

Risk & Asset Management | Distribution and Product lifecycle management – The ManCo as a key stakeholder!

# Getting Started

## Here with you today

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## Agenda

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- 1 Lifecycle of a fund
- 2 Typical set-up of a ManCo
- 3 The specificities of fund distribution: the ManCo's main considerations
- 4 Focus on delegation and oversight
- 5 Taking stock of the ManCo's main challenges

# Learning objectives

## Context

- The Management Company (ManCo) / Investment Fund Manager (IFM) has **obligations related to the creation and modification of the investment funds it manages** as well as the **marketing** of investment funds.
- **For UCITS ManCos:** “Marketing” is a **stand-alone function** included in the activity of collective portfolio management.
- **For AIFMs:** “Marketing” is an **ancillary function** that can be performed “additionally” in the course of the collective management of an AIF. It is thus not a stand-alone function.

## Learning objectives



Highlight the product life cycle and the role of the ManCo



Set out typical framework of a ManCo in Luxembourg



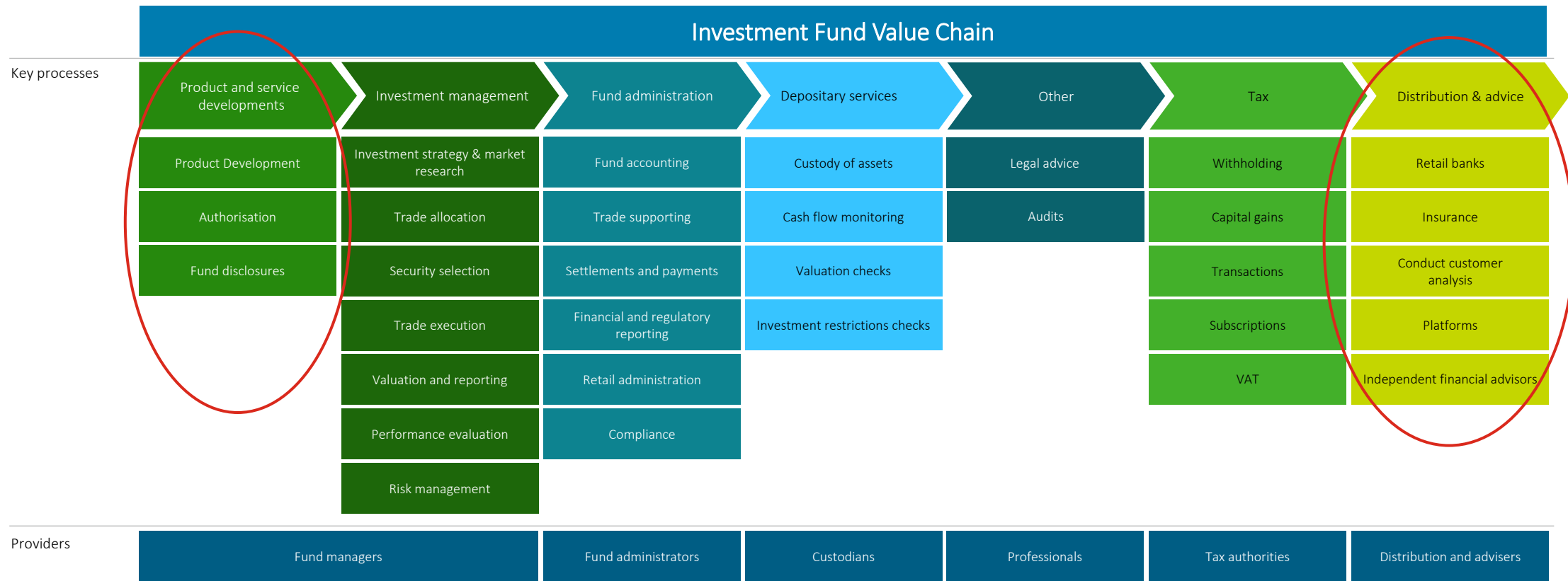
Analyse the role of the ManCo in fund distribution



Explore some of the challenges of fund distribution and how ManCos deal with them

# Lifecycle of a fund

# The ManCo has a strategic role in the value chain of a fund



Source: EFAMA

# The ManCo's involvement increases from the creation to the launch of a fund



Involvement of the ManCo



# The approval of new business or products entails several considerations for the ManCo

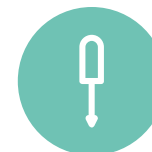
## Identification and assessment of risks

- ✓ Regulatory and operational risks
- ✓ Specific sectoral or country-related risks
- ✓ AML/terrorist financing (TF)



## Implementation of processes and procedures

- ✓ The approval process must follow a defined set of processes and procedures
- ✓ Escalations processes must be clarified especially in case of conflicting views



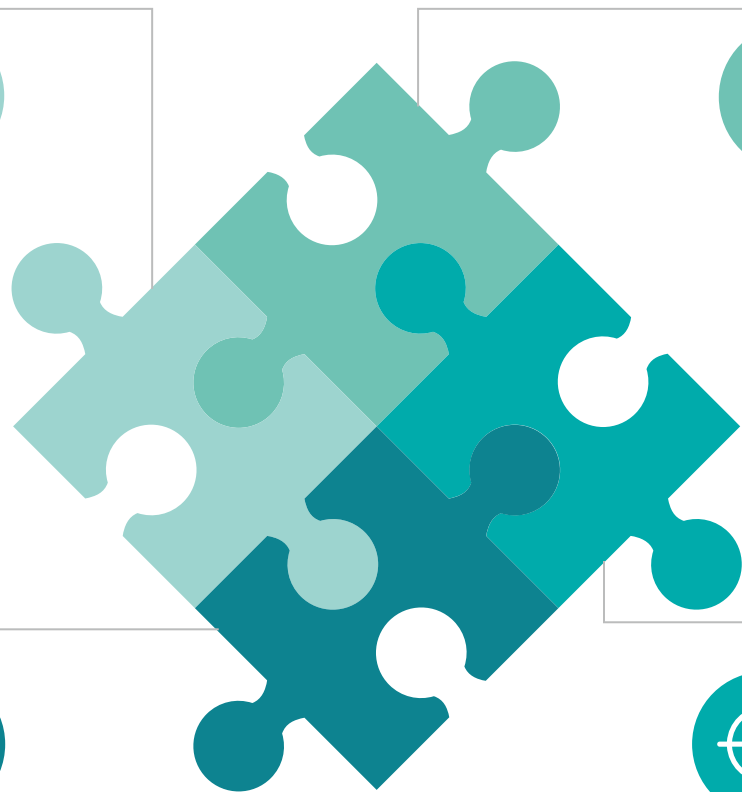
## Approval granted by a committee

- ✓ Approval committee must be established within the IFM
- ✓ Consultation with Compliance and Risk function



## Target market assessment

- ✓ Definition of the target market
- ✓ Implementation of the marketing policy and distribution network
- ✓ Assessment of adequacy of the business or the service and the defined network with target market





# The ManCo's role is multifaceted in the lifecycle of a fund

## Product review

- Sales figures by market
- AUM
- Investment policy
- Regulatory requirements
- Fee levels
- Target market
- Launch of new share classes



## Go to market of changed product

- Updated legal documents
- Updated marketing documents
- Marketing campaign
- Investor feedback



## Corporate actions

- Merger
- Liquidation



## Regulatory approval

- Authorisation of changes by national competent authority (NCA) of the home state
- *Notification* of changes to NCA in EU host states
- *Authorisation* of changes in certain non-EU host states (e.g. Hong Kong)

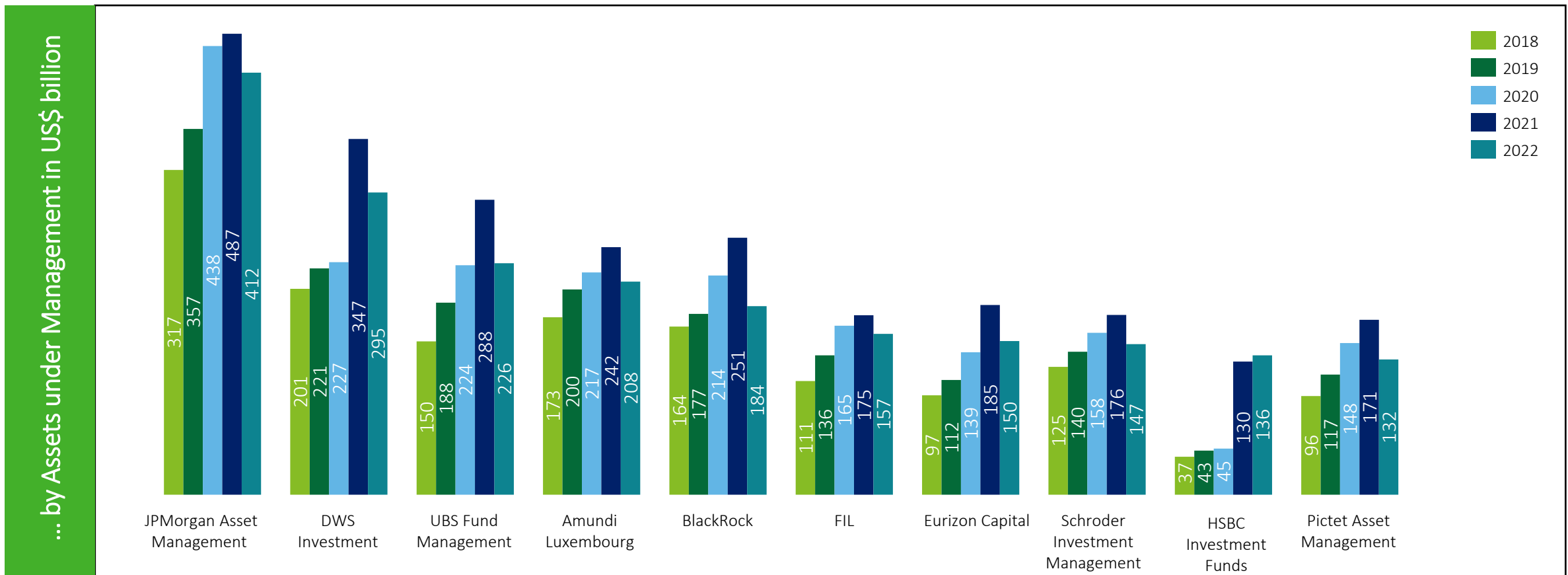




# Typical set-up of a management company

# Largest Luxembourgish Management Companies ... (1/2)

## 1 The Management Company (ManCo)

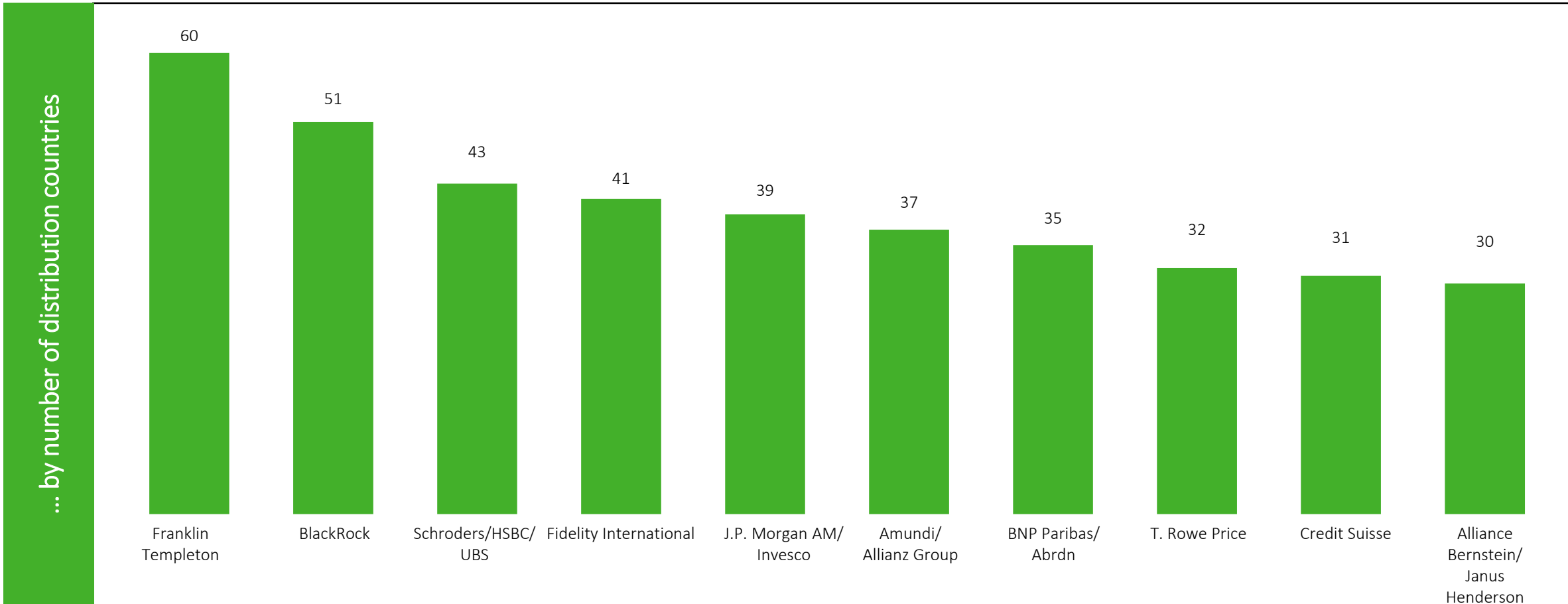


Source: Monterey Insight, Luxembourg Fund Report 2019-2023

# Largest Luxembourgish Management Companies ... (2/2)

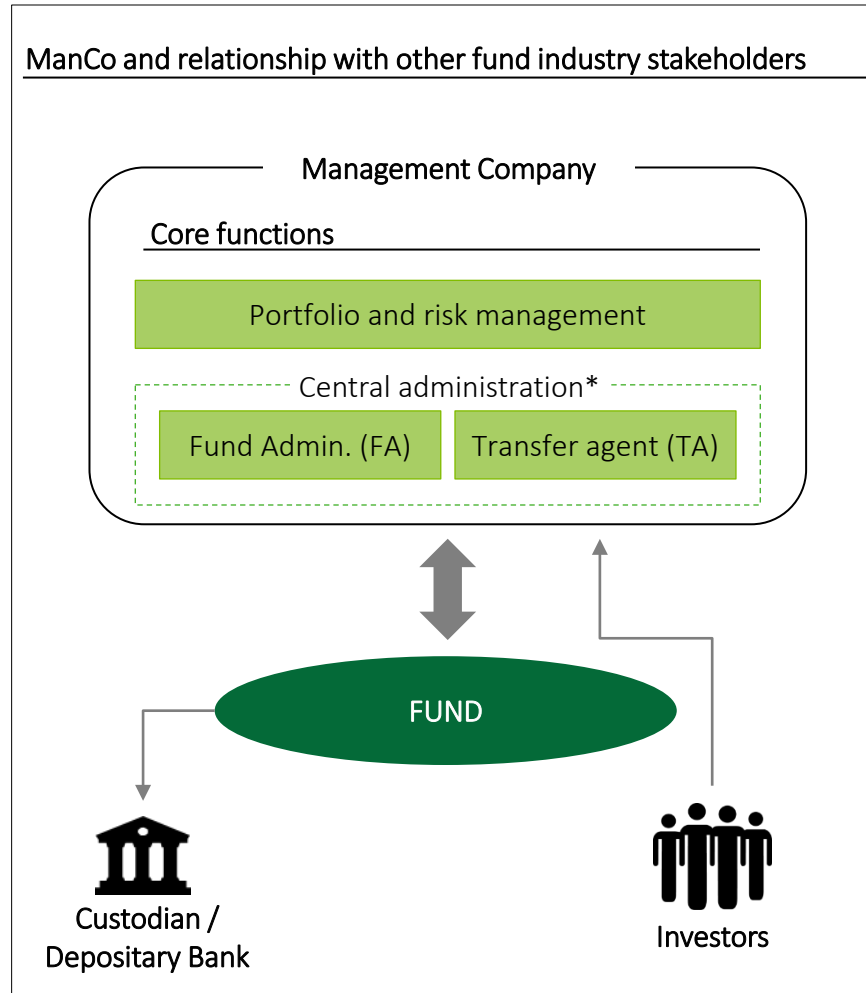
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## The Management Company (ManCo)



Source: ALFI Global Fund Distribution 2023

# What is a Management Company?

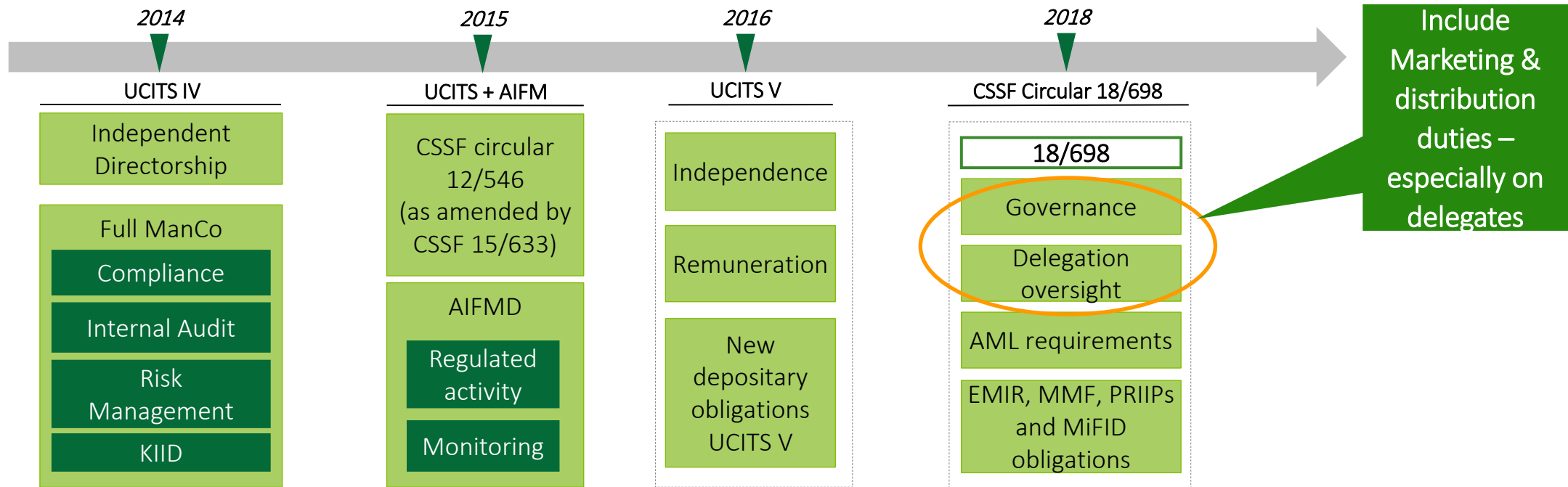


- Role of the ManCo**
- Ensure substance and regulatory requirements of the UCIs
  - **Core functions** include:
    - Portfolio management (often delegated to product sponsor)
    - Risk management
    - Fund administration (FA) \*\*
    - Transfer agent (TA) \*\*
    - Supervision of delegated activities
  - **Ancillary functions** include:
    - **Marketing**
    - **Distribution**
    - Legal, domiciliation and registration
    - Fund governance
    - Corporate accounting
  - **In Luxembourg, the ManCo delegates** most of its activities to different agents, thus it **mainly supervises delegated activities** and most of the time **performs risk management**

**!** \* Market practice in Luxembourg to delegate FA and TA (Central Administration) to the same entity as the depository bank of the fund

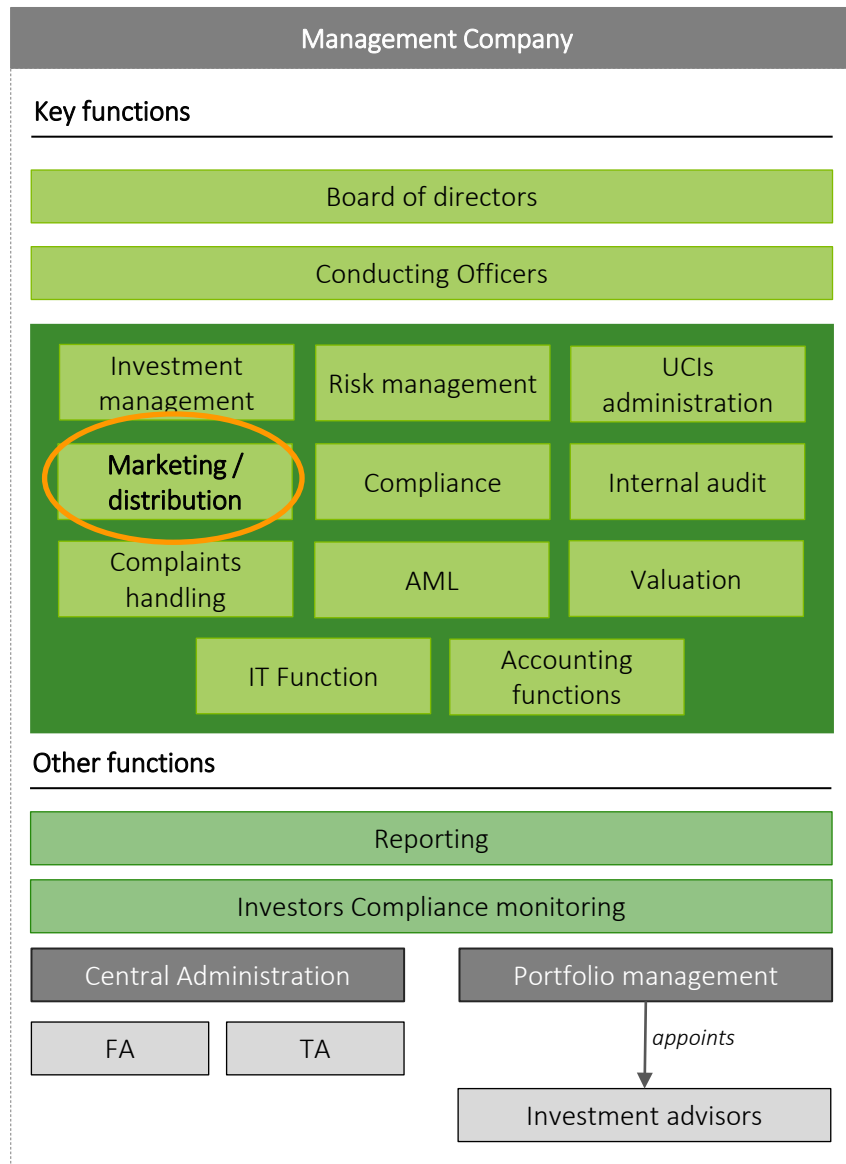
\*\* FA and TA are not considered core activities for AIFM

# The Luxembourg ManCo model has significantly evolved over time



# Typical Manco operating model (minimum substance)

CONCEPTUAL

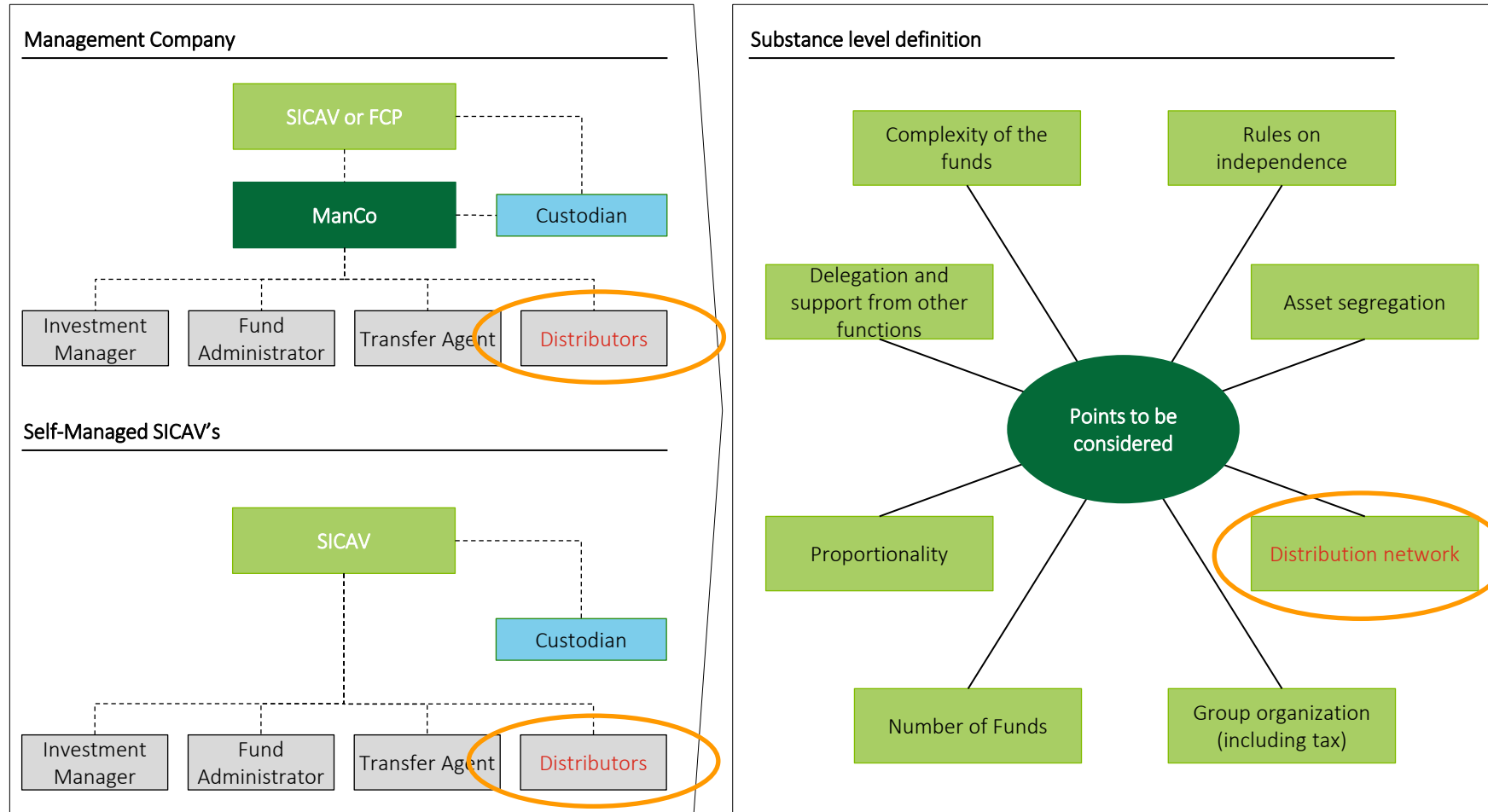


- Setup depends on the specificities of the actors (bank, AM etc.)

# number of substance

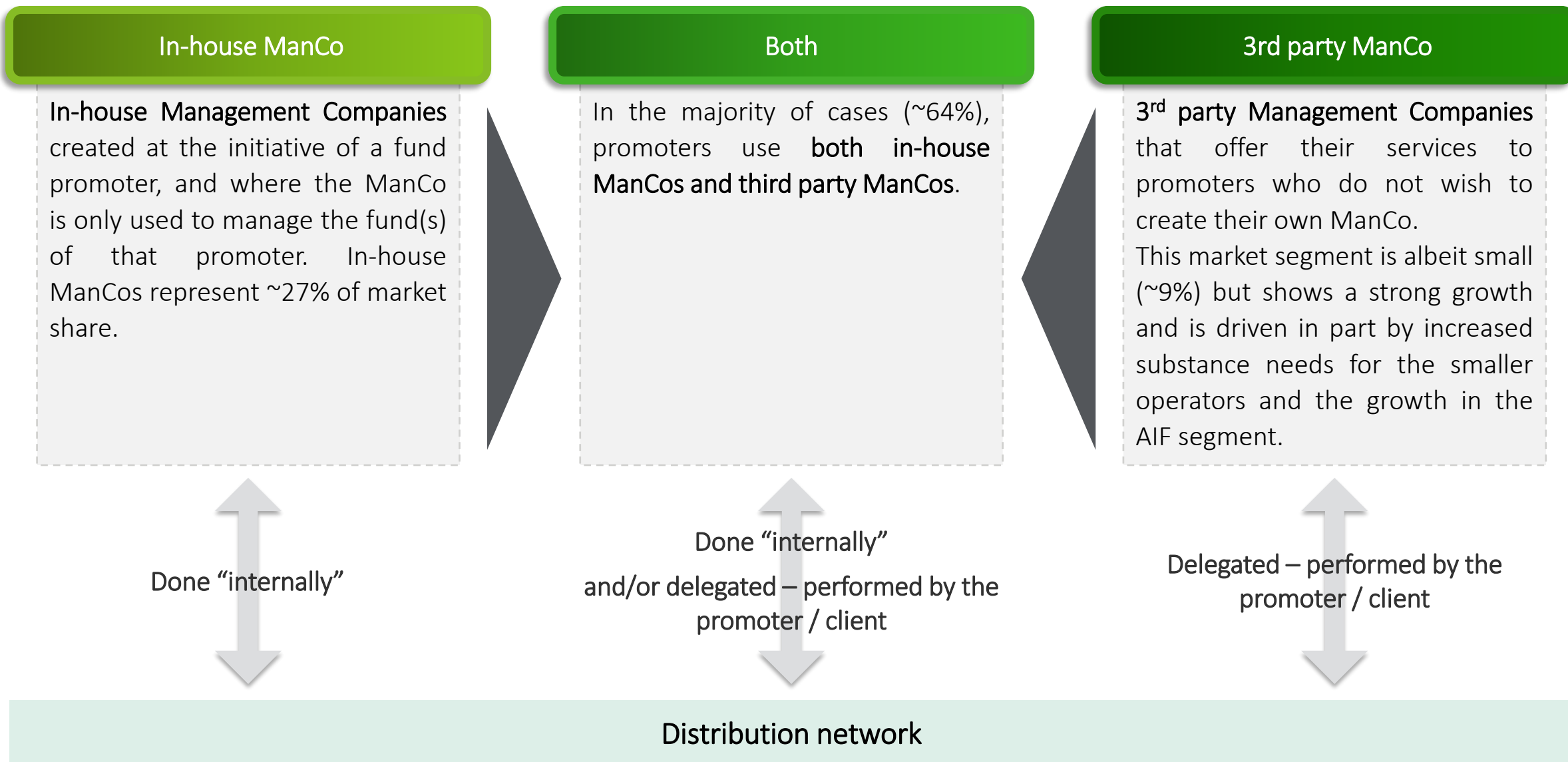
- Minimum regulatory substance required for the following functions:
  - Board of directors;
  - Conducting officers;
  - Risk management;
  - Internal Audit;
  - Compliance.
- Central administrator (FA and TA) can be delegated to a third party entity (either within the group or to an external provider).
- Portfolio management is usually delegated. Only a limited number of Mancos provide real portfolio management services in Luxembourg. The portfolio manager can, in his turn, appoint an investment advisor.
- Marketing/distribution is usually delegated.
- Supervision should be ensured by the Manco for all the delegated functions.
- For a UCITS ManCo, “Marketing” is a function included in the activity of collective PM, along side Investment Management and Administration.
- For an AIFM, “Marketing” is an ancillary function that may be performed additionally in the course of collective management of an AIF.

Human and technical infrastructures involved in a ManCo or self-managed SICAV widely differ across players



Not one model fits all !

# There are mainly two different types of Management Companies





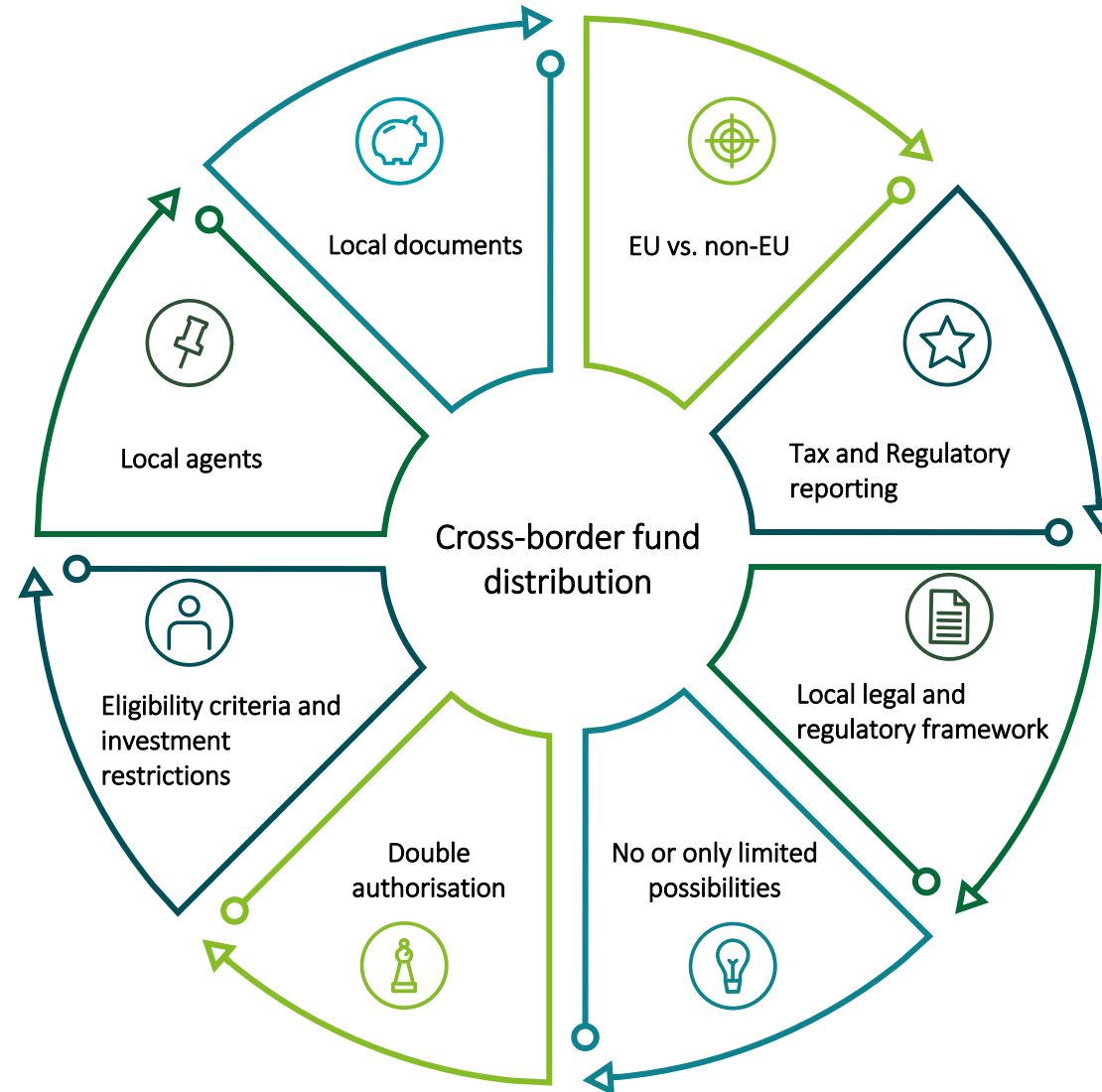
# The specificities of fund distribution

The ManCo's main considerations

# The ManCo needs to take into account certain considerations in the final stages of the investment fund value chain



There are additional factors for the ManCo to consider for the cross-border distribution of a fund



# The ManCo has oversight duties to fulfill when delegating tasks related to cross-border registrations

Authorisation	Maintenance and reporting	Registration matrix	Regulatory watch
<ul style="list-style-type: none"> <li>• In line with product committee instructions</li> <li>• Host state conditions met</li> <li>• Local intermediaries informed</li> <li>• Marketing arrangement considered</li> <li>• Share class launch management (1 month period)</li> <li>• KI(I)D factory synchronization</li> </ul>	<ul style="list-style-type: none"> <li>• Host State status up to date (i.e. prospectus update / notices / marketing communication...)</li> <li>• Local reporting</li> <li>• KI(I)D maintenance</li> <li>• Fees paid to authorities</li> </ul>	<ul style="list-style-type: none"> <li>• Registration matrix and KI(I)D matrix synchronized</li> <li>• Sales activity vs regulatory status</li> <li>• New share class management</li> <li>• Data management</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing monitoring of regulatory changes</li> <li>• Implementation of regulatory change</li> <li>• Impact assessment of host country requirements on home country constraints</li> </ul>

Ongoing Conducting Officer oversight

# Focus on delegation and oversight

Management companies are subject to a to several requirements in order to make use of delegation



### Delegation Framework procedure

In case of delegates, the IFM must implement a Delegation Framework Procedure containing e.g.:

- Description of the process to select and eventually change a delegate
- Description of rules to follow for initial due diligence and ongoing monitoring
- Clarification of exit plans or BCP
- ...



### Initial Due Diligence

For all the delegates and marketing intermediaries, the IFM must lead an initial due diligence before the contract enters into force.

The initial due diligence must be formalized in a written report detailing the assessment made and explain the conclusions.



### Periodic Due Diligence & Ongoing Monitoring

An ongoing monitoring must be performed on delegates and marketing intermediaries. It must be formalized in a written report detailing the assessment performed and its conclusions. It must be followed by an analysis of the results that needs to be documented.

# Organisation of the marketing function of ManCos

Management companies have to comply with a number of legal and regulatory requirements when performing the marketing function

### Marketing Procedure

The marketing procedure should cover at least the following:

- Due diligence Processes
- AML/CFT processes
- Contribution of each party to the identification of the target market
- Arrangements in place to exchange information between marketing intermediaries and IFM
- Remuneration of marketing intermediaries

### Initial Due Diligence

For all the delegates, the IFM must carry out an initial due diligence:

- Identification of risks
- Capabilities assessment
- Possibility to perform the ongoing monitoring
- Organization and human resources
- Definition of an exit plan
- Sub-delegations options

### Ongoing Monitoring on marketing activities

For all the marketing intermediaries, the ongoing monitoring should include at least the following:

- Monitoring of marketing incidents
- Monitoring of marketing countries
- Monitoring of compliance with the target market
- Analysis of complaints records
- Monitoring of subscriptions and redemptions

### Ongoing Monitoring on delegates

In addition, in the scope of the ongoing monitoring of delegates

- Periodic due diligence on each delegates' business formalised in a written report
- Implementation of control arrangements
- Ensure access to data documenting the activities
- Provide conducting officers with a detailed reports of ongoing controls
- Define a set of KPI when existing one are not suitable
- Definition of methodology to analyse outcomes of the controls

# Standardised Distributor Due Diligence

## ICI Distributor Due Diligence Questionnaire

In June 2020, the Investment Company Institute (“ICI”) issued a template for a **Distributor Due Diligence Questionnaire (“DDDQ”)** which is designed to assist fund sponsors/manufacturers in **onboarding and ongoing due diligence** of distribution channels. The DDDQ is the result of an industry working group, with the goal to design **one single questionnaire** which should enable the industry to adopt a **joint and balanced approach** when conducting their due diligences. It should replace the numerous, often contradicting questionnaires used in the past.



Publicly available



Serves as standard for UCITS and AIFs in performing both onboarding and ongoing oversight of distribution channels



Distributors can save time and efforts by completing it annually and making it available to all fund clients



Response to fund companies regulatory oversight requirement and ensures a uniform flow of due diligence information across all distribution partners



The success of the DDDQ is dependent on wide market adoption

1.8 Please identify the senior managing official (executive director with significant responsibility for managing the legal entity and who has the power to act as its legal representative).  
 Tick for EU / EEA firms that provided SIC or question 7a above

Controlling person / senior managing official	Percentage controlled or position

**Section 1: General Information**  
 Publicly listed companies should provide data from their website for the updated information required for this section.

1.1 Financial institution / intermediary legal name \_\_\_\_\_

1.2 Registered address \_\_\_\_\_

1.3 Country of incorporation \_\_\_\_\_

1.4 Are you a regulated entity?  
 Yes  No

a. If yes, what is your registration number / regulatory license?  
 \_\_\_\_\_

b. If yes, what type of licenses do you hold? Please include the name of the regulator.  
 \_\_\_\_\_

c. Does the firm's regulatory structure cover anti-money laundering (AML) and counterterrorism financing (CTF)?  
 Yes  No

d. If yes, are you a MIFID entity? (Applicable only when registered in EU / EEA.)  
 Yes  No

1.5 Are you a wholly owned subsidiary of a regulated entity?  
 Yes  No

1.6 List corporate events (mergers or acquisitions) over the past three years that are relevant to the investment fund distribution business.  
 \_\_\_\_\_

1.7 Ultimate beneficial owner (UBO). Do you have any shareholder directly or indirectly owning 25 percent or more of the entity's shares or exercising power or control through other means?  
 Yes  No  Not a publicly listed company or if owned by a publicly listed company

a. If yes, please list any natural persons that directly or indirectly hold 25 percent or more of the shares / voting rights of your firm's shares.

Main shareholder (UBO)	Percentage controlled

Please select all that apply.



# Taking stock of the ManCo's main challenges

# The challenges for the ManCo

## The reality vs CSSF requirements

Due diligence on intermediaries: different networks and layers depending on host countries; especially difficult for third-party ManCos

High volume of distributors can make this process complex and difficult to maintain

Lack of responsiveness from some distributors in DD process is a key operation issue

Monitoring of activities of intermediaries (marketing without notification/authorization) and deadlines

Updating information to investors (new cross border directive requirements such as EIFS...)

Definition and monitoring of target market (TBC)

AML/CFT issues

Understanding and monitoring legal and regulatory framework of marketing across all distribution countries. Maintenance of such knowledge is of paramount importance e.g. specific disclaimer, ad hoc local documents, specific local regulatory reporting, specific investor needs reporting, etc

# Next Link'n Learn webinar

*Date: 06/03/2024*

**Topic: L&L | Regulatory |  
Key Elements of an effective  
AML/KYC compliance regime**





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