

# Nordic Managers Look to Luxembourg to Grow Their Business

Stockholm (HedgeNordic / Northern Trust) – Luxembourg offers plenty of opportunities for Nordic asset managers pursuing a cross-border sales and distribution strategy. However, targeting investors outside of the region requires careful thought to achieve your objectives.

## **Why does Luxembourg remain such an important fund centre?**

Funds domiciled in onshore Nordic markets continue to be highly relevant for marketing to investors in the region. However, being successful at growing assets by targeting investors outside the region requires a number of basic hurdles to be cleared, not least a fund domicile and structure that is internationally recognised. 36% of assets contained in UCITS funds are domiciled in Luxembourg (1). That's €3,473 billion in assets, making it the largest distribution centre outside of the US, and is mainly due to their expertise of launching a diverse range of international funds. Historically, it was dominated by European players, but is increasingly attracting international managers who are looking to launch into the European market.

## **What are some of the considerations for Nordic asset managers when launching in Luxembourg?**

It is possible to launch a Luxembourg-domiciled fund without the need to open an office there; however, much of our historic Nordic context of launching in Luxembourg goes back to the days of establishing a physical presence with an office, staff and a full management company. Some Nordic managers were successful in this endeavour and remain in Luxembourg today, others were not. One challenge many Nordic asset managers face is how to create an efficient operating model in light of the different practices in their home market relative to Luxembourg. Many Nordic asset managers strike their onshore fund NAVs in-house, run transfer agency in-house, and need to consider the impact to their existing Nordic client base of offering their strategies in another domicile. These prove challenging because of the potential cost and efficiency issues with running a split operating model. A clear roadmap that addresses these key issues with the buy-in of internal stakeholders is important.

## **What are some of the challenges with cross-border sales and distribution?**

With respect to cross-border sales and distribution, the first key challenge is how to raise assets in an extremely competitive environment. There are more than 4,000 (2) managers offering over 3,200 (3) investment products in Europe, so managers really need to stand out from the crowd. It is not enough to launch a product. You have to be able to sell it, and that means coming up with a strong distribution and sales strategy.

The second issue is cost. It is about understanding the true cost of cross-border distribution, and not just looking at annual regulatory fees. With a UCITS framework it is easy to assume that costs will remain consistent across Europe, but each individual market will have different legal, regulatory, and tax agent fees. The costs of marketing and building your brand will be significant as well.

The third challenge is around governance and oversight. Management companies need to do their due diligence on the entities they are working with.



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## **So what should managers do to achieve their distribution goals?**

Rather than registering in every jurisdiction and adopting a scattergun approach to target the largest amount of clients, it is sometimes worth adopting a more focused approach. Targeting markets and channels offering the most potential for your strategy can really help keep costs under control.

It is also important, from a cost perspective, to understand who your distributors are, and what value the platforms you onboard with provide. Getting the 'plumbing' right – registering your fund and getting on a platform – is really only the first step. Creating a dynamic sales plan, understanding cultural nuances and getting to grips with which distribution channels will really work for you, is the bigger challenge

## **How do managers overcome the challenges?**

One of the most important skills is in finding the right partners to work with who are prepared to go the extra mile in helping to grow your business. When running an RFP exercise, try to find companies that look upon their relationship with you as a partnership. Spend time identifying what aspects of distribution support function are commoditised tasks versus those that could really add value to your launch success. Northern Trust, for example, leverages our scale and expertise to provide Distribution Support services, helping clients with their sales and distribution goals. Fund managers should work with partners who offer customised and focused support for their business and asset growth ambitions, but who also bring insight into managing costs and operations, and help with the regulatory burdens around distribution. For fund managers who get this right, there is everything to play for.

*(1) Trends in the European Investment Industry in the First Quarter of 2018,*

*(2) EFAMA Asset Management Report, May 2017*

*(3) EFAMA, "Quarterly Statistical Report" Q1 2018*

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