

Luxembourg for Finance

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EDITORIAL.....

Dear Reader,

In this edition we focus on alternative investment: what are the opportunities and challenges for this sector and how are practitioners reacting to the proposed Alternative Investment Fund Management Directive? If the directive stays on timetable, and there is huge political pressure for it to do so, the European Parliament could vote it into law in June for application a year later.

We look at the Luxembourg life assurance industry, where the "super privilege" gives contract holders a level of protection that is unique in Europe and we report on an Islamic Finance debate.

Jean-Jacques Picard, Secretary General,
Luxembourg for Finance



LEARNING FROM THE EXPERTS

Luxembourg receives a Master Class on how to set up an Islamic banking centre

A visit by representatives from the central bank of Malaysia (Bank Negara), the Securities Commission and the Malaysian stock exchange provided the opportunity to arrange a public debate with their Luxembourg counterparts. Jointly organised by Luxembourg for Finance and Luxembourg University, the objective of the seminar was to exchange views and enable practitioners and students in Luxembourg to learn from the country that has pioneered Islamic financial services and is setting the pace today. The overwhelming response from the public, which resulted in a last minute change of venue, is witness to the interest generated by this subject.

The first panel addressed institutional themes: what sort of legal, regulatory and supervisory system is required in order to operate a diversified Islamic financial centre? Shariffuddin Khalid of Bank Negara spoke

Germain Birgen, chairman of the LFF Islamic Finance Task Force



candidly about Malaysia's experience since the creation of the first shariah compliant savings facility in 1963 and the gradual development of the dual system that operates today.

The centre developed in five recognisable stages: the setting up of that first facility to enable Muslims to save up for the Hajj pilgrimage led to the creation of the first Islamic bank in the 1980s; then in 1993 conventional banks were allowed to open up an Islamic finance window; this in turn led to the central bank setting up the National Shariah Advisory Council as an apex authority on shariah matters. In a fourth stage, the central bank issued a series of benchmark sukuks (shariah compliant bonds) of different maturities in order to establish an interbank money market. The final stage saw banks spinning off their Islamic finance windows as subsidiaries with an independent board and brand name.

Guy Heintz, speaking for the Luxembourg tax authorities, was able to confirm that shariah compliant products such as murabaha and sukuk were at no disadvantage to conventional products in Luxembourg. This had been clarified by a Circular from the tax authorities.

The Luxembourg Central Bank, represented by Elie Flatter, stressed that as an independent entity its business was to ensure the soundness of the financial centre. It is the first central bank of a European Union country to become a Council Member of the IFSB. "This will allow the BCL to familiarise itself with the activities of Islamic

Nik Mohamed Din Nik Musa, Bank Negara Malaysia



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Luxembourg should play to its strengths in order to fill market gaps

Raja Teh Maimunah of the Bursa Malaysia



Shariffuddin Khalid, Director, MIFC Promotions Unit, Bank Negara Malaysia
 Nik Mohamed Din Nik Musa, Deputy Director, MIFC Promotions Unit, Bank Negara Malaysia
 Guy Heintz, Director of Tax Administration
 Christian Wolff, Director of the Luxembourg School of Finance (Moderator)
 Elie Flatter, Prudential Supervision Department – Liquidity Surveillance, Luxembourg Central Bank
 David Kinloch, CEO, Labuan IBFC

banks and their specific supervision requirements” he said, adding that the bank was undertaking study visits. He also takes a keen interest in the establishment of a liquid shariah compliant money market and is a member of the IFSB working group entrusted with the task of preparing Guiding Principles on Liquidity Risk Management: “We are identifying instruments, practices and solutions for managing liquidity in a shariah compliant manner”.

The Malaysian delegation stressed that shariah law should not be seen as a limiting factor but as an enabler. What the market needs, said Nik Mohamed Din Nik Musa of Bank Negara, is not more conventional banking products adapted to comply with shariah, but innovative products inspired by Islamic law. Here is an opportunity for research and product development.

Rounding off the regulatory debate, David Kinloch of the Labuan International Business and Financial Centre (IBFC) presented this offshore Malaysian territory and recommended their recent Islamic Financial Services Act as an example for any country that was planning a comprehensive piece of legislation in the matter.

Luxembourg should play to its strengths

The capital markets panel saw a debate between representatives of the stock exchanges and the supervisory authorities of the two countries and discussion centered around sukuk and the shariah compliant investment fund industry.

Luxembourg was the first European stock exchange to list a sukuk, a Malaysian sovereign issue in 2002, and a total 15 have since been listed; “which puts us on a par with London”, commented Hubert Grignon-Dumoulin of the Luxembourg stock exchange. In the investment fund area, Germain Birgen of HSBC Luxembourg and Chairman of the LFF Islamic Finance Task Force, pointed out that Luxembourg has the largest market share of a non-Muslim country, with 40 shariah compliant investment funds. However, in response to a question on how Luxembourg should best move forwards, Mrs Raja Teh Maimunah of the Bursa Malaysia commented that many of these funds were private equity and real estate funds. She advised Luxembourg to play to its strengths in order to fill market gaps: in particular, to encourage the development of shariah compliant UCITS. These are retail investment funds that can be sold throughout Europe and in dozens of markets worldwide.

Mrs Raja Teh challenged the Grand Duchy with another market opportunity: to create a money market in euro sukuk by making a series of benchmark issues. “Pricing is key to such an initiative”, she said, adding that it was difficult to place sukuk in GCC countries because they were used to yields “in the high ‘teens” on domestic issues.

The seminar ended with a cocktail and the Luxembourg contingent went home with much to think about.



Mohd Radzuan Ahmad Tajuddin, Deputy General Manager & Head, Islamic Capital Market Department, Securities Commission
 Germain Birgen, Chairman of the LFF Islamic Finance Task Force and of the ALFI Islamic finance Working Group HSBC Securities Services (Luxembourg) SA
 Raja Teh Maimunah, Global Head, Islamic Markets, Bursa Malaysia
 André Prüm, Dean of the Faculty of Law, Economics and Finance, University of Luxembourg
 Hubert Grignon Dumoulin, Head of the Securities and Issuers Department, Luxembourg Stock Exchange
 Jean-Marc Goy, Counsel for International Affairs, CSSF

LUXEMBOURG LIFE ASSURANCE: A LEVEL OF PROTECTION UNIQUE IN EUROPE

The financial crisis has reminded investors of the importance of protecting their capital. Subscribers to Luxembourg life assurance products can sleep easily: thanks to a "super privilege" anchored in Luxembourg law, they benefit from a level of legal protection that is unique in Europe.

When subscribing to a Luxembourg life assurance contract, insurance clients benefit from a level of savings protection superior to that which is offered in most other European countries. Thanks to the super privilege mechanism, the client is guaranteed to recuperate the value of his/her contract in the event of bankruptcy of the insurance company. This legal protection is ensured by the separation of life assurance assets, in accounting terms, from the other assets of the life assurance company.

Luxembourg regulation requires that assets representing life assurance engagements be held separately at a credit establishment authorised by the Luxembourg insurance supervisory authority, the CAA (*Commissariat aux assurances*). This custody arrangement is formalised by a three-way agreement between the insurance company, the depositary bank and the CAA itself.

By contrast with the company's own assets, the assets representing life engagements are not "free". It is forbidden, for instance, for the company to pledge them or to use them as security for engagements of its own. Concretely, if the insurer can no longer honour its client engagements due to persistent financial difficulty (bankruptcy, liquidation) the life assurance contract holder automatically becomes a privileged creditor. This privilege gives him priority over all other creditors, including the Treasury, the Social Security authorities and the employees of the company (article 39 of the Luxembourg Law of 6 December 1991). This privilege covers the entirety of the technical provisions, not the sum of the premiums paid.

The CAA monitors very closely compliance by insurance companies with these legal requirements. By signing the agreement between the company and the depositary bank, it guarantees the separation of assets held for insurance contract holders from the assets of the shareholders of the company. The Depositary Agreement (*Convention de dépôt*) is obligatory and



not subject to negotiation. In practical terms, the custodian bank undertakes to warn the CAA without delay of any guarantee or privilege affecting these assets that might imperil the super privilege. The CAA then has the right to block all of the assets concerned.

The guarantee offered by the super privilege is a strong argument for use in the cross-border distribution of life assurance products within the framework of the single European market and the freedom to offer services. In partnership with private banks and insurance brokers, Luxembourg insurance companies enable European citizens to subscribe to a Luxembourg life assurance contract, accompanied by the same level of information and explanatory documentation as would be required for a life product offered in their country of residence. The Luxembourg super privilege thus contributes to the development of life assurance contracts into real wealth management tools, by which investors obtain access to a wide range of financial products within a particularly safe environment.

Jacques Hansoulle, Managing Director Development,
Fortis Luxembourg-Vie S.A

SHOULD WE BE AFRAID OF HEDGE FUNDS?

The new Directive is a major challenge, but Luxembourg hedge fund practitioners believe that a sensibly regulated hedge fund industry is a force for the good in international financial markets.

In 1990, there were little more than 500 hedge funds worldwide; today, there are close on 10,000 with two thousand billion dollars under management. The impressive year-on-year growth of this industry is undeniable. Yet professionals of this asset class deplore the lack of information and misunderstanding that still exists concerning hedge funds. They are popularly credited with bringing down governments and escalating the recent financial crisis. But is it all true? And where does Luxembourg fit into the story?

That hedge funds suffer from bad press is a fact. They are unregulated, risky and destructive, say critics. The opposite is true, replies AIMA, the Alternative Investment Management Association. They argue that the European hedge fund industry already complies with a number of EU directives and has a long history of working with policy makers and supervisors to secure effective regulation.

Furthermore, AIMA underlines that the primary aim of most hedge funds is to reduce volatility and risk while preserving capital and delivering positive returns under all market conditions.

Andrew Baker, CEO of AIMA, an association with more than 1,100 corporate members in over 40 countries, said

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Hedge funds have been contaminated by the bad press of the banking sector

Sohail Jaffer, FWU Group

during a recent conference in Luxembourg that he fully understands the needs of the press, which has to inform the public and produce stories. The result, however, is often articles or comments in the media that do not reflect reality. "Hedge funds have been contaminated by the bad press of the banking sector". The remedy is not to be afraid of building relationships with the press. For Andrew Baker it is important to dispel misconceptions by proactively placing stories in the media and responding to enquiries.

Didier Prime, audit partner at PricewaterhouseCoopers, is a member of AIMA, as well as of the ALFI hedge funds working group. He confirms what Andrew Baker is saying. "During the financial crisis, it was easier to criticise hedge funds, which are often created by independent companies, rather than banks whose trading activity was actually much higher than that of hedge funds. It was much easier to point the finger at a scapegoat which was not regulated enough or not regulated at all".

Are hedge funds to blame?

There is another myth the industry is fighting against, namely that hedge funds are volatile and dangerous.





AIMA stresses on its website that by definition, the activities of hedge funds are often counter-cyclical, acting to redress market imbalances. Many hedge funds use no leverage at all.

Régis Malcourant, coordinating the Hedge Fund Servicing of PricewaterhouseCoopers, shares the view of his colleague Didier Prime by insisting that hedge funds cannot be blamed for the collapse of the financial markets before or after the Lehman bankruptcy in September 2008. "Before the crisis, the leverage of hedge funds was on average between 2.2 and 2.5, according to the studies. This is way below what regulated banks were, and still are, allowed to build. One must not forget that during this crisis, hedge funds and funds of hedge funds were the first to pay the price of the liquidity crunch which reduced their leverage below 2 points (1.5-1.7). With each passing month, we take comfort in the fact that hedge funds were wrongly designated as scapegoats".

The negative press of hedge funds is not a new phenomenon: 12 years ago there was blanket coverage in the media about Long Term Capital Management (LTCM). In September, 1998 the Federal Reserve organised a rescue of LTCM, a very large and prominent hedge fund on the brink of collapse. The Fed intervened because it was concerned about possible consequences for financial markets worldwide if it allowed the hedge fund to fail. Afterwards, critics argued that the intervention was unnecessary because LTCM would not have failed anyway.

At the time, there were widespread calls for regulation of the hedge fund industry and the same calls were heard at the beginning of the financial crisis in 2008. This time, there was a great deal of political pressure, with the result that the European Commission rushed out a draft directive on Alternative Investment Fund Managers, the so-called AIFM Directive. Sohail Jaffer, a member of AIMA's EMEA regional advisory council, says that there are currently three drafts of this Directive in

circulation, written respectively by the European Parliament, the Council and the Commission. "The Spanish Presidency of the European Union is due to report on the subject very shortly. The Economic and Monetary Affairs Committee of the Parliament, the lead committee for the AIFMD, will consider 2,000 amendments and vote on the draft in April. In May the three draft documents will be converged and the plenary vote in the European Parliament will take place in July". Sohail Jaffer deplors that the text is too reactive: the alternative investment industry was only consulted after its drafting.

Don't overdo it

Industry specialists do not think that it was a good idea to rush things. Didier Prime says that the directive was produced "in a very unstable atmosphere". The results of this political pressure and the absence of specialist consultations led to several texts that do not complement each other for the moment. "Even if everybody agrees with the objectives of the draft Directive, we may have a deadlock situation which will not necessarily lead to more investor protection, but to over-regulation and probably more difficulty in competing with American actors".

Charles Cronin is regional head of the CFA Institute's Centre for Financial Market Integrity. He was recently a guest speaker at a conference in Luxembourg. In an interview with LFF he expressed his concern about overregulation. "This whole financial crisis has created its own political momentum whereby populist politicians can garner favour by pushing something further than it should be to take advantage of current popular opinion. Certainly in my own country (the UK), we've got elections coming up and it's an opportunity for people to push the envelope by looking for excessive regulatory solutions".

According to him, the problem with regulation is that it fixes one particular problem at one moment in time. When you pass a piece of legislation, the time lag since it was conceived and turned into a law can result in it becoming obsolete as the markets have already evolved and changed shape.

The Directive is aimed at tackling systemic risk in the financial system, a goal that is supported by AIMA. Andrew Baker summarises the situation like this. "We are in favour of large fund managers disclosing systemically relevant information to their supervisors and we support the universal registration and authorisation of hedge fund managers. But we should be careful not to flood the regulators with data".

Charles Cronin thinks that the Directive, which according to him is good in parts, is on the right track. He says that alternative investment practitioners are beginning to recognise that they cannot simply throw it out of their way and that they have to work with the European institutions. He adds that the CFA society has poled its membership on certain aspects of the Directive. "Our members believe that the code of conduct part of the Directive, which requires the manager to use good care and due diligence and always act in the best interest of the client, is an absolute must. We don't think there is anything wrong with that. We think there should be independent evaluation". But he adds "CFA members are against controls on short-selling and on leverage".

The growing importance of institutional investors

The outcome of the AIFMD debate is important, not only to industry lobbyists, but also to the economies of every EU Member State, says Andrew Baker. "Pensions, savings and jobs across Europe will be hit and we don't think that at a time of economic crisis, measures which could have these consequences should be considered without a thorough impact assessment". According to AIMA, 25 billion euros a year in performance will be lost by European pension funds if the Directive is not changed. Over 50% of hedge fund assets are in the hands of institutional investors, especially pension funds.

Other figures are used by AIMA lobbyists in order to shake political decision makers: the European hedge fund industry generates four billion euros per annum in tax revenues for EU governments and is responsible for 50,000 jobs in Europe. AIMA believes that, without significant rewriting, the AIFM Directive will lead to reduced choice and greater costs for investors in the European Union. "This is a threat to the whole of the EU, not just to London and Paris". The message is clear. Hedge funds play a beneficial role in allocating capital

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The Luxembourg industry has set itself high standards in due diligence. So there will be less of a negative effect on a day to day basis.

Sohail Jaffer, FWU Group

and creating price stability. By providing capital, they also help generate jobs and tax income. Because of the impact of hedge funds on national economies, it is important that the Directive put to the vote be solidly drafted and not have damaging consequences.

What is the impact of the proposed Directive on Luxembourg's existing legal framework? Sohail Jaffer puts it this way: "The Luxembourg industry has set itself high standards in due diligence. So there will be less of a negative effect on a day-to-day basis. Managers and promoters will suffer most: that is London and Paris. The administrative and custody centres like Luxembourg and Dublin will suffer less". He adds that Luxembourg has shown an enlightened approach to EU legislation in the past by welcoming it and applying it. Jean Guill, Director General at the Luxembourg financial sector supervisory authority, CSSF, agrees with this assessment. "In actual fact, the AIFMD does not pose any new challenges for the CSSF. We already conduct a very thorough analysis of all vehicles qualifying as UCIs or SIFs". He adds that the CSSF knows the importance of the "rapid reaction" factor and takes this into account when reviewing hedge fund files.

By contrast, the AIFMD will certainly result in additional conditions to be applied to fund managers and risk management. This qualitative approach has the support of the CSSF. Looking ahead, Jean Guill remarks that the AIFMD could be seen as an opportunity to create more alternative investment funds in Luxembourg.

Luxembourg tailors its ambitions

It is the United States, the United Kingdom and Switzerland that are the big players in the alternative market, together representing 80% of the hedge funds sold in Europe. In Luxembourg, the appetite for hedge funds and funds of hedge funds is growing. As at June 2009,





there were 614 hedge funds under administration, of which 74% were both domiciled and administered in Luxembourg. A further 1,288 funds of hedge funds are administered in the Grand Duchy. Nevertheless, Régis Malcourant of PricewaterhouseCoopers thinks that the Luxembourg industry should set itself more ambitious goals. "Maybe we will never become Europe's leading financial centre for alternative products, but we should aim at a market share of 15 to 20% on a worldwide basis. To achieve this goal, all the actors, especially service providers, should continue the efforts and investments most of them started in 2002".

However, before Luxembourg achieves this goal, its market share risks falling on a short term basis. Ireland, Luxembourg's fiercest rival, has been the recipient of a number of redomiciliations by offshore hedge funds. Didier Prime of PwC says that this is not the best starting point for picking up market share. "Many of these funds will make an onshore redomiciliation in Dublin as they are already listed in Ireland. Ten years ago, in Luxembourg, the opportunity presented by Cayman funds was not well understood and listings of offshore funds on the Luxembourg Stock Exchange were not permitted. This became the business of Dublin and they were remarkably successful at it and so they will benefit in terms of redomiciliation". However, hedge fund specialists at PwC admit that many efforts have now been made in Luxembourg to facilitate listings on the Stock Exchange. "Our regulatory framework is particularly flexible and well adapted to the redomiciliation of offshore funds".

Image is the key

If service providers are up to their job and regulation meets investors' and managers' needs, the problem that remains for the Luxembourg hedge fund industry is its image. Régis Malcourant concludes: "Luxembourg is not always perceived as an alternative centre. We need

systematic physical presence at all major events and should also market ourselves in the leading markets such as Switzerland, the United Kingdom and the United States. In Asia, among other regions, the reference product for a hedge fund remains a Cayman fund, and it will take some time to turn the tide. Maybe the AIFM Directive will create a new label that will turn foreign investors' interest away from Cayman and divert it to Europe".

Luxembourg has a strong card it can play. Over the past two decades, the Grand Duchy has established itself as the runaway leader in internationally marketed retail investment funds, known as UCITS after the EU Directive that defined them. This label could be used to make the financial centre more attractive for alternative products too. "Providers know how to handle sophisticated UCITS products, so they shouldn't have particular problems dealing with alternative products. For instance, based on a recent review of the Lipper database, we found out that a good 40% of hedge fund-like UCITS are domiciled in Luxembourg", notes Régis Malcourant. His colleague Didier Prime observes that while Luxembourg may be pre-eminent in this space, it does not market itself as aggressively as other jurisdictions. "We know other domiciles are actively using the regulator as part of their marketing of the fund domicile. In Luxembourg, we prefer to maintain a healthy segregation between the industry and those supervising it when it comes to active marketing whilst retaining a close ongoing working relationship which has been one of the hallmarks of the success Luxembourg has and continues to enjoy".

When talking about image, quality of life is another important selling point. When a fund manager decides to leave London, Switzerland is typically the first choice for relocation. However, anecdotal evidence indicates that such a move can be difficult: a tight housing market and waiting lists for schools have made people think again. Luxembourg may lack ski slopes and sailing lakes, but the country has a lot to offer in terms of quality of life. It is relatively easy to find accommodation and there is a wide choice of educational establishments and systems. Furthermore, Luxembourg is located a short distance from decision making centres like Paris and Frankfurt. These are real competitive advantages and should enable Luxembourg to differentiate itself from other financial centres.

REAL ESTATE INVESTMENT FUNDS: LOOKING BETTER THAN MOST

How has the real estate investment fund (REIF) industry withstood the financial crisis? In Luxembourg, the sector has benefited from some structural advantages placing it in pole position to benefit from market recovery; but the whole European REIF industry faces a challenge from Brussels. We interviewed Keith Burman, Chair of the REIF sub-committee at the Association of the Luxembourg Fund Industry (ALFI). Keith is Senior Vice President and Product Manager for Real Estate Fund Services at Brown Brothers Harriman (Luxembourg) SCA, which has over 1200 properties under custody supervision for real estate fund managers.

For Brown Brothers Harriman (BBH), as a custodian and central administrator, the financial crisis affected the REIF business in a number of ways, as Keith Burman explained.

“Valuations evidently fell in line with the market. However, since the great majority of Luxembourg REIFs invest multi-nationally, they were to some extent protected by their diversification: whereas valuations overall were down 20-30%, some individual markets such as the UK fell by as much as 50%”.

Secondly, there was a dramatic fall in transaction volumes, to about 10% of levels seen in 2008. Typically, over the 10 year life span of an average fund, the managers are active buyers as they build the portfolio in the first three years and active sellers in the last three as the fund winds up. All this activity was suspended, as no-one wanted to buy in a falling market and very limited external debt finance was available.

This is linked to a third point, the virtual standstill in new fund launches. While investors tried to gauge the likely outcomes of the financial crisis and dealt with their own liquidity issues, fund managers were heavily focused on keeping their heads above water, by recapitalising deals and renegotiating finance terms with the banks. Very few new funds were proposed compared with 2007 or 2008, and the common themes that were talked about included deleveraging, equity-only investing and distress.

At the same time, significant operational challenges arose in the valuation of properties and accounting issues such as “the going concern assumption”. Fund managers were obliged to increase the frequency of external property valuations as market turmoil and lack of evidence increased valuation uncertainty.



“Luxembourg rules have not been found wanting”

According to Keith Burman, the cautious regulatory model in Luxembourg enabled the REIF sector to come through the crisis in better shape than in many other jurisdictions. The vast majority of Luxembourg REIFs are closed-ended, with infrequent valuations (typically quarterly), while those that are open-ended tend to have long notice periods or other liquidity control provisions, so that there are minimal investor redemptions during the life of the fund. This is in contrast to open-ended, daily traded REIFs in markets such as the UK or Germany, where investor redemption pressure led to the suspension of redemptions of some funds during the worst of the crisis. Furthermore, Luxembourg is predominantly an institutional market, with clients holding for the long term. The advantage of international diversification has already been mentioned but a fourth advantage is key: Luxembourg REIFs are not as highly geared as real estate funds elsewhere, as the financial

regulator, the CSSF, has a default maximum level of 50% gearing. Anything higher must be individually discussed and authorised, so that only value added and opportunistic strategies reach borrowing levels as high as 65%-75%.

AIFMD: a revolutionary proposal

The European institutions are in full debate about the proposed Alternative Investment Fund Managers Directive (AIFMD). Hedge funds, private equity funds and real estate funds typically have little in common, so the REIF industry has become involved in an unprecedented way in lobbying the European institutions, to ensure that the specific nature of the real estate business is taken into account.

The AIFMD will affect all regulated Luxembourg REIFs and even some non-fund corporate structures that are being used as investment vehicles. In many ways, Luxembourg regulated funds are already substantially in compliance with the proposed AIFMD: for instance, they have a custodian and a central administrator, leverage rules are in place and CSSF rules cover the establishment of management companies. However, as currently drafted and taking into account the latest amendment proposals from the Swedish Presidency and the European Parliament, the AIFMD still poses significant concerns for Luxembourg in areas such as valuations and the liability of the custodian bank.

If the legislation fails to strike the right balance between stricter rules for fund managers and funds, on the one hand, and operational freedoms and the realities of investment in alternative investment markets on the other, European investors will see costs rise and parts of the European alternative fund industry may relocate outside Europe.

Alternatively, if it is done well, European alternative fund managers will be able to offer funds easily in all the 27 Member States, European investors will have access to a broader range of investment choices and Europe could see the rise of an AIF "brand" following the globally recognised success of the UCITS brand for retail securities funds.

An international model

Luxembourg has come from almost nowhere a decade ago to corner the European market in cross-border real estate funds. The number of regulated REIFs rose from just 16 in 2000 to 146 by July 2009. INREV (the European association for investors in non-listed real estate



vehicles) ranked Luxembourg second in 2009; and if you strip out single-country funds Luxembourg is clearly the leading domicile for multinational REIFs in Europe. Keith Burman highlights a similar growth story in the fund of real estate funds sector.

According to BBH, the appeal of Luxembourg is similar to its appeal in other sectors. There are thriving domestic real estate markets in Germany and France, but Luxembourg has the legal framework to handle complex international holding structures. Furthermore, adds Keith Burman, political stability is a major factor for investors. They want to know that there will be steady ongoing political support for the financial sector, as there has been over the past 30 years. ALFI efforts have led to the development of best practices, comparative data and REIF-specific training courses, which have accompanied the impressive growth in REIF service provider capabilities in the legal, tax, audit, central administration and custody areas.

It's good to have cash

Activity at BBH has already picked up in 2010, both within portfolios and in new product proposals. However, in Keith Burman's view, property valuations are likely to remain flat in 2010 while the businesses on which they depend to pay the rent struggle to recover. Banks that did not foreclose on borrowers in 2009 may have to do so in 2010. This is a market where cash-rich funds are king, and some managers are calling down equity to take advantage of exceptional buying conditions. Looking ahead, he predicts recovery in 2011 before a return to strong growth in 2012 and 2013. He also sees a growth in infrastructure funds - investing in roads, railways and renewable energy projects - as governments fight their deficits. Infrastructure projects can provide a long term, steady income stream that is highly attractive to investors.

Luxembourg for Finance goes Web 2.0

For LFF, 2010 is going to be the year of on-line communication. We have resolved to take full advantage of the "Web 2.0" tools that enable rapid worldwide exchange of information, knowledge and opinions. Thanks to the interactivity offered by these tools, we can move on from broadcast media monologues ("one to many") to social media dialogues ("many to many"). These are perfect instruments for tackling our double objective: to reach out to people who are interested in finance in general and the Luxembourg financial centre in particular, and to create real discussion platforms on financial subjects of general interest.

To start with, we are concentrating on the principal social networks that offer global communication. Looking ahead, a "Luxembourg for Finance" blog is in preparation and will be launched soon. We invite you to join us in one or more of our "LFF" groups:



The "Luxembourg for Finance" group on LinkedIn was our first Web 2.0 experience. Launched in December 2009, this group has over 800 members (at 1 March 2010).

www.linkedin.com/groups?home=&gid=2619732&trk=anet_ug_hm



Somewhat to our surprise our page on Facebook has met with instant success. Created early in February, it has gathered over 2,000 fans from all over the world in just over three weeks. The discussions developing there are both interesting and intense.

www.facebook.com/pages/Luxemburg-Luxembourg/Luxembourg-for-Finance/292226356416?ref=mf



Our most recent initiative is the constitution of a "Luxembourg for Finance" group on Xing, a German speaking social network. A presence on this network is justified by the large number of financial sector actors of German origin in the Luxembourg financial centre.

www.xing.com/net/lff

www.lff.lu nun auch in deutscher Sprache

Neben Französisch – der offiziellen Amtssprache Luxemburgs – und Englisch, der „Business-Sprache“ schlechthin, gibt es das Webangebot von Luxembourg for Finance nun auch in deutscher Sprache. Damit stehen jetzt alle technischen Informationen über Produkte und Dienstleistungen, über die verschiedenen Akteure und das rechtliche und aufsichtsrechtliche Umfeld des Finanzplatzes in drei Sprachen zur Verfügung. Aktuelle Nachrichten, Präsentationen und Vorträge, Stellungnahmen und Interviews werden – wie es auch bei den luxemburgischen Printmedien üblich ist – in jeweils einer Sprache angeboten, was die für den Platz typische Mehrsprachigkeit unterstreichen soll.

EVENTS

Luxembourg Financial Forum 2010

Luxembourg, 3 June 2010

Jean-Claude Juncker, Prime Minister of the Grand Duchy of Luxembourg, is hosting the Luxembourg Financial Forum, an annual international event organised by Luxembourg for Finance. This conference is the stage for an ongoing discussion on core financial and economic issues of international importance. This year renowned speakers and experts will discuss the theme Sustainability in Finance: Implementation of an Idea(l). The Luxembourg Financial Forum 2010 will bring together delegates from governments and ministries, the finance and insurances sector, legal and consulting firms, national and multinational organisations, as well as institutional and private investors, in an environment that is highly productive for discussion and networking.

Visit the website: www.financialforum.lu

Trade Mission to Russia

12 to 15 April 2010

LFF will take part in a trade mission to Russia, organised by the Chamber of Commerce and led by HRH Crown Prince Guillaume of Luxembourg and HE Jeannot Krecké, Minister for the Economy and Foreign Trade. LFF will hold seminars for the financial community in Moscow and St Petersburg, focusing on wealth management and investment funds. The agency will also contribute financial services content to the business/industrial side of the mission, targeting group finance and treasury officers. LFF is teaming up with a local partner in both cities: in Moscow with MOSFINAGENCY and in St Petersburg with the international Banking Institute, where the event will be open to the student community. One-on-one meetings between companies will be organised during the course of the mission.

For further information, see our site: www.lff.lu



Takahiro Iwasaki | Everyday(s), Casino Luxembourg until 11 April 2010 | © Jessica Theis

LIFESTYLE.....

The Infernal Comedy



John Malkovich plays the serial killer Jack Unterweger in an extraordinary musical comedy on love and violence, enhanced by airs from Gluck, Boccherini, Vivaldi, Mozart, Beethoven, Haydn and Weber from the Wiener Akademie baroque orchestra. Just one performance.

11 May at 20h, Grand Auditorium.
www.philharmonie.lu

Mark Knopfler in concert



Mark Knopfler enjoyed phenomenal success in the 1980s with his group Dire Straits and has continued performing in a remarkable solo career. His world tour "Get Lucky" closes on 8 June at 20h at the Rockhal!

www.rockhal.lu

The night run: 5th anniversary!



On Saturday, 15 May at 18h, 8,000 runners will be at the starting line at Luxexpo in Kirchberg for what has become the annual "ING Europe-marathon Luxembourg". This is a good excuse to party the night away in a very cosmopolitan atmosphere.

www.ing-europe-marathon.lu

Jethro Tull: 40th anniversary tour



In the mid seventies Jethro Tull was one of the most successful live performing acts on the world stage. With some 30-odd albums to their credit, the Tull have continued to fascinate their fans, young and old, with Rock, Folk, Jazz and Classical-inspired music for grown-ups.

Rockhal, 21 May at 20h30. www.rockhal.lu

Museums

13th museum open weekend

30 museums and art galleries around the country will open their doors to the public for the annual "portes ouvertes" weekend. 26, 27 and 28 March. www.invitation-aux-musees.lu

The 3 Echelen (Trois Glands)

Guided visits of Fort Thüngen, the site of the future Musée de la forteresse, take place regularly during weekends. www.mnha.lu

Festivals

Printemps Musical

City of Luxembourg jazz and world music festival, from 7 March to 2 June. www.printempsmusical.lu

Echternach international festival

Classical music festival, from 17 March to 2 July. www.echternachfestival.lu

Impressum

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