CROSS-DISTRIBUTION: "A LITTLE LESS CONVERSATION, A LITTLE MORE ACTION, PLEASE!"

Newsletter 18 of April 2017

Summary

As challenging and complex cross-distribution can be, it is a rewarding decision and may offer a sustainable growth and new perspectives to asset managers in search for new markets, especially when their primary market is mature or depressed

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Cross-distribution: "A little less conversation, a little more action, Please!"

Luxembourg, 18th of April 2017

For the investment funds industry, cross-distribution is becoming of a paramount importance. Indeed, as domestic markets, which are the natural and often only market of many national asset managers, are becoming mature, they are finding themselves in the need of new prospects. That new quest can only be successful if handled appropriately and according to a commercial and development plan, the latter being determined in accordance with the asset managers' intentions, the fund's investment policy and the most effective targets.

Making the decision to cross-distribute a fund is a complex issue, as in spite of the legal harmonisation within the European Union (the "EU") many discrepancies remain within the domestic regulations of the EU Member States. Nonetheless, if handled smoothly and in an orderly fashion, cross-boarding a fund can be a rewarding decision, as it offers new prospects and potentially alternative sources of sustainable growth.

1. Cross-boarding for "*drifting through a summer breeze*"

For the past decade cross-border distribution grew up continuously. The number of funds being cross-distributed (i.e. funds that are distributed in two countries at least in addition to the fund's domicile country) raised up from 3,260 in 2001 to 11,732 in 2016. The number of cross-distributed compartments went through an increase even more impressive, from 727 in 1990 to 14,283 in September 2016. That represents an increase over the past ten years of 7.1% (seven percent and one tenth) for the number of cross-border funds and of 8.3% (eight percent and a third) for the number of cross-border registrations[1].

If Ireland and Luxembourg are the most important fund centres in the EU, Luxembourg is the main beneficiary of this trend. Indeed, 65% (sixty-five percent) of the world's cross-border funds are domiciled in Luxembourg[2].

Indeed, thanks to a long-standing tradition in favour of the investment funds industry, stable legal and tax regulations, Luxembourg is the first European hub for funds' domiciliation and distribution in and outside the EU. From Singapore to Chile, Luxembourg funds are being offered in more than 70 (seventy) countries worldwide[1].

Thereby, between 20 and 40% (twenty and forty percent) of the funds distributed in Taiwan, Switzerland, Sweden, Spain, Singapore, Portugal, Norway, France and Belgium are domiciled in Luxembourg. In Italy, the Netherlands, Germany or Austria, Luxembourg domiciled funds account for 40 to 60% (forty to sixty percent) of the funds distributed, and that proportion is even higher in Greece or in Czech Republic where they represent more than 60% (sixty percent)[3].

Simultaneously, assets under management concerned by cross-border registrations increased by 60 (sixty) billion euros last year. Nonetheless and in spite of the positive trend that can be noted, there is still room for development and potential growth.

As highlighted during the Cross-Border Distribution Conference held by the Luxembourg law firm Elvinger, Hoss & Prussen in association with Deloitte[4], cross-border distribution is undertaken for 80% (eighty percent) of the UCITS and 40% (forty percent) of the AIFs. If at first glance those figures appear to be encouraging, it has also been underlined that one third of them are marketed in only one country in addition to their home country and another third in no more than 4 (four) other countries.

2. "Opportunity lies in the place where the complaints are." (Jack Ma)

Often, limits to cross-distribution are pointed out and indeed those limits are not without consequences regarding the ability of asset managers to handle the cross-boarding of their funds. Like in the song by Elvis Presley (of which the title of this newsletter is an obvious reference to), one could think that: "*all this aggravation ain't satisfactioning me*".

From uncertainties about the costs of cross-boarding a fund (domestic regulators do not necessarily communicate them), which can be rather important if considered altogether (i.e. registration, maintenance and exit costs) to the economic and financial relevance and sustainability of the targeted market, the path to being successfully cross-distributed may be full of pitfalls.

However, and like the Chinese billionaire and founder of Alibaba Jack Ma stated: "*opportunity lies in the place where the complaints are*". As such, deciding to cross-board a fund should be taken further by any asset manager who is confronted with a mature and/or depressed market.

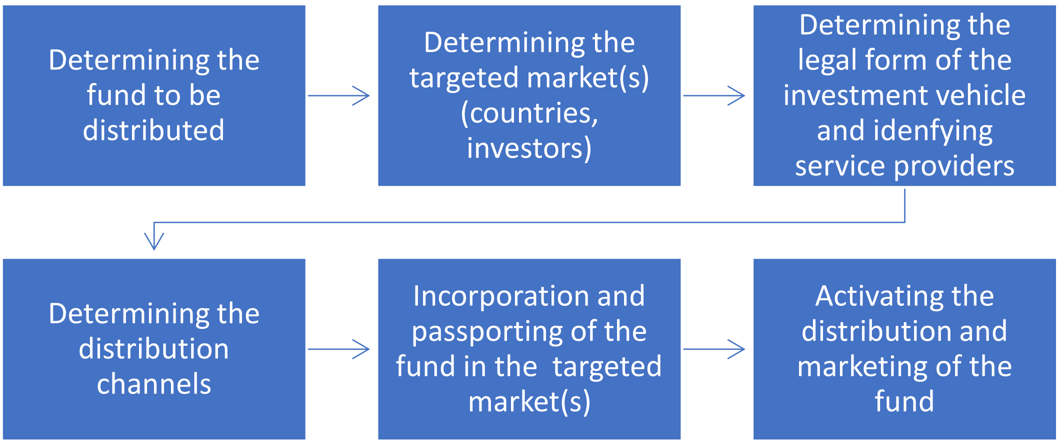
This is especially true for asset managers who are actively managing their funds. If a lot of investors are being seduced by funds passively managed, many others are now looking for alternatives offering better returns. For those managers, entering new markets can increase their competitiveness and attractiveness vis-à-vis investors who may find those funds more appealing and suitable to their financial situation and expectations.

Indeed, as mentioned during the Cross-Border Distribution Conference, "*those investors are looking for funds that provide income with a reasonable level of volatility, beating inflation and liability rates. Outcome solutions are generally not provided by passive investments, but by products with more complex investment techniques and a higher level of fees*"[4].

Hence, and in spite of the complexity of the process, cross-distribution is a real opportunity for asset managers in general and active managers in particular. Benefiting from the international reputation of Luxembourg and with the appropriate development plan, cross-distributing a fund from Luxembourg offers a real chance for reaching new investors and potentially substantial growth.

3. "*Grab your coat and let's start walking*": cross-distribution process

When the decision to go for the cross-distribution of a fund is made, some steps have to be taken so as to maximise the chances of success. Cross-distribution has to be planned in consideration of many factors such as legal, compliance and tax regulations as well as local market trends and investors habits[5].



The first thing to do is to determine which fund shall be cross-distributed. After that, it is crucial to determine for what type of investors and what countries should be at the heart of the cross-distribution. This means that the fund to be cross-distributed should present an interest for potential investors according to the local habits and needs of the latter and vis-à-vis already distributed funds.

The third step is also of a paramount importance, as the legal form of the investment will impact the attractiveness of the fund. Hence, a Luxembourg based investment vehicle is one of the best options, as it is one of the most distributed investment legal structure worldwide. For the entities that do not have a Management Company or an AIFM in Luxembourg, a third-party asset manager may offer a fast and economical solution to realise that operation.

Furthermore, when considering the targeted market, attention should be paid to the chosen corporate form as it is impacting the attractiveness of the fund because of local regulations. For instance, it is easier to distribute a SICAV than an FCP in Belgium, while offering the new RAIF (i.e. Reserved Alternative Investment Fund) is fiscally transparent in Italy which is however not the case in Germany.

Once those steps have been taken, identifying the distribution channels and retaining the most appropriate distributors in accordance with the aforementioned steps is the key to success. After this, the fund may be launched and cross-distributed, but should be offered using marketing materials customised to the targeted investors, this final step being one of the most important elements for a successful cross-distribution[4].

To end on a lighter note, if cross-distribution is not a piece of cake it could however become the "*Wonka Bar*" of fund managers. Being like Charlie (wise, cautious and mindful), they could like him get a Golden Ticket and end up in (and hopefully with) the Chocolate Factory!

Gilles Corlier *Fund Structurer*	Guillaume Raby *Relationship Manager*

[1] *Asset Management, Luxembourg, your location of choice, seizing opportunities in Luxembourg*, PwC, 2017

[2] *10 reasons to choose Luxembourg as a hub for AIFs and AIFMs*, ALFI, November 2016

[3] *Investment Funds in Luxembourg, A technical guide*, EY, September 2016

[4] *Cross-Border Distribution Conference, Digest*, EHP, Deloitte, April 2017

[5] *Re-Domicile your fund onshore, Take the road to Luxembourg*, ALFI, August 2016; *10 Golden Rules About Fund Distribution*, Luca Bruni, January 28, 2015; *Revealed: Most Common Costs of Fund Distribution*, Luca Bruni, June 29, 2015; *The DO's and DON'T's: 10 Most Common Mistakes in Cross-Border Fund Distribution*, Luca Bruni, July 12, 2016

GETTING IN TOUCH WITH US

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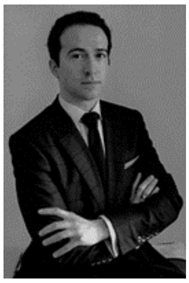

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