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# Luxembourg Fund Services 2016

**The RAIIF:  
A game changer  
for Luxembourg**

**Fintech helps  
automate  
alternative funds**

**Equity Bridge  
Financing for  
PE fund managers**



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# The RAIF: A game changer for Luxembourg

By James Williams

Luxembourg has deposited a new Bill of Law with the Luxembourg Parliament called the Reserved Alternative Investment Fund (RAIF) Regime. It is a regime that embraces the concept of AIFMD being manager-focused regulation. The RAIF, unlike the heretofore popular SIF, does not need to be under the direct supervision of Luxembourg's regulator, the CSSF. Instead, the RAIF merely needs to appoint an authorised AIFM, based in Luxembourg or any other EU jurisdiction.

This could be a key stage in the future development of Luxembourg as Europe's leading funds centre – and still the second largest fund centre in the world – as it seeks to embrace alternative investment funds and build on the success it has enjoyed with the UCITS regime over the last 20 years.

"I think going forward, the RAIF will be the norm and the regulated alternative investment fund – the SIF – will probably become more

of the exception," comments Claude Niedner, Chairman of the ALFI Alternative Investments Committee and Partner at law firm Arendt & Medernach (Luxembourg).

Jean-Pierre Gomez is Head of Regulatory and Public Affairs for Societe Generale Securities Services in Luxembourg. He fully agrees with Niedner's sentiment, stating that some of the bank's clients are already starting to convert their SIF products into RAIFs.

"We see two types of demand," says Gomez. "Firstly, we have clients who want to set up a fund very quickly and want to benefit from the possibility of having a RAIF. Secondly, we are seeing some clients wishing to convert their existing SIF fund(s) into a RAIF. Why? Because if tomorrow they decide they want to close the fund, it means they won't have to notify the CSSF and wait for their approval."

Before going any further it's necessary to give a brief description of the RAIF.



In terms of the legal entity, a RAIF can be created in the form of a company or a contractual common fund (FCP). If it is established as an investment company with variable capital, it will be called a 'SICAV'. There, it can choose to operate as a partnership - Luxembourg offers the *société en commandite simple* (SCS) and the more recent *société en commandite special* (SCSp) - a limited liability company, or a limited company form; whatever suits the manager best.

"This latest initiative shows Luxembourg's ability and willingness to adapt to a new framework and anticipate asset managers' needs. Luxembourg is filling the gap between regulated fund products and unregulated fund products with the introduction of the RAIF," remarks Nathalie Dogniez, Partner at PwC (Luxembourg).

Gomez states that in Luxembourg the SICAV is still the preferred legal structure, set up either as a limited company by shares or as a Special Limited Partnership "but we also have the SCS, the Sarl. There are a variety of options. For me I would say that the SICAV is more flexible than the FCP, the common contractual fund."

He adds: "Three or four years ago we created a dedicated desk in Luxembourg for alternative investments. The RAIF is not available in other jurisdictions like France, the UK, Germany or even in Ireland so for us as a group, we definitely see clear advantages with the RAIF. One of the reasons Luxembourg created the RAIF, in fact, was to compete with the Irish ICAV."

Conceptually, one can think of the RAIF as combining the legal and tax features of the SIF and the SICAR fund regimes, but without the regulatory oversight of the CSSF.

Prior to the introduction of the RAIF, private equity and real estate fund managers tended to use the *Société d'investissement en capital à risqué* (SICAR). However, this has tended to be viewed as too rigid compared to the all-asset class capabilities that the RAIF now offers.

Niedner is quite optimistic on the potential that the RAIF now offers: "Following the success of the SIF and the limited partnership, I think we will likely see the number of RAIFs exceed 1,000 in the next five years."



*"I think going forward, the RAIF will be the norm and the SIF will probably become more of the exception."*

**Claude Niedner, ALFI**

The RAIF should be viewed as additive to Luxembourg, not a threat to other fund products. It may well overtake the SIF, in terms of new structures, but just to re-emphasise this is an unregulated fund product and as such will only be suitable to specific types of investors. Many in Europe will still prefer the regulated comfort of a SIF.

At the end of the day, managers are driven by their investors.

"I expect we will see demand for both the SIF and the RAIF going forward depending on the type of investors," says Kavitha Ramachandran, Senior Manager, Business Development and Client Management, Maitland Group and Director, MS Management Services S.A. "With the introduction of the Special Limited Partnership (SCSp) three years ago and now the RAIF, the two go hand in hand and we are seeing a number of structures being set up in the private equity & real estate world using this arrangement. They make an ideal marriage in terms of legal structure and fund structure."

"I think fund managers will continue to consider both fund products, in addition to the SICAR," suggests Jean-Florent Richard, Head of Fund Engineering Services at BNP Paribas Securities Services (Luxembourg branch). "The way the legislation has been written for the RAIF, it is practically the same as it is for the SIF, just without any references to the CSSF. In addition, it includes some nice tax alternatives which may allow fund sponsors to choose their tax regime. In short, if your RAIF is mainly invested in risk capital, the RAIF may benefit from the tax features of the SICAR."

"That said, I still think the SIF will be used by our clients. For instance, asset owners such as insurance companies will certainly have a preference for regulated fund structures so for the time being the SIF will ► 7

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# Ready for the RAIFolution

## Interview with Jean-Florent Richard

The recently introduced Reserved Alternative Investment Fund ('RAIF') is compelling to fund managers because although it is not subject to direct supervisory authority from the CSSF, it is still a fully AIFMD-compliant product, benefiting from the European passport for marketing to professional investors in Europe.

"The time to introduce an unregulated AIF is a strong message and part of the construction of a new alternative investment fund norm in Europe," says Jean-Florent Richard, Head of Fund Engineering Services at BNP Paribas Securities Services, Luxembourg branch.

"The RAIF allows the bank to once again position itself as one of the European leaders of depositary bank services and administration services to these new types of investment vehicles."

The timing of the RAIF's introduction could be a masterstroke, helping to cement Luxembourg's reputation as the jurisdiction of choice, not just for UCITS funds, but AIFs as well.

Until August 2016, qualified investors were able to invest in two types of vehicle – those not subject to such pre-authorisation from the CSSF or those subject to pre-authorisation, but that were unable to utilise structuring flexibilities available to Luxembourg investment funds, such as sub-funds/compartments or variability of capital.

"However, following the introduction of the AIFMD three years ago, there was a risk that some qualified investors, such as pension funds, would no longer view product supervision as a 'must-have'," adds Richard.

AIFMs in Europe are highly regulated under the AIFMD and as such, there were concerns that Luxembourg could appear overly protective as a fund domicile, suggests Richard.

"The RAIF helps address this concern head-on, instantly removing the dual layer of regulation that, while necessary when



**Jean-Florent Richard, Head of Fund Engineering Services at BNP Paribas Securities Services, Luxembourg**

selling UCITS products to retail investors, but unnecessary when selling to a professional investor base under AIFMD.

"The RAIF is creating a buzz among fund managers because although Luxembourg is well known as a longstanding regulated product jurisdiction, the RAIF is not subject to any clearance by the CSSF. It is a revolution, but one that is perfectly in line with the AIFMD," explains Richard, adding, "The perception among some qualified investors is that product regulation may no longer be useful since the implementation of the AIFMD and the shift in European regulatory focus. Retail products need to be regulated under the UCITS Directive, but in the alternative investment fund world a double layer of supervision may be perceived as useless."

He says that one important consideration for fund managers is that the RAIF allows them to better manage the expected time of launch because there is no reliance on CSSF approval.

"Another consideration is that there is no limitation or restriction on the type of assets that a RAIF may invest in," Richard adds.

This means that, in theory, the RAIF could be used for investing in private equity, real estate, infrastructure or plain vanilla long-only portfolios.

"That said, we expect the RAIF to be primarily used by private equity, real estate or similar fund managers and hedge fund managers," says Richard, who adds that the bank is already working on four RAIF projects.

"I think mindsets are changing about how to leverage the AIFMD, and the RAIF is a way of achieving this. Alternative fund managers now have an innovative, compliant and very flexible tool for structuring their products", he concludes. ■

To view 'Ready for the RAIFolution', click here: <http://securities.bnpparibas.com/quintessence/key-themes/changing-regulation/ready-for-the-raifolution.html>



4 ► likely remain relevant. My expectation is that this might change in the coming years once the AIF brand becomes more established, as we have seen with the UCITS framework.”

Timothe Fuchs is the CEO of Fuchs Asset Management, which offers management company services to both UCITS and alternative investment funds. He says that the firm still sees a lot of demand for the SIF for the same investor-based reasons that Richard refers to above.

“If you have pension funds or institutional private banks, they will typically not be authorised to invest in unregulated structures and will prefer the SIF. I would estimate that 90 per cent of the requests we receive are to act as the appointed AIFM to SIFs,” confirms Fuchs.

The RAIF was only officially introduced this summer so it is still early days but over at Maitland group, a global administrator with its own authorised AIFM, MS Management Services, there are already signs that interest is strong.

“We have had a number of RAIF enquiries, which have since converted into projects we are working towards launching in the coming weeks. As an authorised AIFM, we have seen quite a bit of interest coming to us from managers looking to establish one of these products. The RAIFs we are working on currently are mainly for private equity and real estate strategies but cover hedge funds as well,” says Ramachandran.

Fuchs says that they are currently acting as the AIFM to three RAIFs. One of the RAIFs is a real estate strategy, two are private equity strategies. “One of the clients initially wanted to launch a SIF but the process was taking too long and investors were becoming impatient so it was converted to a RAIF,” says Fuchs. “The issue with the SIF is that it can take quite a long time to incorporate. It needs to be authorised by the CSSF and there is a dual layer of regulation at both the manager and fund level.”

For investors who express an interest in a manager’s strategy, they don’t want to wait around six months waiting for the fund to come to market. With the RAIF, within a timeframe of three to five weeks, investment managers can expect it to be up and running.

“Some say it can be done in one week but that is not realistic. You still need to



*“One of the reasons Luxembourg created the RAIF, in fact, was to compete with the Irish ICAV.”*

**Jean-Pierre Gomez, Societe Generale Securities Services**

incorporate one or two companies – the fund and the GP – you still need Articles of Incorporation, a fund prospectus, operational, risk and investment procedures, as well as approve the directors, so the workload is really no different to setting up a SIF,” clarifies Fuchs.

Whilst the RAIF is an unregulated product, it still offers significant investor protection through the requirement to appoint an authorised AIFM in addition to appointing a depositary bank, which in turn has a duty to independently oversee the operations of the RAIF, cash monitoring, and asset verification (as well as asset safekeeping if the RAIF’s assets are tradable securities).

“We support our clients to better understand the RAIF and what it may allow them to do in terms of structuring flexibility, investor protection, structuring flexibilities and so on. We also support them on how best to position the RAIF when it comes to establishing a European marketing,” confirms Richard.

Indeed, this requirement to appoint an authorised AIFM and depositary is no different to creating a regulated AIF such as a SIF or an Irish QIAIF. The RAIF should not, in other words, be interpreted as a way to circumvent regulation and go back to pre-AIFMD days.

“The position of SGSS and I think any depositary bank in Luxembourg is that we will not accept any type of client. If the investment manager is not appropriate in terms of expertise, pedigree and resources during the onboarding phase with the AIFM, we will not accept them. This is not a route for managers to avoid regulation. So of course, we have to be careful – perhaps even more careful – given that the RAIF is not CSSF approved.

“We work only with top-rated clients. The RAIF does not change that,” stresses Gomez. ► 10

# Fintech helps automate alternative funds

## Interview with Jesper Steiness

At SS&C Advent, an independent unit of SS&C Technologies who collectively support more than 10,000 customers worldwide, there has been, according to Jesper Steiness, Director of Global Accounts, a clear growth of interest among fund managers and service providers to improve automation with respect to alternative portfolio accounting and reporting.

This is happening at a time when alternative fund managers are converging in terms of the products they offer, with hybrid fund structures becoming a more popular feature of the landscape. But given the complexity of the assets, and the movement of cash flows within these structures, both managers and administrators realise that technology is needed to improve transparency and reduce reliance on manual workflows.

“There has been a shift in the last couple of years. We see existing clients and prospects showing more of a willingness to improve efficiency. The banks, for example, appreciate they need to progress by moving away from spreadsheets and using new technology. There is a lot more capital being pushed into that area.

“Most of the large institutions we speak to, not just in Luxembourg but in many different jurisdictions, say they have much more of a focus on Fintech than they did a year or two ago,” says Steiness.

Roger Woolman is Principal Solutions Consultant, Asset Management & Alternatives at SS&C Advent. He observes that “practically every service provider” that SS&C Advent speaks to in Luxembourg is talking about private equity and real estate assets. Whereas years ago, many had proper systems in place for traditional fund investments and then hedge funds, they are having to adapt in response to the fact that



**Jesper Steiness, Director of Global Accounts at SS&C Advent**

alternatives now means supporting PERE, infrastructure, direct lending, loan funds and so on.

“The concept of ‘alternative assets’ has changed,” says Woolman. “We used to talk about alternatives being things such as derivatives but we now see a lot of service providers setting up separate or break away departments i.e. administration units, to specialise in PERE assets.

“This reflects the change in investment techniques being applied as investors and fund managers look for new investment opportunities. As such, the back-office systems and administration systems are having to catch up. It is a trend that we see clearly in Luxembourg and in other jurisdictions such as Dublin. PERE appears to be at the forefront of people’s minds.”

Part of the reason for this is that hedge fund performance has been fairly poor the last few years. Also, because of quantitative easing, and the lack of volatility and stock dispersion, hedge funders have moved further out on the liquidity spectrum to look for new sources of returns; hence the rise in hybrid structures. At the same time, private equity managers have developed liquid alternatives as well as having to respond to demands for increased transparency from their LPs.

“Fortunately, we developed functionality for private equity clients within the Geneva product a few years back. Now that the wider industry is increasing its activity in the PERE space we are in a good position to service these types of funds,” says Woolman. “Private equity and real estate still rely on manual processes, people sending documents, etc, rather than use straight-through processing transactions. People are now looking to automate as much as they can to better support these investments.”



The nature of these deals does not come from an automated world. Steiness says that when SS&C Advent has worked with pure private equity clients over the years, “we’ve had to build functionality around manual processes. A manual process in private equity might be a PDF with a net figure that is the combination of a call and a distribution and so on. Private equity takes manual processes to the extreme; it’s a very bespoke culture.”

Trying to administer these types of activities is no easy task. Fund managers might have a range of different fund vehicles and for the fund administrators this means they have to deal with a wide range of manual processes. To best support their clients, administrators need robust systems that can provide a greater level of automation.

Steiness confirms that over the past couple of years SS&C Advent has built out its core functionality to support hybrid products. “There are lots of different definitions of hybrid funds but at the end of the day, asset managers might have a long-only fund, a private equity fund, a real estate fund, and a hybrid fund with both hedge fund (more liquid) and private equity investments held within the same structure. We can support any type of fund structure; direct funds investing in PERE, hedge, etc, as well as fund-of-funds.”

The mission statement at SS&C Advent Geneva has always been to support any asset class, in any structure, in any region. That, says Woolman, is the ethos “on which our software has been architected. When Jesper talks about hybrid structures, which perhaps have private equity flows into a hedge fund-like investment vehicle, the reason we can accommodate such vehicles is because of the broad architecture we have built within Geneva.

“It’s not just fund managers and fund administrators using Geneva it is private equity shops, family offices, prime brokers and so on. It is used by many different types of clients.”

Woolman is confident that SS&C Advent is well positioned to support clients on both sides of the Street as the convergence trend within alternatives evolves. The system is, he says, just as capable at handling bank debt as any other illiquid asset class.

“With respect to hybrid structures we are in a unique position because of the depth and breadth of coverage that we have in the system. The depth comes from being able to create complex structures and being able to look through those structures properly, providing comprehensive reporting.

“We can trace the investment activity (and cash flow), all the way through a complex structure and then report it transparently to the investor; whether that be used for reporting, opting in and out of investments, or for some sort of blended tax position for an investor,” explains Woolman.

A number of years ago, SS&C Advent decided to merge World Investor, a private equity/shareholder services system, with Geneva, their portfolio management and accounting system. The result was Geneva World Investor.

At its heart lies flexibility; something that SS&C Advent paid close attention to when speaking with private equity managers and administrators, as well as managers running hybrid fund structures.

To accommodate a variety of fund structures, the platform incorporates an n-tier fund structure function. This allows for the unlimited creation of entities within a structure including multiple masters, multiple feeders, blockers, AIVs, SPVs allowing managers to be as flexible as possible as they look for new investment opportunities.

“Geneva World Investor allows us to fully track all complex activities. When there are private equity flows going in to a fund structure we can follow those activities all the way to their final destination,” adds Woolman.

As consolidation continues, particularly among fund administrators, there will be a growing need to integrate single system technologies.

“The result of M&A activity is that clients might have different systems, supporting hedge funds on one system, long-only funds in another, private equity in a third system and so on. They want us to help them consolidate all that data in Geneva. With the R&D we have conducted on Geneva and Geneva World Investor, we are well positioned to help with this consolidation and allow clients to remove systems they no longer need,” concludes Steiness. ■

- 7 ▶ Maitland's Ramachandran explains that as the appointed AIFM to a RAIF it will not act as the depositary. She says that Maitland has consciously stayed away from the depositary area, firstly, because as an AIFM they believe it should be an independent function; and secondly, because it has good relationships with existing depositaries in Luxembourg.



*“Luxembourg is filling the gap between regulated fund products and unregulated fund products with the introduction of the RAIF.”*

**Nathalie Dogniez, PwC**

“This is a unique point of difference for us when we go to clients; that they will have an independent depositary in place, which is completely separate from our role as the appointed AIFM.

“As the board of the AIFM is completely independent of the board of the fund it means we can give a completely objective view to the RAIF board in terms of what we think as an AIFM. The same unbiased view also applies in terms of how we deal with the depositary. This is an important criteria for us,” confirms Ramachandran.

There are now believed to be between 12 and 15 authorised AIFMs in Luxembourg, according to Richard, and one might suspect that this number will increase as the RAIF becomes more popular. The product is certainly good news for AIFMs keen to capitalise on its potential. Conceptually, the idea of appointing a third party management company is still unfamiliar to a lot of non-EU fund managers, especially those in the US, but there are signs that this starting to change.

“I was in the US recently and one of the things I noticed is fund managers are getting more comfortable with the concept of using a third party AIFM. They are more willing to go down this road in Europe. If you are a mid-tier manager and you know you can attract European investors but don't wish to take on the cost burden, then a third party AIFM is a good option to test the water. If you grow to a certain level of AUM then you can become your own AIFM.

“I think this will become a more popular option with the RAIF regime,” suggests Ramachandran.

When thinking about launching a RAIF, one of the key considerations for fund sponsors to be aware of is whether such a structure will actually be acceptable to prospects. This should be clarified as early as possible.

Another consideration is deciding on the type of legal form for the RAIF. Depending on

the end investor, it could be transparent or opaque and as such one needs to consider the implications.

Once managers are sure that investors are happy with the RAIF, they should check that the legal form they decide on is acceptable.

“The legal set-up will depend on the type of assets the manager wants to invest in,” says Gomez. “If managers want the benefit of double taxation treaties, these do not apply to FCP structures, only to SICAVs.

“Also, when doing a new fund set-up, if it uses a GP/LP arrangement it is important to define the responsibilities of each party in the set-up phase. There is no single answer as to which legal structure is the preferred option for a RAIF, suffice to say that there are various options.”

Looking ahead for the next couple of years, Richard believes that the introduction of the RAIF will change the way that people look at Luxembourg. In his view, the Grand Duchy has accelerated the process of establishing AIFMD as a recognisable brand, just as it has helped to do with UCITS.

“I do think it is a game changer for Luxembourg's funds universe, and indeed the wider European funds universe because Luxembourg is the leading jurisdiction for UCITS funds and is now in the process of positioning itself as Europe's leading centre for alternative investment funds. Some AIFMs are taking advantage of the RAIF and are considering redomiciling their offshore structures as RAIFs. It is a trend that is fast evolving,” says Richard.

“It is definitely a big opportunity for us, as it is for everyone else in Luxembourg,” says Fuchs in conclusion. “With the RAIF, fund sponsors can get a European passportable fund to market very quickly with the flexibility of an offshore fund, in terms of what it can invest in. There are no limitations compared to UCITS funds.” ■



# Equity Bridge Financing solution helps improve IRR

Interview with Nicolas Palate

CACEIS offers private equity fund managers bridge financing solutions that allow them to delay the process of collecting capital commitments from investors, thereby enhancing the internal rate of return of the fund.

In such an arrangement, CACEIS provides Equity Bridge Financing to the manager – essentially a guaranteed line of credit – whereby the financing arrangement is agreed not on the asset but on the uncalled capital commitment from high quality investors.

“In other words, it is financing on the liability side of the fund rather than the asset side of the fund,” comments Nicolas Palate, Head of Private Equity and Real Estate Relationship Management, CACEIS. “This can be ideal for small, recurrent payments that the manager faces, such as invoices or investments requiring frequent cash flow i.e. private equity fund-of-funds.”

By using a bridge facility to finance all of the fund's activity before calling its investors to repay the loan, this limits the number of investor drawdowns and makes them predictable. As Palate points out, in a typical private equity fund arrangement, LPs could be called at any time within 10 days, requiring them to have the requisite cash on hand.

“There are two main advantages to this type of financing,” continues Palate. “The first advantage is that it allows the fund manager to better predict the future cash flow of the fund and to be able to say to investors that they will not be called in Year 1, but at the end of Year 2, for example; even if the manager has already started to make investments.

“Secondly, it allows the manager to optimise the fund's IRR. In the current context of low interest rates, it is cheap to borrow money from CACEIS.



**Nicolas Palate, Head of Private Equity and Real Estate Relationship Management, CACEIS**

With a classic financing process, an investment over five years with a multiple of 1.5 will have its IRR calculated on a period of five years. With the EBF facility financing the first year, however, the IRR would instead be calculated on four years, increasing the IRR as a result.

Financing is provided to the client via confirmed credit lines, which may be denominated in euros or other currencies. The arrangement of the financing is managed by the Private Equity, Real Estate Securitisation (PERES) group within CACEIS.

To avail of a bridge financing solution, a private equity manager would ask CACEIS to perform a credit analysis on the end investors. Assuming they have a good rating (and balance sheet), CACEIS will lend money to the fund based on the guarantee offered by those investors.

“We only offer this service to high quality funds with high quality institutional investors. As investors are committed to pay the GP when it invests – albeit at a delayed time – we get paid when investors face this capital call,” confirms Palate.

Bridge financing is not new. It has been used by Credit Agricole Corporate & Investment Bank for more than a decade but what is new is that the asset servicing arm of the bank – CACEIS – is now also offering this service.

“We can offer our clients full distribution including depositary and financing solutions. We have all the information on the fund needed to provide equity bridge financing. It is better for the fund to have a single point of contact for the depositary and financing instead of using one bank for the depositary service, one bank for financing and so on.

“We want to position ourselves as the sole banking partner of our clients. We want to be able to offer a full one-stop-shop



solution – depositary, accounting services, administration services and financing services,” explains Palate.

The Private Equity and Real Estate Securitisation division has benefitted greatly from the creation of Credit Agricole’s “Large Client Division” which brings together three groups: the investment bank, Credit Agricole CIB referred to above, the depositary bank CACEIS and Indosuez Wealth Management (formerly Credit Agricole Private Bank) the private banking arm of the group. The ability to draw upon three distinct groups is quite unique in the industry.

“As part of the Credit Agricole group, the investment bank is able to assist CACEIS in putting together the loans and offer a top-of-the-line service to clients,” says Palate. “Ours is a cross-entity private equity business line, which has proven very effective. It allows us to provide significant financing to our clients with the backing of the group’s investment and private banks.”

Palate confirms that, “We have done approximately 10 equity bridge financing deals over the last 12 months and each of these has been significant in terms of size. We can also offer clients smaller amounts of credit with shorter maturities if needed.”

To remain in compliance with AIFMD, and

to avoid the appearance of using leverage in the fund, each tranche of the total loan arrangement – which might typically have a maturity of three to five years – cannot be longer than one year. Clients would therefore draw down capital for 364 days, and then reinstate the finance arrangement accordingly in Year 2.

On the AIFMD point, Palate explains: “Due to the rules of AIFMD, we cannot lend money for more than one year, otherwise the fund will be considered as leveraged. This would then mean additional reporting and regulatory constraints faced by the manager. So we sign maturity agreements of three to five years and using this framework clients draw down capital each year.”

CACEIS will do all the necessary due diligence to check the creditworthiness of a fund’s investors. This is all done in-house. The same people in charge of the depositary service to the fund manager will be in charge of the financing arrangement.

“Acting as the depositary, we are aware of everything happening in the fund. That gives us a lot of comfort in providing the bridge financing because we can see everything in the fund at the investor level and the individual asset level. The goal is to add value to our depositary service,” concludes Palate. ■



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# On track to launch first set of RAIFs

## Interview with Kavitha Ramachandran

The introduction of the Reserved Alternative Investment Fund under the Luxembourg Bill of Law N°6929 (Bill 6929) this year could be a game changer for the jurisdiction. In short, the RAIF is an investment fund product that removes the double layer of regulation. Rather, the regulation focuses on the AIFM and crucially, gives fund sponsors a quicker time to market.

“I would use two words to describe the RAIF: revolutionary and innovative,” says Kavitha Ramachandran, Director of MS Management Services, a Luxembourg-based subsidiary of the Maitland group, a leading global fund administrator. “I say revolutionary because of the move away from direct product regulation and the short turn-around time to have the legislation passed.

“The time it has taken the funds industry, the CSSF and the legislators to come together and work through this, has been very impressive. Other jurisdictions have tried to do something similar in terms of introducing ‘manager-led’ products (the NAIF in Malta, the Manager Led Product in Guernsey and the move by Jersey to introduce a similar product) so I think we are seeing a trend of removing that double layer of supervision and investors remaining confident in the product.”

Back in December 2015, when the RAIF Bill was sent to Parliament, Maitland set up a business case process to look at the key features of the RAIF, and what it would need to do as an AIFM.

“Our working group made sure that, as an AIFM and administrator, we would be comfortable overseeing a product like this. The AIFM is responsible for making sure that if delegating the portfolio management it is done within the rules of AIFMD and that the delegates can be effectively monitored on an ongoing basis.

“We’ve done our homework and we are



**Kavitha Ramachandran,**  
Director of MS Management  
Services

now in a position to actually start onboarding clients,” explains Ramachandran.

It is vital that Maitland is comfortable with all the documentation provided by the portfolio manager and that everything works, from a risk management perspective, before agreeing to act as the AIFM.

The AIFM is responsible for reviewing the governing bodies of the fund. Ramachandran says that Maitland needs to ensure the directors have the requisite experience and expertise to be able to serve on the board of these funds.

From a legal implementation process, Maitland has an in-house legal practice allowing it to offer an end-to-end service to clients.

“We can provide clients with introductions to various service providers and we then project manage the whole process of bringing the RAIF to market. We have a dedicated client implementation team whose sole purpose is getting the fund operationally ready. Dealing with one party obviously becomes much easier for the client,” says Ramachandran, who thinks the RAIF will appeal, in particular to private equity and real estate managers.

“These managers are used to getting deals completed quickly. The RAIF product is ideally suited to this given that a very short time is required to bring to market and keeping the seed investor engaged,” she adds.

The introduction of the RAIF gives investment managers the flexibility to avail of an investment fund product that can be brought to market in a short time period and in a well-established jurisdiction which meets investors’ criteria and which allows the fund manager to use the AIFMD passport.

For authorised AIFMs like Maitland, that presents a compelling business opportunity going forward. ■



# Luxembourg well placed to capitalise on Fintech revolution

By James Williams

Fund jurisdictions will need to keep their finger on the pulse of digital technology if they are to remain competitive over the coming years. Disruptive players are springing up on a daily basis offering innovative payment solutions, transaction solutions to improve efficiency.

Blockchain technology is set to be widely embraced by financial institutions. Just this week, Reuters reported that the first cross-border transaction between banks using multiple blockchain applications had taken place between Commonwealth Bank of Australia and Wells Fargo & Co.

Luxembourg is well aware of the

challenges and opportunities that disruptive technology presents and recognises the key role it has to play. As a jurisdiction that prides itself on legal and fund product innovation, 'fintech' is no exception and whilst it is not likely to ever seriously compete with London – fast becoming the world's leading fintech hub – and Silicon Valley, it does have a growing digital ecosystem.

Various firms have popped up in recent times: Birdee ([birdeeinstitutional.com](http://birdeeinstitutional.com)) offers an online discretionary portfolio service for HNW investors; Governance.io ([governance.io](http://governance.io)) provides a document management

system and workflow management tool; Digicash (digicash.lu) is a mobile payment technology specialist. The list goes on. And with more 150 banks and thousands of investment funds domiciled in Luxembourg, the opportunities for asset servicers and technology specialists to drive forward change are huge.

"We strongly believe that digital innovation will have a substantial impact on the way funds and financial products in general will be manufactured, distributed and consumed in the future," comments Jean-Jacques Picard, Senior Communications Manager at ALFI. "That's why ALFI has set up a dedicated Fintech Forum with the task to identify, discuss and analyse digital/fintech developments that might have a 'disruptive' impact on the asset management industry.

Fintech is a broad term that covers a broad variety of financial technologies whose joint goal is to make traditional financial services easier, more efficient and less expensive.

"Seen from that point of view, fintech has the potential to threaten any player of the fund industry value chain to be squeezed out of the market by more efficient start-ups.

"On the other hand, it may offer them the opportunity to improve their processes, enlarge their services offering and get more competitive as well. Whether they consider financial technologies to be an opportunity or a threat, fund industry players would be well advised not to adopt a 'wait and see' position and to tackle the challenges in a pro-active and open-minded fashion and to rapidly adapt their activities to an increasingly disintermediated business environment," suggests Picard.

Ernst & Young make reference to the disruptive behaviour of fintech in its 2016 edition of Investment Funds in Luxembourg – A technical guide. In an accompanying press release, they point out that "this is perhaps the very time that the industry needs to prove itself more than ever in providing products that truly meet investors' needs at a competitive price."

With the rise of robo-advisors and passive funds at ultra low costs to investors, asset managers too need to embrace technology as Picard alludes to; especially those at the top of the food chain. Large asset



*"We strongly believe that digital innovation will have a substantial impact on the way funds and financial products in general will be manufactured, distributed and consumed in the future."*

**Jean-Jacques Picard, ALFI**

management groups might feel immune from competition but the biggest threat comes from non-traditional players. Take Alibaba, the giant e-commerce platform in China. It has managed to build the world's 3rd largest money market fund (Alibaba Yue Bao), taking just nine months to reach USD100 billion – by comparison, it took Vanguard more than 10 years to hit that same figure.

Commenting on Luxembourg's position, Kai Braun, EY Business Advisory Services, thinks that it is well positioned given its strong entrepreneurial spirit: "More fintech companies are operating here and we believe they will play a positive role. I think we will see more fintech being used for payments, possibly back- and middle-office functions as well. I certainly do see a role for Luxembourg.

"If Luxembourg firms cannot continue to compete, for whatever reason, it would hand the advantage to other jurisdictions like Ireland, for example. But I don't see this as too much of a threat."

Marc-Andre Bechet is Director, Legal & Tax at the Association of the Luxembourg Fund Industry (ALFI). He says that one area that fintech could benefit the jurisdiction is with respect to doing KYC checks on investors; a typically time-consuming, labour intensive process.

"By making the KYC process more digital it would ease the process for the benefit of both asset managers and investors. I think fintech will be an important area of growth and innovation, going forward."

Another area that is likely to gain traction is in respect to how digital technology can be employed to enhance client engagement. With a new generation of millennial investors having been brought up on the Internet, ▶ 19





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# The virtues of good data governance

## Interview with Lee Godfrey

As asset managers face a barrage of global regulation and compliance demands, one of the biggest challenges they face is knowing who is responsible for the firm's data and where its source is located.

This requires having a proper data governance framework in place to control how and where data moves from source to a range of various outputs required for regulatory and fund distribution purposes.

Of course, this is easier said than done. Data is like water: one can never control exactly where it is going but one can at least funnel the majority of it and know where it's coming from.

"Speaking to the CEO of a US asset management group recently, when I asked how they currently feed data to their distribution partners, they did not know the answer. What we discovered was that in fact no one was doing it. A salesperson had signed a distribution agreement with a platform partner, set the fund products up on the platform and sent the necessary information, but then left it," recalls Lee Godfrey, Deputy CEO of KNEIP, one of the industry's leading fund data and reporting specialists.

With PRIIPs regulation looming large, control over the accuracy and consistency of fund data is paramount. Not only for regulatory reasons but also for credibility reasons. KNEIP uses the same data that goes to distribution platforms to send out to data vendors and to generate myriad legal and regulatory reports. By helping to control the movement of clients' data, KNEIP is able to improve the efficiency of its clients' sales teams.

"As was the case with one of our clients, not having to spend time explaining such discrepancies can increase a sales team's efficiency by 5 per cent," says Godfrey.

A proper fund governance framework will—when a fund manager knows what



Lee Godfrey, Deputy CEO of KNEIP

the required output is—allow them to reliably source the data to produce the requisite output.

Rather than responding with a kneejerk reaction to each new piece of regulation and throwing the kitchen sink at the problem, proper data ownership simply means adapting the dataset to produce a different output.

"The fund data that we send to Bloomberg, for example, already contains 71% of the data that satisfies the regulatory requirements of the PRIIPs KID," explains Godfrey. "Often an asset manager will bring in one consultant to tell them what the regulation is, then another consultant on how it might impact their business, then another consultant to help them put an RFP together, and yet another consultant to put a solution in place to manage the integration process. If you are smart about the long-term and understand what data you already have, then it should just be a case of developing another output."

Aside from the sales inefficiency, poor data governance can lead to potentially serious fund performance implications. Godfrey refers to one client who uses KNEIP to send out all of its funds' dividend data, but not its dividend payment intervals. In short, the dividend payment interval on data vendor terminals said that the fund paid twice a year when in fact KNEIP was sending them the client dividend data four times a year.

"As a result, the payment interval was incorrect and Bloomberg was only picking up two of the four dividend payments, and the fund's performance was consistently below its benchmark," says Godfrey.

Companies that avoid such issues are those who recognise the need to have a data governance strategy in place and not just a Chief Data Officer because as Godfrey concludes: "You can't centralise data ownership." ■

16 ► they increasingly expect to receive digital interaction with asset managers. They want instant access to portfolios, to be able to rate their fund managers and so on; this is just one example of the knowledge sharing economy we all live in today.

“Clearly, there is a focus now for asset servicers and asset managers to enhance their IT and data infrastructure in order to be able to connect better with their investors. Fund managers want to use reports/ analytics on their mobile devices to slice and dice data, and to be able to allow their end investors to consult these different reports themselves. That is where a lot of asset managers are focusing their attentions. Most of us have mobile apps to do online banking today, but this has yet to be standardised in the asset management industry,” says Braun.

Picard believes that most fund industry players are still in the process of investigating potential areas of application of new financial technologies but thinks fund distribution will be another key area of fintech growth.

“As far as we can judge at this point, we expect fund distribution to be strongly impacted by digital investment platforms and robo-advisors, portfolio management should benefit from Big Data and machine learning techniques. In addition, blockchain technology might help back and middle offices to facilitate transaction flows and reporting. No fund industry actor across the value chain is fully immune to fintech repercussions,” says Picard.

With technology evolving at such a rapid pace it could be argued that asset managers and servicers alike might find it hard to know which way to turn. To assuage some of the anxiety that this might create, Lee Godfrey, Deputy CEO of KNEIP, one of the industry’s leading legal and regulatory report specialists, suggests that technology can be an enabler when things change. But rather than constantly looking for the next best technology to cope with change, asset managers and servicers should take a step back and look at the processes behind the technology. Often, he says, the solutions already exist.

“That said, I think people need to challenge the model within the fund industry rather than technology. Why is it there are



*“More fintech companies are operating here and we believe they will play a positive role. I think we will see more fintech being used for payments, possibly back- and middle-office functions as well.”*

**Kai Braun, EY Business Advisory Services**

78 companies in Luxembourg alone all performing the same repetitive back-office task? Why is it that when I buy a fund there are 14 intermediaries between me and the fund sponsor? The whole value chain needs to be rethought.

“As a result, I think you will see an initial trend by many asset managers to move away from B2B and towards B2C. That could create an advisory issue because it would cut out a lot of healthy advice that some investors need. Then again, if you offer direct personal advice only to HNW individuals who know what they are doing, it could lead to significant savings for those investing in pension funds and other institutional products,” comments Godfrey.

If fintech start-ups manage to translate their ambitions to make both B2B and B2C financial services easier, more efficient and less expensive into reality, “the Luxembourg fund and asset servicing industry should end up with an even better and more competitive range of products and services,” adds Picard.

At a broad level, not just in Luxembourg but globally, there are signs that more and more hedge funds are diversifying their products to offer not only more liquid regulated funds – liquid alternatives – but more PE-like hybrid fund structures to lock up capital for longer periods to harvest yields in more illiquid areas of the market. Private equity managers are doing likewise, signaling a degree of convergence in the alternatives world.

It is therefore incumbent upon service providers, in any jurisdiction, to respond to these changes and adopt cutting edge

► 22





# BRINGING HARMONY TO YOUR PROJECTS.



# Know your investors before launching in Europe

## Interview with Timothe Fuchs

Timothe Fuchs is the CEO of eponymous Luxembourg-based Fuchs Asset Management. With regulation becoming so vast and complex, especially in Europe, he is in no doubt that alternative investment managers need all the help they can get with respect to the day-to-day operational and compliance demands of running AIFMD-compliant funds.

“Managers are getting fed up with all the reporting obligations they need to face each day. Also, and equally important, they are looking to use the European passport under AIFMD, especially now with the Brexit decision, given that large European institutional investors prefer regulated fund structures,” says Fuchs.

As an authorised AIFM, Fuchs Asset Management provides the services and the knowledge (governance, risk management & compliance, portfolio management and distribution) for asset managers, private banks and family offices wishing to launch AIFMD-compliant vehicles.

“We only work with clients with proven track records in the strategies that they wish to manage in a regulated structure,” confirms Fuchs, “and also those that already have their seed investors confirmed. In 90% of cases, just having a regulated fund structure is no guarantee at all that the manager will attract seed capital.”

European AIFM platforms like Fuchs Asset Management play a vital role in removing the regulatory and operational burden from investment managers keen to attract European investors.

“This is how we can help, by finding the right service provider partnerships for the client,” says Fuchs. The Fuchs Asset Management (‘FAM’) platform is open architecture. The team has relationships with service providers across Luxembourg and Europe to ensure that each client who



**Timothe Fuchs, CEO at Fuchs Asset Management**

launches a standalone fund and appoints FAM as the management company has the best solution in place.

“We want clients to focus on what they do best, which is managing their investment strategies. We don’t want them to get distracted managing the day-to-day operations of a regulated vehicle. We want them to focus on generating performance and finding the best investment opportunities.

“Platforms like ours have a huge advantage, in this respect. Regulations change on a seemingly daily basis. We’ve now got UCITS V, FATCA, CRS, PRIIPs, there is talk of possibly AIFMD 2, not to mention the reports that are needed to local regulators in which funds are marketed. There are lots of risk management and compliance issues to deal with, and from a distribution perspective, even if the manager uses the European passport (using our AIFM license) they still have to make a specific submission to each EU Member State they wish to passport in to,” explains Fuchs.

Fuchs says that investment managers need to have a clear idea of the type of investors they intend to target before launching a European fund under AIFMD.

“If you are going to target large pension funds, they will likely prefer the regulated SIF. If you are targeting family offices and HNW individuals, they will more likely accept the RAIF because they have less complicated internal fiduciary rules.

“Either way, managers need a clear view on what they intend to do with such a fund.

“Too many people launch SIFs, for example, on the expectation that they will attract investors. It is true that a regulated structure will help them find investors but it will not bring them automatically. I would offer the same word of caution to those clients now thinking of launching a RAIF,” concludes Fuchs. ■

19 ► technologies to allow them to better support the activities of their clients.

One firm that recognised this convergence early on and updated its systems to cope with more demanding cash flow monitoring, waterfall calculations, etc, is SS&C Advent, an independent unit of SS&C Technologies. But whilst the firm has been well placed to support the complex demands of its clients, it does not look to innovate just for the sake of it. Every product enhancement it introduces is based explicitly on clients' needs.

"We do not force any product onto our clients. We try to work with them based on what they need today, not tomorrow. You can't force innovation on clients. We can talk about disruptive technologies but part of our ethos is to adapt our approach based on where our clients are today," comments Jesper Steiness, Director of Global Accounts. "In two years' time we cannot know where the markets are going to be, or what is going to be the next big development. We speak to our clients on a daily basis in order to respond to what they are currently trying to achieve. Without their input we could not develop our software."

Nevertheless, as part of the future development of the alternatives industry, Roger Woolman, Principal Solutions Consultant, Asset Management & Alternatives at SS&C Advent believes it will become more self-servicing.

"In other words, investors servicing themselves through mobile devices. Fund administrators too will want their asset manager clients to become self-servicing and configuring their own reports and views on the data. We have the foundation in place to support such a future vision," remarks Woolman.

Mobile technology will continue to be a part of SS&C Advent's next generation roadmap.

Woolman states: "If we are going to create a self-servicing environment we've got to make sure that our solutions are all consistent and mobile. Not just to enable clients to look at reports or statements but to actually trace the flows of capital and provide look-through capabilities on positions and risk exposure, etc.

"Next generation Geneva will include



*"By making the KYC process more digital it would ease the process for the benefit of both asset managers and investors. I think fintech will be an important area of growth and innovation, going forward."*

**Marc-Andre Bechet, ALFI**

technology to allow the servicing of information in a more rapid, mobile manner. We're also introducing workflow tools that will sit above a number of Advent systems, including Geneva, as well as non-Advent products that clients are using. Being able to service workflow processes across a client's organisation will be an important element."

On the convergence trend within alternatives, Braun says that this is something he is discussing with his clients every day.

He cautions that the end investor wants to see one report that looks the same regardless of whether the manager is investing in listed securities, real estate debt, private equity, etc.

"Therefore, you need to have a consistent and coherent data layer and reporting engine in order to properly report to the end investor, and indeed to the regulator. The whole transparency agenda has totally changed in recent years and this is where finTech can help," says Braun.

The more that alternative fund managers – and their appointed service providers – operate not just in siloed areas (hedge funds, private equity) but across all alternatives, the more that robust data governance frameworks will be needed to properly source and take ownership of the vast amounts of data being reported to investors, regulators, and indeed ratings agencies and distribution platforms.

In a recent Northern Trust/Economist Intelligence Unit survey, it revealed that among asset managers who said they had a data strategy, only 27 per cent felt it was entirely successful in helping them meet their current challenges and opportunities.





Even fewer (13 per cent) felt their strategy was entirely flexible in supporting future challenges and needs.

“Unless you can sit down with a professional – and not a consultant whose primary interest is to draw the process out – and decide where your weaknesses are, it’s going to remain a problem. Consultants, in general, are either looking at a unique problem i.e. I am going to fix the PRIIPs problem for you, rather than fix the core long-term issue of how to make a company more efficient with a robust data governance process,” says Godfrey.

He says that one of the key considerations of a data governance framework is knowing who the product manager is that owns the data for a particular product range.

“It’s just about having control over the source of the data and knowing who has the responsibility for this. So document this first and foremost. Secondly, where does that data need to go? Where is it important from a regulatory perspective? What contracts are necessary from a legal perspective? What market data needs to be made available to those buying the funds or advising on the funds? What client communication needs to be conveyed?

“Once those two things have been determined, one can ascertain where is the overlap in data required for each of the required outputs. Having built that governance framework, the rest depends on the asset manager’s choice of technology,” explains Godfrey.



*“If we are going to create a self-servicing environment we’ve got to make sure that our solutions are all consistent and mobile. Not just to enable clients to look at reports or statements but to actually trace the flows of capital and provide look-through capabilities on positions and risk exposure.”*

**Roger Woolman, SS&C Advent**

What this illustrates is that whilst there are myriad fintech solutions and tools being developed within the funds industry, fund managers have to get their ducks in a row from a data management perspective. Using the latest flash bang technology becomes a redundant exercise if their fund data is poorly managed, organised, and monitored.

It is easy for fund managers to be seduced by technology. The trick is knowing where to use it to deliver the best outcome for the organisation.

“No single player of the fund industry value chain can afford to close its eyes to the emergence of new technologies without compromising their competitiveness,” concludes Picard. ■