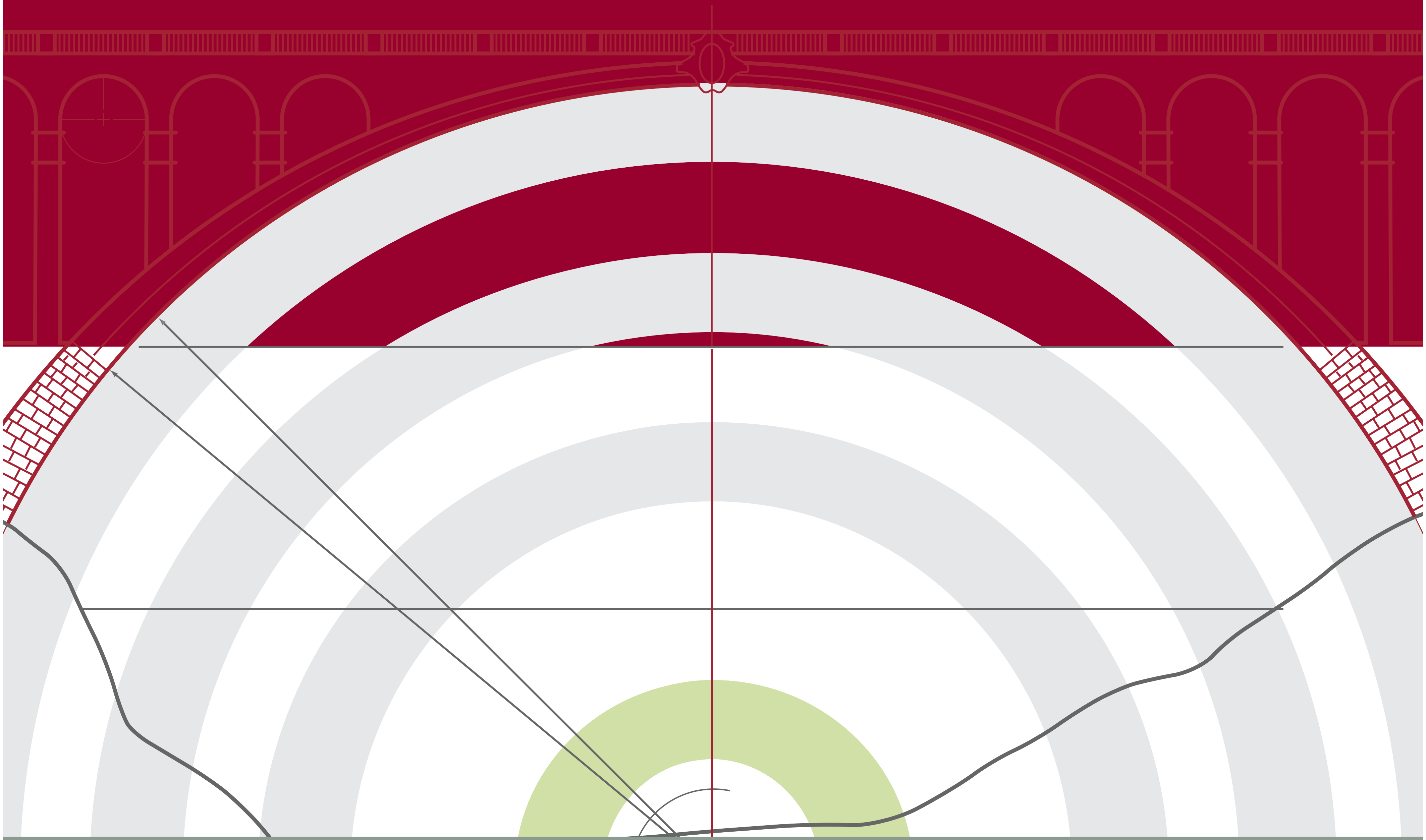
March 2009

alfi newsletter



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Association Luxembourgeoise des Fonds d'Investissement - Association of the Luxembourg Fund Industry

Editorial

Dear ALFI members,

The very least we can say is that 2008 was a difficult year. The figures for 2008, however, confirm that the crisis has not affected the confidence that investors place in our products. As we all know, assets under management have fallen by 25%, but 85% of this drop is due to the negative performance of the markets. If it were not for the months of September and October 2008, when an exceptional crisis of liquidity forced investors into large-scale redemptions, we would once again have finished the year with positive net sales. Many other countries in Europe, on the other hand, were already facing up to widespread redemptions from summer 2007. Even in view of the exceptional events of 2008, our sector's medium-term performance remains reassuring: over the past five years assets under management in Luxembourg funds have grown by 63.5%, the number of funds in Luxembourg has risen by 80% and net sales have progressed on average by 140 billion euros year-on-year.

The events of the past year have persuaded governments to reassess the global regulatory framework for financial services and we must ready ourselves for sweeping changes. Luxembourg's traditional strengths will enable us to deal with and even anticipate these developments. From Asia to Latin America, our products are renowned for their safety, with many investor-protection mechanisms making them ideal for distribution to retail investors. We owe this position firstly to our experience and to the recognised expertise of first-rate professionals. Secondly, we owe it to our legal and regulatory stability, to a strict and conscientious regulator and to the proactive support of our successive governments over the past 20 years. And finally, we owe it to our ability to learn and quickly anticipate and adapt to new trends and products.

For a long time, faced with strong demand from promoters from all over the world, we were happy to concentrate on the supply side. Now we must also give more consideration to demand. This widened perspective must be supplemented by a plan of action in order to better understand what investors expect from us and to better explain to them what we do.

Luxembourg is currently the uncontested leader in cross-border fund distribution. Who better than us to know what retail investors across the world want, what they understand and what they expect both in terms of returns and safety? The transposition of UCITS 4 will be a good opportunity for us to show how we will include investor protection in any proposals for the future of the sector.

Thank you for your attention and enjoy reading this edition of the newsletter.

Claude Kremer
Chairman of ALFI

ALFI in 2009

2009 will hold a great many challenges for us at ALFI. UCITS 4, the latest revision of the European UCITS Directive, was recently adopted by the European Parliament; we must now get ready for its implementation. UCITS 4 will benefit our industry by bringing the greater efficiency and economies of scale that fund industry players require to face up to increased competition from rival products such as certificates and life assurance products. There is a real and pressing need in the financial services sector for more equitable regulation in order to create a level playing field for all. UCITS 4 will certainly contribute to achieving this. We will be actively involved in all aspects of the transposition of UCITS 4, both in Luxembourg and at a European level.

Another priority area of action for Luxembourg concerns funds investing in alternative asset classes. Luxembourg wishes to be more than just a distribution platform for UCITS funds and thus intends to reinforce and build upon its position in sectors such as real estate funds, private equity and similar products regulated by Luxembourg's supervisory authority.

At the same time, ALFI is conscious of the operational challenges posed by cross-border fund distribution. Our industry must develop specialised IT infrastructure so as to standardise and automate the entire order processing chain. ALFI must play a leading role in efforts to realise this objective and has set up a dedicated forum to deal with such matters. We also support the fund processing passport created by the European representative association for our industry, EFAMA, and all efforts towards standardisation of fund distribution agreements.

What is more, we intend to nurture and develop our distribution markets in Europe and around the world. ALFI Chairman Claude Kremer and a small delegation travelled to Asia from 19-22 January to visit the regulatory authorities and some key industry players in Luxembourg's main Asian distribution markets: Hong Kong, Taiwan and Singapore. A large number of other such visits are planned throughout 2009.

2008 has been a year for taking stock, asking questions and reacting to extraordinary events. In 2009 we must move forward and prepare for the world after the crisis.

Camille Thommes

Director-General of ALFI

The MADOFF case: implications for Luxembourg funds

Luxembourg being the second largest fund domicile world-wide (after the US), it is unsurprising that Luxembourg funds had invested directly or indirectly with Bernard Madoff and now find themselves amongst the victims in this affair. According to the CSSF, 17 funds or sub-funds (out of over 12 300) have been affected and have suspended their activities. Total investments of Luxembourg funds with Madoff amount to 1.7 billion euros (0.15% of all assets under management in Luxembourg funds).

The list of all Luxembourg-domiciled impacted funds has been published by the CSSF in a press release dated 23 January 2009.

ALFI has believed since the beginning of this affair that, although responsibility lies principally in the USA, and inasmuch as European (and thus also Luxembourg) investment vehicles had served as bridges between Mr Madoff and his ultimate victims, it was necessary to check if those working with these vehicles had acted with due diligence. The CSSF shares this view, and stated in a press release that it would check that all concerned parties "have acted with the diligence imposed by Luxembourg law". Other European regulators are likely to take the same attitude.

At the same time, ALFI stated that lessons would need to be learned from this affair and therefore set up a dedicated task force to analyse the Madoff affair and make recommendations and proposals for the future. These could include further improvement and harmonisation of the UCITS framework. The task force plans to release an interim report in the first quarter of 2009 and a final report by the summer.

Summary of Luxembourg legislation

Although many parties are involved in this affair, the current debate mainly focuses on the duties of the depositary of the funds.

The CSSF stated in a press release on 2 January 2009: "Luxembourg law applicable to Luxembourg based depositary banks in their role of safe-keepers of investment funds' assets reflects faithfully the provisions of the European Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities." The abovementioned European Directive is the UCITS Directive.

The CSSF continues by saying, "when a fund's assets are deposited by the depositary bank with a third party, these deposits are under the monitoring and supervisory responsibility of the depositary bank, implying that the latter must know at all times in which manner the assets are invested and where and how these assets are available. This responsibility is not affected by the fact that the depositary has entrusted to a third party all or part of the assets in its safe-keeping. The CSSF considers that the provisions laid down in Luxembourg law offer an appropriate framework in order to ensure an adequate protection which is in accordance with the European standards of an investment fund's assets on behalf of its investors."

A further obligation is imposed by the Luxembourg Civil Code: the obligation of safekeeping (Article 1927) and of refunding of assets at the customer's request (Article 1932).

Discussion on specific cases

Although the law is unambiguous, it must be verified whether it has been respected by all industry players in Luxembourg. This is what the CSSF's inquiry is currently establishing, but it will ultimately be up to the law courts to decide on possible compensation payments. This investigation is well under way and has already produced the following conclusions:

- On 3 February, the CSSF decided to revoke the accreditation of Luxalpha and, as soon as this has been officially carried out the CSSF will ask the district court of Luxembourg to nominate one or more liquidators who "shall have the right to bring claims regarding liability which may be necessary." A comparable decision was taken on 11 February with regard to the Herald fund and on 27 February for the Luxinvest fund.

- On 5 February, UBS (Luxembourg) S.A (depositary for Luxalpha and Luxinvest) and the CSSF held a meeting at which they agreed to "determine the relevant facts and define the way forward in close conjunction with all others who are affected by the events in order to find a solution as soon as possible."

- On 6 February, the CSSF transmitted the results of its enquiry into the responsibilities of UBS and requested the bank to take a stand in writing

- On 25 February, the CSSF announced that it had requested that UBS Luxembourg "analyse and rectify all the structures and procedures in relation to its duty as depositary bank and UBSL will have to pay the damages in case of breaches to the above-mentioned supervisory duty as depositary bank." UBS Luxembourg was given a deadline of three months to provide "evidence and guarantees" that is able to fulfil all of its responsibilities as a depositary.

Investor safety the priority

The Madoff example clearly shows the efficiency of the UCITS directive in protecting the interests of the investors. While those who have invested directly with Madoff will have to seek potential compensation in the US, those who have invested through a UCITS fund are in a much more favourable legal situation.

The fact that UCITS funds were affected in the first place has led the European Commission and CESR to analyse if the investor protection mechanisms currently in place could be further improved, a review which is being welcomed and fully supported by the Luxembourg fund industry.

All CSSF press releases are available on www.cssf.lu

UCITS IV: Revision of the European legislative framework for undertakings for collective investment in transferable securities

The UCITS Directive adopted in 1985 aimed to offer greater business and investment opportunities for both industry and investors by integrating the EU market for investment funds. The Directive has been key to the development of European investment funds. Strong in-built investor protection safeguards have given UCITS broad recognition beyond EU borders.

Despite these positive developments, it became evident over the years that the Directive was excessively restrictive and prevented fund managers from fully exploiting their potential. The amendments brought to the Directive in 2001 enlarged the investment options available to UCITS but did not tackle bottlenecks to industry efficiency.

Legislative procedure:

In July 2008, the European Commission published its proposal for a Directive of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Unlike the Exposure Draft of 2007, the Commission proposal did not include provisions with regard to the management company passport, which would allow a UCITS to be managed by a management company authorised and supervised in a Member State other than its home Member State.

Identifying risks, enforcement and cost issues, the Commission requested the technical advice of the Committee of European Securities Regulators (CESR) on the conditions that are needed to ensure that a management company passport is consistent with the principle that investors in cross-border funds should not be exposed to additional legal and operational risks or lower standards of supervision than investors in domestically managed UCITS.

CESR issued its advice on 31 October 2008, thus paving the way for the inclusion of the management company passport in the UCITS IV package.

On 2 December 2008, the Economic and Financial Affairs Council (ECOFIN) endorsed the latest draft of the new UCITS Directive, opening the door to its final review.

On the same day, the Economic and Monetary Affairs Committee of the European Parliament (ECON) adopted the "Klinz report" on the revision of the UCITS Directive. The Rapporteur, Mr Wolf Klinz, opted to include provisions intended to make the management company passport a reality. After inter-institutional negotiations between the Parliament, the Council and Commission, an agreement was found on a common text. This text was adopted in the European Parliament's plenary session on 13 January 2009. On the basis of the compromise text, the European Commission has requested CESR's assistance on the content of the implementing measures to be taken pursuant to the revised Directive. The advice will be delivered by 30 October 2009.

Next steps:

Once the Parliament's final opinion has been adopted, it will be up to the Council of the European Union (most likely under the Czech Presidency in the first half of 2009) to either adopt the proposed act or adopt a diverging common position and send it to the Parliament. In the latter case, a final text will be adopted as soon as the Parliament and the Council come to an agreement. In light of the aforementioned inter-institutional negotiations, all participants expect the directive to be adopted in a single reading.

While the Directive itself defines the principal regulatory framework, many provisions refer to the adoption of implementing measures by the European Commission, which aim to clarify the details of the Directive as amended.

Considering that a EU directive always has to be transposed into national law, UCITS IV is expected to be included in Member States' legislation by July 2011, taking into account that national authorities will choose the form and methods of implementation.

Major legislative changes:

The proposal for the modification of the Directive proposes the following major legislative changes to the UCITS regime :

Management company passport:

Pursuant to the current legislative framework, a UCITS, a management company and its depositary must be located in the same Member State. All activities related to collective portfolio management and administration of the UCITS are subject to the law of one Member State (i.e. the Member State in which the management company is situated) and accountable to a single enforcement authority.

The introduction of the management company passport will allow a UCITS to be managed by a management company authorised and supervised in a Member State other than its home Member State .

The authorisation of management companies to operate in a given country will be subject to prior official approval by the competent authority of the management company's home Member State .

The prudential supervision of a management company will principally be the responsibility of the competent authorities of the management company's home Member State, whether the management company (permanently) establishes a branch or (temporarily) provides services in another Member State.

Management companies or, where relevant, investment companies will have to put in place appropriate procedures and arrangements to ensure that they properly deal with investor complaints and that there are no restrictions for investors to exercise their rights if the management company is authorised in a Member State different from the UCITS' home Member State. They will also have to ensure appropriate procedures and arrangements to make information available at the request of the public or the competent authorities of the UCITS home Member State .

The text confirms that the custodian of a UCITS managed by a remote management company will have to put in place appropriate measures (to be determined through implementing measures) and enter into so called "information flow agreements" with the management company in order to fulfil its duties with regard to the UCITS. The UCITS and its custodian must remain in the same Member State, i.e. the amendments to the Directive will not cover the "custodian passport".

Fund mergers:

In order to exploit economies of scale, the European Commission agreed to propose additions to the UCITS Directive to create the appropriate legal and regulatory conditions for the merger of funds.

The proposal foresees a regime for both cross-border and domestic mergers of UCITS, introducing a basic principle that all UCITS are entitled to merge regardless of their structure (e.g. corporate, unit trust or contractual).

Mergers will be subject to prior authorisation by the competent authorities of the merging UCITS' home Member State. The latter will also have to inform on the one hand the merging UCITS within at the latest 20 days of the submission of a complete file, whether or not the merger has been authorised, and on the other hand the competent authorities of the receiving UCITS' home Member State of their decision.

Following authorisation of the proposed merger by the merging UCITS' home Member State, both the merging and receiving UCITS will have to provide appropriate and accurate

1 Council Directive of 20 December 1985 (85/611/EEC) on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
2 CESR 08/867
3 The following explanations are based on the European Parliament legislative resolution of 13 January 2009 on the proposal for a directive of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast) (COM(2008)0458 – C6-0287/2008 –2008/0153(COD))
4 So called "remote management companies"
5 "Management company's home Member State" means the Member State, in which the management company has its registered office
6 "e.g. in the case of a self-managed SICAV (investment company with variable capital)
7 "UCITS home Member State" means the Member State in which the UCITS is authorised

information on the proposed merger to their respective unit-holders so as to enable the latter to make an informed judgement of the impact of the proposal on their investment. Such information should be provided not less than 30 days before the deadline for requests for repurchase, redemption or, where applicable, conversion without additional charge.

Finally, the proposals are silent as to whether merging funds must have similar investment objectives and policies.

Entity pooling: master-feeder structures:

The European Commission also intends to break with the past by modifying rules on diversification and other provisions of the Directive in order to allow an expansive approach to entity pooling (i.e. the aggregation of assets of participating funds in a separate legal entity, such as master-feeder funds).

This could result in significant economies of scale and a reduction of charges for investors.

A feeder UCITS is a UCITS or an investment compartment thereof, which has been approved to invest at least 85% of its assets in units of another UCITS or an investment compartment thereof.

The feeder UCITS may invest up to 15% in ancillary liquid assets, financial derivative instruments (which may be used only for hedging purposes) or, in the case of investment companies, property which is essential for the direct pursuit of the business.

A master UCITS is a UCITS or an investment compartment thereof which must:

- have among its unit-holders at least one feeder UCITS;
- not itself be a feeder UCITS;
- not hold units of feeder UCITS.

Member States shall ensure that the investment of a feeder UCITS into a given master UCITS which exceeds the limit applicable for investments in other UCITS is subject to prior approval by the competent authorities of the feeder UCITS' home Member State.

Key investor information:

Originally, it was intended to provide investors with all basic information relating to the UCITS, in order to enable them to make an informed investment choice. In practice, the simplified prospectus failed to meet those expectations, as it is often very lengthy and implemented differently across the EU.

It is therefore suggested to replace this simplified prospectus by a "key investor information" (KII) document, which contains fair, clear and not misleading information.

It shall provide information on the essential elements in respect of the UCITS concerned (investment objectives and policies, past performance, costs and associated charges, risk/reward profile of the investment including appropriate risk warnings) and clearly specify where and how to obtain additional information on the proposed investment.

The document should be brief, written in non-technical language and not contain alterations or supplements, except for translations.

Notification procedure/cross-border marketing:

If a UCITS proposes to market its units in a Member State other than its home Member State, it shall first submit a notification letter to the competent authorities of its home Member State. The competent authorities of the UCITS' home Member State shall transmit the complete documentation to the competent authorities of the Member State in which the UCITS proposes to market its units (so called regulator-to-regulator notification procedure). Those documents shall consist of a key investor information document, the full prospectus, the constitutive documents and the latest annual and any subsequent semi-annual reports. The competent authorities of the UCITS' home Member State shall enclose with the documentation an attestation confirming that the UCITS fulfils the conditions imposed by the Directive.

The Parliament's UCITS IV draft goes even further than the Commission proposal in terms of speed of the notification process, with the UCITS' home Member State regulator having only ten working days to review the notification file and to transmit it to the host Member State.

Upon the (electronic) transmission of the documentation, the competent authorities of the UCITS' home Member State shall immediately notify the UCITS about the transmission. The UCITS may access the market of the UCITS host Member State as of the date of this notification.

Supervision:

The proposed amendments to the Directive will result in increased cross-border operations. Effective supervision of such operations will only work if there is full and timely cooperation between authorities.

As a result, the Commission agreed to propose amendments to strengthen the supervision of UCITS and of the companies that manage them.

The Directive encourages the exchange of information between supervisors, harmonises the powers of supervisors and allows for the possibility of on-the-spot investigation, consultation mechanisms and mutual-aid mechanisms for the imposition of penalties, in particular.

Concluding remark:

According to its press release of 18 July 2008, ALFI welcomed the European Commission's initiative for a revision of the UCITS Directive.

The changes will greatly improve the competitiveness of the UCITS product to the benefit of investors mostly via reducing costs (notification, mergers, pooling) and providing a harmonised, shorter and more readable simplified prospectus.

With regard to the forthcoming introduction of a management company passport, a careful balance needs to be achieved between the benefits for a management company of managing a UCITS on a remote basis and the need, in the best interest of investor protection, to ensure effective fund supervision, oversight and substance at the fund's location.

Larosière report calls for New EU financial Oversight bodies

A new report presented by the high-level group chaired by Jacques de Larosière to the European Commission on Wednesday 25 February 2009 calls for new bodies to enhance the financial oversight in the EU. The de Larosière group's mandate primarily covered the issue of how to organise the supervision of the financial institutions and markets in the EU, how to strengthen European cooperation on financial stability oversight, early warning and crisis mechanisms and, more generally, how EU supervisors should cooperate.

It is likely to significantly influence decision-making in the EU on tightening up cross-border supervision of financial groups in Europe. It will also influence thinking in the EU about global cooperation between supervisors, which will be a major theme of the ongoing discussion at G20 level.

The high-level group suggests establishing, by 2012, three new EU authorities, independent of national bodies for banks, securities and insurance firms. These new bodies would be in charge of legally binding mediation between national supervisors and would be charged with setting up new body called "European Systemic Risk Council" (ESRC) under the aegis of the European Central Bank (ECB).

Macro-supervision

Central to the improvements proposed by the report are two bodies designed to improve both risk assessment and supervision. One of the new groups proposed is the ESRC which would be chaired by the ECB. It will be composed of the members of the General Council of the ECB, the Commission plus the Chairs of CEBS, CEIOPS and CESR. Insurance and securities supervisors will be brought in where necessary. Its role will be to gather information on all macro-prudential risks in the EU. It shall have access to all necessary macro and micro information and issue risk warnings on which there would be mandatory follow-up and monitoring by EU supervisors. If the risks were very serious they should be taken up by the EFC, working with the Commission, to address the risks. The ESRC will work closely with the IMF, FSF and G20 at global level.

The ESRC would replace the existing Banking Supervision Committee.

A new European System of Financial Supervision (ESFS), transforming the level-three (L3) committee into EU authorities

The second measure would be the establishment of a European System of Financial Supervision (ESFS) to coordinate the transfer of information and supervision throughout the 27 member states.

The ESFS will cover micro prudential supervision (the supervision of firms). The three Level 3 Committees (CEBS, CEIOPS, CESR) will be each transformed into 3 new European authorities (the European Banking Authority; the European Securities Authority; and the European Insurance Authority). These authorities will have a considerably expanded role compared to the current L3 Committees including some legal powers.

The main additional tasks of the Authorities on top of the competences of the existing level 3 committees will be the following:

(i) legally binding mediation between national supervisors;

(ii) adoption of binding supervisory standards;

(iii) adoption of binding technical decisions applicable to individual institutions;

(iv) oversight and coordination of colleges of supervisors;

(v) licensing and supervision of specific EU-wide institutions (e.g. Credit Rating Agencies and post-trading infrastructures);

(vi) binding cooperation with the ESRC to ensure adequate prudential supervision; and

(vii) strong coordinating role in crisis situations.

The ESFS should be set up in a 2-stage procedure: Stage 1 – Preparation (2009-2010) and Stage 2 – The establishment of the ESFS legal system (2011-2012).

Thus for the first time the EU's supervisory system would be joined up from the macro to the micro end of supervision, with clear and well-defined responsibilities for each level. The Group does not recommend transferring the responsibility for supervision of financial firms (large cross border, or more) to the European level.

The Group recommends that after 3 years of the ESFS functioning - a full review is undertaken to determine whether further development may be necessary (e.g. merging the banking and insurance authorities to have one authority responsible for financial stability – and the other for market/conduct of business issues for all 3 sectors; plus extending the horizontal rule-making powers etc).

Credit rating agencies, hedge funds and derivatives

The group also proposed a range of measures to address EU regulatory shortfalls revealed by the ongoing turmoil. Financial institutions should increase and improve the capital they hold as a buffer against risks, reviewing the so-called "Basel 2" capital requirements that have just entered into force in the EU.

Credit rating agencies should register and be supervised by the new authority in charge of securities, a strengthened version of the existing CESR (Committee of European Securities Regulators).

Despite recognising their lack of responsibility for the current crisis, the De Larosière group calls for a significant increase in disclosure obligations for hedge fund managers.

For derivatives, and in particular credit default swaps, "at least one central clearing house" should be created.

European Commission Consultation on Hedge Funds and High-Level Conference on Private Equity and Hedge Funds

The European Commission launched on 18 December 2008 a wide-ranging public consultation on policy issues arising from the activities of the hedge fund industry, in view of developing an appropriate regulatory proposal.

The consultation addressed the following issues:

- systemic risks and existing systems of macro-prudential oversight,
- market integrity and efficiency,
- risk management, valuation of assets and management of any potential conflicts of interest, and
- transparency towards investors and investor protection.

This consultation is part of the Commission's comprehensive review of regulatory and supervisory arrangements for all financial market players in the European Union, which is to be finalised in 2009 upon consideration of the report of the High Level Expert Group chaired by Jacques de Larosière which was published on 25 February 2009 (see page 6). It also responds to the recent reports by the European Parliament (Rasmussen Report and Lehne Report), which raised a number of concerns that have come into sharper international focus as hedge funds have, like many other financial actors, been heavily affected by the current financial crisis. It will make an important contribution to European and international reflections on whether the approach to the regulation and supervision of hedge funds should be reassessed in light of the financial crisis.

The results of the consultation were discussed at a high-level conference organised by the European Commission in Brussels on 26th and 27th February 2009, and will serve as the basis for European input into the parallel reflections on hedge funds at international level by the G20. The conference brought together representatives of the hedge fund and private equity industries, investors, members of the regulatory community and other experts to discuss emerging policy issues in these sectors. The conference focused in particular on financial stability, transparency and investor protection. The conclusions from these discussions, coupled with the results of the consultation on hedge funds, will feed in to the European Commission's review of the adequacy of supervisory and regulatory arrangements for all financial market players in the context of the financial crisis.

CESR published final advice for UCITS in the field of risk management principles

On 27 February 2009, the Committee of the European Securities Regulators (CESR) released the final advice on "Risk management principles for UCITS".

A risk management process is key in protecting investors from risks to which UCITS are exposed in relation to the performance of the activity of collective portfolio management. Recent market turbulence events have emphasised the need for a comprehensive approach to risk management and for high standards of risk management.

CESR, through its Investment Management Expert Group, carried out a survey on how the 2004 Recommendation had been implemented in the different EU jurisdictions. On the basis of the priorities expressed by CESR Members, it was decided that CESR would embark on further work, the result of which is published end of February.

In particular, CESR's final advice on "Risk management principles for UCITS" proposes a framework for guidelines concerning risk management, providing principles and an outline of the key elements for a standard in the risk management process.

According to CESR the principles should apply to both designated asset management companies and investment companies that have not designated a management company (self-managed UCITS).

The principles proposed by CESR reflect the need to ensure, on the one hand, that investors are adequately protected and, on the other hand, that the risk management process is appropriate and proportionate in view of the nature, scale and complexity of the asset management company's activities and of the UCITS it manages.

CESR has proposed a framework for guidelines regarding risk management to achieve more convergence in the risk management process throughout the European Union.

The proposed framework for guidelines regarding risk management has identified some key principles and includes the following level 3 measures which should be complied with in order to ensure protection of UCITS investors:

(i) the governance and organisation of the risk management process;
(ii) the identification and measurement of risk relevant to the UCITS;
(iii) the management of risk relevant to the UCITS;
(iv) monitoring and reporting

All principles corresponding to the four areas mentioned above should be implemented as part of a coherent set of internal rules that govern the process of the identification, measurement and management of the risk incurred by UCITS investors. The risk management principles at the company level are supplemented by supervisory principles which should guide the review of these processes for the purpose of investor protection.

ALFI 20th anniversary celebration

HOn 7 October 2008, ALFI celebrated its 20th anniversary at the Philharmonie, Luxembourg's classical concert hall, with over 520 people in attendance. In his speech, ALFI Chairman Claude Kremer thanked Luxembourg industry stakeholders for all they have contributed to ALFI and Luxembourg's success story in the 20 years since ALFI's inception in 1988. He also outlined priority action points for ALFI's work in the future, focusing on the four areas of regulation, distribution, skilled labour and infrastructure.

The Chairman then gave the floor to HE Luc Frieden, Minister for the Treasury. Minister Frieden gave an extremely enlightening talk on the current climate, and notably the Luxembourg government's actions to alleviate the situation. The final speaker was Hamish McRae, Associate editor of the London-based Independent newspaper. Mr McRae's speech put the current situation in context and outlined how he saw the future of both the world and the financial services industry.

ALFI Chairman Claude Kremer addresses the hall at ALFI's 20th anniversary celebration

ALFI Roadshow to South Africa

ALFI's first roadshow to South Africa, led by H.E. Mr Jean Asselborn, Vice-Prime Minister and Minister of Foreign Affairs, took place this week. Fund industry seminars were held in Johannesburg on Monday 3 November and Cape Town on Tuesday 4 November with 25 and 40 local participants respectively. ALFI was officially welcomed by Leon Campher, the Chairman of ASISA, the newly created South African savings and investment fund association.

ALFI roadshow to Frankfurt

ALFI's roadshow to Frankfurt on 10 November saw an excellent turnout, with 150 local participants in addition to a Luxembourg delegation of over 90 people. Presentations were given on what Luxembourg offers in terms of UCITS funds, alternative investment vehicles (hedge funds, private equity and real estate funds) and pension funds.

ALFI-NICSA Conference

This, the 17th Annual Global Investment Funds forum proved a success, with nearly 800 registrations and 43 exhibitors. It was the first conference to take place at the brand new conference centre in Kirchberg, which offered greater floor space for exhibitors.

The two main themes of the conference were the growth of markets in Asia and developments in the vast US market. More specifically, debate centred on topical subjects such as: fund distribution in China and Russia, tax developments in Germany, news on UCITS IV and Islamic finance.

ALFI Alternative Investment Funds Conference

This year's AIF conference, on 25 & 26 November, took place at the new conference centre in Kirchberg with an attendance of about 300 industry professionals. The format differed from previous editions in that it featured three specialist workshops concentrating on hedge funds, private equity and real estate funds. At the end of the first day the participants were treated to a wine tasting evening with musical entertainment provided by Cintia Rodriguez.

ALFI-Nicsa Conference 2008

ALFI Sustainable & Responsible Investments (SRI) Conference

The first ALFI Sustainable & Responsible Investments (SRI) Conference was held on 15 January. The event attracted over 120 attendees and experts from a large variety of fields and paid tribute to the diversity of the Luxembourg SRI and Luxembourg's efforts offer an ever wider range of products.

The conference was opened by HE Jean-Louis Schiltz, Minister for Development, Cooperation and Humanitarian Affairs, and included keynote speeches from Professor Janne Haaland Matlary and Christian Gollier.

Latest developments in Islamic finance in Luxembourg

Islamic Finance and Shariah-compliant investment funds have experienced strong growth over the past few years. According to Ernst & Young, there were over 500 Shariah-compliant funds in the world at the end of the first quarter of 2008 and it is forecast that the number of funds will reach 1 000 by 2010. Luxembourg is well positioned to attract a significant share of this fast growing industry.

Luxembourg is not a newcomer to the world of Islamic finance. As far back as in 1983, Luxembourg was the chosen domicile of the first Shariah-compliant insurance company in Europe. The Luxembourg Stock Exchange was the first European stock exchange to enter the market for sukuks (the Shariah-compliant equivalent of a bond). A number of Islamic funds have already been launched in Luxembourg and are either domiciled or serviced out of Luxembourg. At the end of December 2008, there were 22 Shariah-compliant funds domiciled in Luxembourg (source: CSSF).

Luxembourg's traditional strengths and the financial centre's growing expertise in Islamic finance make the country an ideal location for the domiciliation or the administration of Shariah-compliant investment vehicles.

Conference on Islamic Finance in May

Islamic finance has the support of the Luxembourg financial establishment. Various initiatives, such as the ALFI Islamic finance working group, have already been taken. The next major event will be the Islamic finance conference that will take place on 5 and 6 May at the Hilton hotel in Luxembourg. It is organized by the IFBL in cooperation with ALFI, LFF and PRIM with the support of the Ministry of Finance.

This conference, with a focus on Luxembourg as a jurisdiction, will have a dual objective:

- Raising awareness of local professionals
- Showcasing Luxembourg's know how and assets in this field

Day one is an "awareness day", designed to provide a thorough overview of Shariah-compliant products and compare these with conventional methods and instruments.

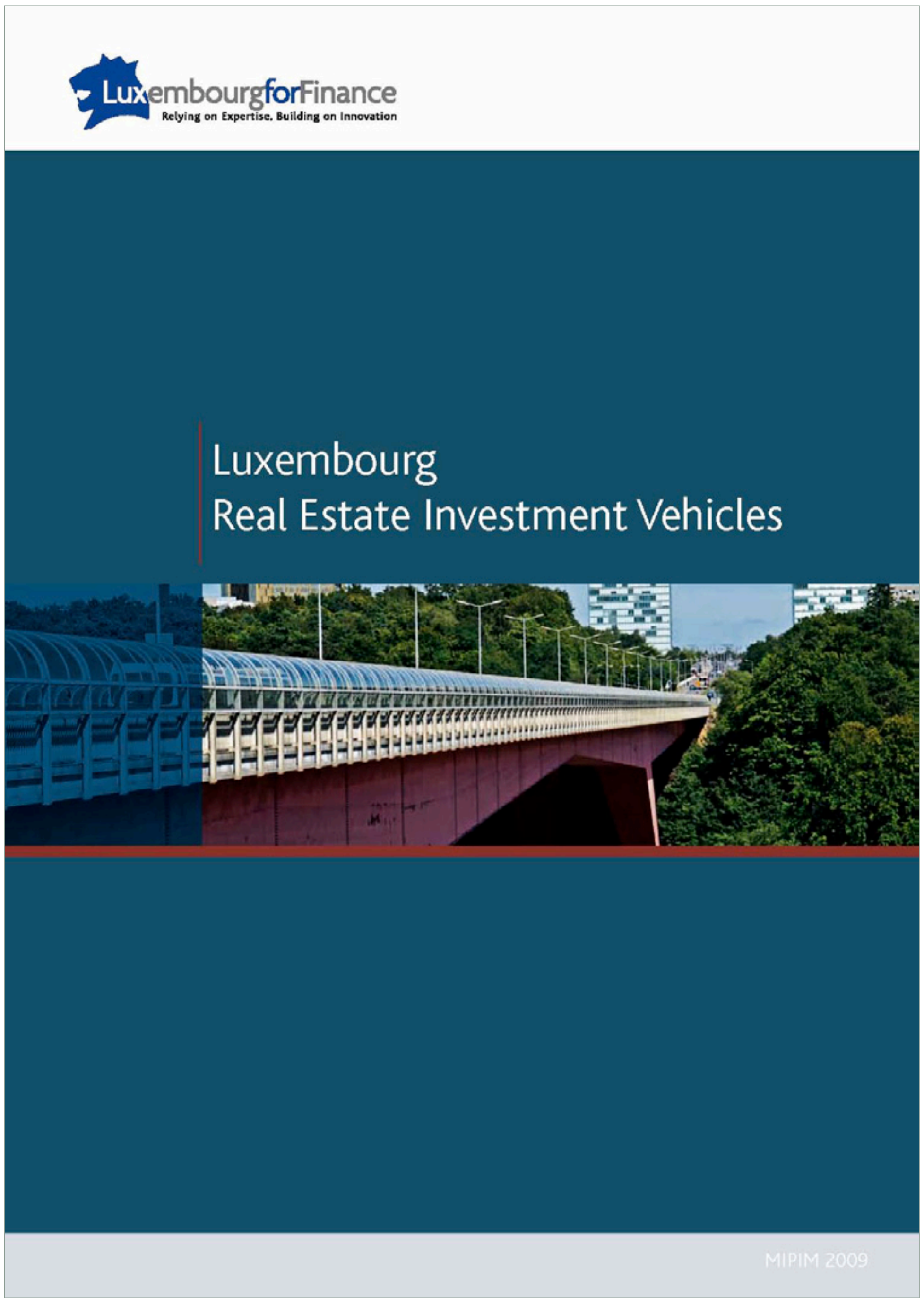
During the second day, five panels will bring together international experts and local players to discuss practical issues and the services Luxembourg is able to offer Shariah-compliant funds. For more information or registration, please contact the IFBL

New Brochure: Luxembourg Real Estate Investment Vehicles

Luxembourg for Finance (LFF) and ALFI have jointly prepared an update of the brochure on Luxembourg Real Estate Investment Vehicles. This brochure, dated February 2009, provides general background information on the legal and tax aspects of unregulated and regulated real estate vehicles domiciled in the Grand Duchy of Luxembourg.

To access the document, go to **www.alfi.lu**

> Brochures (bottom of the page).



ALFI staff focus: Evelyne Christiaens

With eleven years of experience here, Evelyne Christiaens, our Senior Legal Adviser, is ALFI's longest-serving member of staff. Brussels-born Evelyne has led a career between her home town and the Grand Duchy.

After graduating with a law degree from the Université Libre de Bruxelles, her first job was a traineeship with the European Economic and Social Committee, a first experience in European affairs which held her in good stead for the future. She then changed tack somewhat by moving into the domain of investment funds, with a three-year stint at FEFSI (now EFAMA), the European investment fund association, where she was in charge of monitoring European legal developments and the library of European documentation.

Evelyne joined ALFI in 1997 when it only consisted of three people; she describes her role at that time as being "a bit of everything", as she had to respond to the many challenges faced by the small team. Since then she has overseen its rise into the strong association which we know today. Her role at ALFI has become gradually more specialised and she is currently secretary of the Technical Committees Chairpersons' Group (TCCG) and various other legal working groups.

Evelyne surrounded by her legal files on a lovely sunny winter's day in Luxembourg

ALFI Event Calendar 2009

ALFI actively promotes the Luxembourg investment fund centre, its products and services, by presenting the fund sector in economic missions organised by the Luxembourg government around the world, by organising road shows, by taking part in the principal meetings of the global fund industry and by developing strong relationships with the national and international media.

ALFI events	LuxembourgForFinance/ Luxembourg-For Business or Chamber of Commerce events	Worldwide conferences
ALFI Spring Conference 17-18 March 2009	**LFF Roadshow Hamburg, Germany** 30 March 2009	**ICI Palm Springs** 23-25 March 2009
ALFI Roadshow USA (New York & Boston) 4+15 May 2009	**Islamic Finance Awareness Days** 5-6 May 2009	**GAIM Asia** 21-23 April 2009
ALFI AGM 11 June 2009	**LFF Roadshow Austria & Poland** (Vienna & Warsaw) 17+19 May 2009	**ICBI FundForum Asia, Singapore** 27 April-01 May 2009
ALFI Seminar London 17 June 2009	**Luxembourg Financial Forum** 29 May 2009	**IIR UCITS in Luxembourg** 6 May 2009
ALFI Golf Tournament 21 September 2009	**LFF Stand at GAIM Monaco** 16-18 June 2009	**IBA Bermuda** 10-13 May 2009
ALFI & NICSA Global Distribution Conference 22-23 September 2009	**LFF Roadshow Asia** end Oct. (tbc) 2009	**ICBI FACE09** 10-13 May 2009
ALFI Operations Summit 15+16 Oct. 2009	**ALFI Operations Summit** 15+16 Oct. 2009	**GAIM Monaco** 16-18 June 2009
ALFI Seminar Frankfurtm October (tbc) 2009	**ALFI Seminar Frankfurtm** October (tbc) 2009	**ICBI FundForum International, Monaco** 22-26 June 2009
ALFI AIF Alternative Investment Funds Conference 24-25Nov. 2009	**LFF Roadshow Paris** 8+9 Dec.	

For details and updates on all forthcoming ALFI events, please refer to our website www.alfi.lu or contact events@alfi.lu

Luxembourg Fund Industry

June 2008

Number of Umbrella Funds	2 019	3 371 funds
Number of Traditional Funds	1 352	
Number of Sub-funds	10 973	12 325 units
Net Assets of Umbrella Funds	EUR 1 349.898bn	
Net Assets of Traditional Funds	EUR 209.755bn	
Total net assets	**EUR 1 559.653bn**	
Net subscriptions/r edemptions	EUR -10.237bn	
Market performance	EUR -34.347bn	

Data since January 1st, 2008

Net sales	EUR	-77.191bn
Net assets increase	EUR	-499.742bn
Net sales impact on global increase*		15.45%
Growth rate of number of funds		17.54%
Growth rate of number of units		10.89%

Data since the last 12 months

Net sales	EUR	-77.191bn
Net assets increase	EUR	-499.742bn
Net sales impact on global increase*		15.45%
Growth rate of number of funds		17.54%
Growth rate of number of units		10.89%

* in absolute terms — Source: CS SF

Promoters

Top 5 June 2008

	Net assets (mio)		Units	
DE	328 331	21.1%	2 885	23.4%
US	305 913	19.6%	960	7.8%
CH	270 885	17.4%	2 148	17.4%
BE	142 036	9.1%	1 653	13.4%
GB	136 354	8.7%	999	8.1%

39 countries of origin
(September 2008)

Source : CS SF/ALFI

Distribution Source: PwC 2008

75.4 % of authorization agreements for distribution granted to worldwide funds are allocated to Luxembourg funds.

Hedge funds (domiciled + administered)		Dec 07	June 08	Growth June 07/08
Hegde Funds	Nber of fds	186	203	13.41%
	Nber of units	585	558	0.36%
	Net assets	62 943 mio	54 567 mio	-29.21%
Fund of Hedge Funds	Nber of fds	417	451	18.06%
	Nber of units	1 101	1 183	12.24%
	Net assets	132 058 mio	133 113 mio	21.35%
Total	Net assets	195 001 mio	187 680 mio	0.48%

Source: ALFI

Investment Policy December 2008 [1]

	Units	Net assets (mio)	%
Bond	2 797	403 066	25.84
Equity	3 660	372 042	23.85
Balanced	2 867	244 388	15.67
Money market	562	342 923	21.99
Fund of funds	2 020	151 929	9.74
Others	419	45 305	2.95
Total	12 325	1 559 653	100.00

[1] After processing of CSSF footnotes — Source: CSSF

UCIs December 2008

	Number of Funds	Net Assets (EUR bn)
Total	**3 371**	**1 559.653**
Part I (law 2002)	1 826	1 169.389
Part II (law 2002)	708	259.809
SIF	837	130.455

Number of units*: 12 325

*Traditional funds + sub-funds

Growth rate of net assets: since previous month -2.78%
since 1st January -24.27%

Source: CSSF

Luxembourg Financial Centre

Number of **Banks**	152	(31 December 2008)
Balance sheet total	EUR 977.868 bn	(31 November 2008)
Employment	27 269 persons	(30 September 2008)
Number of **SICARs**	215	(12 January 2008)
Number of **Management companies** (chapter 13 law 2002)	187	(31 December 2008)
Employment	2 371 persons	(30 September 2008)
Number of **PSF**	258	(31 December 2008)
Balance sheet total	EUR 44.355 bn	(31 August 2008)
Net profit (estimated)	EUR 496.17 mio	(31 August 2008)
Employment	12 914 persons	(30 June 2008)
Number of **central administrations**	104	(31 December 2008)
Number of **custodians**	69	(31 December 2008)
Number of **management companies**	356	(31 December 2008)
Number of **self-managed SICAVs**	193	(31 December 2007)
Net assets	EUR 309 bn	(31 December 2007)
Number of **pension funds**	13	(31 December 2008)
Number of **securisation vehicles**	22	(12 January 2008)

Source: CS SF

Total Employment in the Supervised Establishments

29 124 persons (31 December 2004)	
	+ 7.63%
31 346 persons (31 December 2005)	
	+ 17.24%
36 749 persons (31 December 2006)	
	+ 10.65%
40 662 persons (31 December 2007)	
	+ 4.06%
42 313 persons (31 June 2008)	

Doc RR * Updated August 6, 2008 * GLOBAL OVERVIEW

Luxembourg Economic Data

Population	484 000 inhab. (1/01/08 - estimated Conj. flash Jan 09)
Inflation	1.1% (Dec 08 - Statnews n°1-09)
GDP (in volume)	EUR 36.409 bn (2007 - Conjoncture flash Jan. 09)
GDP in % of growth	6.4% (2006) 5.2% (2007); Forecasts 2008 2.0%; Forecasts 2009 5.2% (2007)
Unemployment rate	4.7% (Dec 08 - Conjoncture flash Jan 09)

Source: Statec

EUROPE UCIs September 2008

UCITS	**Net assets**	**EUR**	**5 704.313 bn**	
	Top 3			
	Luxembourg	EUR	1 558.850 bn	(30.1%)
	France	EUR	1 204.400 bn	(23.2%)
	Ireland	EUR	578.819 bn	(11.2%)
UCITS & NON-UCITS	**Net assets**	**EUR**	**7 380.411 bn**	
	Top 3			
	Luxembourg	EUR	1 796.696 bn	(26.3%)
	France	EUR	1 350.800 bn	(19.7%)
	Germany	EUR	964.606 bn	(14.1%)

Source : EFAMA — For Ireland, data as of end February 2008

UCITS WORLD June 2008

Net assets	**EUR**	**15 631.381**	**bn**	
USA	EUR	7 407.301	bn	(47.4%)
Americas except USA	EUR	978.957	bn	(6.3%)
Europe	EUR	5 457.274	bn	(34.9%)
Asia & Pacific	EUR	1 734.627	bn	(11.1%)
Africa	EUR	53.222	bn	(0.3%)
Luxembourg	EUR	1 663.097	bn	(10.6%)

Sources: EFAMA/ICI