

ALTER DOMUS

CONTINUOUS GROWTH

OF NEW PRIVATE DEBT AND REAL
ESTATE FUNDS IN LUXEMBOURG

BY ROBIN PAGNAMENTA



The Grand Duchy is set to capture an important chunk of the growing global market for alternative investment funds

Luxembourg's role as an international financial centre goes back many decades. But its future as a services hub for asset managers looks brighter than ever.

For Marco Mondaini, Head of Depositary Services at Alter Domus in Luxembourg, there are powerful new segments of growth for the industry which appear highly favourable over the next few years.

Alongside its traditional strengths as a centre for domiciling mutual investment funds, he believes some of the biggest opportunities now lie in offering services for alternative investment products and in particular the upward trajectory of debt and real estate funds.

"Luxembourg's reputation is already very well established in the mutual fund market. It has moved up the chain to become recognised as a centre of excellence for those funds to be distributed worldwide; Luxembourg-domiciled investment funds are distributed in more than 70 countries," says Mondaini, a 30-year veteran of the Luxembourg fund management industry.

Before joining Alter Domus, Mondaini worked for CBP Quilvest reorganising their depositary services in Luxembourg. Prior to that, he served as Deputy General Manager of Bank of New York Mellon in Luxembourg for nine years, responsible for asset servicing and alternative investment services, business change management and corporate trust.

"The recognition Luxembourg receives helps support the distribution and provides confidence to investors globally around the use of Luxembourg products," Mondaini says.

But over the last 10-15 years, the alternative investment space has developed rapidly, first with hedge funds and then private equity and other specialist funds, he adds.

PRIVATE DEBT MARKET BOOMS

Today, Luxembourg is rapidly earning a reputation for something else.

"Today, the debt fund sector is developing quite fast as traditional lending that goes through banks becomes more challenging," Mondaini says.

"The cost of traditional lending for banks

is increasing due to capital adequacy requirements which are driven in large part by regulations like Basel III, making it more difficult for banks to generate profits from lending. That's why the banks are becoming more prudent and thus benefitting the private debt market."

Just five years ago in 2016, the global private debt market was valued at about USD575 billion, according to figures from Preqin.

By the end of 2020, it had already reached USD848 billion with Preqin projecting it could be worth as much as USD1.46 trillion by the end of 2025.

For Luxembourg, that represents a growth opportunity for advisers and providers of domicile, management companies, depositary and fund administration services who specialise in assisting fund managers.

Mondaini estimates that 50-60 per cent of all private debt funds will be channelled through the Grand Duchy. Luxembourg fund vehicles cater to the broadest possible spectrum of investments, from senior to mezzanine loans, whole loans and syndicated loans, distressed debt, and convertible loans. The loans can finance any asset, from real estate and infrastructure to private equity, and the operational infrastructure in Luxembourg provides a robust framework for all of them.

"I think it's a testament to Luxembourg's ability to service those specialised funds and be able to structure them and offer expertise," Mondaini comments. "Its stability and innovative mindset make it a key location for financial professionals. Luxembourg is one of only nine countries worldwide with a AAA rating. The country draws on its political, economic and regulatory stability to foster a strong culture of investor protection, which is an important element as well."

COMPREHENSIVE SUITE OF SERVICES

With more than 3,300 employees across 36 offices in 21 countries, Alter Domus is a leading provider of integrated solutions for the alternative investment industry globally, dedicated to serving private equity, real assets including real estate and

infrastructure, and debt capital markets sectors. The firm has the ambition to deliver integrated and bespoke solutions at each level of the value chain, from investors down to asset level, spanning depository, AIFM, central administration and corporate services.

Mondaini says the group has the expertise needed to provide financial professionals with a single point of entry and assist them in defining and setting up the most appropriate structure to fully achieve their objectives.

REAL ESTATE IS A BIG GROWTH AREA

Another significant growth area for Luxembourg's financial industry is in real estate funds. The country's international business environment has given rise to a number of structures designed to facilitate real estate acquisitions with cross-border components.

In a world of low interest rates, long-term investors such as insurers and pension funds are increasingly looking at alternative opportunities to secure higher yields.

"Real estate funds are an option that is better understood and more highly considered by those investors," says Mondaini.

"If they must provide the returns that they need for their internal products, equity and fixed income don't generate those returns anymore so they are diversifying their portfolio investments using alternatives. That pushes different segments including private equity and real estate funds," he adds.

Many of these funds spread their portfolio across housing, logistics, infrastructure and office developments.

“There is the right balance of exchange and communication between the associations representing the business and the regulators”

**Marco Mondaini,
Head of Depository
Services,
Alter Domus**

"Overall, the real estate sector is showing quite a resilient position," Mondaini says.

Luxembourg's cluster of experts in law, accountancy and other services are poised to benefit from the growth of real estate funds as many managers look to use the country as a services and distribution hub.

"Luxembourg is home to a wide range of service providers allowing fund promoters to get the best advice for their initiatives and choose the best fit to materialise their projects," Mondaini comments.

He continues: "When you have your fund project clear in mind, within a short

timeframe it's easy to get into the market and get it designed and set up the right way to achieve your objectives."

ROBUST SUPERVISION

Mondaini says that Luxembourg's sophisticated regulatory framework and the well-established relationships between the supervisory authority and the financial sector also ensure the entire process of setting up a fund, while rigorous, is fast and straightforward.

"The regulator performs its duties of prudential supervision and supervision of the markets for the purpose of ensuring the safety and soundness of the financial sector, solely in the public interest," he says.

"So, I think regulation is in a constant state of evolution, but it's a healthy evolution in the sense that the regulator also understands the dynamic of changes necessary at national, European and international levels."

He adds: "There is the right balance of exchange and communication between the associations representing the business and the regulators."

Mondaini predicts that the regulatory framework will evolve, especially in the private debt market amid growing international scrutiny of the non-bank lending sector in particular.

"Developing alternative sources of financing to bank loans may be beneficial to the real economy but may also create new 'shadow banking' risks," he says.

Either way, Mondaini feels confident that Luxembourg's financial sector is in good health and stands to gain further from the steady growth of the alternative investment industry globally over the next few years. ■



MARCO MONDAINI

HEAD OF DEPOSITORY SERVICES, LUXEMBOURG.



With more than 30 years of international experience in the fund industry, across different countries, Marco witnessed important transformations and evolutions. Before joining Alter Domus, Marco worked for CBP Quilvest SA reorganising their Luxembourg Depository team. Prior to that, he serviced as Deputy General Manager of Bank of New York Mellon in Luxembourg for nine years, responsible for Asset Servicing & Alternative Investment Services, Business Change Management and Corporate Trust.



Unlock the potential of Europe's largest private equity market

With more than 275 funds and \$62 billion in private equity assets under administration in Luxembourg alone, you can rely on our extensive track record to help you tap into the opportunities the country has to offer. From our headquarters in Luxembourg, you'll have access to our global private equity network of more than 35 locations including some of the world's leading private equity hubs in Europe, North America, and Asia Pacific.

Find out why 80% of the world's largest private equity firms have already placed their trust in us by visiting www.alterDomus.com