



Independent Wealth Management in Luxembourg

Perspective on a sector at crossroads

22 June 2018

Key figures of the Luxembourg External Asset Managers (EAMs) sector

94

External Asset Managers (EAMs)

€0.4 bn

AuM per EAM holding a Private Portfolio Manager license (Art. 24-3)

+ 2,000

EAM employees located in Luxembourg

80%

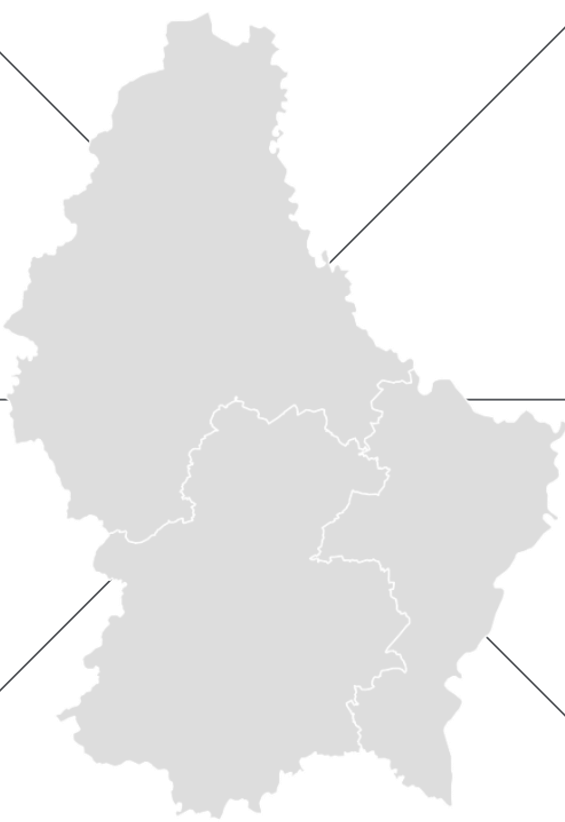
AuM placed in discretionary portfolio management mandates

€30 bn

Luxembourg EAM Assets under Management (AuM) in 2017

€40 bn

Booked by EAMs at Luxembourg based banks



Sources: CSSF, ABBL, Deloitte analysis

Overview of today's presentation

- **Deloitte** and the **ALPP** are pleased to present the results of the study, providing a **perspective on the Luxembourg External Asset Managers (EAMs)** sector
- The study **sheds light on how independent players in Luxembourg** have fared in face of current changes in the wealth management industry and **highlights the success factors** that in our view will allow EAMs to thrive in the future
- The analysis is based on **financial and volume data** from the **ABBL** and **CSSF**, as well as on qualitative **interviews** with EAMs

Today's agenda...

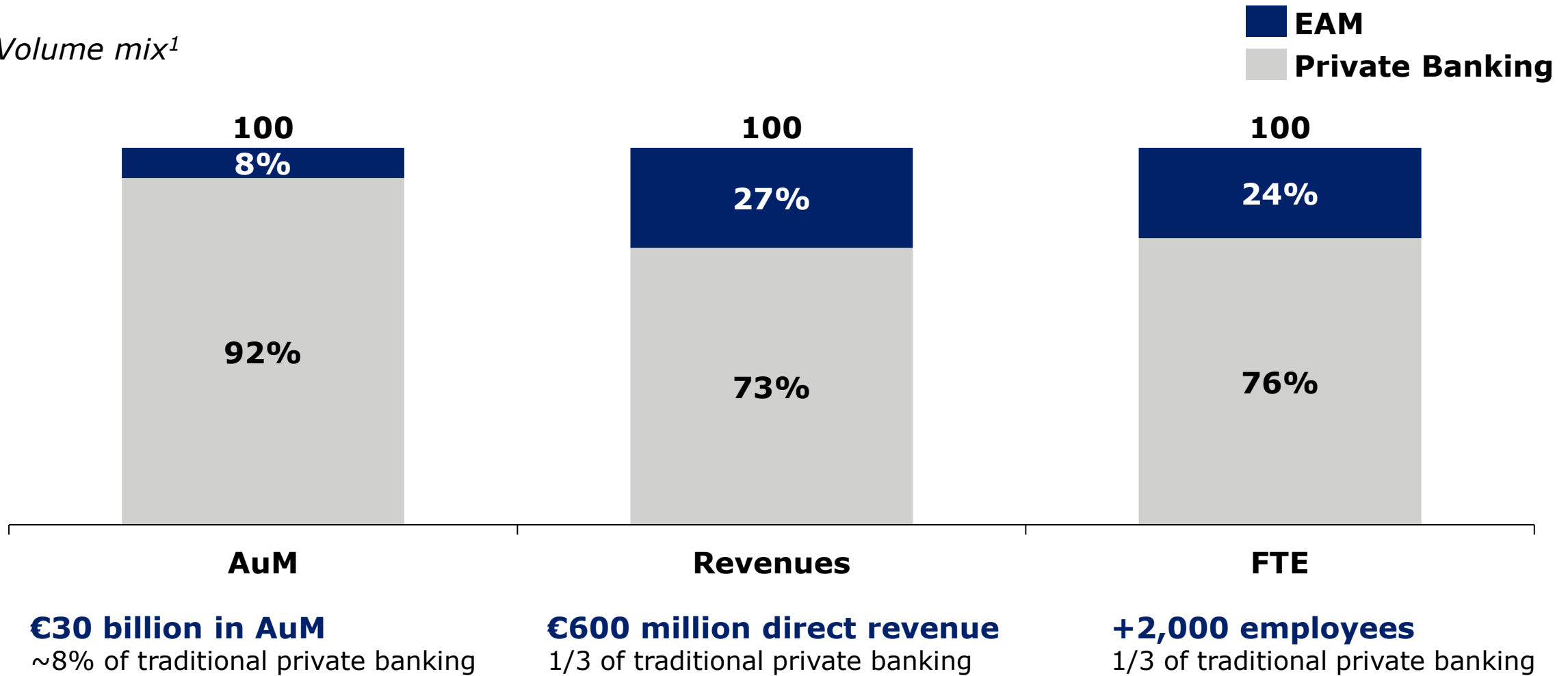
EAMs as a strategic sector

EAMs current state of play

Future model for EAMs

Overall, EAMs bring a significant contribution to the Luxembourg financial sector and the wealth management industry

Volume mix¹

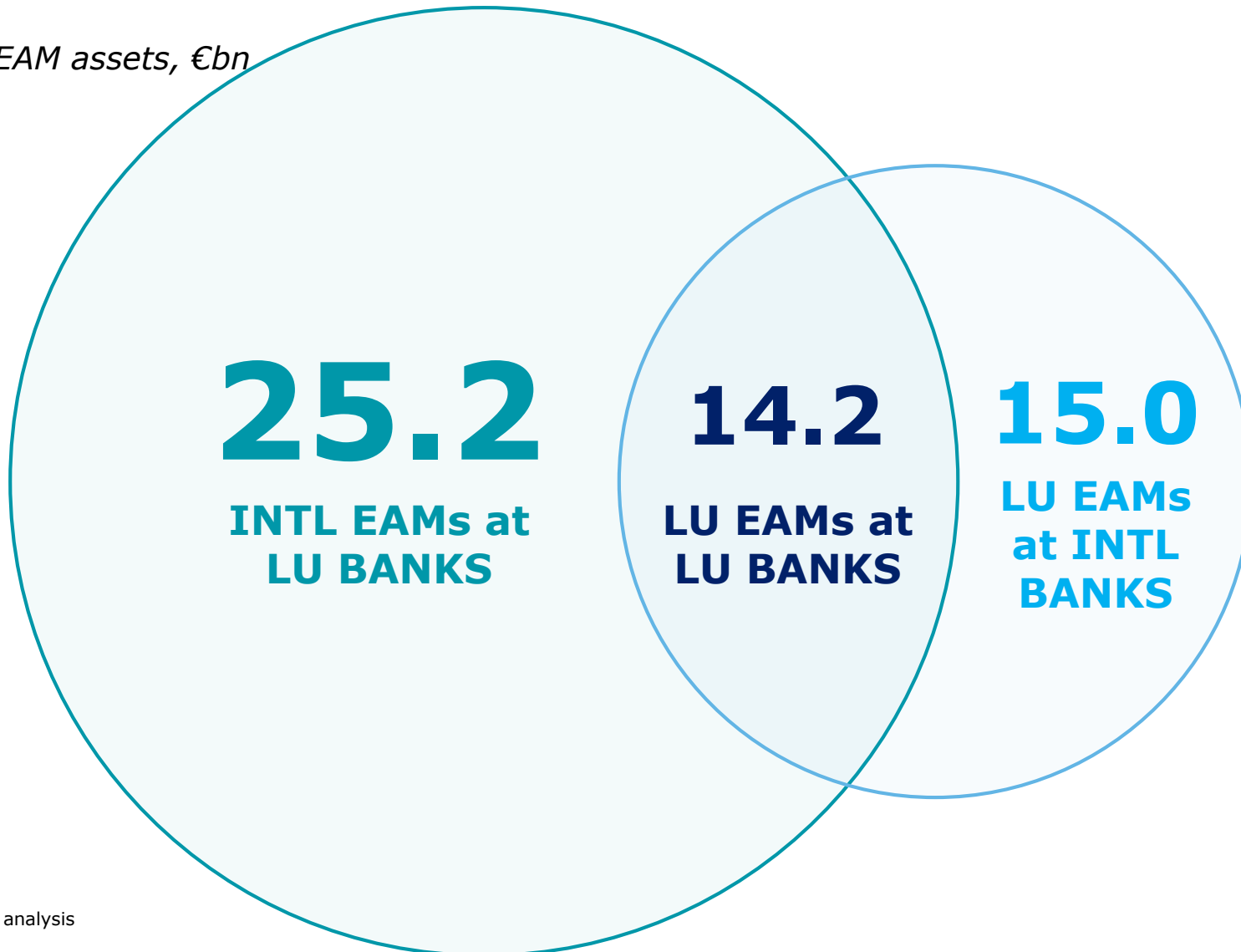


Notes: (1) Based on latest available data.

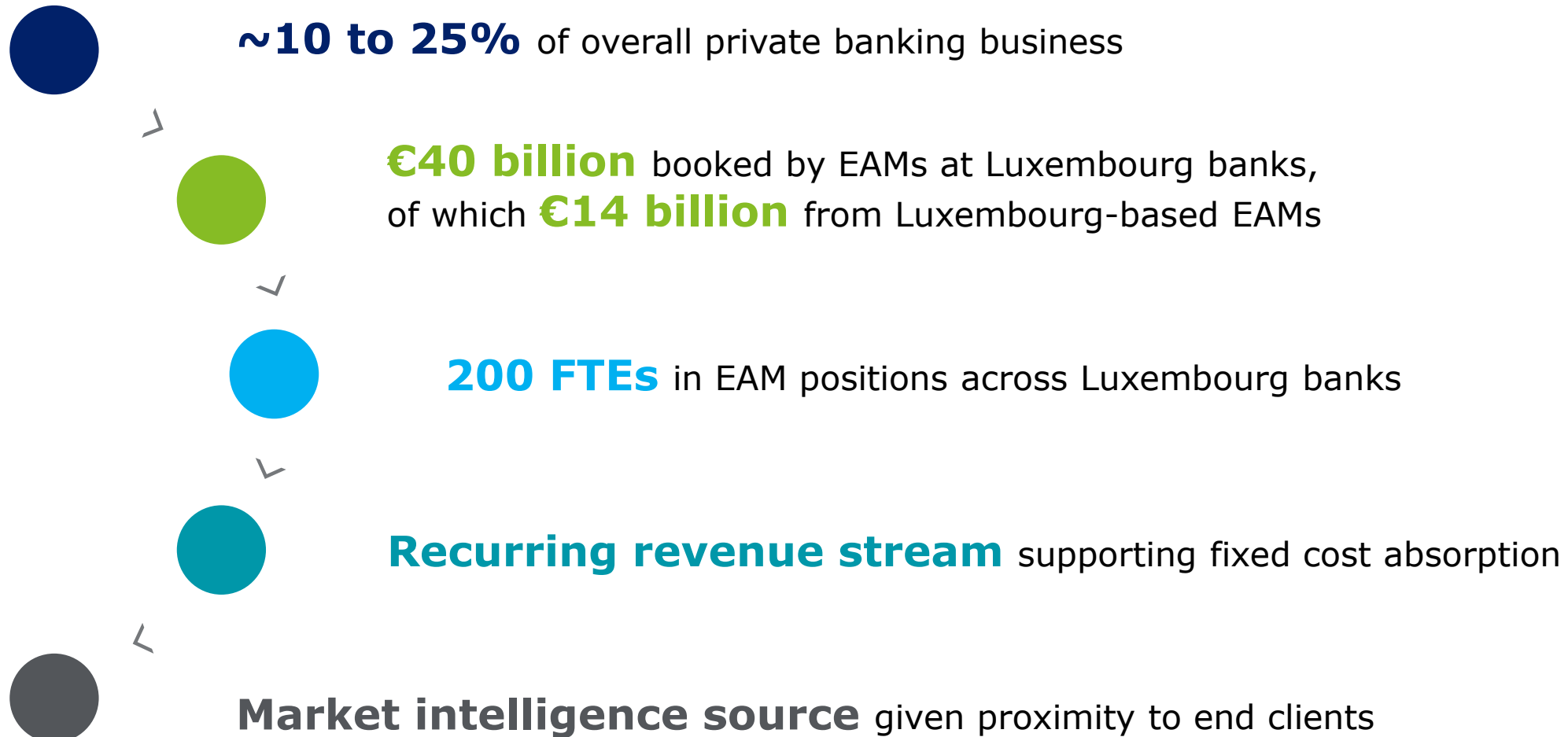
Sources: ABBL, CSSF, Deloitte analysis

Luxembourg EAM represent a significant part of local depositary banks' total EAM asset volume ...

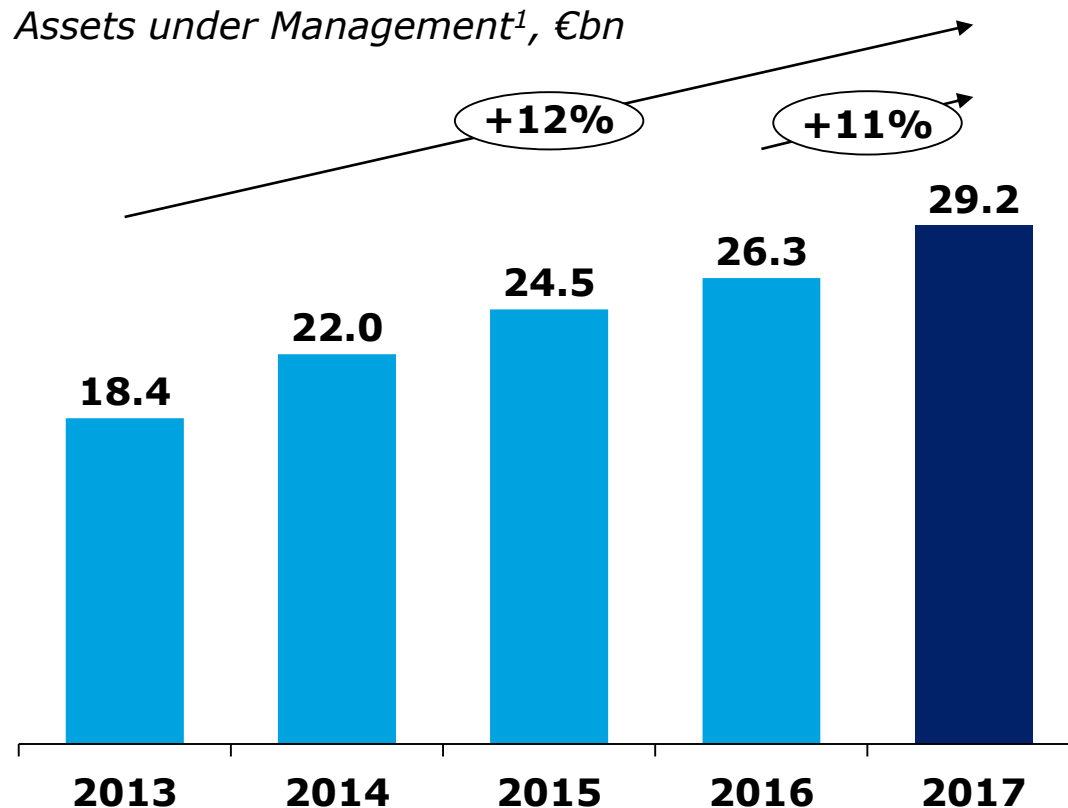
LU banks and LU EAM assets, €bn



...and are a source of recurring business and market intelligence for banks



In recent years, EAMs have posted above market growth in terms of volume ...

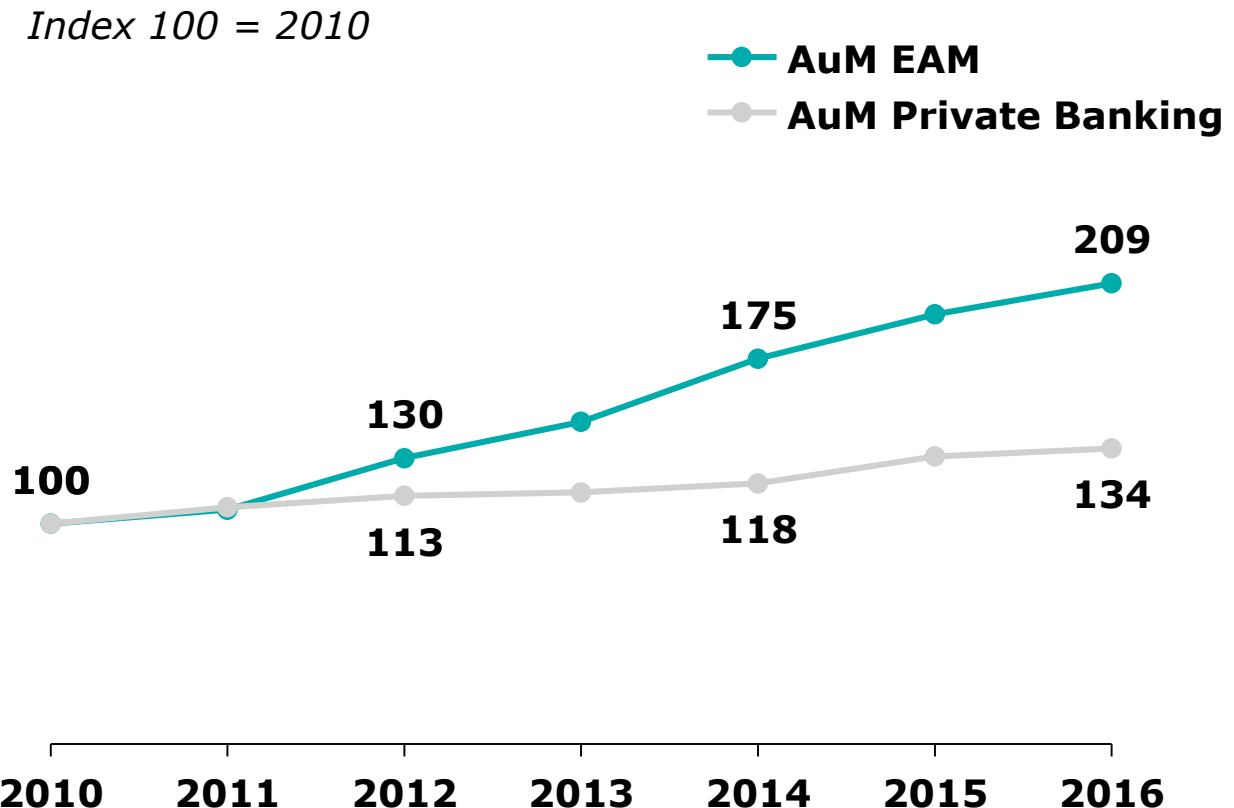


€0.4 billion AuM per EAM
holding a Private Portfolio Manager License (Art. 24-3)

Notes: (1) EAM holding the Private Portfolio Manager license (Art. 24-3).

Sources: ABBL, CSSF, Deloitte analysis

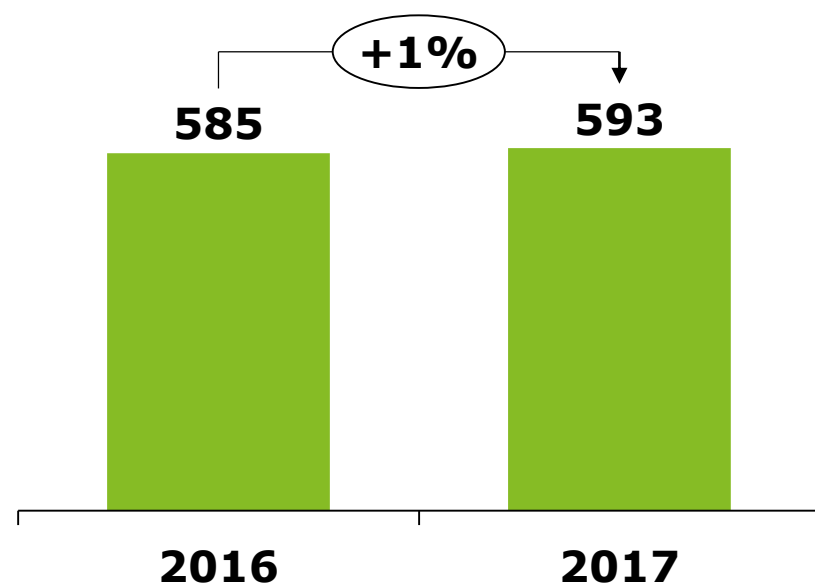
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EAM AuM growth is X 2.6 higher
than the overall Private Banking AuM growth

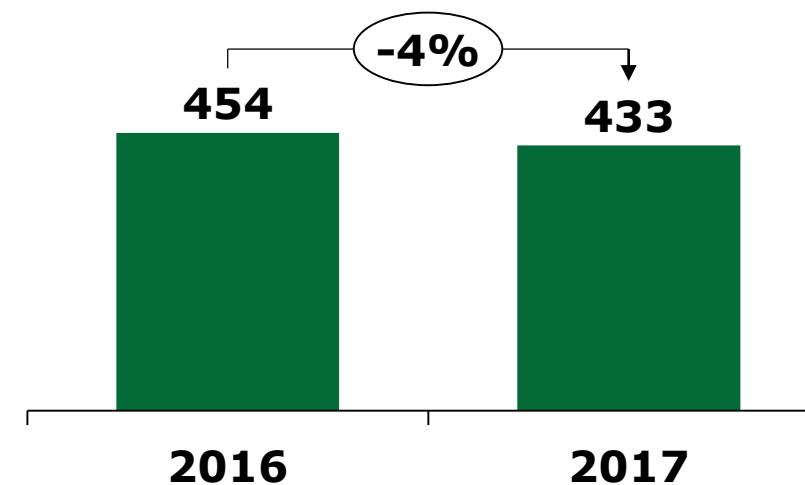
...and have improved their financial performance in spite of general commercial challenges in the Wealth Management space

Total revenues, €mm



~2% RoA and ~17% net profit margin
below the Luxembourg private banking margin ~22%

Total operating expenses, €mm



~75% Cost-to-Income ratio
below the Luxembourg private banking ratio ~80%

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



Remuneration and pricing model

Significant revenue at risk



Operating model

Rationalization of depositary and brokerage network



Investment services and vehicles mix

DPM ↗
Funds / Packaged vehicles ↗

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



Remuneration and pricing model

- Up to **40-50% of revenue erosion**
 - Loss of trailer fees and transactional retrocessions
 - Most of the time not offset by increase in management fee
- **Pricing renegotiation** with depositary banks may provide some mitigation
- Increase in **break-even size** and further drive toward consolidation / partnerships

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



Operating model

- Continued **reliance on depositary banks** for operational reporting purposes, though some invest in-house
- Increased regulatory and client reporting may lead to **rationalization of brokerage and depositary banking network**
- Efforts towards compliance tend to have **slowed down business development**
- **Increase of client size** thresholds up to **€ 0.5 to 1 million** of investable assets

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



Investment services and vehicles mix

- Stringent suitability rules **challenging advisory activity**
- Investment service shift toward **discretionary portfolio management**
- **Increasing use of packaged instruments** to minimize operational requirements and secure new revenue streams
 - Continued use of life insurance products
 - Development of investment funds

EAMs still rely on manual work and processes whilst digitization levels remain low

Maturity **++++**

...with limited support of new technologies

High reliance on workforce...

Staff costs vs. other operating expenses

55%



Total employment

2,440



Front end (RM side)

++++

Front end (Client side)

++++

Portfolio Management System

++++

EAMs will have to adapt their operating model to deal with current regulatory and technological changes in their ecosystem

Current model

- Value of **traditional client relationship**
- Investment approach largely based on **3rd party fund selection**
- **Advisory** services and **joint investment decision making**

Future model



**Asset management expertise
and own funds**



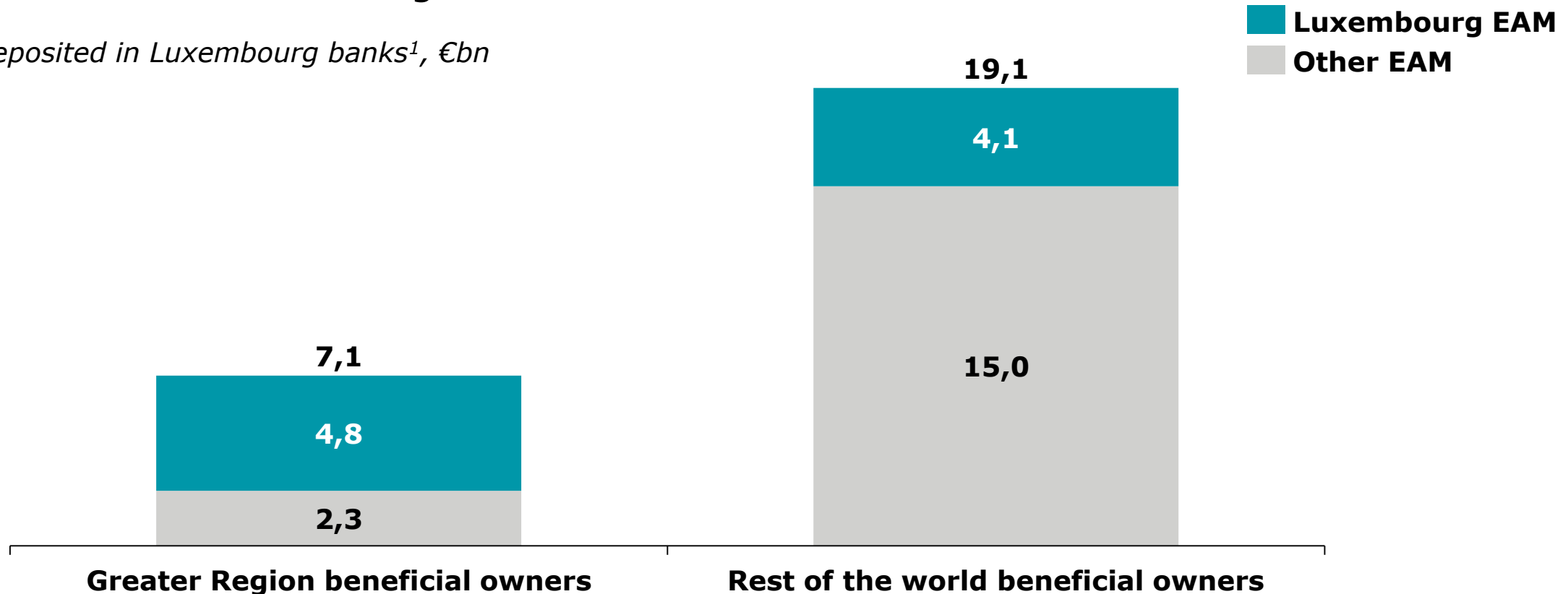
Digital capabilities



Operational innovation and automation

Luxembourg is already an attractive, stable and secure depositary location choice for international EAM assets managed abroad...

EAM assets deposited in Luxembourg banks¹, €bn



€ 15 billion in international assets

(outside Greater Region) deposited in Luxembourg banks but managed abroad

Notes: (1) Assets deposited in Luxembourg banks only, excluding life insurance.

Sources: ABBL, CSSF, Deloitte analysis

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...and is well positioned to continue helping EAMs facing future challenges and to support their transitioning towards the future independent wealth management model

Quality of the banking service infrastructure

“Luxembourg WM Toolbox” and cross-border services

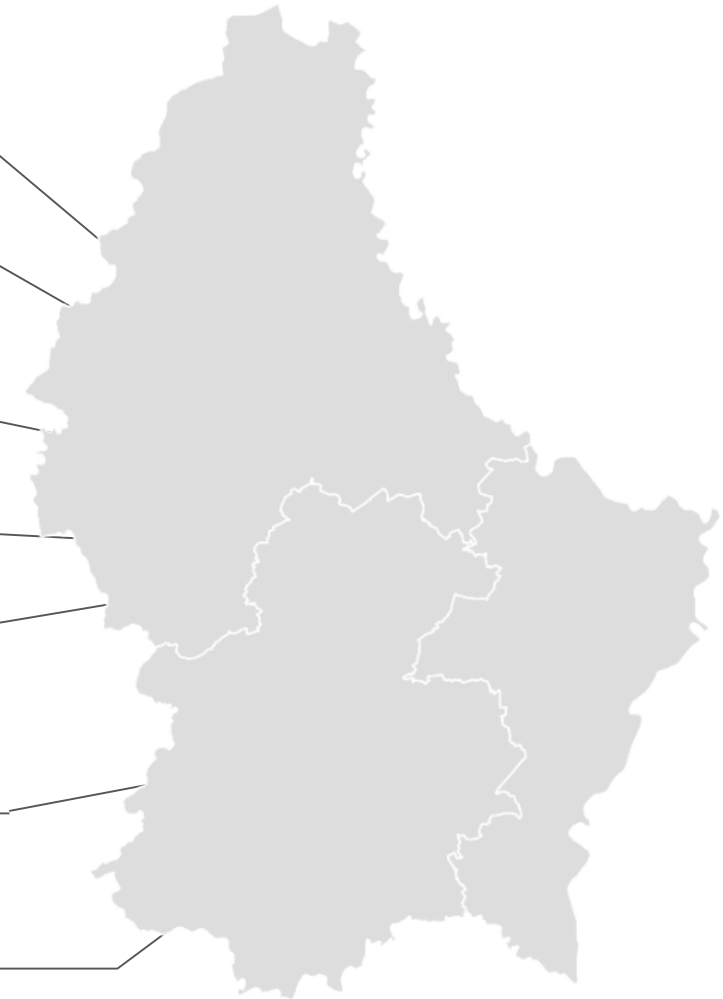
Proximity of regulator and sustainable agenda

UCITS and AIF servicing capabilities

Flexible open-architecture model

Development of tech providers (FinTechs, Support PSF)

Solid ecosystem of skilled Financial Sector service providers



Summing up

- **Significant direct contribution of EAMs** to the Luxembourg financial sector
- **Key sector for Luxembourg depositary banks** providing recurring business and market intelligence
- **Above market growth in terms of volume** and improvement of the financial performance
- **Key regulatory challenges** impacting business and operating models
- **Technological challenges** with a growing need to adapt and digitize middle/back and also front activities
- **Inevitable shift towards the “future model”** which can be supported by Luxembourg’s strengths and capabilities





Thank you

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