PLACE FINANCIÈRE & MARCHÉS — FONDS

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L'INDUSTRIE DES FONDS CROÎT TOUJOURS PLUS AU LUXEMBOURG

"Luxembourg funds, what's next?"

Retour au dossier

Partager

Dr. Marcel Bartnik, a lawyer and partner at GSK Stockmann, says the investment funds sector in Luxembourg has weathered the COVID-19 crisis relatively well and even set new records last year. But what lies ahead for the industry in 2021?

Last year, many in the investment funds industry, in particular financial regulators, feared a repeat of the financial crisis of 2007-2008 when substantial outflows, liquidity problems and the suspension of redemptions eroded investor confidence. Fortunately, this was avoided in 2020 and, despite the obvious challenges, the year turned out to be a relatively good one for the investment funds sector and the financial sector as a whole.

This applies to Luxembourg, which for the first time reached the EUR5 trillion mark in terms of assets under management by Luxembourg-domiciled investment funds, a reflection not only of the positive developments in stock markets, but also the additional investment inflows from investors. In reality, this figure is even higher as these official numbers do not capture funds that are not under the direct supervision of the Luxembourg regulator, the CSSF, such as reserved alternative investment funds (RAIF) or limited partnerships.

> « IT IS VERY ENCOURAGING TO SEE LUXEMBOURG'S INVESTMENT FUNDS SECTOR THRIVING.»
>
> Dr. Marcel Bartnik, Local Partner - Investment Funds, GSK Stockmann

A solid foundation for investment

It is very encouraging to see Luxembourg's investment funds sector thriving. Confidence in the Grand Duchy as an investment funds domicile remains high. The sector, which accounts for 8% of Luxembourg's economy, is also creating new jobs in the Greater Luxembourg region. Our clients continue to have a very positive view of Luxembourg. Many of them frequently mention Luxembourg's stable political environment, its AAA rating and multilingual workforce, as well as the experienced regulator, as factors for choosing to do business here.

Over the past few years, Luxembourg has built on its reputation and infrastructure for retail funds, or UCITS. The country has succeeded in using UCITS as a stepping stone to make inroads into the alternative assets segment, which is aimed toward institutional investors. Helped by product innovations such as the RAIF and the limited partnership, which have proven to be highly appreciated by fund initiators, the implementation of the AIFM Directive has turned out to be a success story that was far from certain at the outset.

Asset classes such as private equity, real estate, venture capital and private debt have seen excellent growth in relative terms. This trend is expected to continue, not only because the product range available in Luxembourg can be adapted to each business case, but also due to increasing demand for small and mid-cap companies to raise financing outside of traditional banks, which are often reluctant to engage in this segment. The sharp increase in demand for Luxembourg debt funds that we witness in our daily work showcases this effect and proves that there is a need for alternative ways to finance the real economy.

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> Dr. Marcel Bartnik, Local Partner - Investment Funds, GSK Stockmann

Strong appetite for sustainable finance

The growth of the sustainable finance sector is also a positive development for the Luxembourg fund industry. The Environmental, Social and Governance (ESG) sector is being driven in part by substantial political pressure that started with the EU Action Plan in 2018. This has resulted in, among other things, an EU regulation on disclosure requirements related to sustainable finance. The EU regulation will introduce two new investment fund categories: ESG strategy and ESG impact products. The new rules are expected to push more capital into sustainable investments.

As a result, all management companies and AIFMs need to decide how they will deal with ESG-related risks and whether they would like to consider the potential negative impacts of their investment decisions on ESG factors. Sustainable finance is expected to be an area with considerable growth potential, but also with a number of challenges due to scarcity of data and some regulatory uncertainties. Luxembourg appears to be perfectly placed to deal with these new requirements.

Too much regulation can stifle growth

The trend toward sustainable investment also illustrates, however, the challenges for the investment funds sector. Over the past few years, there has been a tendency for more detailed regulation, both on the national and the European level. The draft version of the technical rules relating to sustainability disclosures has a volume of over 200 pages and it is only one of many that legislators and regulators have issued. In principle, regulation can boost investor confidence. On the other hand, overregulation and bureaucracy can raise costs and stifle innovation.

Another major piece of legislation that is expected to be amended in the next few years is the AIFM Directive, which is currently going through a consultation process with the industry. Since this regulatory framework has worked exceedingly well since its introduction, hopes are that no fundamental changes will be implemented.

Would you like to receive legal advice from GSK Stockmann? Contact me for more information.

Dr. Marcel Bartnik | GSK Stockmann

AUTEUR

Dr. Marcel Bartnik
Partner - Investment Funds
GSK Stockmann

GSK Stockmann

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