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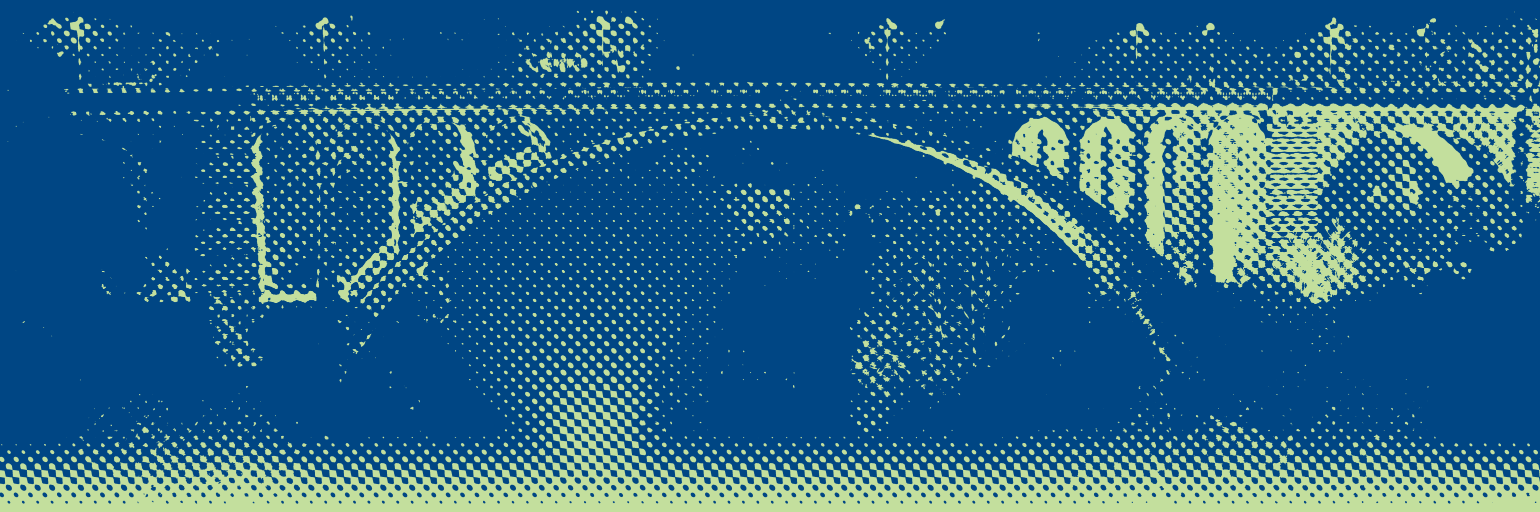
2003



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

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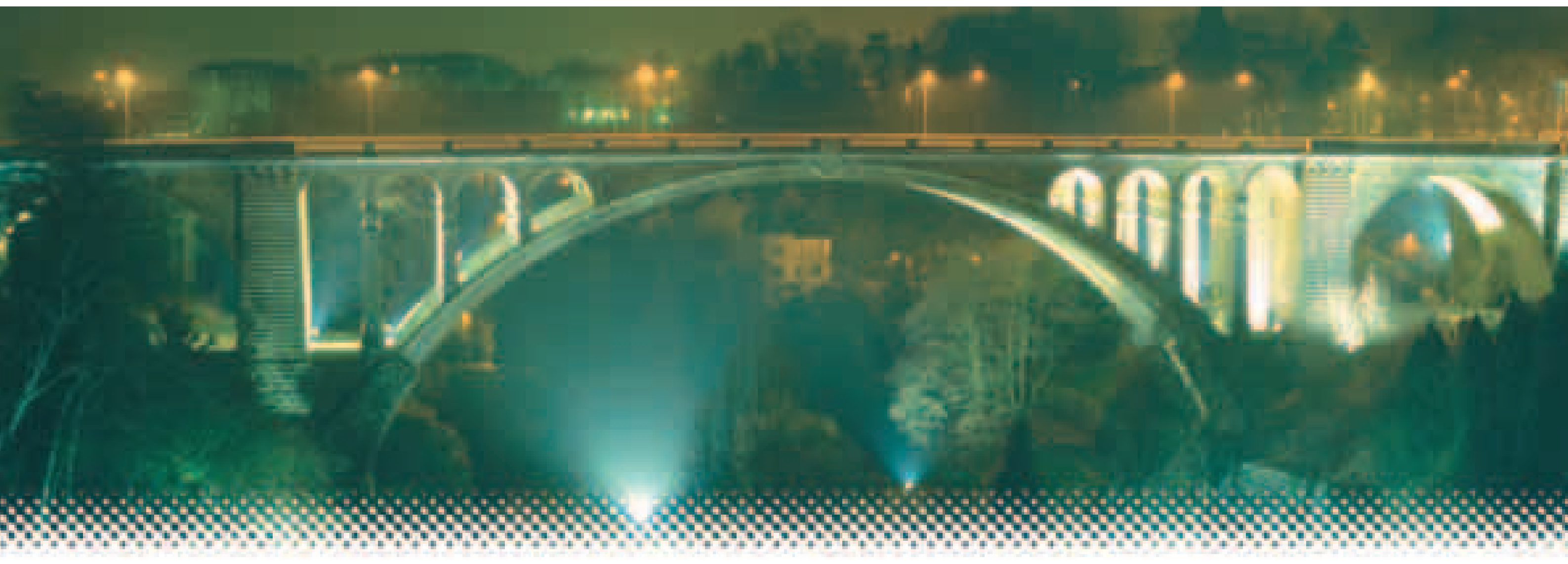

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Association Luxembourgeoise des Fonds d'Investissement - Association of the Luxembourg Fund Industry

Table of contents

Letter from the Chairman page 6
Letter from the Director General page 8

General background to the investment fund industry

Background page 12
Rapid evolution in the legal and regulatory environment page 14
The Pension Funds Directive: fiscal harmonisation remains elusive page 15
« Best practice » recommendations for financial analysts page 16
Will there be a single market for alternative investment funds? page 17
The legal and regulatory framework in Luxembourg: adapting to European Directives … page 20
…and strengthening the regulatory infrastructure in Luxembourg page 21
Tax reduction for institutional cash funds page 22

Statistics page 23

ALFI in 2003

Reinforcement of the technical committees and a new accent on marketing page 32
New internet site … page 34
… and an updated logo page 35
ALFI in defense of the industry page 36
Closer contact with political parties page 37
The role of ALFI within FEFSI page 38
Tackling the obstacles to cross-border distribution page 40
Transparency and standardisation will assist international distribution page 42
How do you sell collective investment schemes via internet? page 43
Promotion of the Luxembourg financial centre page 44
High quality professional training: the basis for continued development of the sector page 46

The governing bodies of ALFI

Board of Directors page 50
Executive Committee page 52
Secretariat page 52
Committee Chairmen page 53

Letter from the Chairman

Dear Members,

At last year's AGM, I expressed my conviction that the best days of our industry lay before us. In September of last year, I predicted that our sector would pass the one trillion euro threshold over the next 12-18 months. I am pleased to report that both these statements have come true. Our sector is well positioned for future growth and as at the end of February 2004, our industry had assets of 1.006 trillion euros.

More importantly, your Association is healthy and is playing an instrumental role in shaping a positive future for the Luxembourg Fund Industry.

However, despite these successes, we cannot become complacent. We must strive continually to improve our position in the face of changes to our environment and in the face of outside pressures. Let me give you two examples.

In Europe, a major movement or "virage" is taking place. Multiple European States are taking steps to make their legislative environment more attractive for investment funds. Other governments have taken measures to protect their industry that we consider to be unfair.

It is therefore essential that our industry remain vigilant against unfair practices and that we work together to ensure that we stay ahead of the increasing competition.

A second example concerns the scandals this past winter in the US. The negative press has led to shrill calls by industry observers to legislate against "conflicts of interest." The Global Fund Industry is on the defensive.

Let me be clear: there is no room for unscrupulous behaviour in the fund business. However, conflicts of interest exist in every industry. The collective investment sector is no exception. In the vast majority of cases, these differences of interest are resolved through competition and market mechanisms. Each of us has a sufficient, natural incentive to maintain fair dealings with our clients.

I further believe that in cases where investors' interests need protection, appropriate legislation already exists. Some fine tuning is required, but we don't need to turn our existing regulatory model on its head. This is why, back in June 2003, your Association created a working group on fair pricing for mutual funds that presented its findings and recommendations at the recent ALFI Spring Conference.

Your Association is working diligently to achieve its mission to make Luxembourg the most attractive international centre for investment funds. Our attractiveness, in turn, depends on four imperatives:

1. ease of doing business
2. product innovation
3. distribution
4. quality and integrity

All of ALFI's activities, supervised by our Board and co-ordinated by our Secretariat, are aimed at implementing these imperatives.

In the face of these challenges, I nevertheless remain confident in our future. One of the main reasons for my confidence is the collective talent of the companies, government agencies and individuals who make up this fund centre. Within ALFI, we are harnessing this talent through the work of our technical committees that we restructured last year.

ALFI's four imperatives, combined with our technical committee work, will provide a solid basis to help Luxembourg stay ahead of the competition. But all successful marketing strategies require both content and communication. We also have a well defined promotional strategy and are accelerating our efforts.

15 years ago, just seven months after the landmark passage of the UCITS law, nine investment funds founded ALFI. Today, due to the exceptional work of successive Presidents, their Boards, the Secretariat, the Technical Committees and you, our members and friends, ALFI is the undisputed centre of gravity for the Luxembourg Fund Industry. Despite the multiple challenges we face, our Association is strong and is well equipped to shape a bright future. I am sure that, by facing these challenges, we will soon reach new heights in the Luxembourg fund industry.

I would like to conclude with a word of thanks to those who have helped ALFI.

First, to the Luxembourg Parliament, the Government and in particular to the relevant Authorities, the CSSF and the Treasury Administration, your deep understanding and strong support of our industry is extremely important. I would also like to salute the excellent working relationships that ALFI enjoys with, and in no particular order, the Luxembourg Stock Exchange, CCLUX, PROFIL, ABBL, the Central Bank, the ATTF, the IFBL, CETREL and the Chamber of Commerce.

I also take this opportunity to thank the Board for their support and guidance, and the Secretariat for their extremely hard work in coordinating all aspects of our Association.

Finally, I would like to thank you, our members, who give so generously of your time and expertise to promote the interests of the industry as a whole. It is this co-operation, as much as anything else, that makes ALFI an exciting, dynamic and effective Association.

Thomas Seale
Chairman

Letter from the Director General

Dear Members,

During the last 18 months the legal, fiscal and regulatory environment for Luxembourg investment funds developed in directions that were very favourable to the industry. We saw clarifying regulation for alternative investment funds, the adoption of the UCITS III Directives into national law, a law on securitisation, a law currently before Parliament that will create a new structure for venture capital funds and the abolition of subscription tax for AAA class institutional money market funds.

Nevertheless, we must continue to work at communicating the advantages of our fund centre and the achievements of ALFI in this respect.

To speak first of our members (and potential members): not everybody, perhaps, is aware that the support our industry receives from the Government and from Parliament is largely due to the excellent contacts of ALFI directors with local politicians; that the rapid implementation of European Directives such that the needs of the Luxembourg industry are taken into consideration, and the creation of legal frameworks for promising fund sectors, are the fruit of deep commitment by the Technical Committees and the ALFI Secretariat in the process of developing draft legal text; or that the reduction to a zero rate subscription tax for certain fund classes at a time of slowing economic growth is the fruit of hard work and conviction on the part of the body representing the fund sector.

In order to reinforce communication with its members, ALFI offers a range of informal meetings, seminars and regular reports on the results of work completed by the Technical Committees. The Association's Internet site has been completely overhauled and re-launched with an Extranet that will serve henceforward as the principal platform of communication with its members.

Moving on to the fund promoters and foreign service providers:

ALFI's two big annual conferences will continue to serve as a platform for the promotion of the Luxembourg financial centre, attracting as they do an ever larger number of participants (over 500 delegates from 28 countries attended the most recent ALFI Spring Conference). The new internet site is also a weapon in our communication strategy. Accessible 24 hours a day from almost every corner of the world, it will provide a first impression of what the Luxembourg investment centre has to offer the global fund industry.

These two communication methods have been a success in the past; nevertheless, they have the drawback of being passive tools in the sense that they are placed at the disposal of the public but their success depends on the number of visitors.

This is why ALFI has intensified its active promotion of the financial centre, with the dual objectives of attracting new fund promoters and service companies to the Grand Duchy and facilitating the international distribution of collective investment schemes.

ALFI is thus engaged in the promotional activities undertaken by the *Fédération des Professionnels du Secteur Financier* (PROFIL), of which it is an active member. It has also taken part, in a highly targeted fashion, in economic missions organised by the Government. This has enabled the Association to present the Luxembourg fund centre to relevant financial sector audiences in Milan, Tokio, Santiago de Chile and Moscow. A few months ago ALFI also became a member of the *Comité Consultatif du Commerce Extérieur*, an organ comprising key figures from the public and private sector that determines the broad direction to be taken in promoting foreign trade.

Alongside these joint initiatives, ALFI has developed its own promotional activity. A dinner organised last May to coincide with the General Membership Meeting of the Investment Company Institute (ICI) in Washington, to which we invited key figures from the US mutual fund industry, was such a success that we have decided to make this an annual tradition. During 2004, ALFI will likewise promote the Luxembourg fund centre via exhibition stands at the principal fund industry conferences.

In order to help us target our activity and promotional message more accurately, ALFI has launched a perception study that will be conducted in several countries in order to gain better understanding of the attitudes that foreign investment sector professionals have of the Luxembourg financial centre. The results of this study will provide the baseline for more finely targeted promotional activity in the future.

Finally, we should not forget the Association's efforts to promote collective investment in general via FEFSI (the *Fédération Européenne des Fonds et Sociétés d'Investissement*), of which it is a dedicated member. It is thanks to a compromise proposed by ALFI that the president of FEFSI was able to pass a motion with a large majority vote, at the Extraordinary General Meeting of 6 April 2004, opening up the Federation to the asset management industry and to direct membership by asset management companies. The Federation will thus become more representative of the industry as a whole and the voice of the European asset management sector will be strengthened.

Robert Hoffmann
General Director

General background to the

investment fund industry

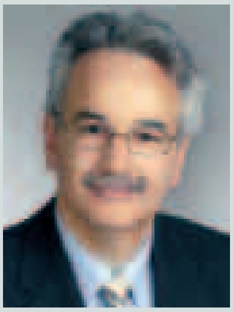
Background

The general background against which the global investment fund industry evolved in 2003 was marked by a significant recovery in global stock markets. Although events in Iraq still weighed on markets at the beginning of the year, investors began to buy shares as soon as war appeared inevitable, probably in anticipation of a rebound similar to that seen during the 1991 Gulf War, when equity markets recovered as soon as hostilities began.

Investors thus set off a rally in share prices on 13 March, six days before the outbreak of hostilities. By mid April, the MSCI World Index and the S&P500 had risen by 10% and the Dow Jones Euro Stoxx by 16%.

The rise in share prices was sustained during the following weeks by the publication of a series of positive results by leading companies in America (AOL, AT&T, Microsoft) and Europe (Nokia, Philips, Siemens). By the end of the Summer, signs of a generalised world economic recovery reinforced investor confidence. However, the publication in the US of disappointing economic indicators at the beginning of Septem-

Late trading and market timing: the Luxembourg fund industry reacts quickly



In June 2003, ALFI created a working group to investigate fair value pricing and arbitrage protection for funds. When, in September 2003, events in the US raised the profile of two distinct problems in the fund industry – "Late Trading" and "Market Timing" – the working group immediately focused on these issues. In numerous sessions, our team of specialists analysed the different scenarios and mechanisms leading to prejudicial effects and ways for funds to protect themselves and their investors against these practices. The working group formulated recommendations that were discussed in draft form during a seminar open to all ALFI members. The guidelines were subsequently approved by ALFI's Board of Directors and transmitted to the CSSF as a position of the industry in anticipation of possible regulatory action.

The guidelines take into account the fact that Luxembourg domiciled funds are invested in markets throughout the world's time zones and that the sale of shares and units is, in the great majority of cases, undertaken by intermediaries domiciled outside Luxembourg, the supervision of whom falls under the jurisdiction of another country. They recommend a strict application of cut-off times and the setting of valuation points after the cut-off time. They also list a series of possible measures (trading fees, fair value pricing techniques and monitoring) to minimise the risk of Market Timing.

This is a good illustration of the Operational Techniques Committee's ability to draw rapidly on a number of recognised field specialists who are able to give competent and, above all, practical advice on sensitive and complex matters and contribute positively to the transparency and ethical values of our industry.

Jean-Michel Loehr
Chairman
Operational Techniques Committee

ber put pressure on the dollar, which depreciated, in particular against the Euro.

Whereas the stock market environment had become more supportive for investment funds in general, the American mutual fund sector was shaken from September onwards by a series of highly mediatised legal actions by the Attorney General of the State of New York, Elliot Spitzer, who accused a series of fund management companies of illegal practices. These firms allegedly allowed hedge funds to conduct share transactions after the closure of markets at the closing price, rather than the price of the following day. This illegal practice, known as "late trading", can be compared to placing a bet on a horse after the race is over. Spitzer equally accused these firms of tolerating the practice of "market timing", that is, arbitrage on fund share prices, a practice that is not illegal but which can harm the interests of long term investors. A number of the accused firms agreed to pay a fine and compensation to their investors.

Despite these scandals, investors did not lose confidence in the investment fund sector. Even the American mutual fund industry continued to benefit from large net inflows into funds. However, the companies that were the target of "late trading" accusations were faced with a mass withdrawal of assets on the part of their clients, which were subsequently transferred for the most part to companies that were able to demonstrate a high ethical standard.

In contrast to 2002, when equity markets were badly shaken by the revelation of accounting irregularities and questionable management practice at several world class companies, investors remained relatively insensitive, during the period under review, to new scandals the size of which, as in the case of the Italian agro-alimentary group Parmalat, was sometimes even greater than Enron or WorldCom.

Following three successive years of consolidation, the MSCI World Index closed 2003 with a rise of 23%.

The recovery of world markets begun in 2003 continued into 2004, with the MSCI World Index gaining 3% in the first eight weeks.

Rapid evolution in the legal and regulatory environment

The investment fund sector is experiencing a period of change that is unprecedented since the 1980s. A succession of important legal and fiscal developments, combined with a period of consolidation in the banking industry, has led to a profound remodelling of the industry. This itself has thrown up a number of opportunities for fund communities with the agility to follow and, in some instances, to lead.

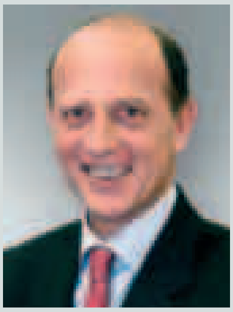
During its meetings in 2003 the UCITS Contact Committee discussed, among other issues, the interpretation of the new UCITS Directive's rules relating to derivatives and to the contents of the simplified prospectus. As no compromise could be reached on these subjects among members of the Committee, the relevant services of the European Commission are now planning to issue two recommendations on these topics. It must be noted, however, that a recommendation is not legally binding.

Meanwhile, the implementation of the UCITS III Directives in the different Member States has already given rise to various problems, in particular with regard to the interpretation of transitory measures. As such difficulties may affect the distribution of Luxembourg funds abroad, ALFI is closely monitoring these developments with a view to informing and supporting its members in the new regulatory environment.

UCITS still a priority

Whilst Luxembourg met the deadline for the adoption of the new UCITS Directives into national law well ahead of time in December 2002, the application of the new rules throughout the EU has brought with it a series of problems of interpretation. This has hindered the pan-European distribution of funds to a certain extent, as testified by the endless discussions on the applicability of grandfathering provisions to the rules on the simplified prospectus. Furthermore, the lack of consensus among the UCITS Contact Committee members on crucial questions, namely the interpretation of the provisions relating to the use of derivatives or the contents of the simplified prospectus, has caused even more uncertainty. UCITS will therefore remain one of the major issues to be addressed by our Association in the year to come and our representatives will have to ensure that our voice is heard regarding any related issue debated within FEFSI or at the level of the supervisory authorities.

In view of further anticipated changes to the UCITS Directive, principally in respect of the extension of the remit of CESR to include asset management, and in view of the transposition of the Market Abuse Directive and of the Transparency Directive, ALFI will closely follow developments both at an EU level and at the level of EU Member States. ALFI will also follow up developments in the regulation of UCITS depositaries in Member States, and any successor plans to the European Commission's Financial Services Action Plan (FSAP) launched in 1999, particularly in the field of asset management. Finally, ALFI will follow up developments on the future institutional organisation of the EU in the wake of its enlargement and the impact of the new legislative procedure (the "Lamfalussy procedure") on the future development of the regulatory framework for investment funds.



Given the number of areas in which future legislation has a direct or indirect impact on the fund industry, and limited resources, the ALFI Legal Committee may have to prioritise the issues it handles in 2004.

Freddy Brausch
Chairman, International Affairs
Legal and Regulatory Committee

The Pension Funds Directive: fiscal harmonisation remains elusive

On 13th May 2003, the Council of the European Union adopted the Directive on the activities and supervision of institutions for occupational retirement provision ("IORP"). Its aims are to ensure that transactions in occupational pension schemes reach a high level of security and efficiency and to favour the cross-border offer of pension funds throughout the EU. IORPs will be subject to detailed rules of operation and to specific requirements in terms of members and the information to be made available to beneficiaries. The Directive allows for mutual recognition of Member States' supervisory regimes and an IORP will be able to manage the schemes of foreign firms while applying the prudential rules of its own Member State. However, the text provides that the social and labour legislation of the host Member States will continue to apply.

The Directive also provides a set of rules regarding the investment strategy of IORPs, based on the "prudent man" principle. The text allows host Member States to ask home Member States to apply certain quantitative rules to assets held by cross-border schemes, on condition that the host Member State apply the same or stricter provisions to its domestic funds. Unfortunately, the Directive does not cover taxation aspects of the pension fund area, although the lack of harmonisation in this field, and in particular tax discrimination problems, remain the biggest barriers to a true internal market for retirement vehicles.

« Best practice » recommendations for financial analysts

On 4 September 2003, the European Commission put out to consultation the results of the discussions of the Forum group of financial analysts concerning "best practice" in an integrated European financial market. The Luxembourg fund industry had a representative on this Forum.

The conclusions of this working group suggest several principles for application to European investment research activity and reflect the discussions of the Forum's members on the possible need for regulatory reform in this field. The report recognises the various interests at play in this context, ranging from those of companies subject to best practice rules to those of users of investment research, performance measurement consultants and beneficiaries of the data. The Forum pleads for a principle-based approach, expressing the opinion that the investment research industry is currently not particularly in need of detailed or restrictive legislation.

In November 2003, the European Commission issued a proposal for a directive on cross-border mergers. This text, which covers all companies with share capital, both public and limited liability companies and others, aims at facilitating cross-border mergers throughout the EU by adjusting European merger procedures to those used in individual Member States for mergers between companies subject to the same national law.

Will there be a single market for alternative investment funds?

On 15 January 2004, the European Parliament adopted a resolution on hedge funds and derivatives. This text suggests developing a light EU regulatory regime for alternative investment vehicles that would help the European Union to become an attractive location for such products and provide a European passport for these vehicles by means of mutual recognition. The text places emphasis on the need to establish adequate rules regarding the professional skills and experience of promoters, directors and managers of alternative investment funds, the information related to the risk of such products and the distribution methods used. With regard to derivatives, the Parliament asks that the various applicable pieces of legislation be drawn together in order to obtain a comprehensive set of regulations. It also urges the European Commission to develop a means of measuring and monitoring exposure to derivatives.

On 30 March 2004, the European Parliament approved the proposed Directive on "Financial Instruments Markets" modifying the Investment Services Directive. The text aims to give investment firms a true "European passport" enabling them to operate throughout the EU on the basis of authorisation in their home Member State. The new Directive seeks to establish a comprehensive regulatory framework governing, in particular, the organised execution of investor transactions by exchanges, other trading systems and investment firms. It also aims at enhancing investor protection by setting minimum standards for the powers of national supervisory authorities and establishing mechanisms ensuring European cooperation with regard to investigating and pursuing breaches of the Directive. The text being a framework Directive, more detailed implementing measures will be set down by the Commission following consultation with market participants and Member States, taking into account the opinion of the Committee of European Securities Regulators (CESR).

As the fund industry is directly impacted by the ISD in several areas (for example in cases where UCITS management companies offer individual portfolio management services, where collective portfolio managers offer "non-core" activity investment advice under the ISD or when fund units are distributed via intermediaries), our Association will continue to follow up on regulatory developments in this field.

The Transparency Directive: of relevance to investment fund managers

The European Parliament approved the Commission's proposal for a Directive on transparency requirements for security issuers on 30th March 2004. This text, which should be adopted shortly by the Council of Ministers, aims at harmonising information requirements about issuers whose securities are admitted to trading on a regulated market.

The Directive provides for interim management statements from those share issuers that do not publish quarterly reports, and half-yearly financial reports from bond issuers. All securities issuers will have to provide annual financial reports within four months of their financial year end. Furthermore, certain changes to issuers' shareholding structures will have to be disclosed within shorter time limits.

The European Federation of Investment Funds and Companies (FEFSI) and ALFI have tried to convince the relevant services of the Commission and European Parliament Members to consider tailored rules for fund managers with regard to the disclosure of major changes to shareholdings of issuers. Our concerns were taken into account to a certain extent. The final text of the European Parliament's report provides that in order to determine who is a major holder of shares in an issuer, parent undertakings should not be required to aggregate their own holdings with those managed by UCITS or investment firms, provided that the latter exercise voting rights independently from parent undertakings and fulfil certain further conditions.

First steps towards an internal market for custody services

The European Commission issued a communication about UCITS custodians on 30th March 2004, following a survey it had carried out in 2002 on the various national regulations applicable. The communication concludes that there is need for a convergence of rules in order to achieve a true internal market for custody services and improved standards of investor information.

The Commission suggests cooperating with EU regulators over the next two years to cover four aspects of these rules: namely, improving the prevention of conflicts of interests, clarification of the extent of the custodian's liability, the convergence of prudential requirements and the enhancement of transparency and investor information. The Commission does not explicitly propose drafting a directive regulating this matter. However, the contents of the communication should be mentioned in the 2005 review clause of the UCITS directive.

The legal and regulatory framework in Luxembourg: adapting to European Directives ...

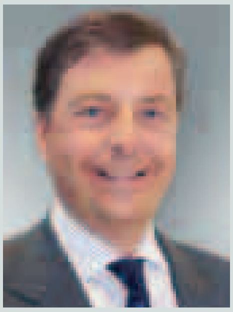
A number of regulatory texts adopted in 2003 were of importance to our industry.

On 30 July 2003, the CSSF published a Circular clarifying the application of chapter 13 of the Law of 20 December 2002 (by which the new European UCITS Directives were transposed into national law) and defining the financial information that management companies created under this legislation should provide to the supervisory authority.

This Circular specifies the conditions for obtaining and maintaining authorisation for management companies (notably, the contents of the business development plan to be submitted with the request for authorisation, the conditions that must be met by the central administration in terms of staffing and technical infrastructure, preconditions for authorisation of the delegation of functions by the management company and preconditions specific to the delegation of the asset management function). Equally, the Circular details the conditions for obtaining and maintaining authorisation of a management company carrying out activities of collective portfolio management and bespoke portfolio management, and the schedule of financial information that must be provided by management companies under the new regulation for prudential supervision by the CSSF.

On 19 December 2003, the CSSF issued a Circular clarifying the content of the simplified prospectus for UCITS. In particular, it details the information that must be contained in this document concerning the investment objective, the investment strategy and the risk profile of the fund, its historic performance figures, fees and commissions. The Circular also details the approval procedure for a simplified prospectus.

Legal and Regulatory Committee: priorities in the national arena



The principal current challenge for the Legal Committee in the national arena is to make a useful contribution to the development and successful application of practical rules concerning the implementation of the new UCITS legislation.

In this area, our first concern is the content of the upcoming regulation on derivative products. It is also important to ensure that a sufficiently supple interpretation is made of the legal requirements governing the structure and organisation of management companies and self-managed SICAVs.

The Legal Committee, acting through its various working groups, is responsible for making an active contribution to the development of this regulation.

Claude Kremer
Chairman, National Affairs
Legal and Regulatory Committee

...and strengthening the regulatory infrastructure in Luxembourg

In the past few years, specialised service providers to the investment fund industry have been developing in the Grand Duchy. These service providers meet a growing demand for outsourcing by companies that cannot or do not wish to make what is often a heavy investment in data processing and communication technology in order to cope with international distribution, the multiplication of distribution channels and an ever more demanding clientele.

The Luxembourg legislator has facilitated the outsourcing of certain tasks by qualifying several professions that are closely linked to the investment fund industry as Professionals of the Financial Sector (PSF), submitting them to the authorisation and prudential control of the CSSF.

The law of 2 August 2003 on the financial sector completes the list of professionals who are able to take advantage of the European passport to provide investment services. It creates a new category of experts who provide support services to banks and other Professionals of the Financial Sector, being considered themselves as PSF and subject to the supervision of the Luxembourg Regulator. The new PSF must comply with the rules applicable to banks and other PSF in matters of professional secrecy. Amongst the new entities it is possible to distinguish two sorts of companies: those that exercise a financial activity (such as transfer agents, registrars and managers of non-UCITS funds) and those whose activity is complementary to the financial sector (such as communication agencies, administration agents, information technology services and firms offering company creation and management services).

Service providers must comply with existing legal provisions concerning the fight against money laundering, must put in place an internal audit function and nominate an external auditor.

ALFI made a significant contribution to discussions that led to the creation of a draft law on venture capital investment companies (SICAR). This text, which aims to create a Luxembourg venture capital investment vehicle that is internationally competitive, should be adopted by Parliament before the end of the current legislative term in May.

Taking every opportunity to widen our product range

During the 1980s and 1990s Luxembourg established itself as the key centre for UCITS. The challenge for the next decade, however, is to reposition it as the premier location for other asset classes as well. Already, there exist tremendous opportunities to extend our product range. The proposed law on SICAR creates an advantageous legal framework for private equity and venture capital funds, and can potentially be extended to cover other classes such as real estate funds, another fast growing sector. A comparative study with legislation in five other European domiciles shows the SICAR to be a very competitive product.

Hedge funds are coming of age and are now accepted as an asset class for institutional investors as well as high net worth individuals. This is another fast growing asset class and Luxembourg must ensure that it keeps its offer attractive. Statistics show that Luxembourg is gaining popularity as a hedge fund domicile.

The recent law on securitisation creates potential for an entirely new family of products. This and other product innovations will be the focus of the New Products Forum during 2004.

Henry Kelly
Chairman
New Products Committee

Tax reduction for institutional cash funds

In the United States and, increasingly, in Europe, institutional money market funds are gaining popularity with big international groups as a treasury management tool. Whereas Luxembourg is the uncontested leader in European cross-border funds, there has been a tendency to establish cash funds in Dublin. A study organised by ALFI demonstrated that this was due to the fact that Ireland does not have a subscription tax, which in such a cost-sensitive sector constituted a serious competitive advantage. Despite a difficult budgetary background, both the parties in Government and the socialist opposition agreed on the necessity for a reduction in the subscription tax to zero for certain institutional cash funds and the measure was adopted in the Budgetary Law for 2004.

Progressive reduction of the subscription tax is still at the forefront of our objectives

During the years 2000 and 2001, ALFI carried out a study of the impact of the fund industry on the Luxembourg economy and, more precisely, its contribution to national income. One of the objectives of this study was to convince the Luxembourg authorities that a progressive reduction of the subscription tax would boost the industry and that the resulting growth of the sector would more than compensate for any reduction in fiscal income.

This study was certainly a contributing factor to the decision by Government to reduce the subscription tax from six to five basis points with effect from 1 January, 2002. The fund industry saw this reduction as a first step towards the progressive reduction of the tax.

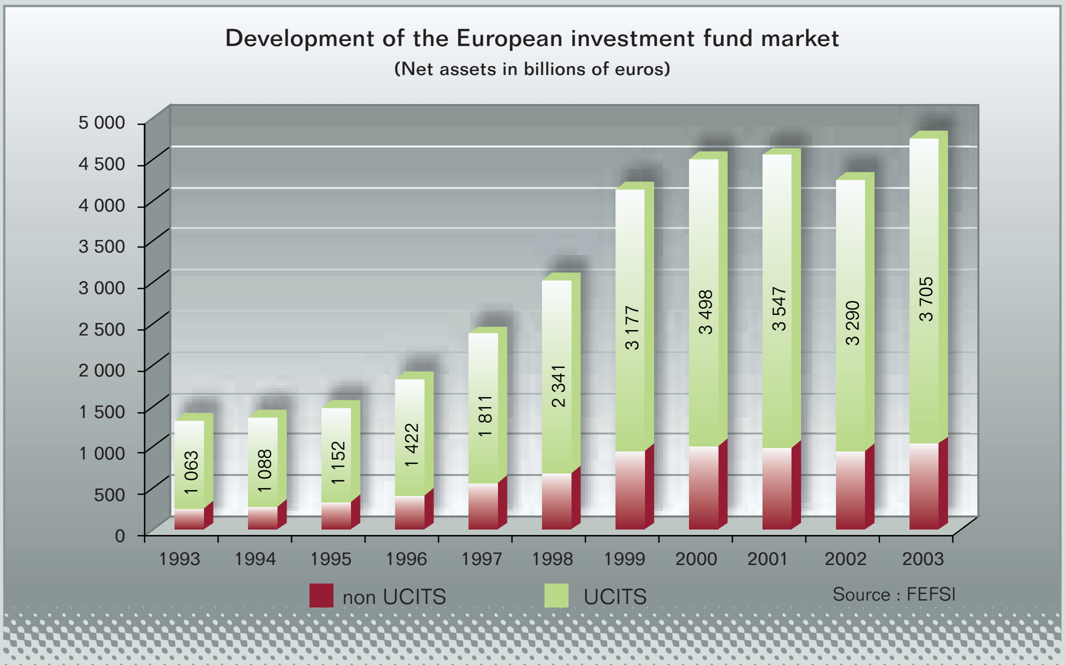
The subsequent global decline in stock markets had as an effect, that, for the first time in ten years, net assets in CIS at the end of 2002 were down on the previous year (844.5 bn euros at 31 December 2002). This development, occurring directly after the reduction of the subscription tax, was naturally not conducive to persuading the Government to make further reductions. However, it should be noted that at 31 December 2003 the industry was once again close to its record level recorded in March 2002, and that the 1,000 bn euros mark was passed in February 2004.

During 2003, ALFI concentrated on obtaining an exemption from subscription tax for certain types of CIS that have demonstrated rapid growth in other countries but not in Luxembourg, partly on account of the subscription tax. In this context, AAA rated institutional cash funds were exempted from subscription tax with effect from 1st January, 2004. The industry hopes that this will encourage promoters of such funds to create them in Luxembourg, rather than in other financial centres. ALFI also started negotiations with the Government with a view to obtaining an exemption for funds that act as pension pooling vehicles. These are CIS created by an international group in order to pool the assets of different pension funds that the group manages in various jurisdictions where it has operations.

ALFI continues to study which other types of CIS could justify a similar reduction in subscription tax. The overall progressive reduction of this tax remains a medium term objective.

Jacques Elvinger
Chairman
Fiscal Committee

Statistics



The European market for collective investment schemes began to expand again in 2003 after registering a sharp decline in net assets in 2002. During the year under review, combined net assets of investment funds domiciled in the 21 countries reporting to FEFSI rose from 4,247 bn euros to 4,752 bn euros, an increase of 11.89%.

The UCITS sector, comprising funds that qualify for a European passport under the European investment fund Directives, registered an increase of 12.6% over 12 months, with assets rising from 3,290 bn to 3,705 bn euros. During 2002, assets in this sector fell by 7.3%.

The European OPCVM market by asset class

	2003		2002	
Type of fund	Billions of euros	Market share	Billions of euros	Variation over the year
Equity funds	1 163	34%	971	19.8%
Mixed funds	470	14%	433	8.6%
Total equity and mixed funds	1 633	48%	1 403	16.4%
Bond funds	1 034	30%	955	8.3%
Money market funds	668	20%	615	8.7%
Others	84	2%	77	9.3%
Total all categories	3 419	100%	3 050	12.1%
including Ireland	3 705		3 289	12.7%

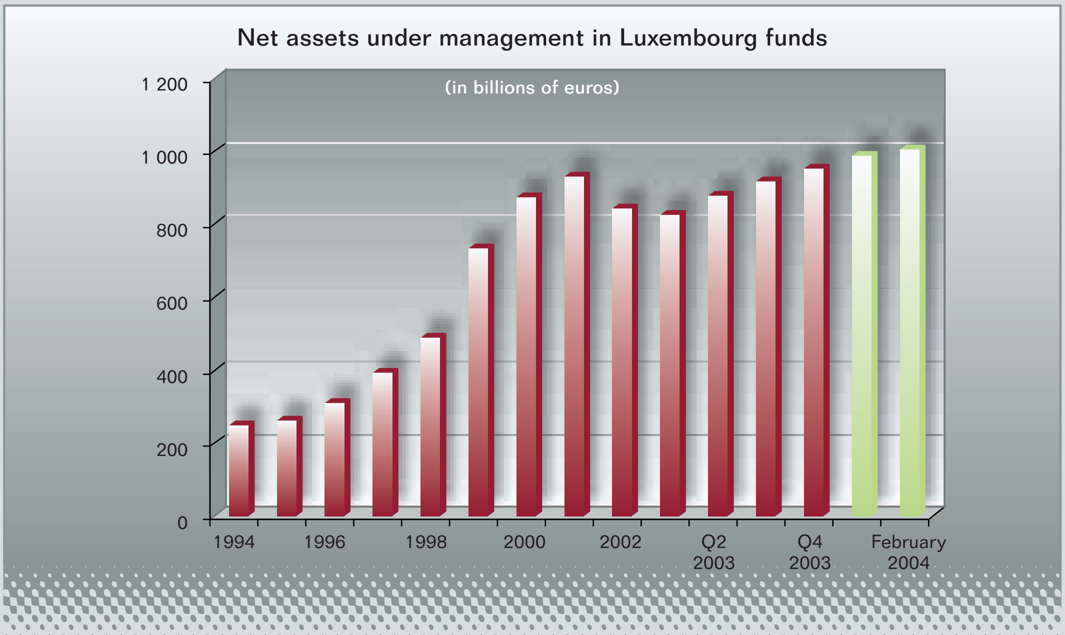
Source : FEFSI

According to an analysis by FEFSI, net subscriptions into shares and units of UCITS contributed 64% of the growth in net assets. Equity and bond funds registered twice the level of net subscriptions as in 2002.

The European investment fund market (Net assets in millions of euros)

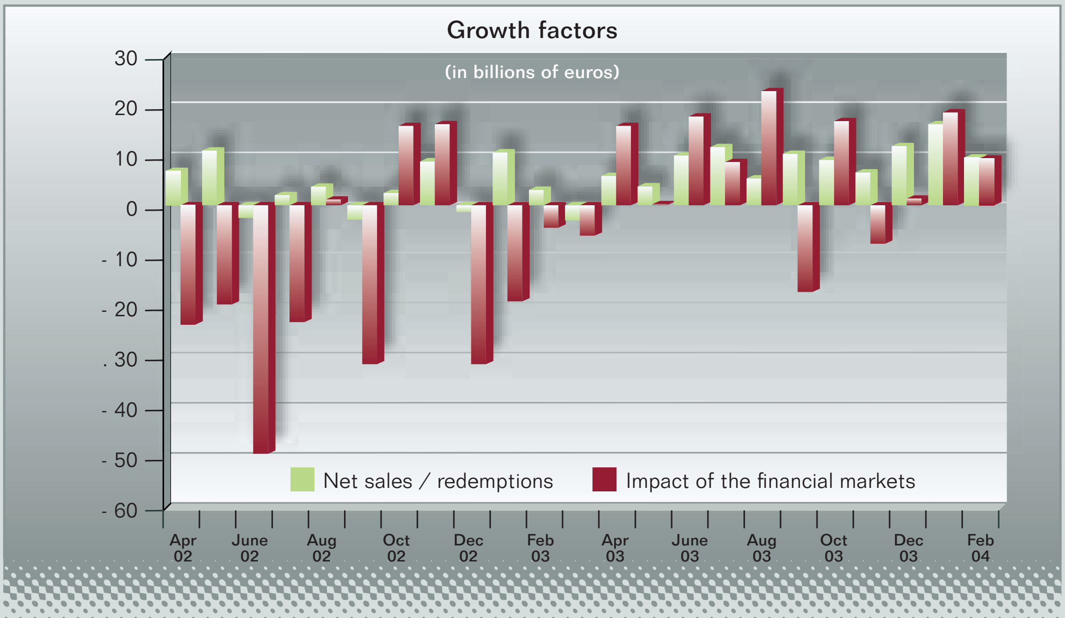
Country	Net assets	%	Country	Net assets	%
France	1 008 000	21.2	Sweden	70 713	1.5
Luxembourg	953 302	20.1	Denmark	48 934	1.0
Germany	822 099	17.3	Greece	31 813	0.7
United Kingdom	418 861	8.8	Portugal	27 763	0.6
Italy	393 429	8.3	Finland	23 727	0.5
Ireland	361 760	7.6	Norway	17 414	0.4
Spain	204 989	4.3	Lichtenstein	7 137	0.2
Netherlands	93 200	2.0	Poland	7 068	0.1
Austria	92 115	1.9	Hungary	3 467	0.1
Belgium	83 503	1.8	Czech Republic	3 338	0.1
Switzerland	79 637	1.7	TOTAL	4 510 895	100.0

Source : FEFSI

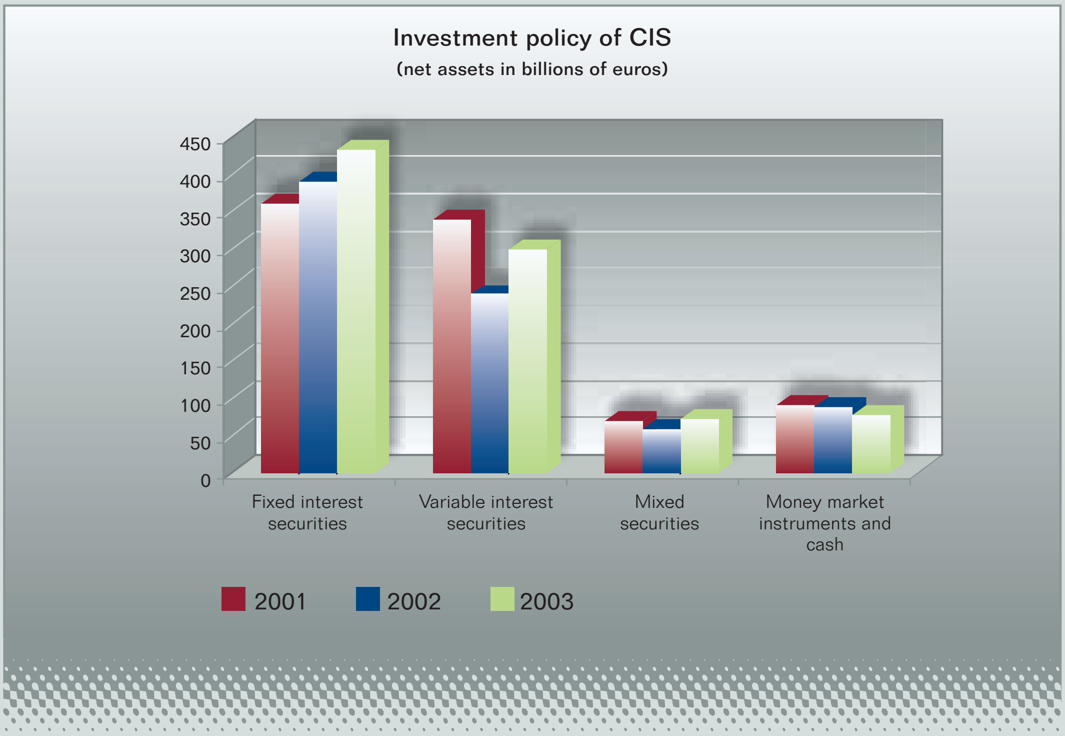


The Luxembourg investment fund industry did even better than the European sector as a whole, recording an increase of 12.88% in assets under management. With 953.3 billion euros under management at 31 December 2003 (compared to 844.5 bn in 2002), total net assets in Luxembourg funds ended the year very close to the all time record of 967.7 bn euros, recorded in March 2002.

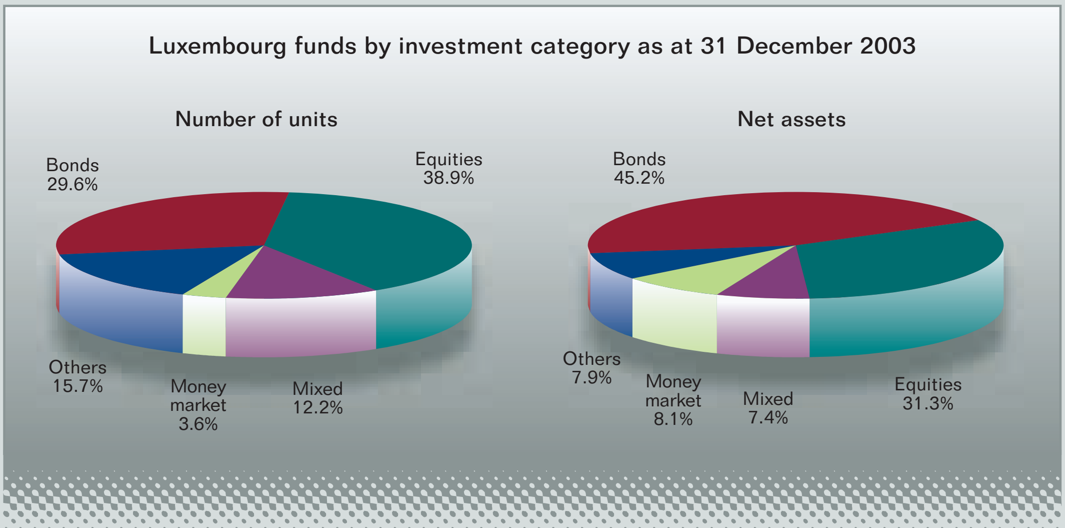
Continued stock market recovery and a steady inflow of subscriptions enabled Luxembourg funds to bypass this record and reach the significant landmark of one trillion euros in February, 2004: as at 29 February, net assets stood at 1,006.102 bn euros.

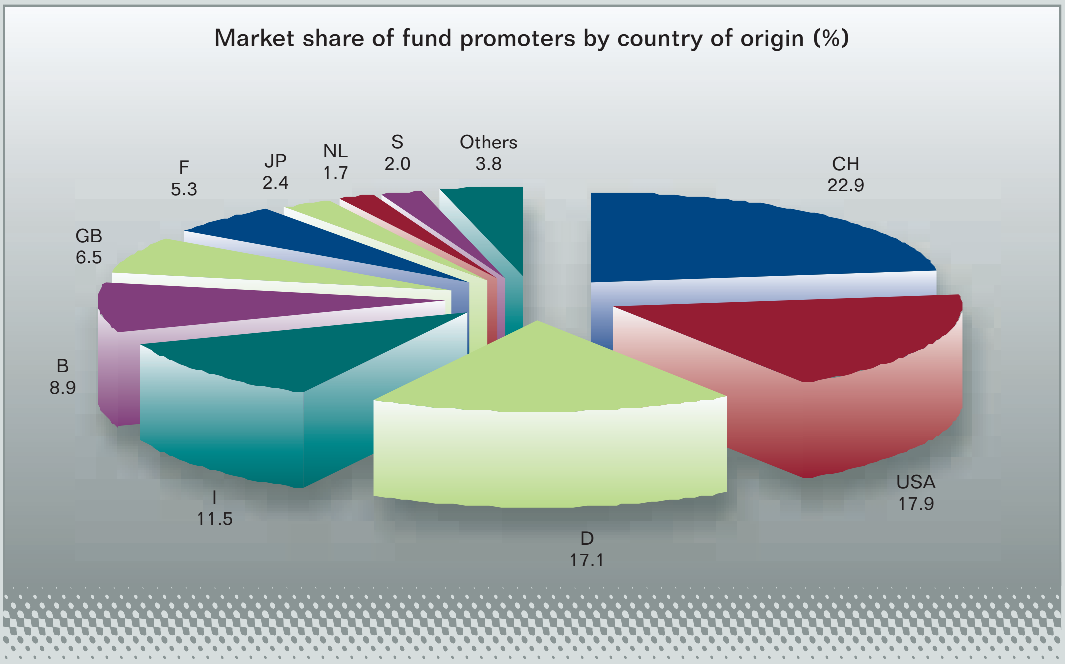


Of the 108.8 bn euros of new assets under management, 82.6bn (some 76%) can be attributed to new money. Only 26.18 bn euros are due to the impact of financial markets, which experienced a general recovery from the second quarter but at the same time registered a steep decline in the value of the US dollar against the euro. The US dollar price had a very negative impact on net assets in Luxembourg funds, many of which are invested in dollars.

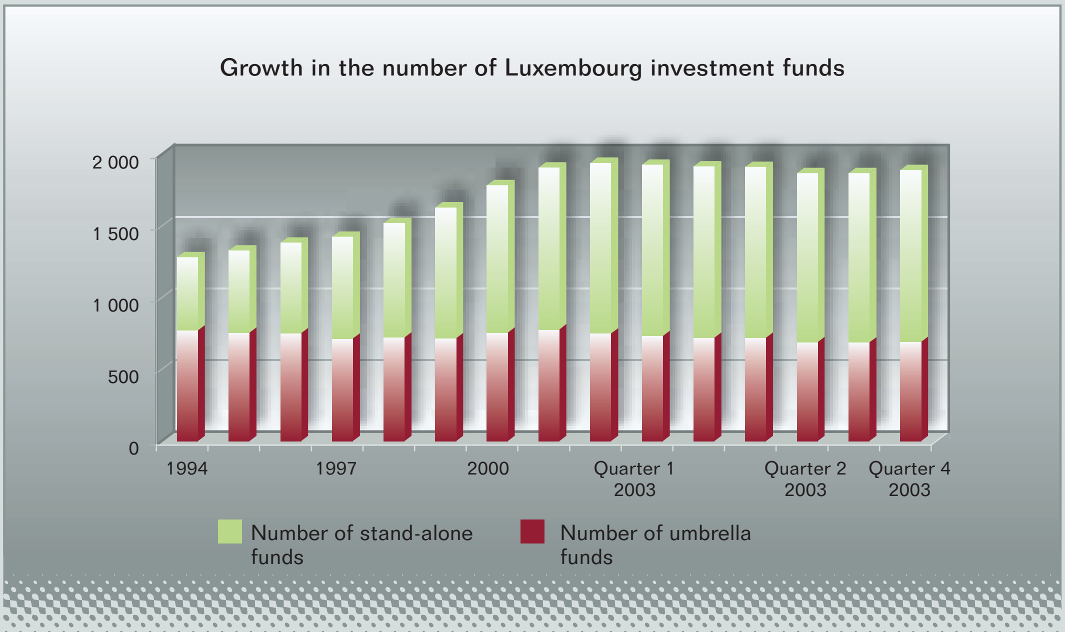


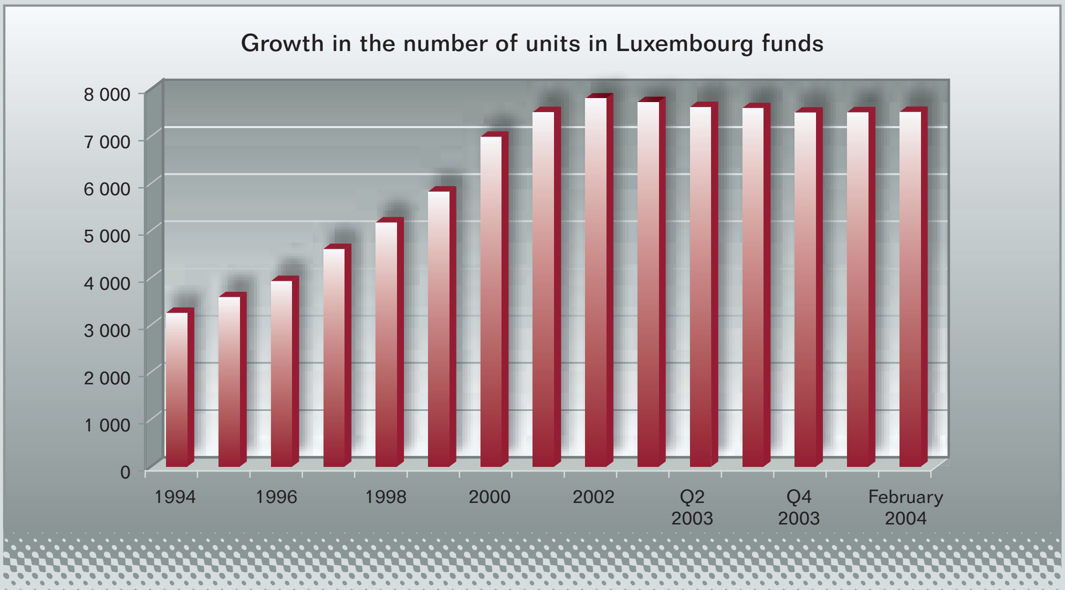
The improved stock market environment had an effect on investment flows. Having fallen by 99 bn euros in 2002, net assets in equity funds grew by 60 bn euros (52.2%) during 2003. Mixed funds also made a strong recovery, growing by 19% over the year from 58.9 bn euros to 70.3 bn euros. Net assets in bond funds rose by 11%, or 42.8 bn euros. With a total 431.26 bn euros under management, this is by far the most important fund category in Luxembourg. Net assets in cash and money market funds fell by 15.7% (12 bn euros) to close the year at 67.13 bn euros.



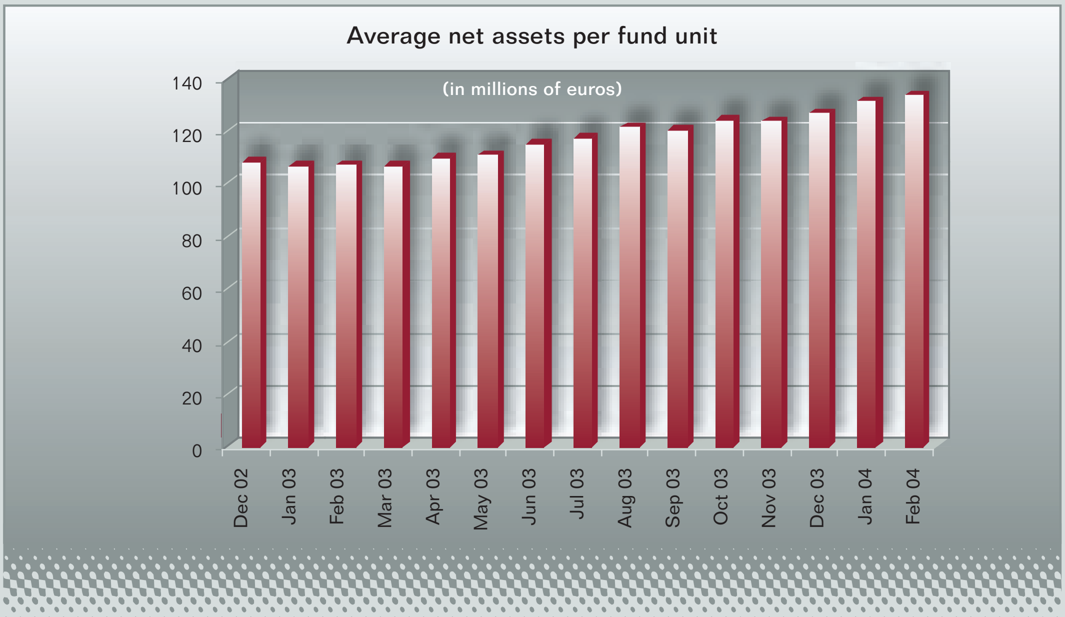


Swiss promoters retain the largest market share in Luxembourg, with 22.9% of assets under management. They are followed by the Americans and the Germans, who have a market share of 17.9% and 17.1% respectively.





In contrast to the figures for assets under management, the number of investment funds in Luxembourg fell by 71 units, that is 3.66%, in 2003. The number of fund compartments likewise fell from 7,055 to 6,819. This development is in line with a general trend towards funds and fund management companies of greater size. The average size of sub-fund thus grew by 18.7% over the twelve months to reach 127m euros at December 2003.



In the pension fund sector, for which a legal framework was created on 8 June 1999, the number of funds registered under the new law doubled during the year under review. As at 31 December 2003, the official list of pension funds published by the supervisory authority cited eight Associations d'épargne-pension (assep), versus three in 2002, and two Sociétés d'épargne-pension à capital variable (sepcav).

ALFI

in 2003

Reinforcement of the technical committees and a new accent on marketing

Last year, in the course of a wide-ranging analysis of the expectations that ALFI members had of their association, a set of four objectives was defined:

- to help members capitalise on industry trends;
- to shape regulation;
- to encourage professionalism, integrity and quality;
- to promote the Luxembourg fund industry.

Adapting to industry trends requires a thorough understanding of such trends. To this end, ALFI undertook a major re-organisation of its technical committees in order to increase efficiency and accelerate the distribution of information produced by these groups to its members. This re-organisation was launched following the Annual General Meeting of 2003 and the ALFI Board of Directors approved the new structure of Technical Committees, Sub-Committees and Working Groups on 22 July, 2003.

Under the new structure, one Technical Committee is responsible for each generic aspect of the industry (such as the legal environment, tax, marketing, etc.), while Sub-Committees handle specific subjects (the fight against money laundering, anti double-taxation treaties, etc.). The Technical Committees and their Sub-Committees are of a permanent character. By contrast, Working Groups are charged with examining specific topics of interest and cease to exist once their work is accomplished.

Within the ALFI Secretariat a coordinator has been designated to each Committee, charged with liaison between its groups and following up its work.

With a view to promoting the development of the fund industry in Luxembourg, the Board of Directors has set up two new Technical Committees:

The Distribution Committee is charged with improving conditions for the sale of Luxembourg funds outside the Grand Duchy. This committee identifies areas of potential discrimination

against Luxembourg products and services or unfair competitive practices and develops recommendations with a view to resolving any problems that it comes across.

The New Products Forum aims to position Luxembourg as the preferred platform for the development of innovative financial products. Dedicated working groups analyse the opportunities that arise in specific areas (such as alternative investment funds, ETFs, etc). This work involves tracking investment management trends, examining fund structures in rival jurisdictions and identifying problems that need to be resolved in the area of operations, regulation, marketing or distribution so as to improve Luxembourg's position as a platform for this category of products.

Last May, ALFI launched a series of informal meetings with its members, the dual objectives of which were to inform them more rapidly about work carried on in the Technical Committees and to receive feedback concerning areas in which it should become involved. The first set of informal meetings was organised along broadly linguistic lines.

Two seminars were also organised for members in the auditorium of the Banque de Luxembourg. The first, held in December, concerned the implementation of the Savings Directive while the second, in February 2004, tackled the problem of market timing and fair value pricing. These seminars were very successful, with over 180 inscriptions on both occasions.

New internet site …

During the year under revue, the ALFI Secretariat also re-designed the Association's internet site. This was a major project, undertaken with the twin objectives of creating a tool better adapted to the promotion of the financial centre and able to reinforce and accelerate communication with, and among, over 400 members of the various Technical Committees, Sub-Committees and Working Groups.

A members' extranet has been built into the internet site, to which access is controlled by a password. Henceforward, this extranet will constitute the principal platform for communication among members of the Association. Members can access not only bulletins posted by the ALFI Secretariat and information on decisions taken by the directing bodies of the Association, but also the minutes and working documents of the Technical Committees and working groups.

This bilingual site (English / French) is primarily aimed at people working professionally in the investment fund industry.

Technically, the new site is built using an advanced Content Management System software. This platform enables the ALFI Secretariat to update site documentation without the help of a technician or external webmaster. It also enables the Secretariat to control document access rights in the members' section.

… and an updated logo

ALFI took advantage of the re-launch of its internet site to develop a new set of corporate colours and modernise its logo. The various documents published by the Association have been brought into line with the new look, enhancing visibility of the Association.

At the same time, ALFI has slightly altered the old English version of its name, the "Luxembourg Investment Fund Association". Henceforward, it will be called the "Association of the Luxembourg Fund Industry", a title that illustrates the opening of the Association to non-fund members such as service providers (transfer agents, distribution companies, clearing companies, etc.), consultants, auditors, legal partnerships and others.

ALFI in defense of the industry

Since 1 January 2004, Belgium has imposed a tax on foreign investment funds registered for sale in the kingdom. The tax of 0.06% (0.07% in 2005) must be applied to net assets placed with investors in Belgium as at 31 December of the previous year. It became payable for the first time on 31 March, 2004.

As soon as this project was announced, in November 2003, ALFI took action at a political level in an attempt to prevent it. In December 2003, before the measure was officially adopted, ALFI filed a complaint with the European Commission. This complaint was updated following the implementation of the tax. ALFI is of the opinion that the tax is in fundamental contradiction to the EU principles of free movement, creating a competitive disadvantage for Luxembourg funds and penalising non-Belgian investors. The press release issued by ALFI on the subject was widely picked up in the Luxembourg and international media.

At the same time ALFI made contact with other national associations and with FEFSI, who themselves took action. The Minister responsible for the financial centre, Luc Frieden, requested an interview with European Commissioner Frits Bolkestein, who promised that a decision would be made by May 2004.

In the meantime, an ALFI working group has analysed the Belgian text and exchanged views concerning the position that should be adopted and possible legal action. This documentation was made available to ALFI members.

Closer contact with political parties

In anticipation of the national and European elections on 13 June 2004, a delegation from ALFI visited the five major political parties in the Luxembourg Parliament, of whom two form the Government (the CSV and DP) and three are in opposition (the LSAP, ADR and the Greens). The national and European deputies they encountered all acknowledged the importance of the fund industry to the Luxembourg economy, recognising that it makes a significant contribution both to employment and to the State budget in a context that does little harm to the environment.

The principal points raised by ALFI were favourably received and may well constitute a source of inspiration in the preparation of electoral manifestos. Some issues have already been addressed (for instance the law on securitisation), or are in the act of being addressed (the law on SICAR, currently before Parliament); others will require further analysis (such as the creation of a Luxembourg promotional agency).

The excellent contacts that ALFI has built up in the political area, with the Government, Parliamentary deputies and national representatives both at home and abroad, will ensure that the fund industry is listened to and receives effective political backing.

The role of ALFI within FEFSI:

To a large extent, defending the interests of the Luxembourg investment fund industry consists of ensuring that these interests are taken into consideration in the process of developing EU regulation. It is this, today, which largely determines the framework within which the national legislator can move. ALFI takes part in this process through its membership of the *Fédération Européenne des Fonds et Sociétés d'Investissement* (FEFSI) in whose workshops ALFI has played an active role throughout the year in a number of areas.

Besides its contribution to lobbying the European Institutions on the subject of the Transparency Directive, and its contribution to the work of various Forums of the European Commission, ALFI representatives took part in regular meetings of the Directives Committee of the Federation, during which numerous exchanges of opinion took place on the state of implementation of the new UCITS Directives and the problems of interpretation encountered in these texts.

The Federation also published official commentaries, after consultation with its members, on the discussions held in the Committee of European Securities Regulators (CESR) about the role of this Committee in future legislative procedure, particularly where investment funds and investment services are concerned.

The Tax Committee, which also includes a member representing ALFI, followed up procedures for the transfer of the Savings Directive into national law by EU member states.

A technical committee dedicated to developments in the regulation of capital adequacy followed the evolution of the situation in this field on a daily basis and published several documents, notably a position paper relating to the proposals of the European Commission concerning the development of a regulatory framework for the management of operational risk.

In collaboration with various national experts, including a representative of ALFI, the Federation undertook a survey on the position being taken by national supervisory authorities on the matter of late trading and market timing.

One working group concentrated on the fund classification system proposed in 2003 by the "European Fund Classification Forum" and produced feedback for the completion of this project.

In the area of accountancy, an expert committee produced a report on the conditions for application of International Accounting Standards (IAS) to European funds, which was officially adopted by the Board of FEFSI in September 2003.

ALFI also took part in a working group on the promotion of pooled investment schemes in Europe and in discussions held within the Distribution Committee concerning the development of common European standards for consumer protection.

This year, our experts are again taking part in various FEFSI working groups, notably the new group of specialists whose task will be to determine to what degree alternative investment funds should be regulated at a European level and the committee charged with developing a model for a pan-European investment scheme that meets the requirements of the Pension Funds Directive.

The work of the Industry Integrity Committee should enable a FEFSI code of conduct to be produced within the next few months.

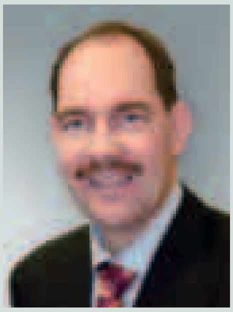
Finally, the Regulatory Committee will concentrate on cross-border mergers and the implications of the new Directive on this subject for investment funds.

Tackling the obstacles to cross-border distribution

One of the declared objectives of the two European Directives comprising UCITS III is to contribute to the realisation of a single market for financial products; in this case, of investment funds. While the extension of a European passport to new categories of funds and the introduction of a simplified prospectus are laudable initiatives, that will simplify the task of selling collective investment schemes beyond their national boundaries, numerous obstacles still exist and are even in the process of being erected.

Certain of these obstacles have their roots in divergent interpretations of the European Directives from one country to another. The question of whether or not a UCITS I fund must present a simplified prospectus in order to benefit from the so-called "grandfathering" clause under UCITS III is just one example. Other barriers have been deliberately erected to protect national markets. However, co-ordinated action taken by various industry bodies (professional associations, FEFSI and key industry figures) has borne fruit. Thus, for instance, the German government renounced discriminatory tax measures against foreign investment funds distributed in Germany. In France, foreign investment funds were conceded the right of inclusion in French Equity Savings Plans (PEA), which give tax advantages to investment through collective investment schemes. The "Registration Issues" Working Group of the ALFI Distribution Committee is analysing the conditions under which Luxembourg domiciled funds can take advantage of this regulation.

Growing coalition against trade barriers



We closely monitor the evolution of the legal and regulatory environment in different EU member states, and if it comes to our attention that discriminatory measures are being planned that would endanger the free movement of products or services, we try to react fast. In our experience, it is more effective to oppose such measures before they have been adopted into legislation.

The example of the discriminatory measures planned by the German government against foreign investment funds shows that the national professional associations and their European federation, FEFSI, are not alone in opposing commercial barriers, but that big corporate players are also ready to step up to the barricades. This trend is likely to be reinforced in coming years.

Henk van Eldik
Chairman
Distribution Committee

Regulatory obstacles were equally encountered in the area of mergers between funds domiciled in different jurisdictions. This activity has grown fast since the recent wave of mergers and acquisitions among financial institutions resulted in the need to consolidate disparate fund ranges. Having studied the relevant text, the "Fund Merger Issues" Working Group of the Distribution Committee is of the opinion that the draft Directive facilitating cross-border mergers between companies with share capital, published in November 2003, contains all the elements needed to establish a procedure for mergers between investment funds. The group has submitted its analysis to the Legal Committee for revue and will prepare a bulletin for members in due course.

However, the obstacles to the free cross-border distribution of investment funds are not all of a legal nature. Much remains to be done in the area of standardising settlement procedures for the sale and redemption of shares in collective investment schemes (CIS). ALFI is an active participant in the FEFSI working group charged with defining "best practice" for transactions in CIS. The "Luxembourg TA and Distribution Forum", a discussion platform that brings together a hundred participants representing over 70 companies and 16 nationalities, has been called on to provide practical feedback to ALFI from industry practitioners.

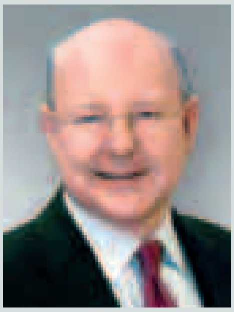
Transparency and standardisation will assist international distribution

Besides the obstacles to distribution encountered by foreign funds, Luxembourg fund promoters are confronted with a range of totally legitimate initiatives taken by local legislators with the purpose of making their national fund markets more attractive and repatriating business. The ALFI Statistics Committee has launched an analysis of the environment in which Luxembourg fund promoters are working, since this is in rapid evolution.

Several projects running last year indicate a welcome trend towards European standardisation. Following an announcement by the European Central Bank (ECB) that it will enlarge the collection of data on investment funds, FEFSI launched an initiative to standardise data collection among EU member states. A presentation of this idea by representatives of ALFI and FEFSI to the Luxembourg Central Bank was well received.

The Statistics Committee also continued a major classification project with CCLux, the investment data provider, defining terms for a glossary and classifying fund labels. The project covers all aspects of the fund sector: industry players, fund families, geographical sectors, investment instruments and technical terms. Recommendations received from FEFSI on the classification of fixed interest products were entirely compatible with the work completed by this working group. Meanwhile the Distribution Committee is investigating how user groups of SWIFT, Euroclear and Clearstream can join forces to drive standardisation and open protocols so as to encourage cross-border business.

Ambitious research projects



During 2003, Luxembourg fund professionals once again lent their experience to defend the interests of the European fund management profession. Of particular importance was our contribution in the Capital Adequacy debate and the enrichment of the CCLux database. Moreover, the excellent working relationship that continues to build up between the various ALFI working groups, the CSSF and the Banque Centrale de Luxembourg promises fruitful co-operation for the future.

With richer data available, we have now moved into a more complex research phase. The challenge that faces us is to provide our members with a better understanding of their industry. Having looked at a number of alternatives, we decided to undertake a new study of the landscape in which fund promoters are working, to enable them the better to plan and adapt to changing regulation and shifts in the market whilst remaining competitive. Some aspects of UCITS III will be particularly challenging in this respect.

Looking ahead, we would like to make a comparative study of shareholder activity in Europe, and look into trends in product development. But that is for 2005.

Patrick Zurstrassen
Chairman
Statistics Committee

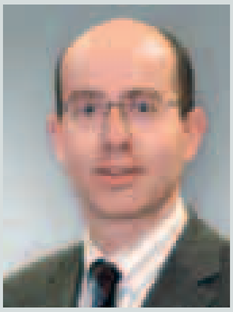
How do you sell collective investment schemes via the internet?

The internet lends itself perfectly to the sale, and in particular to the cross-border sale, of financial products; hence it has rapidly developed into a distribution channel that cannot be ignored by the investment fund industry. In the early years, investment fund promoters were content to set up quite simple sites offering product information. Many, however, have since taken the step of offering enquiry facilities (enabling clients, for instance, to check their account balance) and even transactional sites, on which clients can buy and sell fund shares on line.

Each of these service levels has its particular characteristics and risks. During the year under review, the ALFI Internet Committee conducted an analysis of the current legal and regulatory framework governing electronic trade in financial products and subsequently issued a checklist of the minimum rules that should be taken into consideration by an investment sector professional when developing or assessing an internet site. This document, which concentrates on requirements for the second and third service levels described above, is a unique synthesis of information from a wide range of sources and constitutes an invaluable aid to ALFI members intent on developing the internet as a method of distribution.

The internet is not only useful as a commercial tool but can also assist in the smooth functioning of corporate events in the life of a fund. The Internet Committee conducted a membership survey, at the end of the year, in order to find out to what extent those companies offering AGM services to funds make use of electronic media to send out notices and other documentation. The objective of this survey, in particular, is to gauge the level of interest for a legal framework that would enable funds to hold shareholder meetings on-line, for instance by means of a "private on-line forum".

Do not ignore the internet as a distribution channel



Compared to the United States, Europe still has a long way to go in terms of the distribution of financial products via internet. Where investment funds are concerned, this backwardness can be explained by widely different distribution structures. Whereas, in the United States, a large proportion of funds are sold through independent intermediaries who rely extensively on internet solutions, distribution on the European continent continues to be largely through bank branches and direct contact with the client.

But even in Europe, distribution channels are starting to diversify. Fund boutiques are becoming acceptable to private clients, open architecture is spreading and the increasing competition between fund promoters has reinforced the strategic importance of distribution networks. In this context, electronic distribution platforms suddenly merit closer attention.

The fact that the launch of an internet site capable of handling on-line account enquiries or share transactions is subject to formal authorisation by the Luxembourg Supervisor, the CSSF, is evidence of the concern by the regulatory authority to ensure the high quality of interactive sites located in Luxembourg. This concern with rules and procedures is the best possible guarantee of security and transparency, both for industry professionals and for investors considering making use of such services. Our challenge is to exploit this regulatory framework in such a way as to make full use of the internet as a distribution tool.

Jacques Bofferding
Chairman
Internet Committee

Promotion of the Luxembourg financial centre

By tradition the two big annual conferences held by ALFI, the Spring conference in March and the ALFI-NICSA in September, are the principal platform from which the Association promotes Luxembourg as an investment fund centre. These two events continue to attract an increasing number of participants. The flexible registration policy introduced at this year's Spring conference, held on the 8 and 9 March at the Hemicycle in Luxembourg-Kirchberg, certainly contributed to beating all previous records with some 530 delegates from 28 countries.

For the first time, the *Fund Awards* prize-giving ceremony organised by Fund Market was brought into the same week as the ALFI conference, with the objective of creating synergy between the two events and attracting a greater number of attendees to both. It appears, however, that the events attract a different target audience, since the initiative did not have the impact that might have been expected.

Last May, in order to raise the visibility of the Luxembourg financial centre in the American market, ALFI organised a reception and dinner in Washington to coincide with the annual membership meeting of the Investment Company Institute (ICI), the US investment fund association. Top executives from American fund companies were invited to the event. At this dinner, which was honoured by the presence of Madame Arlette Conzemius, Ambassador of Luxembourg to the United States of America, ALFI Chairman Thomas Seale presented the Luxembourg financial centre as the gateway to the European Union for investment funds. Brian Storms, President and CEO, Americas, of UBS Global Asset Management, gave a much-appreciated overview of his company's experience in Luxembourg.

During the year, ALFI intensified its contacts with the agents responsible for international promotion of the Grand Duchy. The Association thus became a member of the *Comité Consultatif du Commerce Extérieur*. Presided over by the Minister of Foreign Affairs and External Trade and composed of key industry figures from the private and public sector, this body advises the Government on the direction to be taken in the promotion of foreign trade and sets the programme. ALFI has thus been directly involved in defining the strategy for the promotion of business in the Grand Duchy.

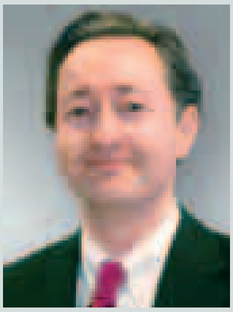
In this context, during the course of the year ALFI took part in several economic missions organised by the Government to countries that were considered to be of particular interest to the investment fund industry. The Association was thus able to present Luxembourg to fund promoters, service companies and pension fund managers in Milan, Tokio and Santiago de Chile. The interest shown on these occasions was such that ALFI has determined to continue taking an active part in such promotional trips.

In order to concentrate its resources more effectively the Marketing Commission launched a research project, the results of which will provide ALFI with a better understanding of the image that key foreign figures in the industry have of Luxembourg in general and the fund sector in particular. This "perception study" consists of a series of interviews conducted by the Paris based research consultants, I&E, in five key markets: France, Germany, Italy, Great Britain and the United States. The results of the survey are expected later this Spring.

With the aim of getting more mileage out of its promotional activities, the Marketing Committee has been working on a programme of "ambassadors". This consists of identifying financial sector professionals living abroad who have spent part of their career in Luxembourg and who would undertake the task of representing the fund centre at important fund events in their country. This ad hoc Working Group has developed a series of presentation modules that have been placed at the disposal not only of "ambassadors" but also of ALFI members who are called on to present the characteristics of the Luxembourg fund sector.

ALFI has also become actively involved with the Federation of Professionals of the Financial Sector (PROFIL). During the year under review, the federation carried out a detailed analysis of its mission and the means it had at its disposal to define and promote a clearer brand image for the Luxembourg financial centre.

Moving up a gear in promotion of the Luxembourg fund sector



Even though Luxembourg is one of the top three investment fund centres in the world, it is surprising to learn to what extent fund professionals from outside the Grand Duchy – including big industry names – can have a totally incorrect impression of the strengths and weaknesses of the financial centre. We must increase our efforts and refine our targets in order to correct the "offshore centre" label, with its associations of light regulation and tax haven status, that journalists and misinformed (I might say ill-intentioned) industry professionals apply to Luxembourg on every possible occasion.

In the past, our two big annual conferences have served as a useful instrument for correcting misconceptions and presenting Luxembourg as a centre of competence in the investment fund industry. However, we must now move into a higher gear by actively promoting the centre to foreign industry professionals. In the course of the year under review, ALFI took part in several economic missions organised by the Luxembourg Government.

In 2004, we are going a step further by taking an ALFI exhibition stand to several of the most important international trade fairs. Direct contact with the network of embassies, consulates and trade representative offices of the Grand Duchy should also enable us to increase visibility around the world. Alongside the various activities undertaken by ALFI, we count on the help of our members to add leverage to our efforts by acting as "ambassadors" for the Grand Duchy in their contacts with relevant circles abroad.

Ulrich Binninger
Chairman
Marketing Committee

High quality professional training: the basis for continued development of the sector

The objective to "*encourage professionalism, integrity and quality*" is perhaps achieved most directly through the activities of the Training Committee. In liaison with the IFBL (*Institut de Formation Bancaire Luxembourg*) ALFI works to meet the growing need of its members for high quality training at all levels. In 2003 this need was met by a dual approach: firstly, the continued promotion of an established formal training programme, each module of which terminates in an examination and a certificate; and secondly, a new initiative: the organisation of ad hoc training seminars on subjects of particular importance to the industry.

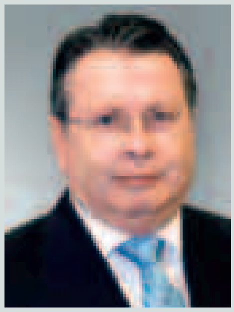
ALFI, in collaboration with the IFBL, delivers a unique training programme that reflects the professional needs of the Luxembourg fund industry. Members obtaining all three certificates on offer, "Certified CIS Accountant", "Certified Depositary Agent" and "Certified Transfer Agent", earn the title "Senior Fund Specialist". An introductory course on Collective Investment Schemes is available in English, French and German, while the three higher-level certificates are currently delivered in French.

During 2003, 395 people took part in the fixed courses. Although this figure is still below the exceptional years of 2000 and 2001, attendance has picked up strongly again in 2004.

Four ad hoc training seminars were held during the year on issues of concern to the industry, delivered by voluntary experts from our working groups. In October, a conference of 85 participants studied the subject of the new International Accounting Standards (IAS). In November, another 150 participants studied Operational Risk Management for Hedge Funds, while in December, 180 registered for a conference on the Taxation of Savings Directive. In February this year, a seminar on Fair Value Pricing was so popular that delegates overflowed the

capacity of the conference hall. ALFI is grateful to the Banque Générale du Luxembourg and the Banque de Luxembourg for generously hosting these seminars, which have proven extremely popular with our membership and will be continued in 2004.

Corporate Governance : a hot topic in the fund world as well



A catalogue of scandals - Enron, Worldcom, Ahold, Parmalat, investment funds implicated in late trading and market timing activity - have put investor confidence in corporate management to the test over the last two years. Some supervisory authorities have already reacted by adding new regulatory measures designed to reduce the risk of fraud and abuse at different levels.

If this extension of regulation is justified in the interests of the investor, the increasing complexities of business on the one hand and of financial structures on the other result in it becoming more and more difficult to respect the letter of the law. In Luxembourg, the Supervisory Authority (CSSF) has announced a Circular that will require all banks to create the position of a "Compliance Officer", who will be charged with continually monitoring the products and services of the bank and ensuring that its activities comply with current regulation.

There is no doubt that investor confidence is the motor behind the growth of collective investment. Irreproachable corporate governance is the foundation of this confidence. Concerned as it is with promoting professional behaviour and integrity in the industry, the ALFI Training Committee is developing a training module on Corporate Governance in investment funds. This course not only aims to make participants sensitive to the problem, but will also make practical suggestions on creating procedures that will put the company beyond reproach, in the interests of investors and the fund sector as a whole.

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Chairman
Training Committee

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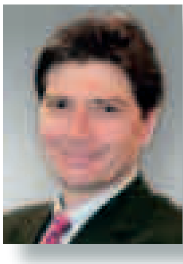

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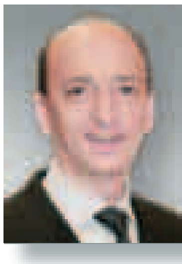

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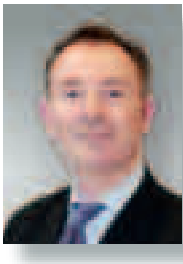

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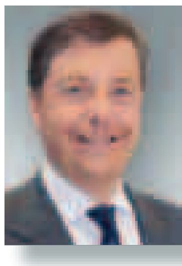

Claude Kremer
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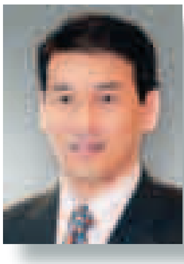

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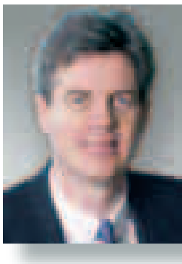

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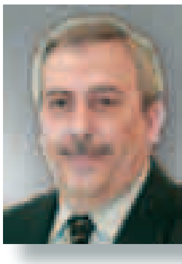

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Eric van de Kerkhove
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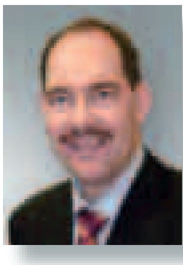
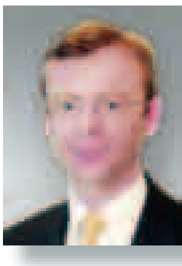


Henk van Eldik
Fidelity Investments Luxembourg SA



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3.2.4. Working Group 'Index and Multi-Manager Funds'

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