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Introduction

On 4 February 2020, Deloitte Luxembourg and Elvinger Hoss Prussen, together with their supporting partner, Financial Times Live, organized the eighth edition of the highly successful annual one-day Cross-Border Distribution Conference at the European Convention Center in Kirchberg, Luxembourg City.

Hundreds of industry participants from across Europe gathered to hear speeches and panel discussions focusing on opportunities and expectations for 2030, as well as opinions from eminent industry professionals.

Lou Kiesch, a Partner at Deloitte Luxembourg, opened the conference by stating that it has become a keynote event within the wider investment management industry. It started as a round-table and due to demand, became a workshop and thereafter a distribution conference. From a statistical perspective, over 800 people from over 280 different companies, representing 18 nationalities, signed up to attend this year's event, all eager to hear the speakers discussing regulatory, political, and technical issues.

In keeping with the conference theme of *new opportunities, new expectations*, attendees were encouraged to read *The Age of Change – Transformation in a Maturing Industry*, a short publication, drafted especially for the event, highlighting the new realities of asset management. Lou Kiesch then handed over to Jacques Elvinger, a Partner at Elvinger Hoss Prussen, who delved deeper into turning challenges into successes.

Luxembourg has become adept at strengthening its financial sector to rise to such challenges – AIFMD, delegation, Brexit and AML to name but a few.

No conference is currently complete without tackling the anticipated hot topics of 2020, these being AML, ESG and management of liquidity risk. As ever, information and preparation are critical tools for success, so let us now dive into these and other subjects to explore how best to prepare for the decade to come.

Since the conference, the world has been plunged into a sanitary and economic crisis, the growing scale and cost of which very few people have ever witnessed or could realistically have imagined. Overnight, industries have had to rethink their modus operandi in its most granular set-up, not only from a technological but also human perspective. Our asset management industry, whilst already fairly agile, has had its business contingency plans put the test in a most dramatic way with no major consequences to note. Today, more than ever, in this new normal of digitalization and innovation, Charles Darwin's quote rings true in that "it is not the strongest of the species that survives, but rather that which is adaptable to change." The new decade has started with a daunting challenge but one that we will embrace and build on in the years to come. Deloitte, EHP and its partners wish you to be safe and secure in these challenging times.

1. Keynote Opening Address

Speaker:

James Randolph Evans

Ambassador Extraordinary and Plenipotentiary of the USA to the Grand Duchy of Luxembourg

Results are what count

His Excellency Mr. James Randolph Evans became the 23rd United States Ambassador to the Grand Duchy of Luxembourg in June 2018. Since then, the Embassy has been working extremely diligently and efficiently on numerous issues resulting in fruitful collaborations and substantial results. Before stepping into the role of Ambassador, Mr. Evans served as an attorney, author and public servant in a variety of positions in US Government including running political campaigns.

This is an important point to highlight given the unique timing of the 2020 conference when taking into account the significant events happening in both the USA and United Kingdom. In the US, the main political parties began the election process through the Iowa caucuses, the initial step for the selection of delegates for the respective parties to pick their nominee for the White House; this is in the midst of the impeachment trial of President Donald Trump that was, at the time, on the Senate floor. In the United Kingdom, Brexit has effectively taken place although the final transitional details are still under discussion. While considering these events, Ambassador Evans noted that from his experience in diplomacy and the practice of law, there are three essential ingredients for success - timing, location and opportunity.

An example of this is the successful memorandum of understanding (MoU) on space, which has significantly deepened the co-operation between the USA and Luxembourg. The MoU allowed both countries, for the first time in their history, to formalize the exchange of ideas and sharing of expertise. Ambassador Evans said that, potentially, this MoU would not have seen the light of day if he had not attended his first event dedicated to space shortly after arriving in Luxembourg.

Another example relates to Luxembourg's position as the second largest financial center for investment funds after the US coupled with being home to numerous American businesses. These factors are testament to Luxembourg being a great business partner for the US. However, again during an event that Ambassador Evans attended in Luxembourg, he noted that the US flag did not appear alongside the flags of nations that do business with Luxembourg. Despite the long shared history of the two countries that goes back to World War I, it struck the Ambassador that the countries had not shared a moment of mutual recognition.

That moment in time, the location and opportunity that was forthcoming, brought enormous success...

From the signed agreement between NASA and the Luxembourg Space Agency, to securing the final application of the tax treaty and the signatory of two defense agreements, this is considered only the beginning of the chapter on the significant bilateral relationship between the two countries. A future topic of consideration for such relationships is the possible concern of Luxembourg becoming the target of ransomware due to potentially insufficient cyber security and strong cyber walls, this despite Luxembourg's technological advancements.

Looking at these recent achievements, it would be fair to say that Luxembourg and the US have probably had one of their most efficient and engaging periods and one might wonder why. Since the election of President Trump, many have said that his actions are somewhat unorthodox. President Trump came into politics from business, with no previous experience in politics or law. However, the net effect of his background is that he views words and actions as tools to accomplish planned results.

Examining the current relationship between Luxembourg and the US, the results so far have definitely exceeded expectations. This is what will be remembered and have an impact on the future. Next in line is the qualification of Luxembourg investment funds under the Double Tax Treaty of which, unlike Ireland, Luxembourg is not yet a beneficiary.

To conclude, Ambassador Evans said that these achievements were possible due to the dedication of the US and Luxembourg. More opportunities will follow given the right time and location, the results of which will leave a lasting mark on the history of both countries.

2. Keynote II

Speaker:

Claude Marx

Director General, *Commission de Surveillance du Secteur Financier*

Our financial center is thriving

This was the optimistic message that set the tone for Mr. Marx's speech. He began with some exciting statistics: the Luxembourg financial services industry employs around 60,000 staff, roughly 50,000 of which are under CSSF supervision; Luxembourg's bank balance sits at approximately €842 billion; Luxembourg is home to over 100 investment firms; and funds registered in Luxembourg have a combined AuM of nearly €5 trillion. All these figures are an increase on their 2018 equivalents. Things certainly appear positive. Nonetheless, Mr. Marx noted there are many challenges facing the industry, which are also shaping the regulatory agenda.

The fight against financial crime and money laundering is a high priority given that collective investment schemes carry an inherent higher risk of money laundering, as evidenced by the sheer number of recent publications issued by FATF and the CSSF. One common weakness appears to be flaws in internal controls specifically relating to inadequate customer due diligence measures. To strengthen this area, the CSSF is looking to carve out the AML provisions of Circular 18/698 into a dedicated CSSF regulation. In addition, FATF is coming to review the technical compliance of their standard and the effectiveness of our regulatory framework. However, he reiterated that it is also important for the AML fight to occur outside official investigations. All too often, the real reasons behind the AML fight are forgotten; many view AML rules as further bureaucracy, a hurdle to the efficient completion of work. The truth is that this is a fight against organized crime, terrorist activities and drug dealing. Failing to take AML obligations seriously, whilst not directly participating, encourages those that perpetrate the crimes. We all need to ask ourselves whether such actions are what our organizations wish to be associated with.

Climate change is another challenge that we face. Mr. Marx noted that there has already been a significant European response, highlighting the EC's Green Deal targets and the EU's leading taxonomy for sustainable activities. At a national level, Luxembourg has been proactively involved in this space for over a decade through the LuxFLAG investment labels and, more recently, the government's introduction of the sustainable finance road map. However, to avoid irreversible damage, more action is needed at corporate level. We need a fundamental rethink, with a greater emphasis on tackling climate change across all levels. For example, distribution and sales staff will need to better understand sustainable products as opposed to distributing purely ESG labelled products. One solution recommends mandatory sustainability training for both industry actors and the wider public; another could be tying sustainability to senior management pay to better incentivize change. Sustainable investing is not not-for-profit; potentially non-sustainable investing could be viewed as a breach of fiduciary responsibilities of asset managers. Whilst change is needed, an orderly transition is necessary to reduce systemic risk.

Technology is also a critical challenge; Mr. Marx believes there are three approaches to technology within our industry: to embrace, to deny, or to remain indecisive. It is evident who will be the winners and losers of such actions. Companies should seek client interaction and not assume they know best. The CSSF is increasing its expertise in technological developments and have produced publications on cloud computing and artificial intelligence (AI). The CSSF is also looking to capitalize on AI by introducing the CSSF 4.0 initiative focusing on ambitious projects such as using AI to review fund documents and to enhance communication channels.

No conference is complete without Brexit – another challenge for our industry. To avoid uncertainty, UK firms are encouraged to set up a presence in Luxembourg with the CSSF doing all it can to help limit market disruption. The audience were left on a positive note, with Mr. Marx emphasizing the importance of the relationship between the UK and Luxembourg and the belief that the relationship will thrive regardless of the outcome of the transition deal.

3. EU Address: The Future for Fund Regulation in the Next Decade

Speaker:

Sven Gentner

Head of Unit for Asset Management, DG FISMA, European Commission

Three issues at the forefront

Mr Gentner began by highlighting three predominant issues at the forefront of the EC's asset management regulatory agenda: retail investment, AIFMD review and sustainable finance.

Starting with an analysis of retail investment, he began on a positive note, stating that investment markets in general are doing well due to a long period of growth. However, this is juxtaposed with the fact that significant amounts of money sit idly in bank accounts. Currently, retail investors do not sufficiently invest in long-term products to support their children's educations or their pensions. It is hoped that when the EC relaunches the CMU, this will focus on better enabling retail investment by comprehensibly reviewing PRIIPs, MiFID and IDD coupled with gaining extensive insight from industry players. The EC's aim is to obtain a complete overview of a retail investor's journey, from start to finish, so regulators can better understand how to increase retail investment.

Disclosures, financial advice, product suitability, financial incentives, tax, cross-border barriers and technology will all be explored during this review.

In the context of AIFMD, the EC does not intend to make large-scale changes given how the industry has overall been pleased with the current AIFMD framework. The EC does not desire a major overhaul since the market for AIFs is growing and AIFMD has become a positive selling point, akin to the UCITS brand. However, the EC will publish its plans for AIFMD in a report to be submitted shortly to the European Council and European Parliament, with the intention of launching a public consultation in 2020.

One area for review will be the AIFMD passport, which, according to industry feedback, has not yet reached its full potential. National gold-plating rules, divergence between regulatory authorities' interpretation of the regulations, variations in marketing rules and barriers to entry for smaller asset managers are some of the main reasons for the passport's struggles. In contrast, unfortunately, it appears that a depositary passport continues to divide opinion with no clear solution in sight.

As a result, reporting requirements remain a concern, as they have been for many years, particularly for smaller managers due to high costs and overlaps. However, the EC is looking to propose changes in these areas together with looking at financial stability. In practice, this should manifest in a public consultation towards the summer of 2020, with the hope of an EC proposal being issued at the beginning of 2021.

In terms of sustainable finance, Mr. Gentner also raised the EU's ambitious goals in this area. The fact that we will need over €250 billion investment in sustainable finance to meet the proposed goals shocked many. An impassioned plea was made to the private sector to meet this goal due to the simple fact that the public sector cannot shoulder this burden alone. Incentives need to be adapted, information flows must improve and changes in sustainable finance thinking are critical at all levels of the industry. Three key legislative initiatives have already shown the high ambitions of the European Council and European Parliament to tackle the issue of climate change: the taxonomy, the Regulation of Sustainability Related Disclosures in the Financial Sector and the Benchmarks Regulation.

The next steps are the development of technical rules, for the EC to create a new sustainable finance strategy and the instigation of a public consultation. He emphasized the need to revise the non-financial reporting directive to provide better quality information on the sustainability of investments to market participants and, ultimately, end investors. An EU-wide investment eco-label and green bond standard were also suggested, together with the potential reduction of capital requirements to incentivize more sustainable lending. International coordination remains at the forefront of the EC's agenda, with the EU's aim at continuing to be a leader in this field to the benefit of not only our industry but also the environment and our economies in general.

4. AML/KYC Compliance: Balancing Compliance with the Need for Efficiency in Distribution

Moderator:

Yuri Bender

Editor-in-Chief, Professional Wealth Management (PWM), Financial Times

Panelists:

- Furio Pietribiasi, CEO, Mediolanum Asset Management
- Agathi Pafili, Head of Europe Government Relations, Capital Group
- Dominique Lepagnot, Head of AML, Asset Management Directorate, *Autorité des marchés financiers*
- Marco Zwick, Director, *Commission de Surveillance du Secteur Financier*

New factors to define success?

Whilst most panelists agreed that compliance has been a critical focus for management companies post AMLD5, it seems that the relationship between management companies and distributors has also transformed. Everyone agreed KYC procedures are considered to be a shared responsibility between the two parties and based on mutual trust. This is certainly a shift from the practice in the past, where asset managers did not necessarily feel responsible for knowing their clients. To make the KYC process even more reliable, effort must come from both sides.

During the debate, the panelists shared their thoughts on the current situation and further improvements on KYC/AML. They did not, however, hide the fact that management companies are already highly regulated and that new laws are not a necessity, but rather existing regulation should be improved. The discussion became more intense when the Woodford scandal was mentioned with the panel mutually agreeing that the investment fund industry should not be judged by this sole event.

The discussion then began to take a closer look at the particular focus of the CSSF on the compliance function. It must be recalled that, although it was not until 2004 that the CSSF formally introduced compliance as a function, this responsibility already existed in many companies. Certainly, since 2004 expertise in this area has been increasing exponentially, with this role also expected to cover compliance monitoring activities and the prevention of market abuse. The growing importance of data protection as well as active breaches within portfolio management and NAV calculations errors are other key focus points that are closely overseen by the compliance function.

The number of both off-site and on-site visits by the CSSF is increasing. Greater focus has been placed on on-sight visits due to the fact that this provides the CSSF with valuable insight into the different fund distribution models that exist. Following these visits, coupled with their findings and expertise, the panelists agreed that CSSF recommendations are proving to be a positive influence on this area.

Luxembourg is undoubtedly considered as the coal-face of European Fund Management, where custodians interact with asset managers. The critical question remains how is the responsibility divided between the two, and can it be outsourced from the fund manager to the custody bank? The answer is that it is possible to delegate some technical activities of the KYC process, keeping in mind the constraints that apply under Luxembourg law. The key point to recognize is that outsourcing makes you 100% liable. Due to recognized conflicts of interest, it makes it difficult to outsource this to the depositary bank since it has its own obligations under UCITS V and AIFM Directives. When speaking about AML, we must remember that besides the distribution side, part of investment management also falls within AML risks.

A particular point to note for Luxembourg is that much of the cross border distribution happens via regulated distributors, which is not a problem in itself. Nonetheless, it means that management companies cannot directly carry out KYC/AML checks on all underlying investors, thereby relying on distributors, which becomes problematic in terms of transparency.

The culture of the halfway house between the asset manager and distributor has been intensely evolving over the past few years; however, the "look through" practice for the distributor's client list does not remain feasible. Taking a pragmatic approach, it is for the asset manager to ensure that the distributors have the right due diligence processes in place, and for the distributors to ensure this due diligence is adequately applied. Recently, the relationship has become more critical – the distributors are realizing that they need to do more to ensure the asset manager receives the required and correct information; on the other hand, asset managers need to be clearer on their requirements and needs. One way for this to happen, is for the contractual agreement to reflect this improved approach. These contractual discussions are also proving to be critical for both parties to ask the right questions to better understand their responsibilities within the distribution chain.

Turning to the recent implementation of AMLD5 and the Beneficial Owner Register, the panelists agreed that this has certainly enhanced the level of due diligence industry-wide. The fear of not fulling the imposed regulations seem to be the key driver, as reputational risk is a crucial element to financial groups.

When talking about the impact of enhanced compliance, on a global level, it is viewed as the opening of a new chapter for national regulators. Discussing regulatory issues and policies, as well as supervisory practices, amongst themselves is becoming more common. In addition, regulators have started to discuss individual and specific AML cases together, on an anonymous basis, which was not the case before. Information is being exchanged more often and more comprehensively than it has ever been before. Such open dialogue is positive news for the industry.

Regarding the efficiency in distribution, the panelists concluded it is still too early to answer this particular question in terms of the decreasing number of distributions. ESMA requires that enhanced due diligence be done by "well-known" distributors, which does not facilitate compliance efforts. Indeed, one point to consider is the number of distributor appointments that a fund/management company concludes and thereby, hopefully, making the AML/KYC compliance effort more efficient.

During the conclusion of the panel discussion, the point was made that distribution has become the most significant factor that will define the top asset managers in the future. Performance will not be the only critical criteria, bearing in mind that undoubtedly the quality of performance is pivotal, as is transparency for investors. In the area of transparency, the industry still has some room for improvement to ensure asset managers and distributors should work closely together with the aim of effectively providing transparency to investors.

5. Seizing opportunities for a new decade of asset management

Speaker:

Joanna Cound

Managing Director, Head Global Public Policy Group, BlackRock

Leveraging technology is the end goal

Technology has always been at the heart of asset management, even though one could say this is a conundrum. Newer process such as AI are considered as a natural progression on the merited technologies and systems that were present for over a decade. At the same time, we observe a greater and broader application of technology in various businesses that positively affect the way they operate on a day-to-day basis. Technology is helping us change the way we invest money and empower employees, the net effect is achieving a better outcome for clients by helping them achieve financial satisfaction.

In terms of the impact on fund management, we can see great progress by looking at big data and advanced analytics to help identify useful patterns from the massive amount of unstructured data. The process of generating alpha does not change, but the way in which we can access it does. ML makes it possible to scan the universe of reporting in real time. Analyzing data from social platforms or satellite imaging, allows us to understand what consumers are looking for - a critical factor for active investment funds. Analytical tools can alert us to possible investment risks much more efficiently and help enhance performance management.

The increasing adoption of ETFs has influenced how sectors of financial markets operate; leveraging technology in trading to reduce costs for clients will become necessary. Despite ETFs representing only one to two percent of fixed income assets in the bond market, they remain one of the factors behind the growing electrification of the bond market. Due to the increasing adaption of technology, intermediaries need to develop pricing models to better evaluate arbitrage opportunities.

In the past few years, inefficiencies in pricing a large number of bonds have been reduced as technological advances have allowed us to price portfolios composed of hundreds of different bonds more effectively thereby having significant impact on the market.

Without a doubt, the bond market is undergoing a transformation in magnitude that is similar to the one observed around twenty years ago in the equity market.

Whilst the business is transforming, leveraging technology in trading to reduce costs for investors is the end goal. Indeed, technology has a powerful impact among operations; what we should not forget is that in every step of the way in the process, there is human oversight and a decision-making process supported by continuous review and analysis.

Looking at distribution, the way that retail investors engage in investing has also been impacted by technology - think of robo-advisors. The greatest potential though is in the hybrid distribution models, which combine technology and human relationship management. The benefits for both fund management and retail clients are positive including benefitting from risk management techniques that just a couple of years ago were reserved to only the very largest institutional clients. Overall, the absolute step forward is the improved service for retail clients.

Digitalization is also creating waves in the client's journey by allowing them to find a trusted partner and digitalize the on-boarding and servicing, including AML/KYC. Integrating digital tools, especially in core disclosure concepts such as price, cost and risk, allow investors to actively engage with disclosure rather than using the current paper-based system. Although, no one knows when digital identification will go live, the EC is already investigating this possibility as this would allow the end client to own their data in one place, not forgetting the time gained across the business.

The world's largest asset managers, like Blackrock, are also applying advanced analytics to their talent management, enabling a more agile workforce and improvements to the recruitment process by, for example, better identifying high performance characteristics or breaching the diversity gap. Interestingly, despite being one of the leaders in technology and digital transformation, Blackrock still uses a third party tool to match internal candidates with the right hiring teams.

The digital era will require adapting existing guidelines and standards with sufficient supervision both at firm and regulator level.

6. Leaders Discussion: Shifting Gears for the Next 10 Years of Asset Management

Moderator:

Katie Martin, Markets Editor, Financial Times

Panelists:

- Giles Swan, Director of Global Funds Policy, ICI Global
- Stéphane Janin, Head of Global Regulatory Development, AXA Investment Managers
- Jonathan Doolan, Head of EMEA, Casey Quirk
- John Donohoe, Group Chief Executive Officer, Carne Group
- Antonio Barattelli, Head of Investment Management Team Investors and Issuers Department, ESMA

Value, cost, ESG, technology, liquidity

Whilst jokingly acknowledging the issues with predicting the future, Katie Martin began the discussion with a hypothetical question about the future of the industry: what do you think will be the biggest change for the industry over the next decade?

Answers varied but can be summarized as value and cost, ESG, technology, industry disruption, investor information, financial literacy, and liquidity risks.

On value and costs, the industry needs to demonstrate its value to society. The limited amount of retail investment in regulated funds when contrasted with money in bank deposits highlights the need for change. On costs, potentially around 20 percent of today's asset managers may not exist in five years' time – the reason being that despite AuM growth, costs have increased at equivalent rates.

Looking at industry disruption – taking the fact that, despite its size, Luxembourg is the second largest fund domicile in the world, this evidences just how successful it has been at focusing on client needs and solutions: such as developing the Luxembourg UCITS brand as the industry standard for distributing funds in Asia and the RAIF. Innovation has never been a problem for the industry in Luxembourg. However, we need to look outside our industry for inspiration, in particular at how to delight customers. For the asset management industry, this innovation could take the form of increasing speed, reducing friction, improving transparency and fulfilling needs – all factors to efficiently digitalize investor benefits.

Care is required to ensure that industry players stay relevant and evolve from their historically successful institutional focus towards wealth markets. The significant demographic shift, with the increased burden on individuals to provide for themselves being a major contributing factor to the need for the industry pivot. Consequently, the consumer experience will become a major differentiating factor in the success of asset managers during this decade coupled with the use of technology to enable mass customization.

However, success will also be driven by how motivated individual investors are to invest. Contrasting experiences between the US and Europe, it appears that retail investors in Europe are less well informed about investments. This will only change if regulators and industry players work together to not only improve the client experience and the investment opportunities but, more fundamentally, investor literacy.

Another discussion point is how regulation can help retail participation. The panelists agreed that the new generation of investors would need new tools. Industry regulation must allow for the introduction and innovation of these new tools whilst ensuring a level playing field for both incumbents and new market entrants. However, the belief is that increased retail participation will predominantly come from the business models adopted by industry players rather than regulation potentially through incumbents acquiring new market entrants to improve services and products. Interestingly, increasing retail participation in capital markets is a top priority for the CMU. However, whilst regulation will play a role in incentivizing retail involvement, other issues will also have an impact.

High costs were the first hurdle encountered when discussing ways to improve retail investment, together with product trust as a medium to long-term challenge. Supervisory convergence at an international level was an additional factor considered in the discussion about increasing retail investor involvement. The collection and analysis of data will also affect the future of the industry, as it can drive market behavior and regulatory activity. Finally, the role of ESG and financial innovation in the industry's future was also worthy of note.

The conversation then turned towards trust and liquidity with the question of whether our industry is worthy of public trust. All panelists agreed the industry was trustworthy, particularly because there is no clear evidence of systemic risk. Potentially, the issue is more related to investor expectations – investing comes with its own risk and nobody likes surprises, hence investors need to better understand what they are investing in. Isolated incidents, such as the Woodford scandal, should not cause a knee-jerk reaction. To this point, the importance of complying with the rules that already exist was raised. Changing rules should not be the immediate response but rather the focus should be on ensuring that regulators and industry players apply the rules consistently.

Another point that was raised related to whether the decade will pass without the issue of liquidity becoming the systemic issue that some fear. Optimistically, the answer should by yes, but initiatives to foster conversion at national level will be incredibly important to boost confidence and show that liquidity rules are taken seriously.
Current expectations are that market growth will not continue as it has in the preceding decade, however, good investment performance is still required. Illiquid assets have become more relevant to ensure that end-clients' investment goals are met.

Consequently, a balance must be found to protect investors while not limiting access to products that will help them meet their investment needs. Should this balance not be adequately reached, a greater crisis may be on the horizon, that of individual investors not meeting their retirement goals.

Fortunately, the asset management industry has yet to encounter any significant systemic issues. However, analysis has shown that some UCITS, particularly those with exposure to high-yield bonds, could face redemption issues. Therefore, application of, and compliance with, current rules should be enforced rigorously before looking to change the current framework.

Yet we should not consider the risks of liquidity in isolation when analyzing future challenges for the industry. Potentially the biggest concerns should not be focused solely on illiquid debt alone, but also on ETFs and tracker funds. The move by investors into ETFs is probably a response to the issue of costs; however, this is not without its own risks in generating a future new systemic risk.

7. Climate Change Impact Today: The Example of Bangladesh

Speaker:

Marc Elvinger, Chair, Friendship Luxembourg, Co-Chair, Friendship International

Climate change is real

Bangladesh became independent in 1971 after a difficult war with West Pakistan. It is one of least developed countries in the world, with a GDP per capita of US$ 1,500 with around 47 million people living below the poverty line. Nevertheless, the annual economic growth rate has been around 6.5 percent over the last decade and the per capita income has increased by nearly 300 percent in the same period.

Bangladesh is striving to become a middle-income country by 2024. It has performed extraordinarily well on the Millennium Development Goals indicators with the poverty rate decreasing by almost 30 percent between 1991 and 2016; allegedly, it was below 10 percent in 2018. It is also the most densely populated country in the world, without taking into account city-states like Singapore, with over 1,000 persons per square kilometer. The fertility rate evolution since independence has improved.

Bangladesh is a delta, made up of low and flat lands, which are prone to regular flooding in the north and cyclones in the south. The World Bank has recognized that Bangladesh is one of the world's most at risk countries to natural disasters such as cyclones and floods due to its geographical position.

The number of extreme climatic events has gone up significantly. Whereas between 1970 and 1975, there was an average of two to three extreme climatic events per year, the number of events rose to an average of eight to ten between 2010 and 2014. 60 percent of the world's deaths associated with tropical cyclones between 1980 and 2000 occurred in Bangladesh. In 2019, there were three major natural disasters, with few human casualties but major damage to agriculture, housing and public infrastructure.

Although the occurrence of natural disasters is rising, the number of associated deaths is actually decreasing. The rationale for this is the decline in poverty. As a result, people become less exposed because they are less vulnerable. Furthermore, early warning systems in the country have improved.

Lastly, infrastructure has been enhanced, for example through the construction of cyclone shelters all along its coastline. Natural disasters have led to the destruction of harvests and lost assets, which in turn result in a loss of livelihood. Public infrastructure will also deteriorate over time as a result. The World Bank estimates that by 2050, cyclone-exposed areas in Bangladesh will increase by 26 percent and the affected population will grow by 22 percent. The development of soil salinization and the expansion of land erosion is a long-term consequence of cyclones. Between 1970 and 2004, Bangladesh lost over half a million hectares of cropland leading to a change in its agricultural self-sufficiency. As well as the implications on agriculture, cyclones have caused mass migration in Bangladesh. Approximately 10,000 people migrate daily within the country. The Government estimates 25 million people will be displaced over the next 40 years due to rising sea level resulting in Bangladesh becoming one of the main producers of climate refugees in the world.

Organizations such as Friendship have been active in Bangladesh in providing assistance long before climate became a hot topic. All programs run by Friendship were adapted to climatic and geographical risks, such as floating hospitals, which can be transported when land erodes. A major focus is disaster preparedness and strengthening the capacity to adapt. Friendship is involved in mangrove reforestation in the coastal belt, which not only provides protection against cyclones but also leads to improved livelihood on rivers. Friendship provides relief but is mindful to keep its emphasis on development.

What is key is to prevent the most vulnerable people in Bangladesh and elsewhere from being in a state of permanent recovery from disasters rather than concentrating on improving their long-term living conditions. An eternal climate crisis should not proliferate instability in countries like Bangladesh, which are economically, socially and politically fragile.

Runa Khan, the founder of Friendship has said "realization leads to responsibility". Responsibility commands immediate action, of which the investment community has to bear its share.

8. Navigating Market Uncertainty – Striking a Balance Between Passive, Active and Smart Beta Investing

Moderator:

Yuri Bender

Editor-in-Chief, Professional Wealth Management (PWM), Financial Times

Panelists:

- Jürgen Blumberg, Head of ETF Capital Markets EMEA, Goldman Sachs Asset Management
- Deborah A. Fuhr, Managing Partner, Founder, ETFGI
- Arnaud Gebhart, Head of International ETF Platform, Executive Director, J.P. Morgan Asset Management
- Slawomir Rzeszotko, Head of Institutional Sales & Trading, Europe and Asia, Jane Street
- Ronnie Vaknin, Director and Conducting Officer, Jupiter Asset Management Luxembourg

ETFs are here to stay

The discussion started by connecting underperformance of actively managed European equity funds and the enormous injection of €125 billion into the ETF sector from European investors last year, resulting in growth almost doubling in the last four years for this sector.

Clearly, it is worth noting that there is more than just one factor that resulted in this massive injection of capital. One key question to ask is why ETFs are so attractive to investors in the first place – the response is effectively to equitize cash. Actively managed funds are designed to beat their benchmarks whilst smart beta funds are managed to track a smart beta index.

Having been asked whether the giants of ETFs such as Vanguard and Blackrock had saturated the ETF market in the US and were now shifting their focus onto the European markets, the panel discussed the rationale behind companies releasing identical products of their counterparts in the US for the European market. The response centered around the players being able to create UCITS products, which are in effect more tax efficient and easily used, whilst remembering that UCITS products are consumed all across Asia and Latin America, thereby giving them a greater market audience.

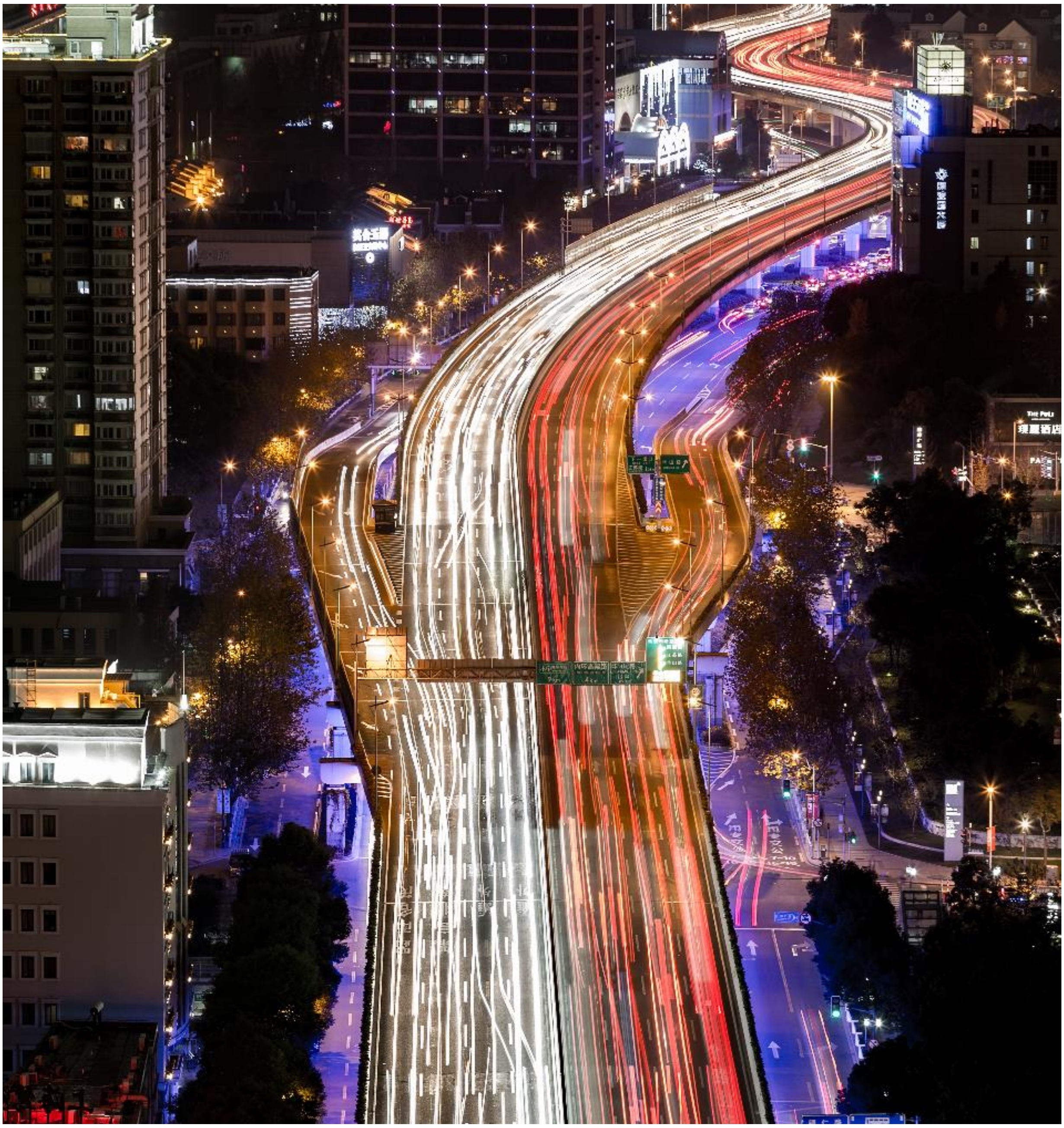
Raising the ramifications that the industry has faced after the Woodford scandal, the panel agreed that the effects on UK fund managers operationally based in Luxembourg would definitely be felt here too. Whereas liquidity had been the spotlight for 2019, now the industry is moving towards a more transparent approach in investing driven mainly by regulators. However, the tug and pull coupled with the uncertainties coming from lower profit margins, the pressure on fees and Brexit have all profoundly affected asset managers, especially those with actively managed funds and particularly when the aim is to deliver performance in line with the expectation of the investors.

Shifting the focus, the discussion then centered on why ETFs have become equally as focused upon as mutual funds because, basically, ETF are considered as a "wrapper." ETFs are more cost effective, have a low fee basis and higher transparency. They provide instant valuation that cannot be found with other types of fund structures. Just creating an average product and marketing it as an ETF does not necessarily make your product valuation increase due to the low fee structure. All it does, in essence, is make your average product into a cheap average product!

When challenged on the price war between ETFs and mutual funds, panelists agreed that the proliferation of mutual funds in Europe when compared in the US, is a direct result of funds needing to be tailored to fit the specificities of individual European markets. Many of these products have minor differentiations. This in turns opens the conversation to digitalization of advisory services where the new age of investors come into play. The foresight of companies like Amazon and Google becoming involved must not be underestimated. Potentially they will help influence and educate the public to becoming more financially literate, thereby allowing retail investors to better understand financial jargon when they come to invest.

More and more asset managers are branching out their investment management capabilities to harness the ETF market while maintaining their existing active business. The decisions behind such rationale are simple: gain and maintain market segment, retain existing investors and offer more options within your own portfolio. Since the market crash just over a decade ago, the ETF market has experienced growth of around 24 percent, giving investors a sense of security and diversity that they could not necessarily gain from other types of instruments.

Others gave a more cautious view of ETFs, suggesting that the sector is becoming overcrowded with the launch of new ETFs. This typically happens when a product gains attractiveness, something investors need to be aware of.



9. From Policy to Practice in Sustainable Investment

Moderator:

Katie Martin, Markets Editor, Financial Times

Panelists:

- Sandra Crowl, Stewardship Manager, Member of the Investment Committee, Carmignac
- Elizabeth Gillam, Head of EU Government Relations and Public Policy, Invesco
- Frédéric Hoogveld, Head of Investment Specialists Index & Smart Beta Strategies, Amundi
- Denise Voss, Chairwoman, LuxFLAG

Standard taxonomy is critical

2019 was considered a breakthrough year for sustainable investing, moving from the margins to the mainstream. It is apparent that in today's world, investors and banks are embracing sustainability. The question is whether the financial services industry is ready to satisfy green-conscious clients.

When asked about the biggest challenges in turning good intentions into practice, the panelists agreed that the lack of definition of what is "sustainable" and what is "green" is critical. It is difficult to create a pan-European product labelled as sustainable and/or green across all jurisdictions without a common agreement on what this means. There is also the question of whether the definition is binary or whether there are "50 shades of green". Hopefully, the definition of "green" should be aligned with the EU's 2050 goal of being carbon neutral but the target is still very far away. While some pillars of sustainability, such as climate change, are clearer, others remain hazy.

The difficulty in assessing standards is a corollary of the lack of definition. It is not easy for an end investor to understand what is sustainable and what is not. There is little correlation amongst ESG rating providers. However, the ultimate goal must be to allow investors to make an informed decision with information that is understandable to all and provide clarity based on a specific set of criteria. The importance of the role of external auditors was also emphasized, as they will assess how sustainable processes have been put in place to ensure that funds achieve and maintain the label. Asset managers are subject to disclosure rules, to which investee companies are not as they tend to be subject to non-binding and non-financial disclosure rules. It is up to those companies to decide whether they wish to be transparent with asset managers or not. Asset managers on the other hand, should be as close as possible with those companies.

It was argued that the need for education across the spectrum is even more fundamental than definitions. The first step is to agree on common terminology, which could prove to be a challenge due to constant change. The second step would be to bring investors to the same level of understanding. This education needs to be top-down across all business units in a company. Simply using an exclusion list is not sustainable. Investors want funds that are truly sustainable or green, not just in name. When asked about the value of the EU's Taxonomy Technical Report, the panel agreed this should be the gold standard but feared that few companies would initially meet its requirements.

The Taxonomy does have a wider remit to anticipate the transition of companies towards becoming carbon neutral. It caters for companies that are still at the "coal phase" of green activities by enabling these activities through the supply chain. It allows asset managers a smooth transition that is essential in reaching the goal of becoming carbon neutral in 2050.

In addition to this Taxonomy, benchmarks are anticipated to be launched this year to allow assessment of the sustainability of a product and it will apply to indices. These benchmarks would require investment in high emitting sectors. Asset managers will be encouraged to engage in dialogue with such companies to understand how they are planning to transition to a low carbon economy. Investors have also taken an active role by forming coalitions, which are collectively asking companies to reduce their exposure to a high carbon economy and disclose their plans on alignment of their business models to a low carbon economy. This disclosure is important, as it will also allow asset managers to build products aligned with the green world.

There is also demand by retail investors for ESG and transparency is a key part of this demand. The environmental objectives, social implications, whether the company is low-carbon plus how this is measured and the frequency thereof, as well as the governance of the fund should all be clearly understandable to investors. Providing such explanation will be the role of the investment manager, who will need to ensure they are transparent and active.

Interestingly, in the past years institutional investors have begun transitioning their portfolios towards low carbon index solutions due to the perceived financial risk. They anticipate the risk of the rising cost of emitting greenhouse gases and wish to reduce their overall exposure to that risk. At the same time, many investors are looking at sustainability from the climate perspective, which they see as another risk and want a portfolio resilient to that risk. It all comes down to creating value for investors by investing in companies that looks after their stakeholders. How a company looks after its clients, staff, suppliers, and their compliance with regulations and environmental impact is becoming increasingly significant. Companies with happy workers bring value to the shareholders. Understanding the value chain of a company can bring both profit and purpose.

The panel also discussed the impact of greenwashing, a very subjective term. They believe the threat is overblown as it is difficult to refer to greenwashing if there is no common metric to define the standard for "green". For example, a Chinese green bond framework included the concept of "green coal". To most people, this would not fall into their definition of green but for the issuer, they considered it green as it was greener than what they had before.

The critical challenge with climate is the time element because time is running out or has run out depending on your perspective. Signs are that Europe is more advanced than the US, however, there has been demand for action from institutional investors in the U.S.

To conclude, the panel was asked to consider what is more sustainable between withdrawing investments from a company, such as an oil company, or remaining invested in such company, thus, being able to influence its policy or strategy. The response is simply that it is not possible to engage with a company without being invested in them. Their production is still needed. However, investors have the power to ask companies to continue their business with cleaner energy.

10. Interview

Interviewee:

Rt Hon Kenneth Clarke CH QC

"People only demand referendums when they can't get a majority in Parliament, Mussolini was the most brilliant practitioner of referendums."

The interview began with the above quote said by the Rt Hon Kenneth Clark who was asked whether the current Conservative party is the same as it was or could it be considered as a rebadged extreme right wing UKIP party that has forced Brexit masked under the Conservative party logo. Mr. Clarke's response was to explain the current state of the Conservative party and its origins together with the observation that Prime Minister Boris Johnson should exercise governing rather than campaigning and should pool the Conservative party together to head into this new era for Britain.

When questioned about the removal of the Whip by Prime Minister Johnson for Sir Michael Heseltine and himself, Mr. Clarke stated laughingly that it did not make any difference to him in that he is still a member of the Conservative Party, still pays his membership fee and attends meetings.

Mr. Clarke was asked to comment on the future of our industry bearing in mind the current Brexit status quo. He stated it is very hard to determine how the UK will retain the full benefits of the UCITS Directives and that the decision needs to be taken quickly. He hopes that common sense will prevail and that many similarities will remain in the financial sector without too many conflicts.

He continued to speak about the differences between the classes in the modern age whilst making links to the political situation around Europe including the UK and US. He believes that the decision to 'get Brexit done' is merely the result of class divisions within the UK where the old mining and industrial towns, that have been predominantly lifelong Labour supporters, voted for the Conservatives this time. The reason is that these voters now see the EU as the ever-growing modern infrastructure, which, while it has brought foreigners into the UK, has prevented the proud industrial sector in the UK from being revitalized.

Given where the UK is now, moving away from the EU, does this mean the UK will be aiming to move closer to its allies in the US?

Mr. Clarke rationalized the historic values and reasons why the UK was known as the "Sick man of Europe" in the 1950/60s. One of the reasons was that Britain was trying to find its role again after the slow decline of the British Empire. Now, with the three major trading blocks of the EU, the US and China, it appears that history is repeating itself and Britain finds itself once again at a crossroads. The issue today is that our close allies are now larger trading blocks. The future is uncertain – will the UK become closer to one partner or another, will it become a satellite between the US and EU, only time will tell.

As part of the interview, questions were taken from the audience. One participant asked whether there was a future scenario where Britain could potentially rejoin the EU again? Laughingly Mr. Clarke responded this would probably not happen in his lifetime. On a serious note, he responded that the only way that Britain can move forward is by not dwelling on the negative but by picking itself back up. Acknowledging the good decisions made by its leaders, it is certainly of the utmost mutual beneficial interest for European countries including the UK to have a close relationship in the future. He hopes that somewhere down the line our grandchildren will realize that the EU and UK are better united than divided.

Another question centered on the ramifications of Brexit - will we see the EU become much stronger or is there the potential for other outcomes? Mr. Clarke described Brexit as a very shambolic way to leave which would hopefully discourage any other EU nation to try and leave. Now the approach of the EU should be to learn from this situation to strengthen and emphasize the benefits EU membership.

To conclude, Mr. Clarke was asked to comment on concerns about whether the Brexit deal would be done by the end of 2020 and what is the likelihood of a hard Brexit? Mr. Clarke responded by saying we need to be very ambitious and optimistic to ensure a deal is secured as this is in everyone's best interest. It will be a very difficult road ahead for the EU and UK if no deal is concluded.

11. Update on Brexit – Are There Any Opportunities?

Moderator:

Sheenagh Gordon-Hart, Partner, the Directors' Office

Panelists:

- Nick Collier, Managing Director, City of London in Brussels
- Luc Frieden, Partner, Elvinger Hoss Prussen (Former Minister of Finance, Luxembourg)
- Nicolas Mackel, Chief Executive Office, Luxembourg for Finance
- Jonathan Hughes-Morgan, Managing Director, Morgan Morgan Ltd

Equivalence, CETA, FTA or no-deal?

Whilst the UK officially left the EU on 31 January 2020, much remains to be done during the one-year transition period. The negotiation priorities have been set out but the hard work is yet to begin. Brexit has been a great challenge for the industry. Despite the uncertainty, companies had to review or renew their business models, impacting distribution and market access with the likelihood of increased costs. The only certainty is that things will be different.

Brexit is a historic event, which led to the UK leaving a market of 500 million people. Other countries have been seeking access to the single market for many years. The UK population must come to terms with the fact that by leaving the single market, it will not enjoy the same rights as before.

The UK is looking to continue a deep, close bilateral economic relationship with the EU, which is to be formalized by a modern free trade agreement (FTA). The FTA should cover financial services and should be the foundation for strong regulatory dialogue, which in turn would act as a catalyst for equivalence decisions to be reached. Some panelists expressed interest that the UK should continue with the status quo. It was argued that equivalence in itself is not a good strategy. An FTA, which suits both the UK and the EU, would be more appropriate as it would permit the UK to make other deals. However, the UK is asking for an FTA similar to that of the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada. It was pointed out this took seven years to negotiate and contains very little on financial services. The UK Government has stated its second choice would be an Australian-style FTA. However, there is currently no FTA between the EU and Australia. In addition, despite many years of negotiations, Switzerland has still not obtained the access it wished to the EU financial services' market. The panelists agreed that the UK could now be considered to be on a similar footing to that of Switzerland as a negotiation partner with the EU.

Some panelists rejected the idea that it could take years to negotiate an FTA between the UK and the EU whilst claiming the EU ratification process for such agreements is unnecessarily time-consuming, as they have to be agreed by each EU Member State in accordance with their constitutional arrangements. Conversely, the constitutional arrangements of the remaining EU27 cannot be abolished as Member States each need to assess whether their national interests have been respected. Therefore, the negotiation process should not be underestimated. In addition, the EU also has other third-country allies for financial services, which cannot be treated less favorably than the UK.

The fact that that the UK has already been part of the EU for 47 years cannot be ignored, meaning that CETA cannot be applied to a relationship that is qualitatively different to the one the EU enjoys with Canada. An FTA between the UK and EU would have the key objective of seeking to manage divergence rather than convergence. Innovation is key for Brexit. All panelists were of the opinion that an FTA between the UK and the EU is essential to avoid a cliff-edge scenario at the end of the implementation period, however, the volume of topics on the table for negotiators should not be under-estimated. These include data protection, goods, technical standards, fisheries as well as financial services. It was said that unfortunately a considerable amount of time is being wasted by relegating financial services to after fisheries in the negotiations!

A potential alternative would be for both sides to agree on a framework agreement by the end of the implementation period, which would then allow more time to negotiate a full FTA, which should cover financial services. It was argued that the details should be left to the technicians rather than politicians to resolve.

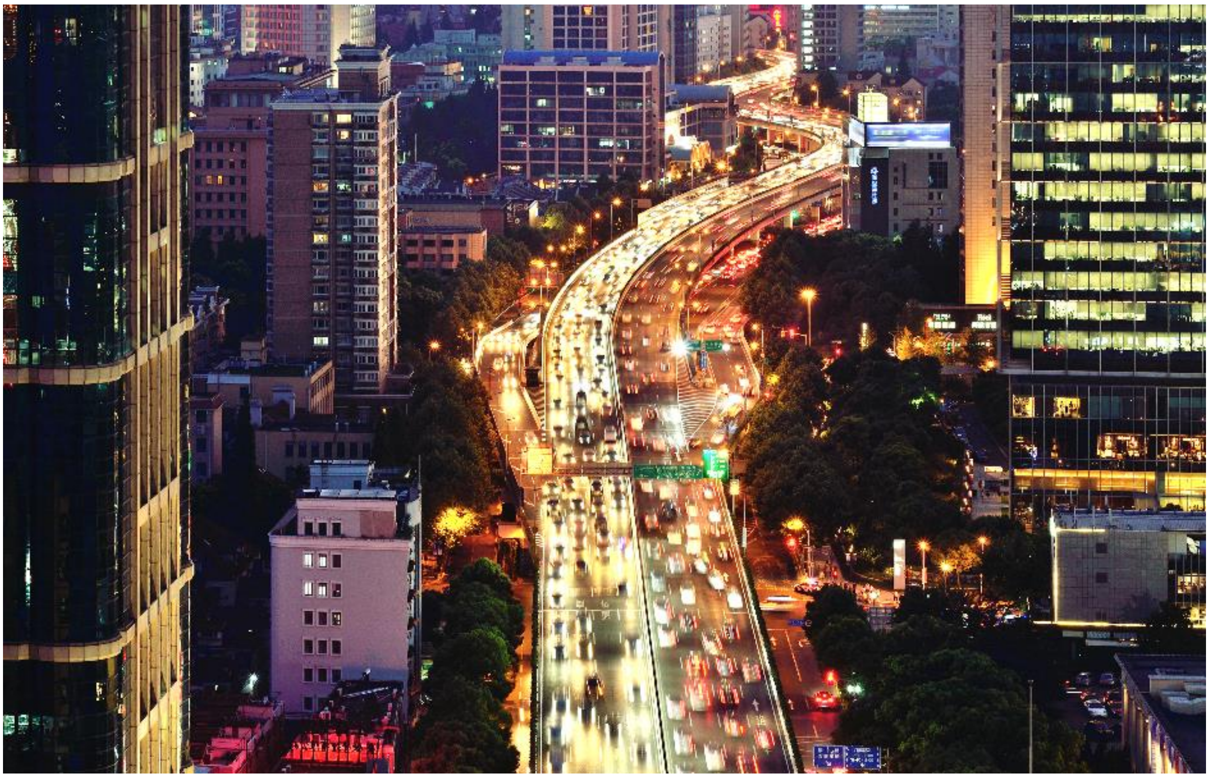
Whilst a deadline will help focus negotiations, it is not as important as taking stock of the complexities of topics at hand. The EU is aware of this, whereas the UK is yet to fully articulate what it wants. The Political Declaration states that the UK wants financial stability but also regulatory autonomy. Regulatory autonomy will create distance with the EU, which will make the EU reluctant to grant the UK equivalence. The EU unilaterally decides on the direction it seeks to take in terms of regulation and if a country is aligned with the EU's approach, the EU can decide to grant equivalence. The rationale behind Brexit was to take back control, therefore, if the UK decides to diverge from the EU on regulation, there will be consequences.

It was argued that the UK has been the most influential EU Member State when drafting the single market legislation, and as such is unlikely to depart from rules it has written. On the contrary, the EU is more likely to deviate from the current single market rules because it is constantly making changes to the regulations, for example by amending Directives whereas the UK, currently, has no plans for regulatory changes.

Although the UK has officially left the EU, it is still technically an EU Member State in terms of applicability of EU rules; however the UK is no longer able to participate in the drafting of these rules. The extent to which the UK will model itself on and diverge from EU rules will be a challenge even beyond a possible FTA.

To conclude, the panel discussed the opportunities for Luxembourg, stating that 2019 was a successful year for the financial services industry in Luxembourg. Although Luxembourg has benefitted from Brexit through the relocation of approximately 60 firms from the UK, about half of which are asset managers, the new headcount remains small. Access to talent is an EU-wide issue, and not just for financial services. The Luxembourg Government is addressing this problem by putting in place a national talent strategy and asking for input from the relevant stakeholders for financial services.

As a result of Brexit, Luxembourg has proven itself to be perceived as an attractive place to grow a business in the EU. It may be a small country but the financial services sector expands every year. As long as the framework remains attractive, there is no reason why this sector should stop growing.



12. Glossary

AI	Artificial Intelligence
AIFMD	Alternative Investment Fund Managers Directive
AML	Anti-Money Laundering
AMLD5	The fifth EU Anti-Money Laundering Directive
AuM	Assets under Management
CEO	Chief Executive Officer
CETA	Comprehensive Economic and Trade Agreement (between EU & Canada)
CMU	Capital Markets Union
CSSF	Commission de Surveillance du Secteur Financier, Luxembourg's financial regulator
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
EC	European Commission
EMEA	Europe, Middle East and Africa
EFAMA	European Fund and Asset Management Association
ESG	Environment, Social, Governance
ESMA	European Securities and Markets Authority
ETF	Exchange Traded Fund
EU	European Union
EU27	Remaining 27 Member States of the European Union excluding the United Kingdom
FTA	Free Trade Agreement
GDP	Gross Domestic Product
IDD	Insurance Distribution Directive
KYC	Know Your Client / Customer
MiFID	Markets in Financial Instruments Directive
ML	Machine Learning
MoU	Memorandum of Understanding
NASA	The National Aeronautics and Space Administration
NAV	Net Asset Value
Political Declaration	Framework for the future relationship between the EU and UK of 19 October 2019
PRIIPs	Packaged Retail and Insurance-based Investment Products
RAIF	Reserved Alternative Investment Fund
UCITS	Undertakings for Collective Investments in Transferable Securities
UK	United Kingdom
US	United States

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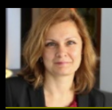

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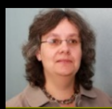

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