

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

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Getting Started

Here with you today



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Agenda

- 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



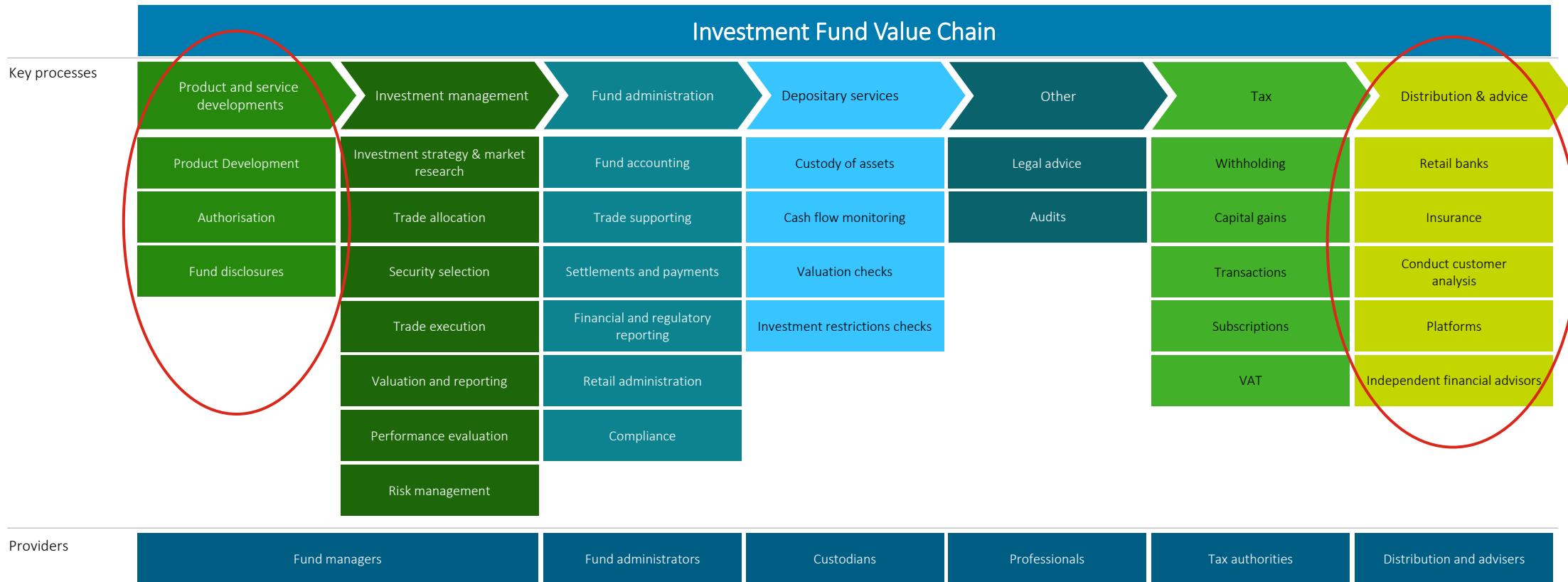
Analyse the role of the ManCo in fund distribution



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



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)



Approval granted by a committee

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



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



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)

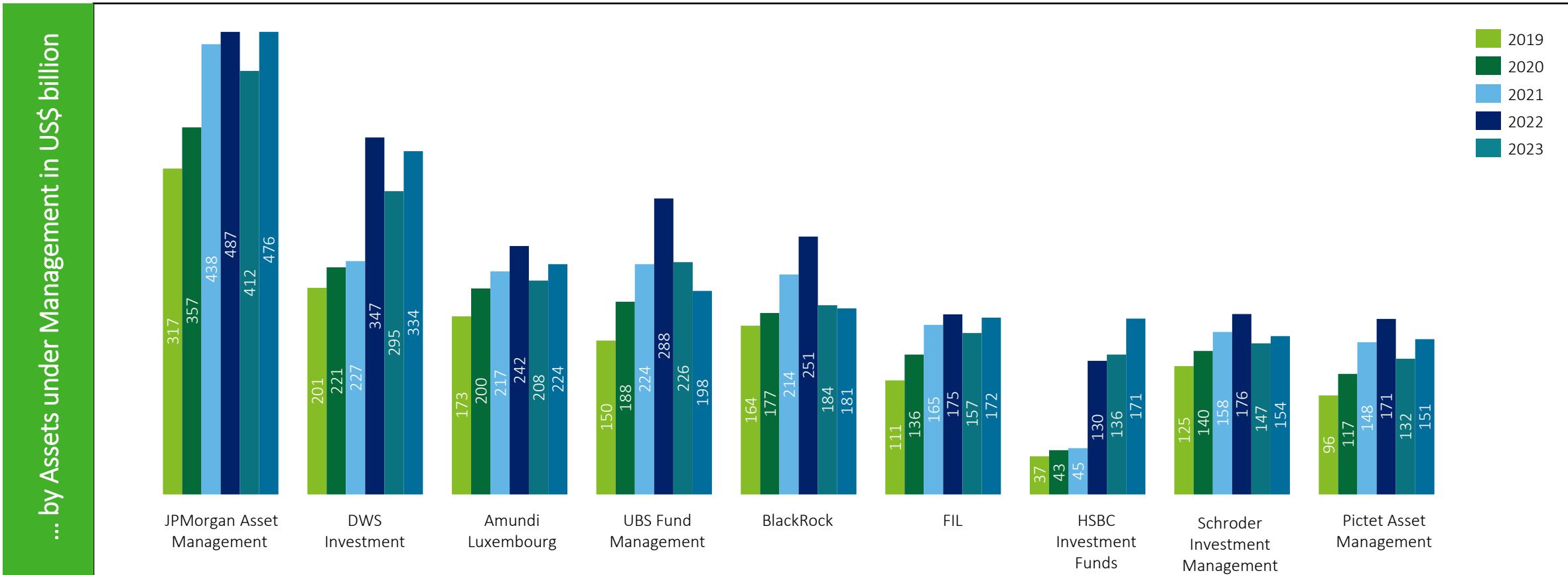


Typical set-up of a management company

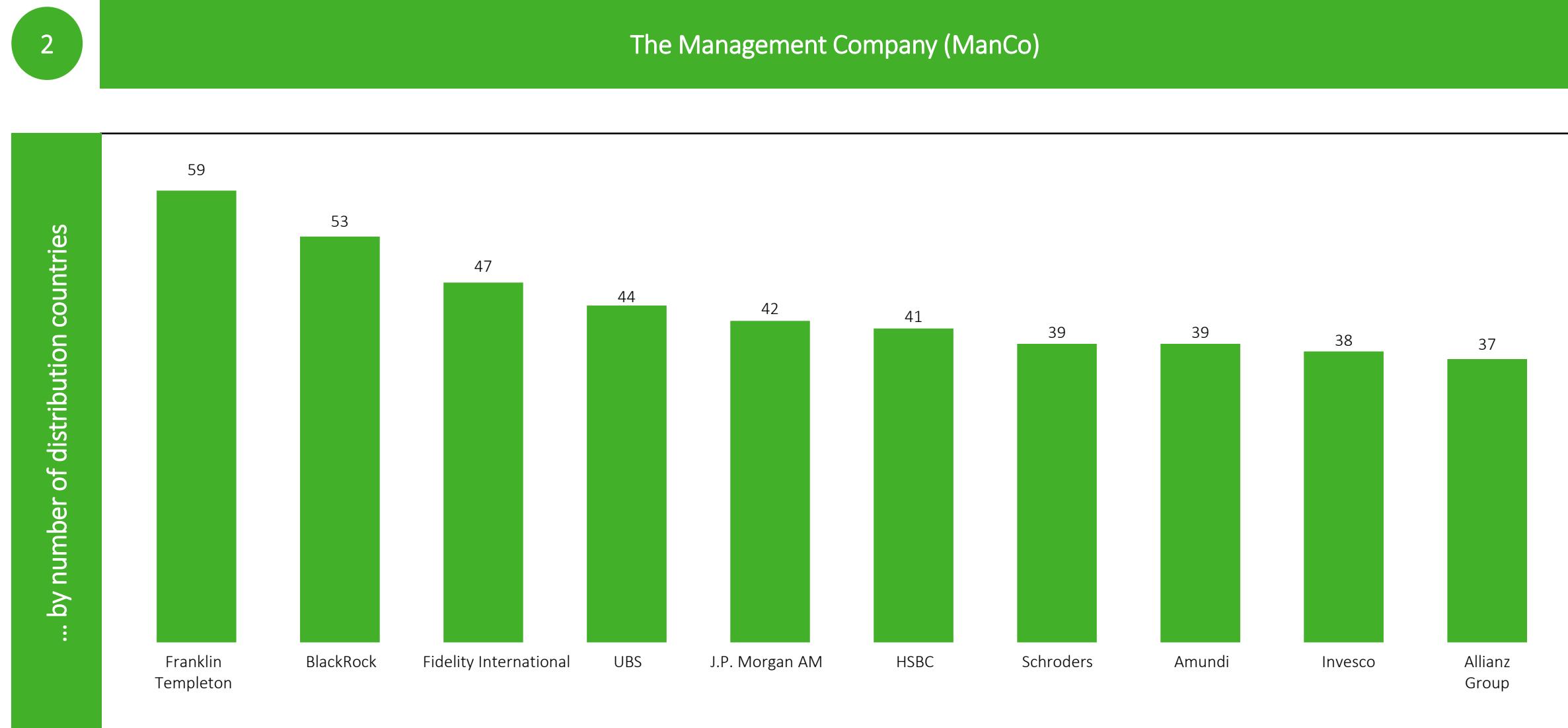
Largest Luxembourgish Management Companies ... (1/2)

1

The Management Company (ManCo)

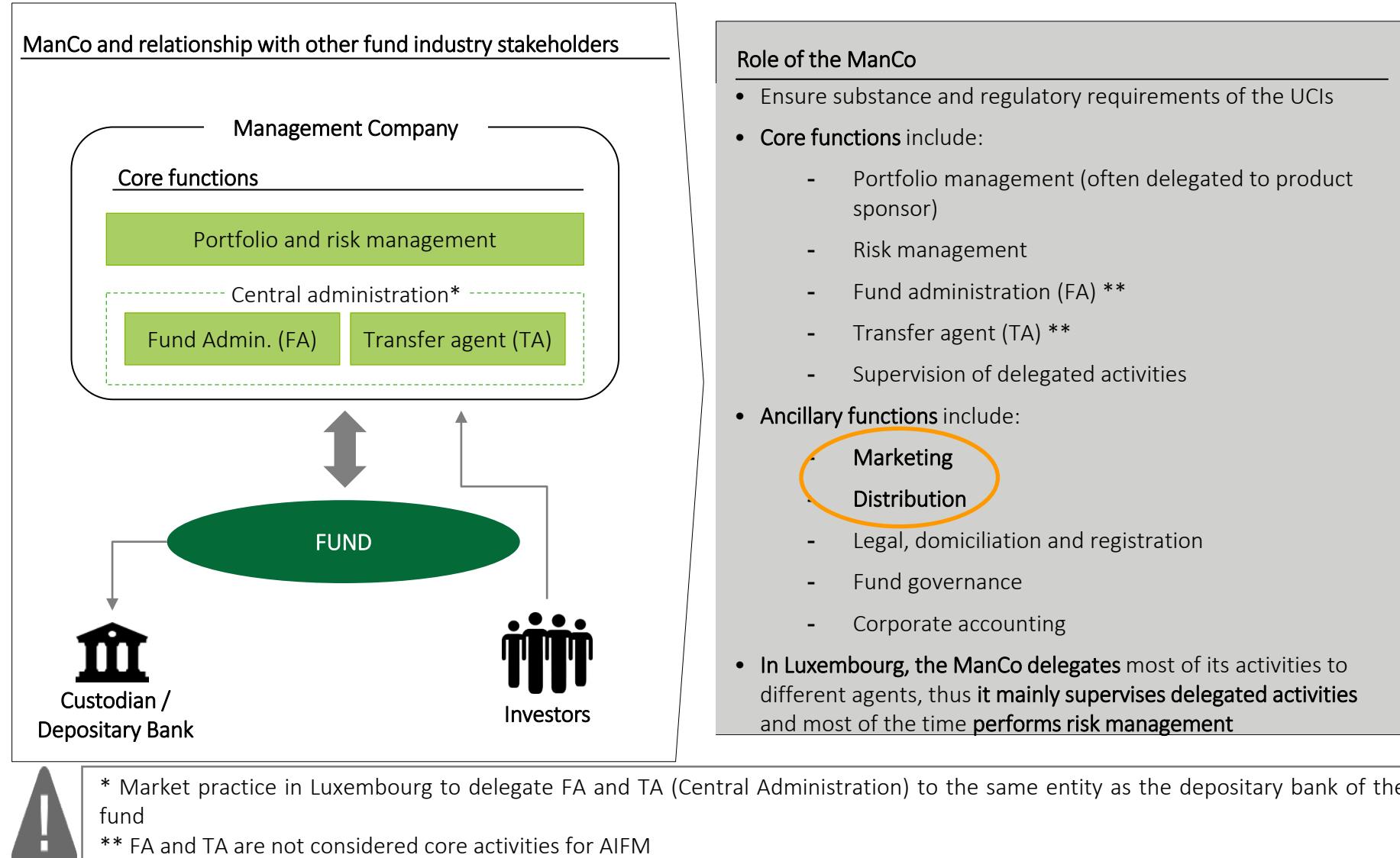


Largest Luxembourgish Management Companies ... (2/2)

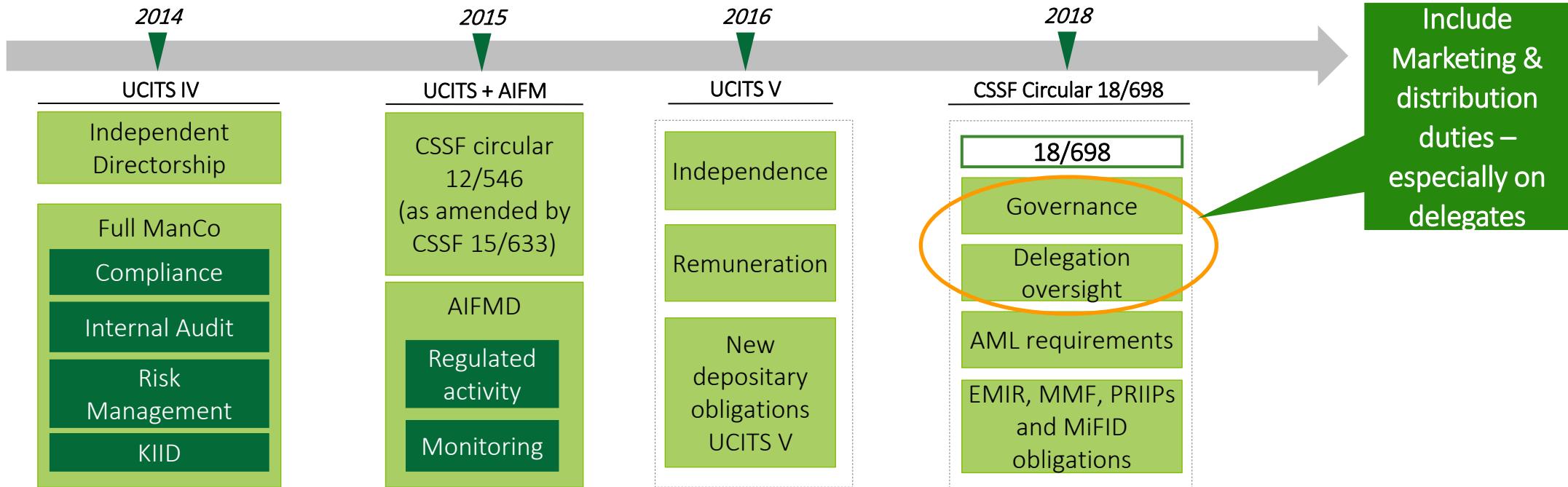


Source: ALFI Global Fund Distribution 2024

What is a Management Company?

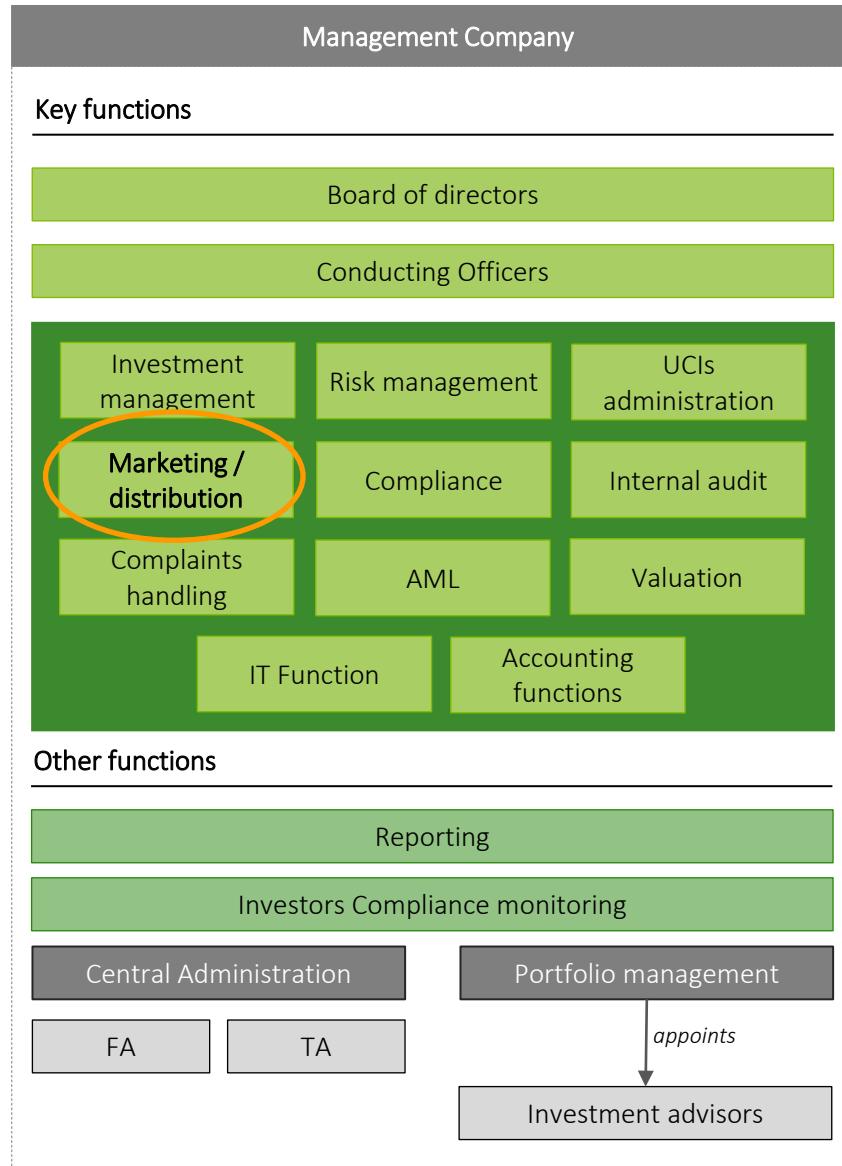


The Luxembourg ManCo model has significantly evolved over time



Typical Manco operating model (minimum substance)

CONCEPTUAL

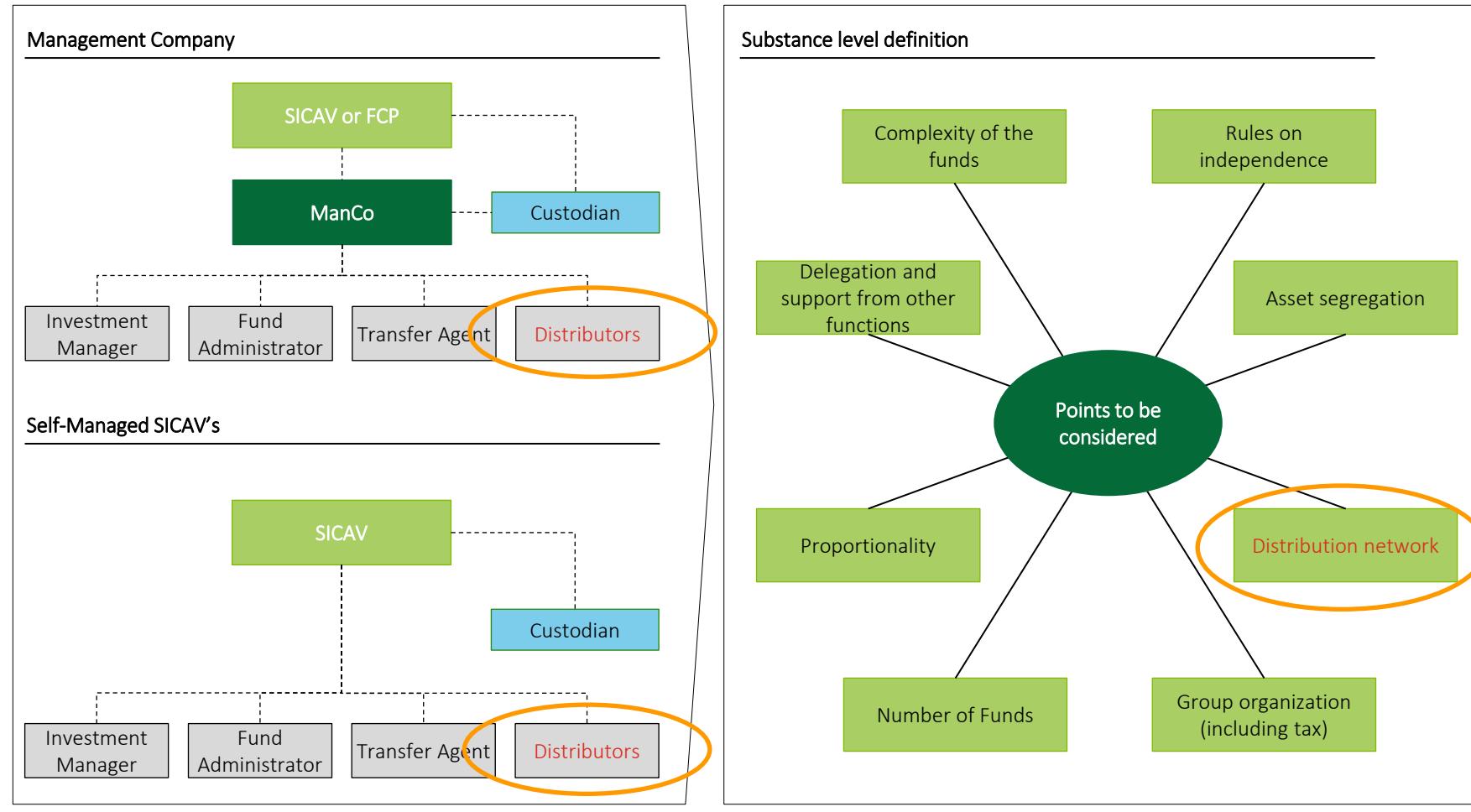


- Setup depends on the specificities of the actors (bank, AM etc.)

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

In-house ManCo

In-house Management Companies created at the initiative of a fund promoter, and where the ManCo is only used to manage the fund(s) of that promoter. In-house ManCos represent ~27% of market share.

Both

In the majority of cases (~64%), promoters use **both in-house ManCos and third party ManCos**.

3rd party ManCo

3rd party Management Companies that offer their services to promoters who do not wish to create their own ManCo. This market segment is albeit small (~9%) but shows a strong growth and is driven in part by increased substance needs for the smaller operators and the growth in the AIF segment.

Done “internally”



Done “internally”
and/or delegated – performed by the
promoter / client

Distribution network

Delegated – performed by the
promoter / client



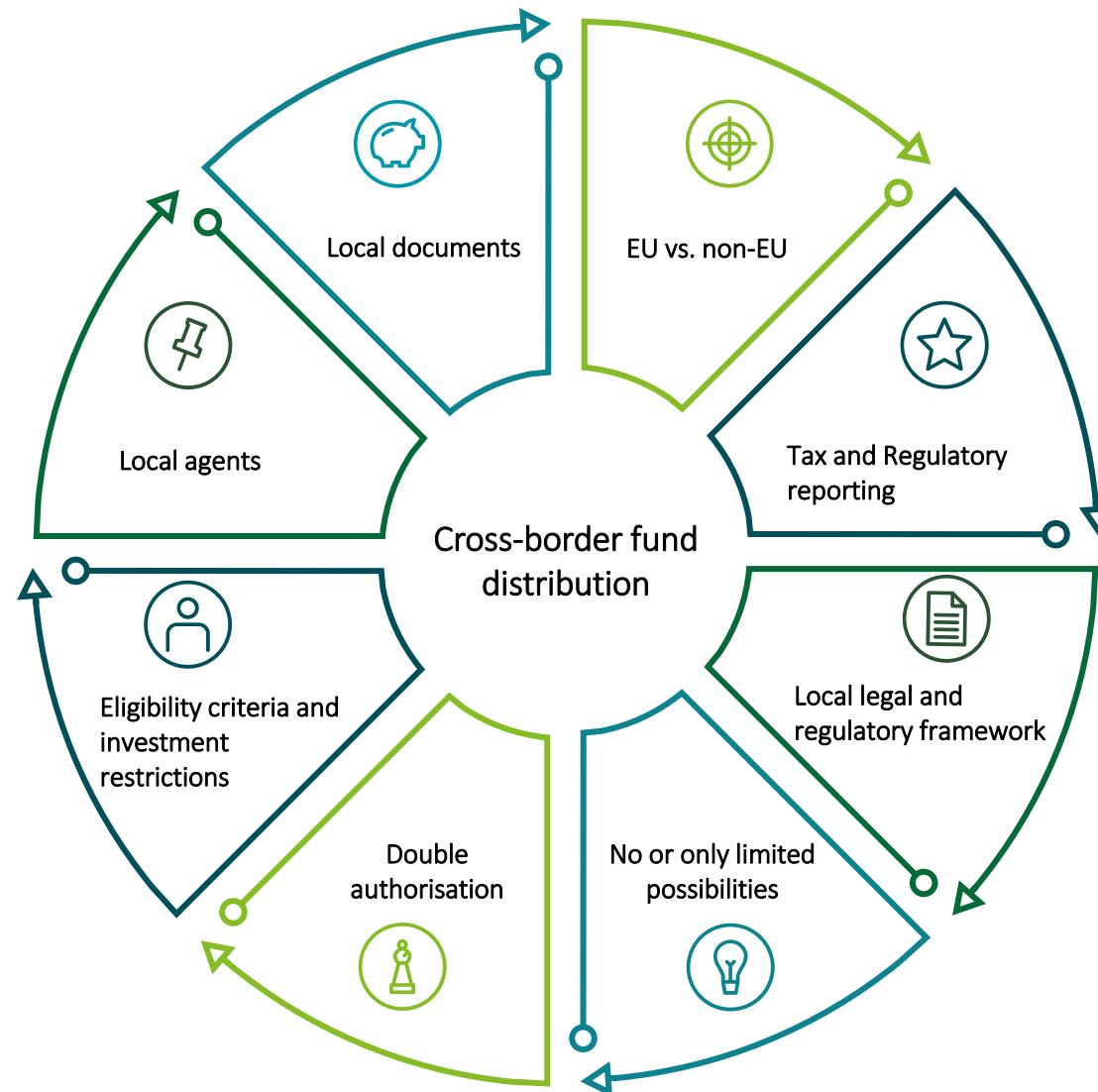
The specificities of fund distribution

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

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.



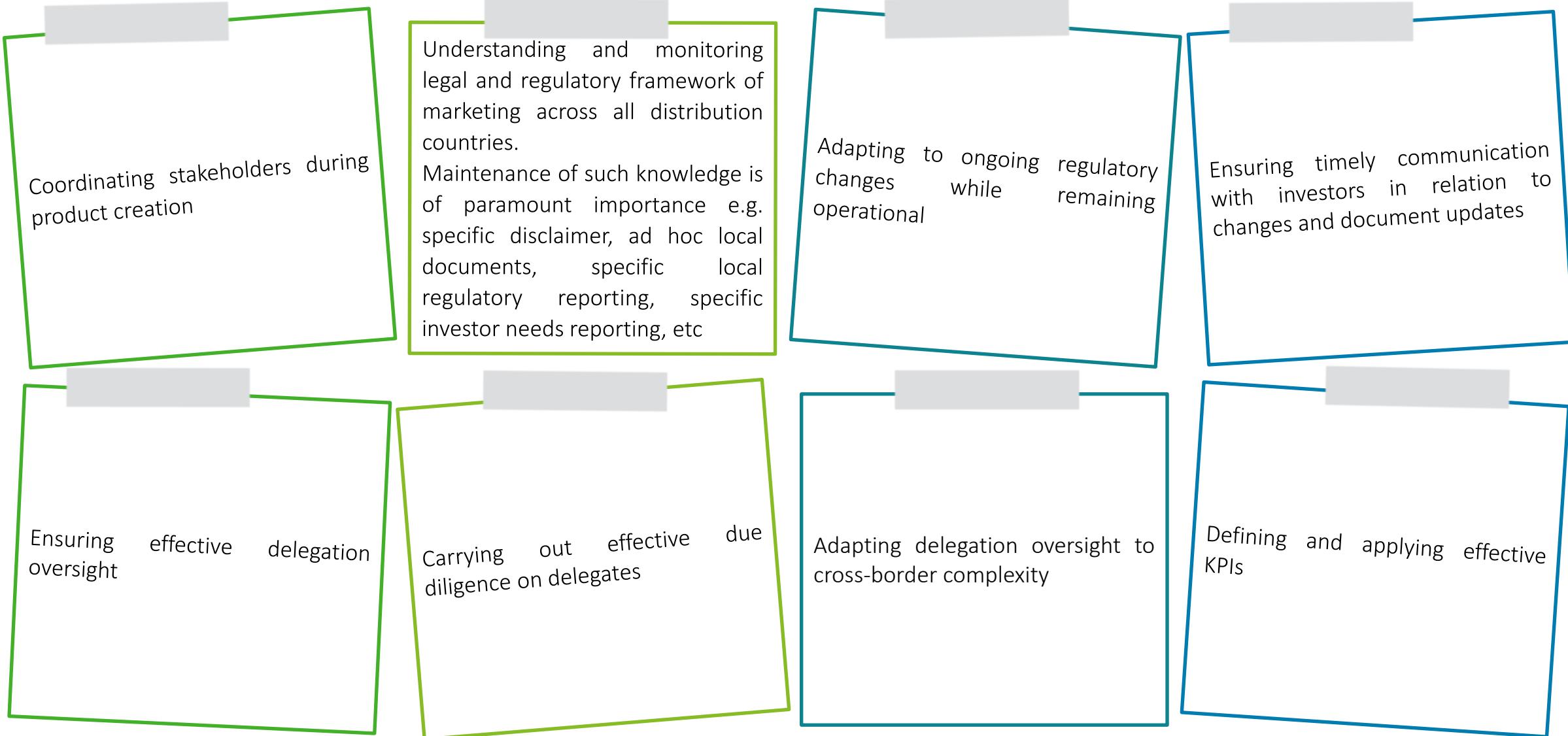
Periodic Due Diligence & Ongoing Monitoring

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.

Taking stock of the ManCo's main challenges

The challenges for the ManCo

Balancing regulatory expectations with practical realities



Next Link'n Learn webinar

Date: 30/04/2025

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



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