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Alternatives, ESG and digitalisation on the rise

By Stéphane Badey

These are uncertain times, but three solid trends driving the Luxembourg investment funds market can be highlighted.

1. The continuous growth of the alternative investment strategies. Luxembourg has positioned itself as a jurisdiction of choice for alternative asset managers. As a consulting firm we are accompanying clients in their move to Luxembourg. This is made easier from a regulatory perspective by the adoption of a clear regulatory framework.
2. The further integration of ESG criteria into asset managers' strategies. The upcoming regulations (SFDR*) are prompting asset managers to position themselves accordingly. Although many had already embraced the move, we see the topic on the agenda of almost every board now. We are present at every step of such integration, relying on an ambitious governmental plan and the expertise of early movers such as the Luxembourg Stock Exchange or label agencies like LuxFlag, Luxembourg service providers are in good shape to accompany the move.
3. A continuous appetite for digitalisation. This is a trend that largely started before the Covid crisis. Luxembourg financial players have responded very well to the crisis, demonstrating that the infrastructure was already in place. The fund industry is eager for new digital solutions and Luxembourg has plenty to offer. As a firm, Arendt has expanded its digital offering from legal/regulatory tool such as CAROL to more operational systems for managing key management information like SAMI.

In parallel, the regulatory agenda continues to be busy. In these times of crises, raising capital is a challenge and Brexit is on everyone's agenda but the industry should not forget about the cross-border distribution of collective investment undertakings (CBDF). Indeed, Luxembourg being the principal hub for investment funds marketing in Europe, the fund industry here will certainly be shaken by the transposition of the EU Directive 2019/1160 and the full application of the EU Regulation 2019/1156 of 20 June 2019, related to the CBDF as they will affect UCITS but also AIF, ELTIF, EuVECA and EuSEF.

Among others CBDF brings:

- New requirements affecting UCITS passporting which may delay unit classes launches and lead to restructuration of KIIDs,
- The end of the obligation applicable to UCITS to appoint local agents in some EU countries, which may result in insourcing their functions in Luxembourg or delegating such functions to Luxembourg-based agents (with adequate competencies),
- A new definition of pre-marketing activities for AIF, EuVECA and EuSEF, which will be harmonised and will have to be performed by their managers directly or a third party qualifying as investment firm, credit institution, UCITS management company, AIFM or tied agent,
- New rules to AIFM and UCITS intending to cease marketing and de-notify, with important impacts on the possibility given to AIFM to do pre-marketing, be it for the AIF concerned or in respect of similar investment strategies/ideas, for 36 months after the de-notification, and
- Last but not least, UCITS, AIFM, EuVECA and EuSEF will see new European requirements entering into force with regards to their marketing communications. ■

**Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector*

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