulars, rules, etc. such as in the recent case of the long form reports. The recommendation here is to further strengthen the dialogue between the regulator and the industry to avoid misunderstanding and overcome inefficiencies on both sides. In addition, the establishment of a forum in which experts can exchange ideas on technical topics would be very welcome, be it an existing association or another intermediary. The second area relates to the question/answer process between the fund/ManCo and the CSSF. There has been some deterioration in the clarity and efficiency of CSSF communications in recent years. Previously, the ManCo would request CSSF approval for the creation of a fund, to which the regulator would reply with a list of questions; the responses which would form the basis of a final decision. Today, however, the CSSF sends queries several weeks apart – causing delays, uncertainty, and frustration, with the feeling that the treatment of business queries depend more on who deals with the request rather than the content of the request itself. A simplification of the e-desk, as well as the implementation of formal procedures to enhance transparency in the treatment of the requests, would be very welcome in this regard. This would also ensure that improvements are being assessed and implemented on both sides.

PROXIMITY

Proximity with the Luxembourg regulator once stood as one of the Grand Duchy's most appreciated characteristics among European ManCos. However, recent years have seen growing concern that these ManCos are receiving less support from the regulator than has previously been the case. This is hard to quantify, but EU players have generally observed a deterioration in the quality of service, with the impression of a reduced proximity with the regulator. In this context, there is a clear need for EU financial players to feel like that their business needs and constraints are being recognised by the regulator, along with the value they bring to the overall economy.



3.2 Strategic Actions

Dealing with the cost of living

Cost of living and talent attraction are inherently intertwined. Indeed, Luxembourg's high salaries were once the primary attraction for prospective professionals. While salaries have continued to increase (with Luxembourg in fact boasting by far the highest minimum wage in the EU), rising costs of living have undermined this. In particular, **rising housing prices and fuel prices have seen purchasing power drop substantially**, and inflationary pressures appear to be here to stay in the current geopolitical environment.

The solution to this issue likely lies in a strategic rethink of the fiscal treatment of Luxembourg's companies and workforce. Neighbouring countries have already adapted their corporate tax rates, but Luxembourg has yet to do the same – potentially compromising its attractiveness in comparison to these countries. Similarly, Luxembourg's labour tax has also become decreasingly competitive with respect to other countries, who have undergone reforms to attract talent.

As such, we believe that, given their strong impact on business and workforce attraction, Luxembourg's cost of living and labour costs need to be closely monitored. Not only this, but further efforts to reduce the material impact of these costs could further serve to alleviate this issue. Indeed, the current perception from other EU financial centres is simply that Luxembourg's salaries and real estate costs are much higher, thus negatively impacting employers. However, many are not aware that the Grand Duchy's Social Security framework limits the overall cost burden on employers.

In this respect, the **indexation mechanism** is not always seen as the most appropriate tool to compensate for the rising cost of living. Indeed, while salary indexations represent an effective social protective measure for lower-salaried workers, they fail to address the talent attraction issue among high earners; often just resulting in increased human resource costs. In light of this, the removal and replacement of the indexation mechanism among high earners in exchange for more targeted support – such as subsidy mechanisms for young workers or additional childhood support – could represent a promising solution to the cost of living issue.

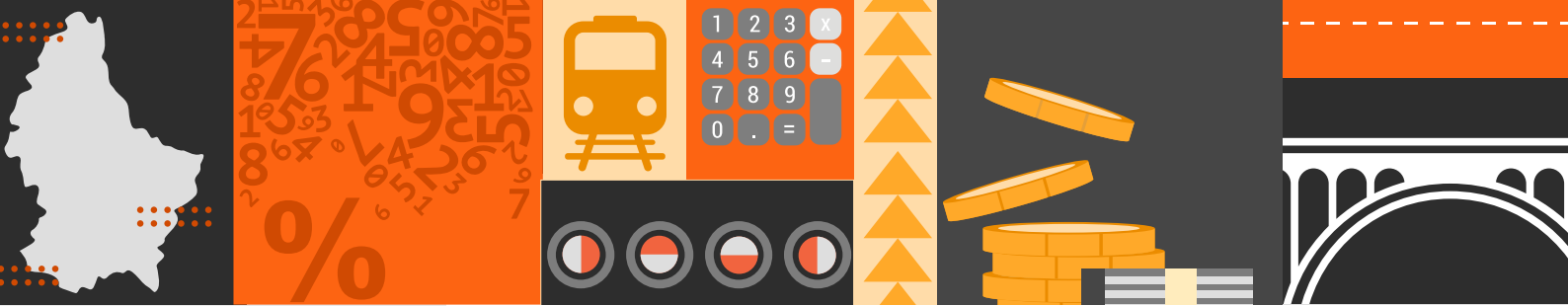
Home-based working (HBW) could represent an additional promising solution to this issue. By now, we know that home-based working is here to stay, and is highly appreciated by staff. Thus, allowing HBW could help to ease rising living costs. Although we are aware that certain sectors of Luxembourg's economy may benefit from cross border workers coming to Luxembourg every day, innovative solutions that effectively combine HBW while ensuring the protection of these sectors may materialise. Further, the HBW debate should also be considered in the context of the trade-off between short-term benefits (the protection of certain industries) and long-term objectives (the protection of the overall business environment and employment). There is a widespread recognition that negotiating the tax treaties with the neighbouring countries and dealing with the social security issue will be challenging. Nevertheless, it remains extremely important for all the players we interviewed. In the meantime, co-working spaces at the borders could be a transition solution worth exploring.

Review the cost of doing business

Luxembourg is seen in the world as a centre of excellence in financial services and believed to be a low tax jurisdiction. However, "users" put forward that the present tax environment makes operating in Luxembourg rather costly. The effective tax rate is seen as being higher than in other domiciles, such as the UK and Ireland. Even the *taxe d'abonnement* with its extremely low rate is seen as a spanner in the works of this high performing and attractive product landscape. Finally, high taxes on income make other jurisdictions preferable to sought after key talents.

Interviewees have clearly expressed that they don't have an expectation that Luxembourg will become a low tax country. All contributors perfectly consider that this would not fit into today's world. What is brought forward is an expectation that Luxembourg aligns to comparable onshore centres and ensures long term stability in its tax policy.





Leveraging on forthcoming trends

Last, our interviewees have also mentioned specific markets trends for which they believe Luxembourg is in the perfect position to leverage and grasp the related opportunities:

1



The rise of Alternatives and the access to retail investors

Recent years have seen AWM players flocking into the alternative space with near-unprecedented commitment and determination. This has catalysed a veritable surge in Luxembourg-domiciled Private Market (including real estate, private equity, private debt and infrastructure), which has surged at a CAGR of 34% since 2015 to reach 625.2 bn EUR in 2021. Further, the Private Markets space seems to be poised for further growth, with current inflationary tensions and increased regulatory democratisation of the sector set to propel the industry to new heights. This represents a significant opportunity for Luxembourg, which is extremely well positioned to reap all the related benefits. In light of this, Luxembourg should actively promote its strong PM value proposition in the area over the EU and globally. Of course, a timely transposition of the EU regulation would also be key.

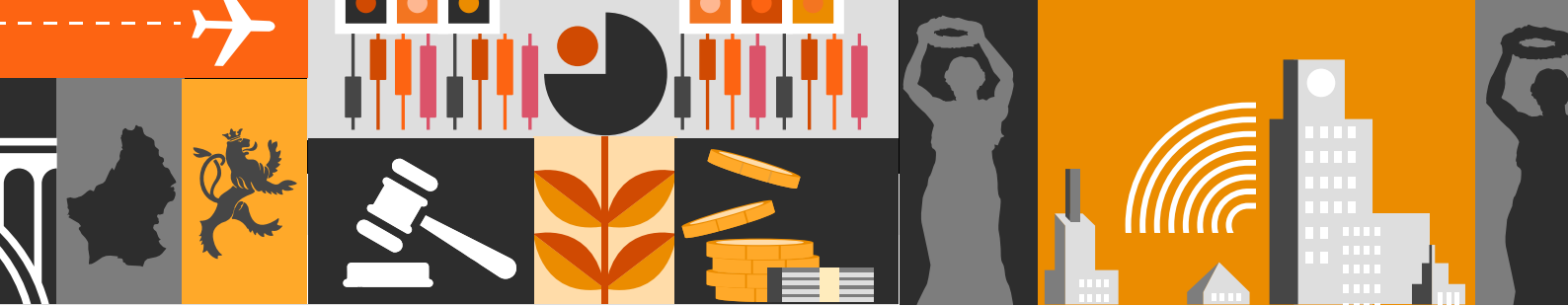
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Long-term investments

There is a need for long-term investments, coming from both the end investors (especially institutional investors) and the policy makers to transition to a sustainable economy. In this context, ELTIF have a real potential to take off if the upcoming regulation solves the current hurdles of this type of funds. Luxembourg must monitor all developments in this area to be able to satisfy investors' needs in the coming years and be fully aligned with the EU investment agenda.





3



ETFs

It is a pity that Luxembourg has lost its appetite to position itself firmly in the ETF space. Indeed, Ireland is the place of choice due to the double tax treaty with the US, and the fact that ETFs are widely offered by US entities. Nevertheless, there is a risk of losing expertise in the passive investments space that has been on the rise. This is why Luxembourg should also make an effort to attract passive players which would prove as a way to maintain a certain level of expertise on passive investments and support the quality of its ecosystem.

4



ESG

The *taxe d'abonnement* on ESG assets has created a lot of expectations. However, the reform may have been introduced too early, in the absence of a clear EU framework. As a result, it has given rise to many complications and very limited results. It is therefore suggested that Luxembourg needs to be reactive once the EU clarifies these rules and adapt accordingly and effectively. In the past, Luxembourg has managed to demonstrate its proactiveness in sustainable finance by issuing the first ever green bond in 2007. The next steps would consist in making sure that Lux Flag can turn into a recognised ESG label and that the reduced *taxe d'abonnement* is fully in line with the upcoming EU ESG standards.

5



Tokenisation/DLT

Expected to come into force in 2023/2024, the proposed markets in Crypto-Assets regulation represent a stepping stone towards a coherent and innovative crypto-assets regulatory framework. For crypto assets to develop sustainably, a number of challenges will need to be overcome, namely environmental concerns, AML risks and the systemic risk associated with this new asset class. This notwithstanding, the underlying technology presents key opportunities – such as tokenisation – that present significant potential, especially for financing and trading real estate assets, or DLT technology that could transform the current market infrastructure. These new technologies will be key in resolving the overall competitiveness challenge, which has seen an ever-increasing number of players outsourcing functions due to rising costs in Luxembourg. These technologies can help players to extend their activities into new activities with greater added value.



4

Conclusion

All the various actors being connected and working together on evolving the financial center was always a major strength of Luxembourg. The sector has worked as a tight-knit team for decades. The open exchange with the “users” of Lux Inc. – senior professionals from global AWM organisations – was insightful, challenging, and constructive at the same time. It showed that the perception of the value and strengths of Luxembourg has evolved over the last years. Conclusions can be grouped by “Quick fixes” and more long-term objectives.

Quick fixes

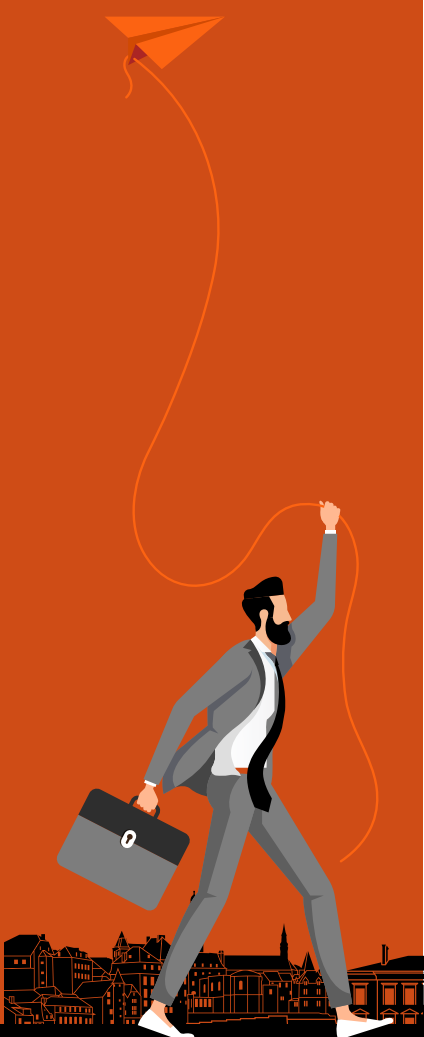
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Some quick fixes

In the very short-term, we highly recommend some quick win actions that would serve to help financial players in their daily operations, while simultaneously heightening the global perception of Luxembourg as a safe, attractive, compliant and innovative financial centre.

- Simplifying certain procedures for Management companies in order to align with the practices of neighbouring national authorities (streamlining the sub-fund renaming process, for example);
- Introducing a fast track for standardised products as far as possible under current regulatory conditions;
- Reforming the reduced *taxe d'abonnement* to fully consider SFDR Article 8 and 9;
- Taking an active stance towards EU harmonisation regarding the use of qualified signatures;
- Revisiting existing working groups bringing together governmental representatives with business and the regulator to increase focus on the further development of the Asset Management centre or if more appropriate establish a small group entirely dedicated to business development.





Long-term objectives can be summarised in three main groups: **a) Communicate strengths**: the financial center has evolved and is continuing to do so. It has a series of highly appreciated solutions on offer. We should speak about those. **b) Tactical upgrades**: those twist mainly around the evolving workplace and the changing expectations from young talents. Luxembourg is not only attracting major asset managers but also key talents. This attractiveness should be increased jointly to ensure that we can continue to grow along with the significant opportunities. **c) Strategic developments**: those cover well-known challenges, such as cost of living and the global evolution of the tax framework.

Long-term objectives

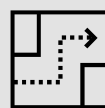
2



Communicate strengths

- Intensify marketing activities towards emerging markets;
- Sharpen the message around today's key strengths – namely oversight, risk management and distribution functions;
- Market the financial centre and its solutions directly to investors;
- Lobby at home – illustrate the significant contribution of the sector to Luxembourg.

3



Tactical upgrade

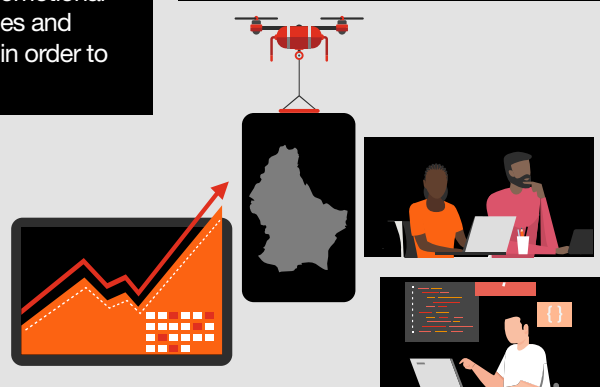
- Assess opportunities to enhance education solutions in Luxembourg and “put real skin in the game” (funding, resources);
- Develop a perspective and messaging around the workplace of the future;
- Promote Luxembourg as a great place to work and launch a sustainable career;
- Engage with the regulator and propose up-to-date, ongoing and realistic ways to bolster collaboration and cohesion;
- Launch coordinated promotional activities with universities and similar establishments in order to attract young talents.

4



Sustainable strategic development

- Contribute actively to a wider political discussion, including subjects such as cost of living, commute and the workforce of the future;
- Contribute to a discussion surrounding the development of a future proof, fair, sustainable and attractive tax framework;
- Implement a strategic agenda to position Luxembourg as a competence centre for Sustainability in Asset Management.





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