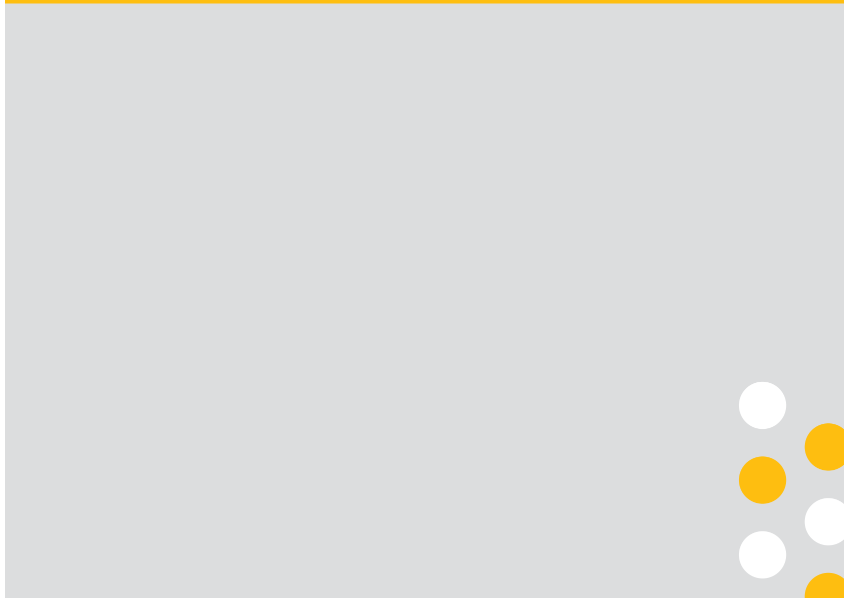
Luxembourg Fund Governance Survey 2022

11th edition

January 2023



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Foreword

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On behalf of PwC Luxembourg and the *Institut Luxembourgeois des Administrateurs* (ILA), we are pleased to present our latest edition of the Luxembourg Fund Governance Survey.

With an ever-growing number of directors and chairpersons of Luxembourg-based funds and management companies sharing their responses, this survey – now in its 11th edition – has become a key tool for asset and wealth management stakeholders to understand, shape and implement good governance practices in the fund industry.

This edition comes at a pivotal moment as Luxembourg – and Europe as a whole – have been thrust into deep macroeconomic turbulence characterised by high energy prices, soaring inflation and significant uncertainty around the evolution of major markets in the coming months and years.

However, the Luxembourg fund industry – alongside the rest of the financial centre – has demonstrated significant resilience. Investment funds and management companies not only weathered the disruptions wrought by the COVID-19 pandemic but managed to adapt and learn from it. Virtual and hybrid board meetings, for instance, are expected to remain commonplace in recognition of the efficiency gains they entail.

Compared with the previous edition, it is encouraging to note that boards now have a more diverse set of expertise, and that skills matrices are becoming ever more common. In broad terms, the results of this year's survey allow us to assert that important processes related to hiring practices and business continuity benefit from increasing formalisation. At the same time, there is room for improvement on the gender balance front, as we observe very little progress compared to 2020 in this regard and we should strive to do better.

Perhaps the most noticeable, though certainly not unexpected, change in this year's edition is the increasingly prominent role of ESG in boards' agendas, an evolution that mirrors trends observed in the global asset and wealth management industry. Many boards have agreed on a common ESG definition and have decided what ESG opportunities are of strategic significance to their funds or management companies. In addition, more boards are setting up adequate processes to oversee their funds' and companies' ESG alignment.

Ultimately, the finality of the insights provided by this exercise is to ensure that the Grand Duchy's fund industry remains a centre of excellence. To this end, we believe that it is of paramount importance that boards build on commonly accepted good governance practices while staying abreast of changing local, regional and global trends and regulations.

To conclude, we would like to thank the 137 directors and chairpersons who took the time to participate in the survey and share their thoughts and insights. We would also like to thank the ILA Fund Committee for designing the survey, and a big thank you to our colleagues from PwC Luxembourg's Global AWM & ESG Market Research Centre who analysed and collated the data and who played a key role in the realisation of this report.

Mike Delano and **Andrea Montresori**

Introduction

About the 2022 survey

Over the last few years, the global economy has been subjected to a seemingly unending barrage of systemic shocks. Just as the world began to recover from the COVID-19 pandemic, any sense of optimism was dashed as war hit Europe for the first time since the painful dissolution of Yugoslavia in the 1990s. The Russian invasion of Ukraine led to a dramatic increase in energy prices on the continent, supply chain disruptions and soaring inflation which has prompted the European Central Bank to raise interest rates for the first time since 2011. As Europe appears headed towards a recession in the very near future, the challenges posed by climate change and the resulting impacts on our ecosystems, infrastructure and food security are increasingly on top of decision makers' minds.

Nevertheless, silver linings are also apparent. Demand for transparency, accountability and inclusiveness – key pillars of good governance – from stakeholders in both the public and private sectors is growing. Momentum towards implementing environmental, social and governance (ESG) principles in the world of finance – a key component of the fight against climate change – is rapidly gaining ground. As the second largest domicile for funds in the world, and with its strategic position in the heart of Europe, Luxembourg is not only directly affected by these trends – it has an opportunity to actively take part in shaping them. In addition, stakeholders in the fund industry have developed strong policies and frameworks regarding anti-money laundering (AML) and combating the financing of terrorism (CFT), a noteworthy development in the last decade.

In the midst of this complex and quickly evolving environment, the aim of the 11th edition of the Luxembourg Fund Governance Survey, prepared in partnership by the *Institut Luxembourgeois des Administrateurs* (ILA) and PwC, is to provide all stakeholders with meaningful insights that will continue to help shape good governance practices in the Grand Duchy's fund industry.

From the composition and organisation of boards, to directors' remuneration, roles, responsibilities, practices and policies to deal with conflicts of interests, term limits, succession and ESG, to name a few, this edition of the survey covers a very wide array of subjects and issues. With 137 respondents – a 12% increase since the previous edition from 2020 – having generously provided their input for this report between 30 June and 5 October 2022, stakeholders seeking to get a first-hand account of the inner-workings of Luxembourg-based investment funds and management companies will find this report particularly insightful.

Highlights and Key Trends

This year's survey shows that some of the key issues requiring significant attention from the boards of management companies and investment funds are regulatory changes – notably ESG-related ones – and a host of considerations in relation to good governance and the evolving concepts that underpin it. In addition, given the turbulent macroeconomic and geopolitical developments that have taken place in 2022, it is unsurprising to see that investment performance and market developments are two other areas that boards believe require close monitoring.

It is encouraging to see that good governance practices continue to grow and have an imprint on boards of management companies and investment funds. The number of non-executive board directors[1] (NEDs) is on the rise, while the majority of boards appoint a permanent chairperson, particularly among UCITS funds. In addition, we observe that board meetings are increasingly taking place in a hybrid or virtual setting, whereas the number of physical meetings held is decreasing – a continuation of a trend first observed in 2020, when the COVID-19 pandemic led to a large uptick in virtual meetings.

Boards are increasingly broadening their areas of expertise to include specialists in ESG matters, distribution, risk management, fund administration and operation, portfolio management, and good governance matters – and they increasingly do so in a formalised fashion, via skills matrices. Although uptake is slow, a growing number of directors have completed or are in the process of finishing the ILA Certified Director Program. In addition, AML is taken very seriously by boards across the fund industry, as the vast majority of boards have policies and frameworks in place in this regard.

With the increasing prominence of ESG across the global asset and wealth management industry, and the growing number of ESG-related regulations being rolled out or coming into effect in Europe and across the world, it is unsurprising to see that boards are paying close attention to this matter. A growing number of them review their ESG communications and messaging in order to avoid situations of unintended greenwashing or mislabelling, and many have decided which ESG risks and opportunities are of strategic significance. Although a majority of boards now take into account ESG criteria when reviewing investments, very few have decided on the minimum percentage of investments to be aligned with the EU taxonomy for sustainable activities.

1. For the purposes of this report, "non-executive director" and "independent director" are interchangeable terms.

The slow upward trend observed in 2020 regarding the number of female board members appears to have stalled. Women continue to make up just a little over one-fifth of board members in the funds sector. For management companies and investment funds that focus on ESG investing, remedying this is of the utmost importance, as such matters are heavily scrutinised by ESG-conscious investors who would prefer to seek out players in the fund industry who practise what they preach.

General market information

Luxembourg's position as Europe's largest fund centre continues unabated, with more than €5.037 trillion in assets under management (AuM)[2] as of 30 September 2022, up from €4.67 trillion in October 2020. In addition, despite increasing outflows from and overall declining AuM and sales of UCITS throughout the first half of 2022, the Grand Duchy continues to be at the forefront of the UCITS fund industry, accounting for 35% of Europe's UCITS assets, a position that has remained unchallenged since the previous edition of this survey.[3] The country continues to be the leading cross-border investment fund centre in the world, with a market share of roughly 57% of cross-border fund distribution worldwide.[4]

Since AIFMD was introduced in the EU in mid-2011, Luxembourg has become a leading centre for alternative asset classes. In 2021, there were 305 management companies (ManCos) as defined by Chapter 15 and Chapter 16 of the Law of 17 December 2010. As for authorised alternative investment fund managers (AIFMs), there were 261 in Luxembourg,[5] managing around €945.6 billion in alternative assets – be it private equity, real estate, infrastructure, private debt, or other asset classes.[6]

Our sample

Between 30 June and 5 October 2022, the survey was filled out by 137 participants, a 12% increase compared to 2020, and a 41% increase from 2018. The respondents fall into five categories:

	Management Companies (ManCos)			Funds	
	Super ManCos	UCITS ManCos	AIF ManCos	UCITS	AIFs
Description	Large management companies that oversee UCITS and alternative funds.	Management companies overseeing UCITS funds only.	Management companies overseeing alternative funds only.	UCITS funds	Alternative investment funds
Applicable regulation(s)	Law of 17 December 2010	Law of 17 December 2010	Law of 17 December 2010 or Law of 12 July 2013	Law of 17 December 2010	Law of 12 July 2013
Number of respondents	42	5	21	37	32

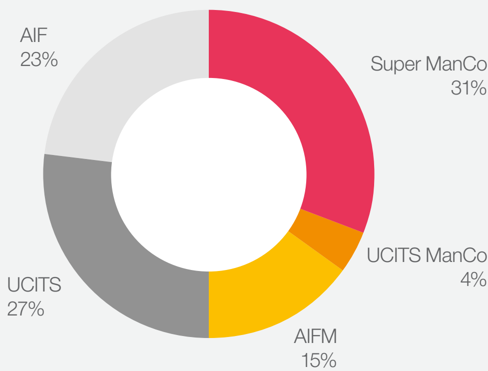
Please note that due to the very small number of UCITS ManCo respondents in our sample, any figures presented with respect to this category may be hard to interpret and/or compare to outcomes associated with this category in previous editions of the survey.

This year's sample represents 48% of Luxembourg-based UCITS AuM and 42% of AIF AuM,[7] and as with the 2020 survey, ManCo respondents were primarily directors and conducting officers, while fund respondents were mainly directors and board chairpersons. The majority of UCITS and AIF respondents had appointed a ManCo domiciled in Luxembourg, while those who didn't tended to appoint one from Ireland, France or the Netherlands. As with the findings of the 2020 survey, a majority of Super ManCos passport their services and have branches in other countries, primarily in the EU (Germany, Italy, France and Spain top the list). As for AIFM respondents, although a majority now passport their services, most do not have any foreign branches – and among those who do, all are located in the EU.

The survey drew information from fund promoters originating from 20 countries, primarily the United Kingdom, Switzerland, the United States and Luxembourg. According to the *Commission de Surveillance du Secteur Financier* (CSSF), promoters operating in Luxembourg primarily come from Germany, Switzerland, France, the United Kingdom and the Grand Duchy itself.[8]

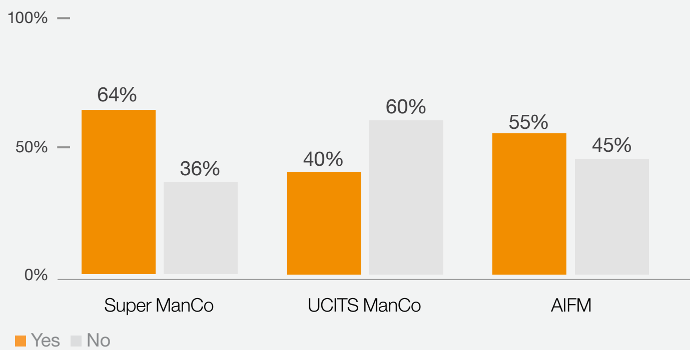
2. CSSF data as of 30/09/2022
3. EFAMA, Q2 2022
4. PwC Global Fund Distribution Data, 2022
5. PwC Observatory for Management Companies, 2022 Barometer
6. EFAMA, Q2 2022
7. EFAMA, Trends in the European Investment Fund Industry in the Fourth Quarter of 2021 & Results for the Full Year of 2021
8. CSSF data as of 30/09/2021

Figure 1: Sample composition



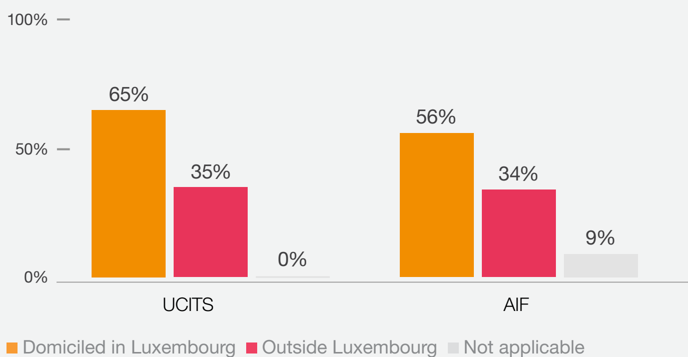
Sample Size = 137 PwC AWM & ESG Market Research Centre

Figure 3: Are you passporting your services?



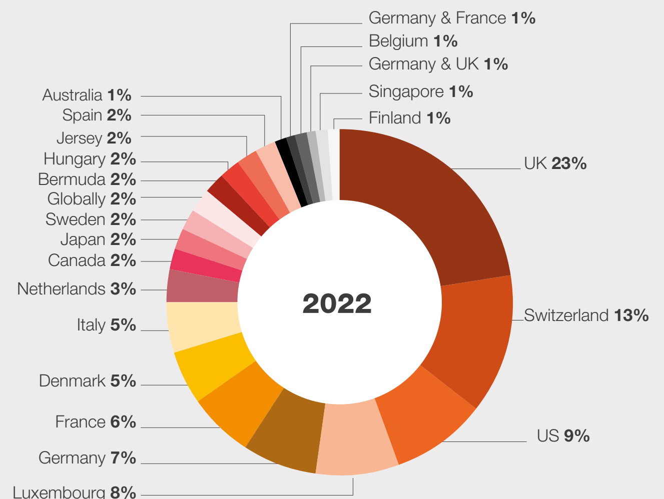
Sample Size = 64 PwC AWM & ESG Market Research Centre

Figure 4: Have you appointed a ManCo?

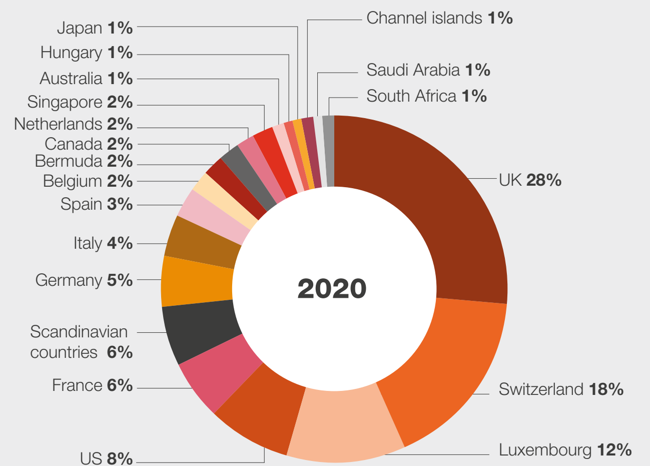


Sample Size = 69 PwC AWM & ESG Market Research Centre

Figure 2: Where is the promoter located?



Sample Size = 125



Sample Size = 120

Percentages may not add up to 100% due to rounding.
Source: PwC AWM & ESG Market Research Centre

Breakdown of survey areas

The survey was divided into the following key areas of interest:

1

Board Composition

provides insights over the profiles of board members – such as the age, tenure, gender, independence and expertise – as well as policies regarding remuneration and appointment.

2

Board Organisation

presents information over the practical aspects of board meetings, such as their duration, location, and agendas.

3

Roles & responsibilities of the board

examines the different management styles of the boards, the performance of boards and individual directors, the different types of documents reviewed, and the takeup of the ILA Certified Director program, among others.

4

Conflicts of interest & legal liabilities

highlights how boards manage potential conflicts of interests and mitigate directors' liabilities.

5

Code of conduct

reviews boards' adoption of and views on the ALFI[9] code of conduct.

6

AML

looks at the extent to which boards have approved and validated their AML policies, suspicious transaction and screening processes, AML/CTF business risk assessments and risk appetite frameworks.

7

ESG

examines boards' policies regarding taking ESG criteria into account when reviewing investments, the EU taxonomy, ESG messaging and communications, and strategic ESG risks and opportunities.

8

Current challenges & looking forward

explores the strategic and operational implications of the latest and upcoming regulations, particularly the ESG-related ones, and highlights the major issues boards expect to be facing in the coming two years and which will require close scrutiny and attention.

9. Association of the Luxembourg Fund Industry, the official representative body for the Luxembourg investment fund industry

1

Board Composition

Board Size

On average, management companies and funds do not show significant divergences when it comes to the size of their boards, with most of them having a board composed of four directors. However, the number is slightly different among UCITS boards, which have 5 members on average, and AIF boards, which have between 3 and 4 members.

Directors' profile

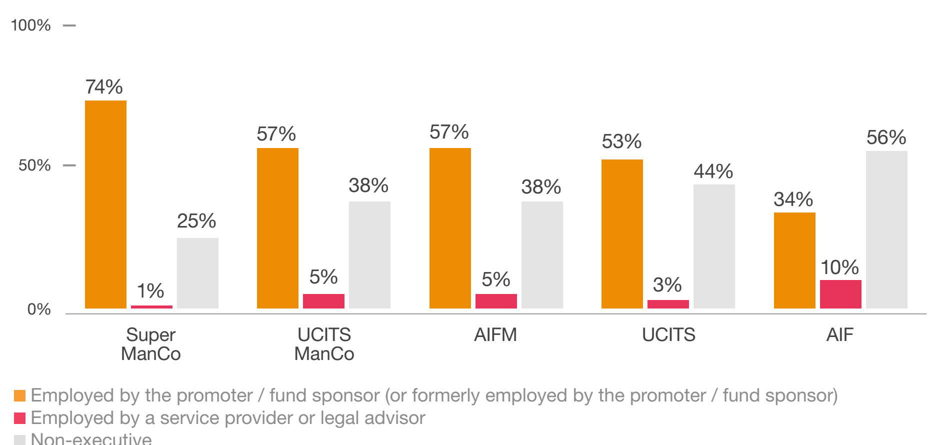
As with the 2020 survey, we sought out the standard profile of directors sitting on the boards of management companies and funds based in Luxembourg and found that the typical board member has not changed much since the previous survey. In general, the typical board member:

- Is employed by the promoter or the fund sponsor
- Has served between 5 and 6 years on the board
- Has around 22 years of experience, mainly in fund governance, portfolio management or fund administration
- Has not started the ILA certification process
- Is around 53 years old
- Is male
- Lives outside of Luxembourg and the Greater Region

Since 2018, the number of appointed non-executive board directors (NEDs) has been on an upward trajectory. In 2022, 39% of board members were NEDs, up from 30% in 2018 and 35% in 2020. The proportion of NEDs was highest in AIF boards, whereby 56% of members were non-executive members, up from 49% in 2020. The proportion was also relatively high among UCITS boards, whereby 44% of directors were NEDs, a slight increase from the 42% recorded in the 2020 survey.

The presence of NEDs is generally seen as a pillar of good corporate governance. Experienced non-executive directors bring significant value to boards as they are generally unbiased and offer well-informed and constructive criticism, advice and insights vital to a board's oversight and strategic responsibilities.

Figure 5: What is the profile of board members? (Employment status of board members)



Sample Size = 563

Note: Sample size for this question is the total number of board members sitting on all boards in our sample for which we at least have information on employment status.

Source: PwC AWM & ESG Market Research Centre

Compared to their executive peers, we notice that NEDs tend to have a somewhat different profile, in line with the findings of the 2020 survey, as they tend to:

- Be slightly older (average age is 58)
- Be slightly more experienced (23 years of experience on average, primarily in fund governance or as professional directors)
- Be much more likely to have started or to have received the ILA certification process
- Live in Luxembourg and the Greater Region

Regarding the ILA certification process, the disparities are quite striking: Whereas 94% of directors who are employed or formerly employed by the promoter or fund sponsor have not yet started the ILA certification process, this is the case for only 53% of NEDs. It should be noted that the ILA certification process is by no means the only way for NEDs to obtain relevant training, be it via the ILA or through other training providers.

Another notable disparity can be observed with regard to directors' place of residence: whereas 69% of directors employed or formerly employed by the promoter or fund sponsor live outside the Greater Region, 72% of NEDs live in Luxembourg and the Greater Region.

Figure 6: What is the profile of board members? (Breakdown by entity category)

	Total	Super ManCo	UCITS ManCo	AIFM	UCITS	AIF
Sample size	563	178	21	81	174	109
Employment						
	Employed/formerly employed by the promoter/fund sponsor (56%)	Employed/ formerly employed by the promoter/fund sponsor (74%)	Employed/ formerly employed by the promoter/fund sponsor (57%)	Employed/ formerly employed by the promoter/fund sponsor (57%)	Employed/ formerly employed by the promoter/fund sponsor (53%)	Non-executive (56%)
Years on board (mean)						
	5.4	4.7	5.8	5.5	6.0	5.5
Main area of expertise						
	Fund governance (23%) Portfolio management (15%) Fund admin. (14%)	CEO/Managing director (18%) Fund governance/ Professional director (17%) Fund admin. (17%)	Fund governance/ professional director (29%) Distribution/sales (24%)	Fund governance/ professional director (24%) Portfolio management (18%) Fund admin. (15%)	Fund governance/ professional director (20%) Portfolio management (14%) Fund admin. (14%)	Fund governance/ professional director (36%) Portfolio management (20%) Fund admin. (12%)
Years of experience in expertise area (mean)						
	21.6	21.0	28.8	20.1	22.6	20.1
ILA Certification						
	Not started (78%)	Not started (86%)	Not started (75%)	Not started (74%)	Not started (79%)	Not started (66%)
Age (mean)						
	53.7	53.6	57.9	53.1	53.8	53.4
Gender						
	Male (78%)	Male (77%)	Male (81%)	Male (92%)	Male (73%)	Male (79%)
Place of residence						
	Outside Greater Region (51%)	Outside Greater Region (53%)	Outside Greater Region (67%)	Within Greater Region (55%)	Outside Greater Region (63%)	Within Greater Region (73%)

Source: PwC AWM & ESG Market Research Centre

Figure 7: What is the profile of board members? (Breakdown by employment status)

	Total	Employed or formerly employed by the promoter or fund sponsor	Non-executive	Employed by a service provider or legal advisor
Sample size	563	318	221	24
Years on board (mean)				
	5.4	5.3	5.6	5.9
Main area of expertise				
	Fund governance/ professional director (23%) Portfolio management (15%) Fund admin. (14%)	Portfolio management (20%) Fund admin. (17%)	Fund governance/ professional director (47%)	Fund governance/ professional director (29%) Legal (21%)
Years of experience in expertise area (mean)				
	21.6	20.6	23.2	19.7
ILA Certification				
	Not started (78%)	Not started (94%)	Not started (53%)	Not started (88%)
Age (mean)				
	53.8	51.4	57.9	50.8
Gender				
	Male (78%) Female (22%)	Male (80%) Female (20%)	Male (76%) Female (24%)	Male (79%) Female (21%)
Place of residence				
	Outside Greater Region (51%)	Outside Greater Region (69%)	Luxembourg and Greater Region (72%)	Luxembourg and Greater Region (94%)

Source: PwC AWM & ESG Market Research Centre

Board diversity

When it comes to gender representation in the boards of funds and management companies, women continue to be underrepresented, and the number remains unchanged since 2020 with only 22% of directors being female. For context, a meaningful increase was last noted in comparison to 2016 levels, when only 16% of board directors were female. At present, NEDs are slightly more likely to be female than their executive counterparts, standing at 24%.

We note that there is stagnation on the gender diversity front. In addition, it should also be noted that gender balance remains even more elusive with regard to AIFM boards, where women make up only 8% of the respondents on average.

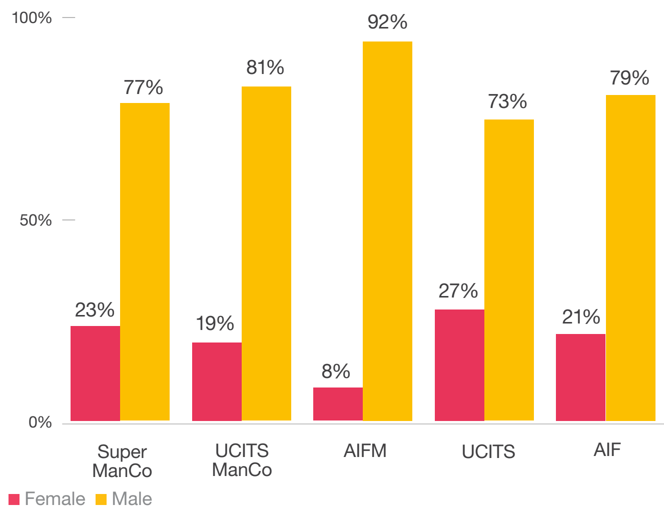
In response to a new question added to this edition of the survey, **39%** of respondents indicate that their **boards are actively seeking to diversify** their composition. While there are divergences between respondent categories, none particularly stands out in this regard. We note that certain respondents indicate having specific policies in place to incorporate gender diversity into the recruitment & replacement process. In the light of the aforementioned current female representation on boards, a higher degree of commitment on board diversity should be expected going forward.

Chairperson appointment

Chairpersons of the boards are key actors to ensure good corporate governance. As per the ALFI Code of Conduct,[10] chairpersons "should demonstrate leadership during as well as outside meetings," and their "duties should include setting the agenda, managing the meeting, steering the discussions and ensuring that effective and fair conclusions are reached."

Appointing a **permanent chairperson** is considered good practice, as this ensures organisational consistency, efficiency and open channels of communication with the senior management. While the majority of respondents have done so, there is clearly room for improvement. In some instances, we note that **figures are trending in the wrong direction**. Notably, while 91% of Super ManCos indicated having appointed a permanent chairperson in 2020, this number dropped to 83% in 2022. For AIFs, the number has dropped from 72% to 56% over the same period. While we can only speculate as to the reasons behind this drop, there might be confusion between the appointment of a "meeting chair" and the permanent chairperson. A modification of the questionnaire is under consideration to avoid any ambiguity going forward.

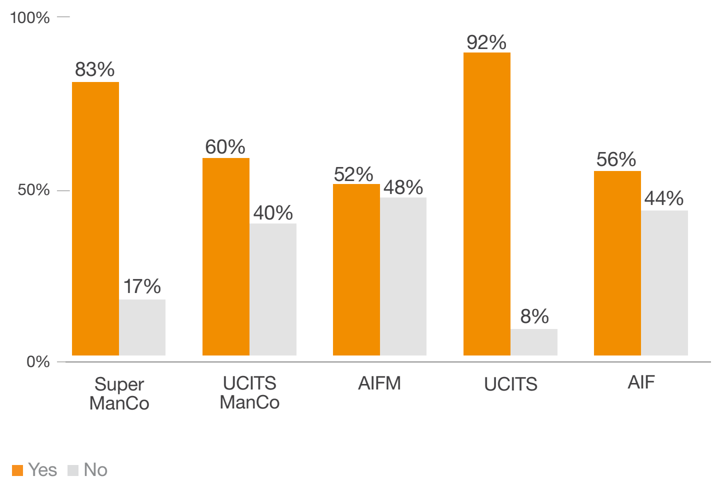
Figure 8: Percentage of female and male board members



Sample Size = 489

Source: PwC AWM & ESG Market Research Centre

Figure 9: Has the board appointed a permanent chairperson?



Sample Size = 136

Source: PwC AWM & ESG Market Research Centre

10. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022

Board expertise

In order to ensure adequate long-term planning and to meet investors' expectations, board members should ideally complement one another with their skills and expertise. As with the 2020 survey, the 2022 survey once again shows that board members across all respondent categories have a **great diversity of expertise**. For instance, 23% of surveyed board members are experts in fund governance or professional directors, while 15% are experts in portfolio management and 14% are experts in fund administration and operations. It should be noted that the figure below only highlights the self-reported *main area* of expertise of our respondent sample. As noted in the later selection 'Board Training,' AML training consistently tops the charts both in terms of training provided by the board or taken on a personal basis.

In the 2020 survey we showed that the boards of several funds and management companies developed a skills matrix to ensure that board members have a balanced mix of skills needed to ensure strategic implementation of goals. However, in all respondent categories, less than half of boards had developed such a matrix, and the figure was particularly low among AIF and AIFM boards at 26% and 25% respectively.

A notable finding of the 2022 survey is that **skills matrices are now much more common.** For instance, among Super Manco boards, 54% of them now have a skills matrix, up from 39% in 2020. Even AIF boards witnessed an improvement in this regard, with the number of them having a skills matrix rising to 38%. However, no changes were seen among AIFM boards, with the percentage remaining unchanged since 2020.

When there is no skills matrix in place, many boards rely on candidates' CVs, interviews and broad assessments to ensure that board members have the relevant skills with a view on the regulator's expectations. As for boards seeking to establish a skills matrix but who may find the process cumbersome or difficult, the ILA's skills matrix template is a useful alternative.[11]

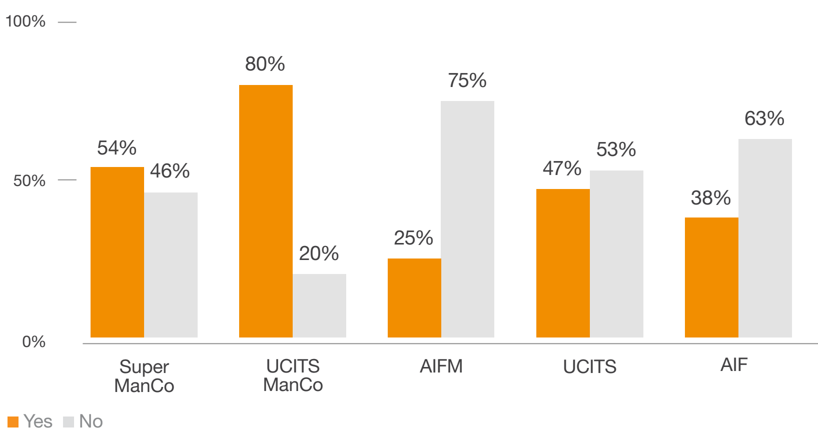
In response to a newly added question to this year's survey, roughly half (49%) of surveyed boards indicate having included new expertise over the last two years. We note significant disparities across respondent categories: whereas 68% and 59% of Super ManCos and UCITS boards have **included new expertise** over the last two years, only 30% and 23% of AIFM and AIF boards have done so. The most commonly added areas of expertise are ESG (16%), Distribution (15%), Risk Management (13%), and Fund administration/operation (13%).

Figure 10: What is the main area of expertise of each board member?

Sample Size = 542 Source: PwC AWM & ESG Market Research Centre

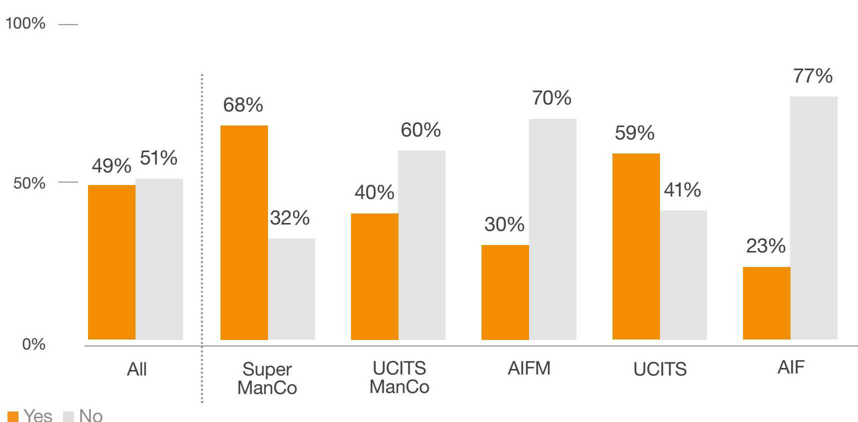
Note: Sample size for this question is the total number of board members sitting on all boards in our sample for which we at least have information on employment status.

Figure 11: Do you have a board skills matrix?



Sample Size = 134 Source: PwC AWM & ESG Market Research Centre

Figure 12: Has the board included new expertise since the past two years?



Sample Size = 134 Source: PwC AWM & ESG Market Research Centre

11. More information can be found on the ILA's website

Appointment procedures

Transparent procedures for selecting and appointing board members are key to ensure boards are equipped with a diversity of skills needed for good governance, and that NEDs are present in the board to offer their unbiased and constructive professional input. The ALFI Code of Conduct recommends that boards 'should establish a formal procedure for the appointment and renewal of members,' and that one or more members be independent.[12]

The 2020 survey found that a majority of boards did not have any **formal procedures in place to appoint new directors**. Super ManCos were the positive outlier, with 44% indicating having formal procedures in place.

In 2022, the situation has **slightly improved** for certain categories. Among Super ManCo respondents, over half (54%) now have formal procedures in place, while among UCITS and AIFs boards, 31% and 32% now do so respectively, up from 23% and 20% in 2020. Things look very different on the AIFM side where a mere 15% had formal procedures in place, down from 33% in 2020.

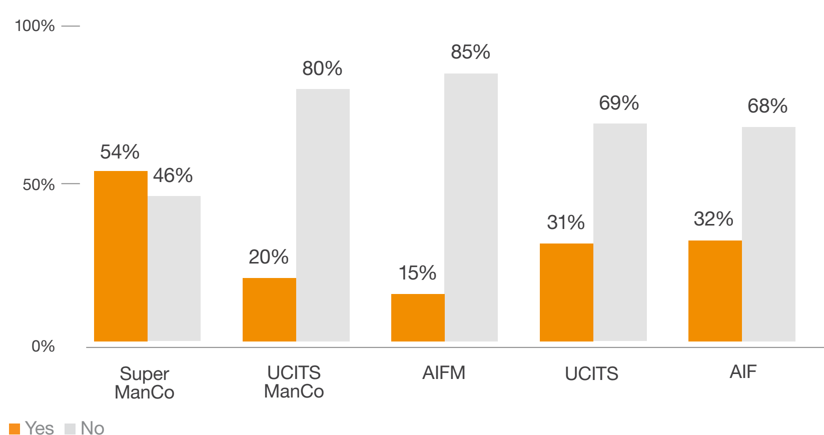
Regarding written terms of appointment or job descriptions that outline the roles and responsibilities of the board directors, only 37% of boards had them in 2020. That number has increased slightly to reach 42% in 2022. When we disaggregate the numbers between directors employed by the promoters/management companies, and NEDs, we notice stark discrepancies. Whereas only 37% of employed directors have **written terms of appointments** or job descriptions, **63% of NEDs do**. This distinction is in line with the findings of the 2020 survey. Both ALFI[13] and ILA provide templates for the letter of appointment.

As for helping directors understand the promoter group, management company and funds managed, a large majority of boards across all respondent categories have a process in place. Due diligence takes place either prior or during the appointment, or on an ongoing basis. These findings are consistent with the 2020 survey.

When it comes to **succession planning**, a telling change from 2020 is that **an increase** in the number of boards having formal procedures for succession planning is seen **across all categories**. Among Super ManCos, whereas only 15% of boards had formal procedures in place for succession planning in 2020, the number more than doubled, reaching 33% in 2022. Whereas none of the AIFM respondents had such procedures in 2020, 5% did in this year's edition. However, as a whole, a large majority of boards remain bereft of formal procedures for succession planning. These findings go hand in hand with the fact that a significant number of boards (89%) do not have term limits in place, and even among the boards that do, the average limit is relatively extensive, standing at approximately 10.2 years.

12. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022
13. ALFI Code of Conduct for Luxembourg Investment Funds – Guidance on Board member letter of appointment, October 2017

Figure 13: Does the board have formal procedures for selecting and appointing new members?



Sample Size = 133

Source: PwC AWM & ESG Market Research Centre

Directors serving at both management company and fund level

The 2022 survey finds that across all respondent categories, at least one director serves simultaneously as director of the ManCos and the funds. For instance, 68% of Super ManCo directors and 80% of UCITS ManCo directors simultaneously serve as directors of a fund managed by the management company.

However, as with the findings of the 2020 survey, we notice that the practice is rare among AIFs, with only 13% of AIF directors in 2022 also serving as directors of the designated ManCo. Among them, 75% sit at both executive levels.

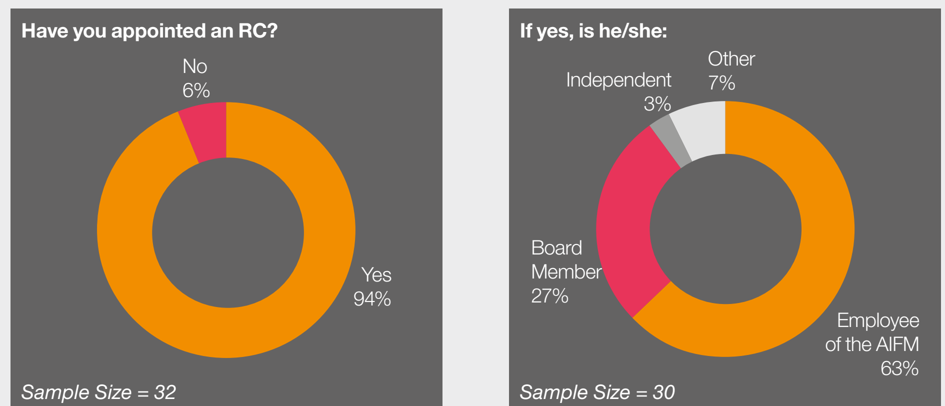
Among Super ManCos where this practice is the norm, 74% of the directors sit at both executive levels. As for UCITS, of the 51% of directors who serve as fund directors and directors of the designated ManCo, 63% sit at both executive levels.

As a whole, when the practice of having directors serve at both levels is adopted, the number of directors doing so tends to be either one (AIF, UCITS boards), two (AIFM, UCITS ManCo boards) or three (Super ManCo boards).

RC appointment

As with the findings of the 2020 survey, **the vast majority (94%) of AIF boards have appointed a 'Responsable du Contrôle' (RC)**, who tend to be an employee of the AIFM (63%), a board member (27%), an independent actor (3%) or from another background (7%). Based on recently issued guidance by the Luxembourg Registration Duties, Estates and VAT Authority, we expect this number to trend towards 100% going forward.

Figure 14: Have you appointed an RC? (addressed to AIFs)



Note: "RC" or "Responsable du Contrôle" means the compliance officer according to Article 4(1) of the AML/CFT Law. This question is only being asked to AIF respondents.

Source: PwC AWM & ESG Market Research Centre

Publicly available information on directors

Transparency is at the heart of good governance and making information about board members publicly available – such as a short biography, experience, and job titles – is essential to gain the trust of all stakeholders. The “Guidance on Board Reports,” issued jointly by ALFI and ILA and intended as an addendum to the ALFI Code of Conduct,[14] encourages the inclusion of details on the boards’ policies on director appointments and terminations, policies on diversity, biographies of the directors, and a clear explanation of the roles and responsibilities of the board.

As with previous surveys, the 2022 survey finds that funds largely disclose the names, job titles and a short biography or background of the board directors. It is encouraging to note the number of funds disclosing short biographies or the background of directors has **increased** from 41% to 59% for UCITS and 72% to 77% for AIFs.

Figure 15: What information on directors is provided in publicly available fund documentation (e.g., prospectus, annual report, etc.)?

	UCITS		AIF	
	2020	2022	2020	2022
Name	97%	100%	92%	97%
Job title	77%	76%	68%	77%
Short biography / Background	41%	59%	72%	77%
Address	49%	32%	24%	26%
Date of appointment / Number of years of service	18%	38%	56%	39%
Skills brought to the board	8%	14%	28%	29%
Age	3%	11%	16%	13%
Other	10%	5%	0%	3%

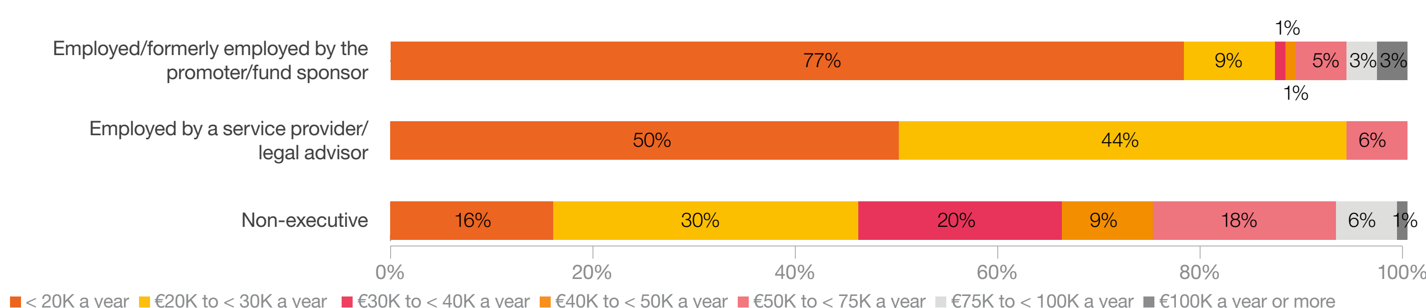
Source: PwC AWM & ESG Market Research Centre

Director remuneration

The ALFI Code of Conduct calls for ‘reasonable and fair remuneration’ for board members, which should be ‘adequately disclosed in annual financial statements, either on an individual basis or collectively.[15] The aforementioned “Guidance on Board Reports” also encourages disclosing details of the remuneration paid to board members in annual reports, including how the remuneration is determined and approved.[16]

As with the surveys from previous years, we notice disparities in directors’ remuneration depending on their employment status. For instance, 77% of directors who were employed or formerly employed by the promoter or the fund sponsor received less than €20,000 per year. This is unsurprising, as directors employed by the promoter or the fund sponsor usually do not receive any additional remuneration for their position on the board. As for directors employed by a service provider or who are legal advisors, 50% of them receive less than €20,000 per year.

Figure 16.a: What is the remuneration received by individual board members in respect of the main fund, before deduction of any taxes and exclusive of VAT if applicable?

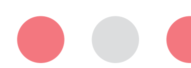


Sample Size = 345

Note: Sample size includes all board members receiving specific remuneration for their role.

Source: PwC AWM & ESG Market Research Centre

14. ALFI Code of Conduct for Luxembourg Investment Funds - Board Reports, October 2017
15. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022
16. ALFI Code of Conduct for Luxembourg Investment Funds - Board Reports, October 2017



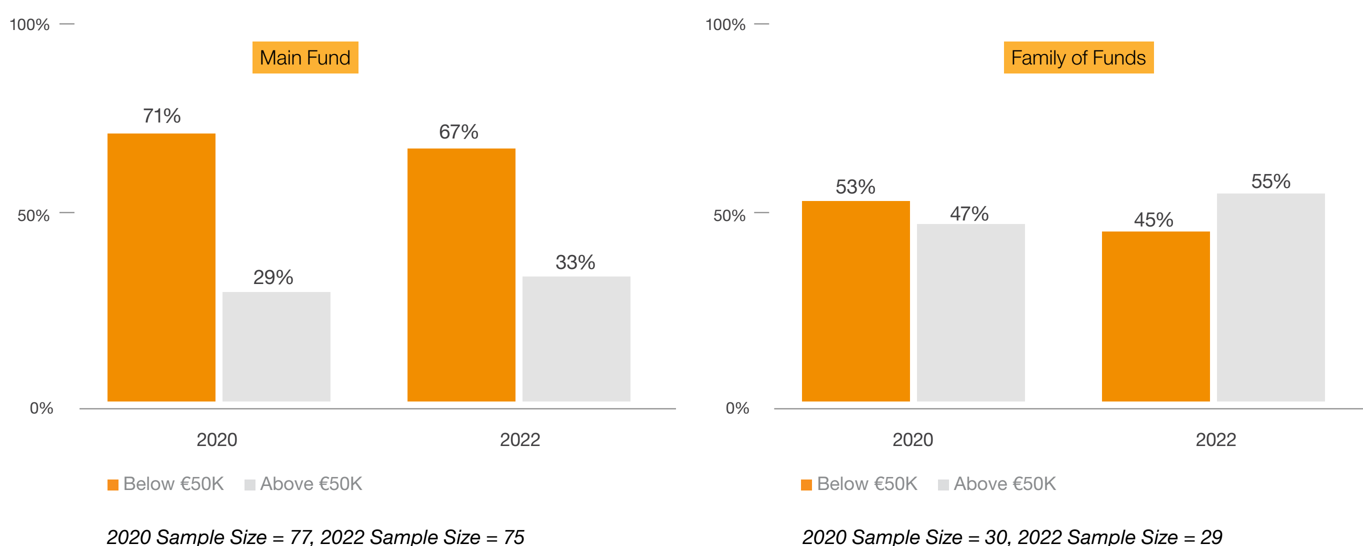
Predictably, the situation is different for NEDs, as 59% of them received an annual remuneration between €20,000 and €50,000, while 25% received an annual remuneration of over €50,000, roughly in line with the 57% and 23% respectively observed in the 2020 survey.

We conducted a post-hoc analysis looking at NEDs affiliated with entities who responded to both the present and previous editions of this survey in order to assess whether a more noticeable trend could be observed when looking at a more consistent sample.

This post-hoc analysis, albeit constrained by methodological limitations, suggests that NEDs' remuneration is indeed trending higher in line with our expectations. In 2020, only 29% and 47% of NEDs' remuneration from the main fund and family of funds was above €50K respectively, while in 2022, the figures have increased to 33% and 55%.

When it comes to disclosing directors' remuneration in the annual report, we observe several changes from the 2020 survey, both when it comes to remuneration disclosures on an aggregate and on an individual basis. Among AIFs, whereas 52% disclosed remuneration on an aggregate basis and 4% did so on an individual basis in 2020, 71% now do so on an aggregate basis – yet none do so on an individual basis. For UCITS, a similar trend is observed: Whereas 26% disclosed remuneration on an aggregate basis and 32% did so on an individual basis in 2020, the figures changed to 57% and 14% respectively in the 2022 survey. Thus, in several instances, we **see more transparency when it comes to aggregate remuneration** disclosures, whereas disclosing **individual remuneration** remains an uncommon practice. In general, disclosing directors' remuneration – be it in the annual report or in any other form of reporting – is considered to be a standard good governance practice. We encourage boards of management companies and investment funds to increase their disclosures in this regard.

Figure 16.b: Remuneration of NEDs affiliated with firms responding to both the 2020 and 2022 questionnaire

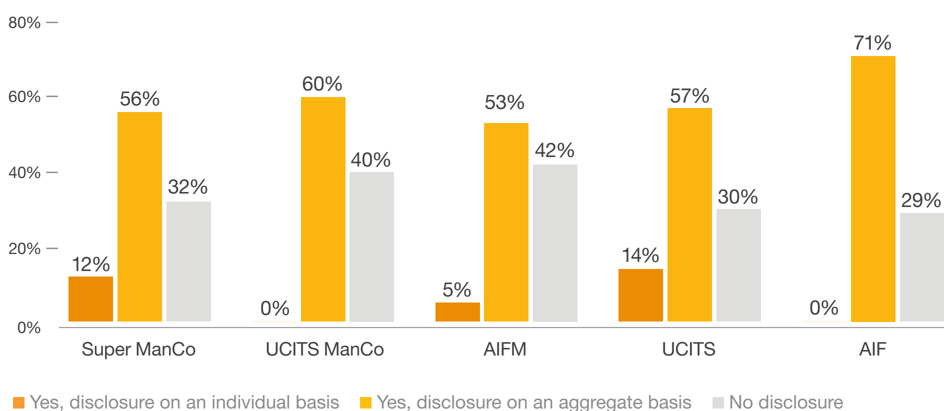


Note: Sample size corresponds to NEDs affiliated with firms responding to both the 2020 and 2022 questionnaire. The above is a post-hoc analysis.

Source: PwC AWM & ESG Market Research Centre

Lastly, we found that a **large majority of chairpersons don't receive a premium.** For instance, none of the chairpersons in the boards of UCITS ManCos and AIFMs receive a premium. In the same vein, 90% of chairpersons of Super ManCo boards, 82% of chairpersons of AIF boards, and 68% of chairpersons in UCITS boards also don't receive a premium. This is a surprising finding in light of the added responsibility and increased workload associated with this role and is likely explained by the fact that a number of the chairpersons in our sample were executive directors. While we do not have conclusive data to support this, what we see in practice is that NEDs who have the role of chair are receiving additional compensation for that role.

Figure 17: Is the director's remuneration disclosed in the annual report?



Sample Size = 133

Source: PwC AWM & ESG Market Research Centre

2 Board Organisation

Board meetings

In 2018, boards of Luxembourg-based funds and management companies met 5.5 times per year on average. The 2020 survey highlighted **a noticeable increase**, whereby boards met 7.7 times on average, largely due to the increased commitment from board directors to meet investors' and stakeholders' needs in a context of market disruptions caused by the COVID-19 pandemic.

The relatively high number of meetings persists in the 2022 survey, as on average, boards meet 7.4 times a year, with meetings primarily taking place in Luxembourg. Significant **discrepancies exist between the different respondent categories.** For instance, whereas Super ManCo boards and UCITS boards met on average 5.4 and 5.5 times respectively, the boards of AIFs and AIFMs met on average 9.6 and 14 times respectively. This higher frequency of meetings among AIF and AIFM boards is in line with previous surveys, as the oversight of alternative asset classes such as real estate and PE typically involves board approval of a significant number of deals throughout the year.

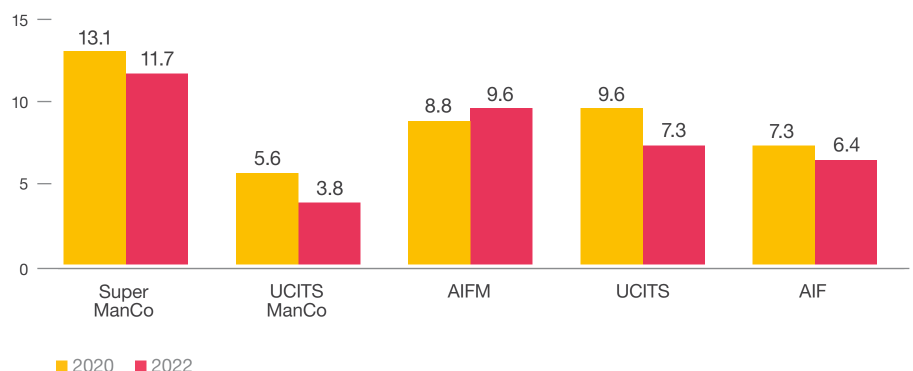
It is noteworthy that virtual and hybrid meetings are increasing in popularity. Unlike Ireland's 2014 Companies Act which gives boards significant latitude regarding the format of their meetings, it wasn't until the COVID-19 pandemic that virtual meetings became universally endorsed in Luxembourg. The Law of 23 September 2020[17] allowed the boards of all companies in Luxembourg to hold virtual board and shareholders meetings until 31 December 2021, which was later amended to extend the timeframe to 31 December 2022.[18] Whereas physical meetings took place 5.6 times a year on average in 2020, the number has gone down to 3.5 times in 2022. Given such growing preference towards virtual meetings, it is unsurprising to note that **70%** of respondents **plan on continuing to propose virtual meetings** over the coming two years. The ILA Investment Fund Committee recognises the benefits associated with virtual meetings, such as a reduced carbon footprint and the ease of organising. However, the Committee advises keeping some board meetings physical as in-person meetings tend to be crucial to build rapport among directors and to generate constructive dialogue.

As with the findings of the 2018 and 2020 surveys, a reluctance to publish the attendance record of individual directors in annual reports continues to be widespread in 2022, despite recommendations of the ALFI and ILA "Guidance on Board Reports" to the contrary.[19] Only 8% of UCITS boards and 6% of AIF boards publish such figures in their annual reports. The majority of Luxembourg-based funds continue to not publish their board attendance records, which is in-line with previous surveys. However, despite this reluctance, it is encouraging to see that 50% of boards now have a policy on board attendance, up from 37% in 2020. The increase is strongly pronounced among Super ManCos, whereby 73% now have such a policy, compared to 50% in 2020.

Circular resolutions

The **usage of circular resolutions** issued by Luxembourg-based boards remains very high, with 93% of boards stating that they do so – up from 90% in 2020. Circular resolutions are popular as they allow directors to pass resolutions without the need to hold a formal meeting, and hence resolve administrative matters swiftly. This is particularly necessary in times of systemic changes and uncertainties, such as when the COVID-19 pandemic hit. However, circular resolutions must not act as a substitute for dealing with crucial issues which require formal board meetings. As with the findings of the 2020

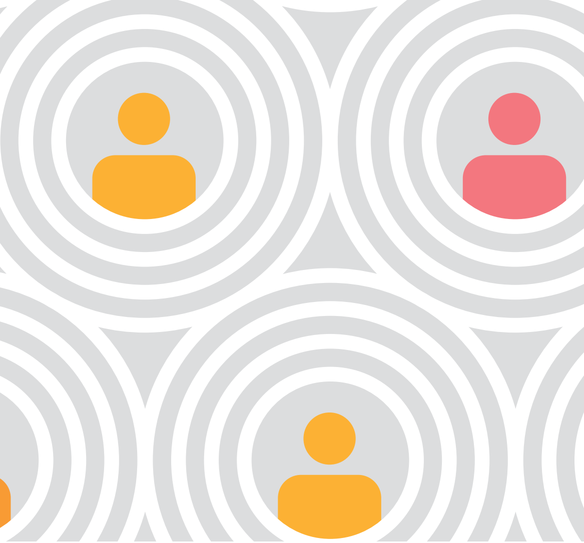
Figure 18: How many circular resolutions does the board use on average per year?



Sample Size = 122 (2020) | 121 (2022)

Source: PwC AWM & ESG Market Research Centre

17. Law of 23 September 2020 on companies' and other legal persons' meetings
18. Law of 17 December 2021, amending Law of 23 September 2020
19. ALFI Code of Conduct for Luxembourg Investment Funds - Board Reports, October 2017



survey, Super ManCo boards continue to issue the highest number of circular resolutions, with 11.71 resolutions on average per year, up from 9.6 resolutions per year in 2020.

Meeting duration and agenda

The amount of time directors spend on average reviewing board papers before meetings has been decreasing since 2018. While we speculated in 2020 that this trend could either be due to an increase in the survey sample size or due to efficiency gains, the continuation of this trend observed in the present edition of the survey points towards the latter being the likely causal factor. In 2022, directors spent on average 4.31 hours reviewing board papers, down from 5.33 hours in 2020 and 6.5 hours in 2018. Super ManCo directors spend the most time reviewing board papers (4.94 hours).

As with the 2020 survey, board papers are disseminated five or six working days before the board meetings, while minutes of the board meetings are usually submitted either within 2 to 4 weeks (32.35% of respondents) or within 4 to 8 weeks (48.53% of respondents) after the corresponding meeting. We notice that board meeting minutes take longer to be submitted in the UCITS world, which may indicate that boards of UCITS and UCITS ManCos have heavy and complex agendas. To optimise follow-up, ILA recommends that action items be circulated as soon as possible following each meeting and ideally prior to dissemination of the full minutes. The majority of respondents believe that the minutes accurately reflect to a large extent the main points and discussions of the meetings.

When it comes to the duration of board meetings, we find that they last 3.47 hours on average, thus showing little change from the 2020 and 2018 surveys. However, whereas UCITS board meetings lasted around 4.6 hours and 4.2 hours in 2018 and 2020 respectively, they now last around 3.97 hours, which once again appears to point to efficiency gains. As for AIF and AIFM board meetings, they tend to be shorter than the board meetings of UCITS, UCITS ManCos and Super ManCos.

Figure 19: What is the average estimated time directors spend reviewing board papers prior to each board meeting? (in hours)

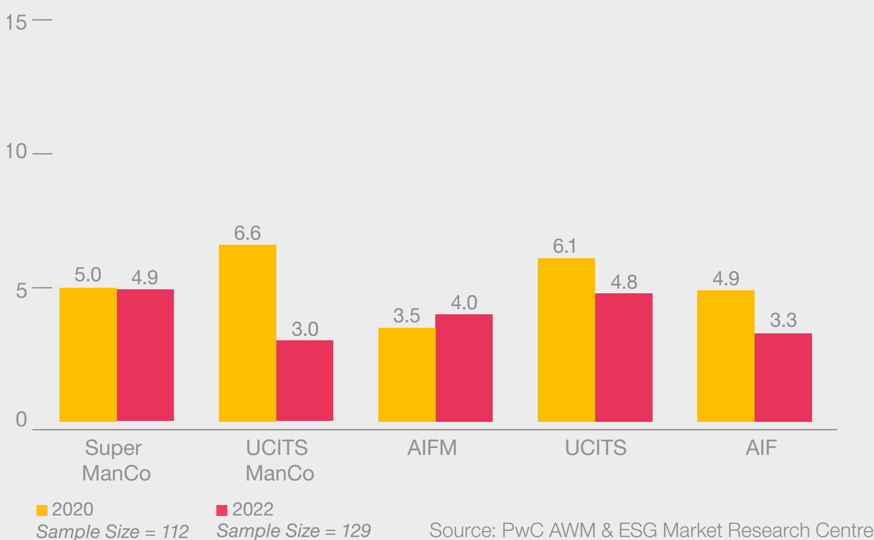


Figure 20: Do the minutes of the board meetings reflect the main discussions and points raised?

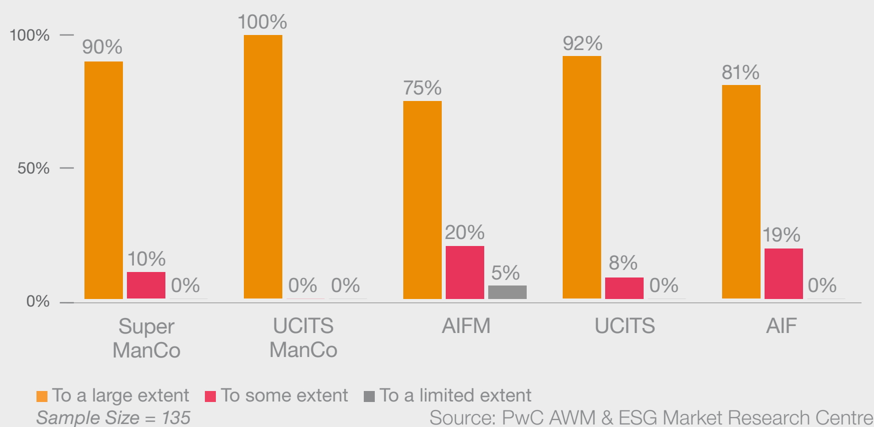
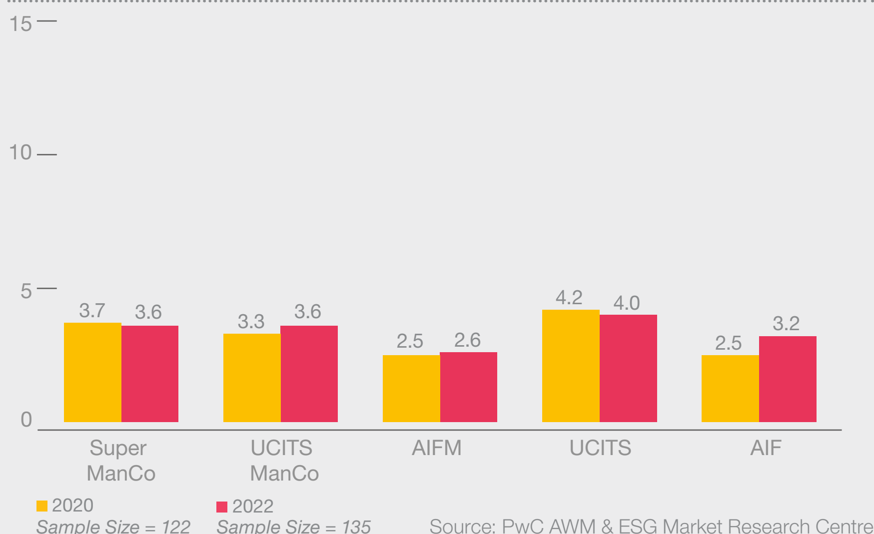


Figure 21: What is the average duration of a board meeting? (in hours)



The practice of having a standard agenda remains commonplace for most boards across respondent categories, which is in line with the findings of previous surveys. The table below summarises the review periodicity of items by board type:

Figure 22: Review periodicity of the different items constituting the board agenda

		Super ManCos	UCITS ManCos	AIFMs	UCITS	AIFs
AML / KYC report		At each meeting (95%)	At each meeting (100%)	At each meeting (70%)	At each meeting (95%)	At each meeting (65%)
BCP (Business Continuity Plan) reporting		Periodically (48%)	Periodically (40%) & Ad-hoc (40%)	Ad-hoc (70%)	Periodically (56%)	Periodically (42%) & Ad-hoc (35%)
Budget and TER		At each meeting (49%)	At each meeting (80%)	Periodically (55%)	At each meeting (51%) & Periodically (41%)	Periodically (47%)
Central administration report		At each meeting (79%)	At each meeting (80%)	At each meeting (50%) & Periodically (35%)	At each meeting (89%)	At each meeting (55%)
Compliance report		At each meeting (95%)	At each meeting (100%)	At each meeting (60%)	At each meeting (97%)	At each meeting (58%)
Conflicts of interest report		At each meeting (85%)	At each meeting (80%)	At each meeting (45%) & Periodically (45%)	At each meeting (89%)	At each meeting (71%)
Corporate events		At each meeting (44%) & Ad-hoc (32%)	Ad-hoc (60%)	Ad-hoc (55%)	At each meeting (35%) & Ad-hoc (38%)	Periodically (31%) & Ad-hoc (31%)
Depositary report		At each meeting (63%)	At each meeting (100%)	At each meeting (35%) & Periodically (30%)	At each meeting (84%)	At each meeting (52%)
Distribution report		At each meeting (71%)	At each meeting (100%)	At each meeting (35%) & Periodically (35%)	At each meeting (84%)	Periodically (32%) & Never (32%)
ESG/Sustainability		At each meeting (38%) & Periodically (33%)	Periodically (60%)	Periodically (37%) & Ad-hoc (37%)	At each meeting (49%)	At each meeting (29%) & Periodically (32%)
Fund documentation update		At each meeting (36%) & Ad-hoc (33%)	Ad-hoc (60%)	Ad-hoc (65%)	At each meeting (41%) & Ad-hoc (38%)	Ad-hoc (66%)
Human Resources		At each meeting (46%)	Ad-hoc (60%)	Periodically (30%) & Ad-hoc (40%)	Ad-hoc (36%) & Never (42%)	Never (60%)
IT Infrastructure		At each meeting (43%) & Periodically (33%)	At each meeting (60%)	Periodically (50%)	Periodically (43%) & Ad-hoc (30%)	Periodically (39%) & Never (39%)
Audit	Internal audit report	At each meeting (62%)	At each meeting (60%)	Periodically (50%) & Ad-hoc (35%)	Periodically (38%) & Never (27%)	Periodically (37%) & Never (33%)
	External audit findings report	Annually (81%)	Annually (100%)	Annually (85%)	Annually (97%)	Annually (88%)
Investment manager report		At each meeting (79%)	At each meeting (100%)	At each meeting (45%) & Periodically (40%)	At each meeting (100%)	At each meeting (59%)
Investment restriction breaches		At each meeting (93%)	At each meeting (100%)	At each meeting (70%)	At each meeting (97%)	At each meeting (45%) & Periodically (32%)
Investor complaint report		At each meeting (81%)	At each meeting (100%)	At each meeting (50%)	At each meeting (92%)	At each meeting (45%)
Liquidity management		At each meeting (79%)	At each meeting (100%)	At each meeting (55%)	At each meeting (86%)	At each meeting (45%) & Periodically (42%)
ManCo/Conducting officer report		At each meeting (95%)	At each meeting (100%)	At each meeting (60%)	At each meeting (94%)	At each meeting (55%)

Note: Average of respondent answers. The scale used was the following "At each meeting", "Periodically", "Ad-hoc" and "Never," with some answer categories having "At each meeting" removed as an option.

Source: PwC AWM & ESG Market Research Centre

	Super ManCos	UCITS ManCos	AIFMs	UCITS	AIFs
Monthly/quarterly financial statements	At each meeting (76%)	At each meeting (80%)	At each meeting (40%) & Periodically (50%)	Never (59%)	Never (42%)
New product approval	At each meeting (40%) & Ad-hoc (40%)	Ad-hoc (80%)	Ad-hoc (55%)	At each meeting (43%) & Ad-hoc (43%)	Ad-hoc (55%)
Regulatory & legal updates	At each meeting (76%)	At each meeting (80%)	At each meeting (45%)	At each meeting (86%)	At each meeting (42%) & Ad-hoc (29%)
Regulatory correspondence	At each meeting (83%)	At each meeting (40%) & Ad-hoc (40%)	At each meeting (50%)	At each meeting (68%)	At each meeting (41%) & Ad-hoc (41%)
Risk management	At each meeting (98%)	At each meeting (100%)	At each meeting (70%)	At each meeting (95%)	At each meeting (61%)
Service Providers	At each meeting (60%)	At each meeting (40%) & Periodically (40%)	At each meeting (35%) & Ad-hoc (35%)	At each meeting (76%)	At each meeting (35%) & Periodically (42%)
Tax compliance	Ad-hoc (46%)	Ad-hoc (80%)	Periodically (35%) & Ad-hoc (50%)	At each meeting (32%) & Ad-hoc (46%)	Periodically (38%) & Ad-hoc (38%)
UBO reporting	Ad-hoc (37%) & Never (27%)	At each meeting (40%)	Periodically (30%) & Ad-hoc (40%)	At each meeting (32%) & Ad-hoc (41%)	At each meeting (29%) & Ad-hoc (35%)
Valuation report	At each meeting (74%)	At each meeting (60%)	At each meeting (40%) & Periodically (40%)	At each meeting (54%)	Periodically (61%)
Annual report of the fund	Annually (78%)	Annually (100%)	Annually (80%)	Annually (100%)	Annually (100%)
Annual report of the ManCo	Annually (88%)	Annually (100%)	Annually (80%)	Never (70%)	Annually (39%) & Never (52%)
Semi-annual report of the fund	Annually (56%)	Annually (80%)	Ad-hoc (40%) & Never (35%)	Annually (86%)	Never (45%)
Semi-annual report of the ManCo	Annually (53%) & Never (40%)	Annually (60%)	Annually (30%), Ad-hoc (40%) & Never (30%)	Never (81%)	Never (67%)

When it comes to the reports which boards review most frequently, the 2022 survey is in line with the 2020 survey. For instance, the **AML/KYC report**, the **compliance report** and the **external audit findings** report are discussed in every meeting by over 80% of respondents, while the **central administration report** is discussed in each meeting by 72% of respondents. Although **conflicts of interest reports** are discussed by 77% of respondents in all meetings, this is a slight decrease from the 2020 survey, whereby 84% of respondents discussed such reports in each meeting. We would like to remind our readers that conflicts of interest should be declared at every board meeting, and likewise, we would encourage boards to review the AML/KYC report at every meeting.

35% of all respondents indicate that their boards discuss ESG and sustainability issues during each meeting, compared to a similar 33% indicating that they do so on a periodic basis. In this regard, **UCITS boards lead the charge, with 49% of respondents indicating that ESG and sustainability issues are discussed during each meeting.**

When it comes to reviewing **regulatory and legal updates**, 67% of overall respondents stated that this item is discussed during each board meeting, down from 71% in 2020. However, there are noteworthy discrepancies across respondent categories. For instance, whereas 86% of UCITS boards, 76% of Super ManCo boards and 80% of UCITS ManCo boards discuss this topic in each meeting, only 42% of AIF boards and 45% of AIFM boards do the same.

As with previous surveys, boards of UCITS ManCos and UCITS review reports on a more frequent basis than their peers in other categories of funds and management companies. For instance, 80% of UCITS ManCo boards and 89% of UCITS boards review the central administration report in each meeting, while 100% and 97% respectively review the compliance report in each meeting.

An increase can be noted with regard to the frequency at which **internal audit reports** are being reviewed: whereas 25% of respondents stated these reports were on the agenda at every meeting in 2020, this number has increased to 30% in 2022.

Invitation of non-board members

In general, one facet of good governance in boards of directors consists of inviting external stakeholders to attend board meetings and provide feedback, guidance or advice on specific matters and topics about which they are knowledgeable. Results are largely consistent between the 2022 and 2020 surveys. The most commonly invited non-board members are the external auditor, the compliance officer, the ManCo/Conducting officer, the risk manager, the RC, and the investment manager.

A few trends and divergences are worth mentioning.

The majority of boards (76%) invite an external auditor on an annual basis, a slight increase from 70% in 2020. Notably, whereas a majority of boards (75%) in 2022 invited the compliance officer at every meeting, only 52% of AIF boards did so. Regarding the investment manager, 58% of boards invited them at each meeting, a slight decrease from 2020. Yet, whereas 81% of UCITS boards did so at every meeting, this figure stands at 40% for AIFM boards.

A striking finding is that the internal audit function is seldom invited to attend board meetings. The value of internal audits goes beyond obtaining information on the local entity; they can help boards gain an understanding of risks related to the broader family of funds or corporate structure. Thus, our recommendation is that the internal audit function should be invited to at least one board meeting per year. Should directors encounter resistance when trying to obtain this, they should ask the ManCo or fund to provide what they "think they can share" in document form.

Figure 23: Invitation periodicity of non-board members to attend board meetings

	Super ManCos	UCITS ManCos	AIFMs	UCITS	AIFs
External auditor	Annually (69%)	Ad-hoc (60%)	Annually (55%)	Annually (95%)	Annually (84%)
Global distributor	Never (38%) The global distributor is the ManCo (29%)	The global distributor is the ManCo (40%)	The global distributor is the ManCo (60%)	At each meeting (49%)	The global distributor is the ManCo (50%)
Compliance officer	At each meeting (88%)	At each meeting (100%)	At each meeting (60%)	At each meeting (86%)	At each meeting (52%)
ManCo / Conducting officer	At each meeting (100%)	At each meeting (100%)	At each meeting (80%)	At each meeting (94%)	At each meeting (67%)
Investment manager	At each meeting (32%) & Periodically (32%)	At each meeting (60%)	At each meeting (40%) & Periodically (25%)	At each meeting (81%)	At each meeting (75%)
Internal auditor	At each meeting (34%) & Periodically (41%)	Never (40%)	Periodically (35%) & Ad-hoc (45%)	Periodically (33%) & Never (47%)	Never (53%)
Internal legal advisor	At each meeting (49%)	Ad-hoc (40%)	Ad-hoc (40%)	At each meeting (50%)	At each meeting (33%) & Ad-hoc (27%)
External legal advisor	Ad-hoc (40%) & Never (48%)	Never (80%)	Ad-hoc (60%)	Ad-hoc (32%) & Never (32%)	Ad-hoc (66%)
Risk manager	At each meeting (86%)	At each meeting (100%)	At each meeting (55%)	At each meeting (86%)	At each meeting (65%)
Fund administrator	At each meeting (30%) & Ad-hoc (45%)	At each meeting (60%)	Ad-hoc (55%)	At each meeting (59%)	At each meeting (42%) & Periodically (39%)
Transfer agent	Ad-hoc (49%)	At each meeting (40%)	Ad-hoc (40%) & Never (30%)	At each meeting (59%)	At each meeting (35%) & Periodically (32%)
Depository	At each meeting (24%) & Ad-hoc (34%) & Never (24%)	At each meeting (40%)	Ad-hoc (35%) & Never (35%)	At each meeting (57%)	At each meeting (39%) & Periodically (29%)
RC	At each meeting (86%)	At each meeting (100%)	At each meeting (55%)	At each meeting (92%)	At each meeting (60%)

Note: Average of respondent answers. The scale used was the following "At each meeting", "Periodically", "Ad-hoc" and "Never," with some answer categories having "At each meeting" removed as an option.

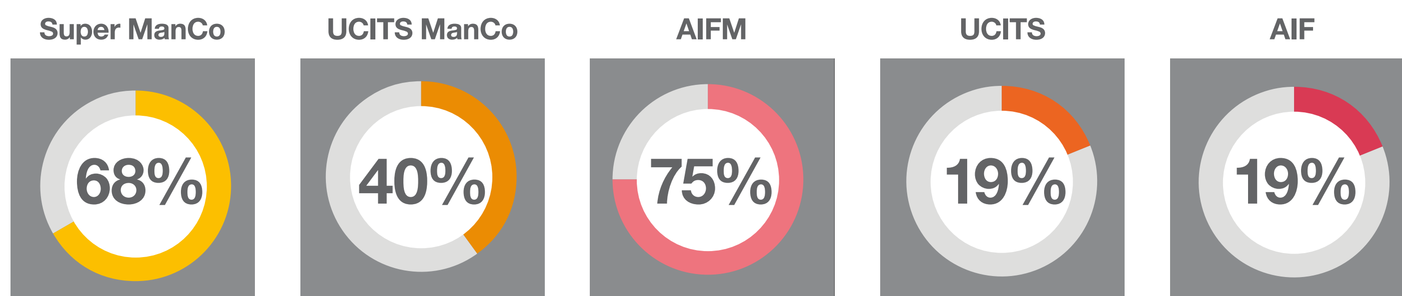
Source: PwC AWM & ESG Market Research Centre

Formal committees

Boards of management companies are far more likely than fund boards to have formal committees established. For instance, only 25% of AIFM boards and 32% of Super ManCo boards had *no* formal committees. On the other hand, a majority (81%) of UCITS and AIF boards had *not established* any formal committees. Among those that didn't, 83% of UCITS boards and 73% of AIF boards stated that they rely on the ManCo to organise and carry out the work expected by such committees.

Regarding the boards that have set up committees, the most established formal committees deal with valuation and price (28%), risk (19%), remuneration (16%) and investment management (16%). ESG committees remain rare, with only 4% of boards having established such a committee.

Figure 24: Proportion of boards that have established one or more sub-committees



Sample Size = 134

Source: PwC AWM & ESG Market Research Centre

Figure 25: Formal committees established by the board

	Super ManCos	UCITS ManCos	AIFMs	UCITS	AIFs
None	32%	60%	25%	81%	81%
Valuation/Price committee	49%		50%	8%	16%
Risk committee	41%	20%	25%		6%
Remuneration committee	29%	20%	40%	3%	
Investment management committee	22%		40%	3%	9%
Client acceptance committee	20%		20%		3%
Audit committee	15%		10%	3%	6%
Product committee	17%	20%	10%	3%	
Compliance committee	15%	0%	10%		
Distribution oversight committee	12%		10%		
ESG committee	2%	20%	10%		3%
Cyber committee	5%		5%		3%
Other	5%		5%	6%	3%

Source: PwC AWM & ESG Market Research Centre

3

Roles & Responsibilities of the Board

Management style and relationship with the promoter

In line with surveys from preceding years, the 2022 survey found that the prevailing management style in Luxembourg boards is mainly "active board discussions on existing issues, high level oversight and management by exception," with 72% of respondents providing this answer to describe boards' management style. Very few boards – a mere 6% – approve promoters' decisions impacting fund administration, fund management and distribution, while an even lower number – just 4% – practice detailed management of all decisions which impact fund administration, management and distribution.

Given that the ALFI Code of Conduct[20] stipulates that boards "should act fairly and independently," particularly when it comes to their relationship with the promoters or fund sponsors, these figures are encouraging, especially when we bear in mind that an increasing number of boards are appointing NEDs as shown in the Board Composition section.

Review of fund documentation

Among the key responsibilities of boards of directors in both funds and management companies is to review fund documents. When it comes to funds' financial statements, the management letter of the auditor, the prospectuses, and fund related agreements, the majority of boards review and approve or acknowledge them prior to their formal publication. Unsurprisingly, as with the 2020 survey, financial statements are approved by all UCITS and AIF boards as well as by a vast majority of ManCo boards. As for the prospectuses, 97% of UCITS boards and 94% of AIF boards review them, compared to 60% of UCITS ManCo boards, 63% of Super ManCo boards, and 61% of AIFM boards.

Regarding marketing materials and factsheets, only 24% of the boards in the sample review them. However, there are some notable discrepancies. With CSSF Circular 18/698 of August 2018[21] requiring ManCos to ensure that "the marketing of [UCITS and AIFs] is carried out in compliance with the legal and regulatory provisions in force" – namely those pertaining to UCITS, AIFMs, and the due diligence and monitoring obligations they prescribe – it is worth noting that 61% of UCITS boards stated that they do not do so. We believe that these discrepancies might come down to the way respondents interpreted this particular question, as they might have responded negatively when marketing materials are being reviewed primarily by conducting officers rather than board members themselves.

All of the UCITS boards review the long form report, and 82% acknowledge it prior to its issuance. As for the internal audit report, the vast majority of management company boards – 90% of Super ManCos, 94% of AIFMs and 100% of UCITS ManCos – review it. However, only 57% of them approve the internal audit report prior to its issuance.

As for the Key Investor Information Document (KIID), as with the 2020 survey, most of the boards in the sample do not review it. As for those that do, 43% approve it prior to its issuance, 40% ratify it after it was issued, and 18% provide it for information purposes.

20. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022

21. CSSF Circular 18/698 on the authorisation and organisation of investment fund managers incorporated under Luxembourg law, 23 August 2018

Figure 26: If the board reviews the following documents, what is the timing of board involvement?

Source: PwC AWM & ESG Market Research Centre

Oversight of service providers

The ALFI Code of Conduct[22] stipulates that boards "should ensure that the choice and selection of service providers is made fairly and in the best interest of the investors."

In line with the findings of the 2020 survey, the majority of funds' and management companies' boards continue to perform initial due diligence as well as periodic assessments for the following service providers:

- Fund administrators
- Custodian/depositary
- External auditor
- Transfer agent
- Investment manager/advisor
- Legal advisor

On 1 April 2020, the amendments to the AIFMD[23] and UCITS[24] rules took effect, giving management companies new duties to take into account when performing due diligence on UCITS and AIF depositaries. The 2022 survey finds that 79% of respondents carry out due diligence on initial appointment of the custodian/depositary, while 82% periodically assess them. We observe lower percentages with regard to the alternatives space: 71% of AIF boards and 74% of AIFM boards carry out due diligence on the custodian/depositary's initial appointment, while 68% and 79% of them respectively conduct a periodical assessment.

As for the functions performed internally, the majority of respondents carry out the risk manager and compliance functions internally. As for global distribution, a majority of AIFM, UCITS and AIF boards carry it out internally, while only 40% of UCITS ManCos and 39% of Super ManCos do so. As with the 2020 survey, boards of funds and management companies receive a wide array of operational reports from delegates, with the top three types – reports on breaches and errors, complaints, and IT/cybersecurity incidents – remaining unchanged. However, we notice that ESG is gaining prominence, as 41% of boards receive ESG reports. This is encouraging, particularly given that the updated ALFI Code of Conduct[25] calls on boards to ensure that selected "service providers take into consideration the integration of ESG criteria." However, the number remains quite low among Super ManCo and AIFM boards, with only 18% and 29% of them respectively receiving ESG reports.

22. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022
23. Commission Delegated Regulation (EU) 2018/1618
24. Commission Delegated Regulation (EU) 2018/1619
25. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022

Figure 27: Does the board receive operational reports from delegates? On which topics?

	Total	Super ManCo	UCITS ManCo	AIFMs	UCITS	AIFs
Sample Size	130	39	5	17	37	32
Breaches / errors	82%	79%	100%	76%	89%	78%
Complaints	73%	67%	100%	59%	89%	66%
IT / Cyber incidents	62%	59%	100%	59%	78%	44%
Business continuity plans / testing	59%	54%	100%	47%	73%	50%
Tax and Regulatory	53%	26%	40%	41%	68%	78%
Outsourcing	51%	54%	80%	41%	57%	41%
Fraud	45%	36%	60%	18%	65%	47%
ESG	41%	18%	40%	29%	59%	53%
Other	6%	13%	-	6%	3%	3%
None	10%	13%	-	6%	8%	13%

Source: PwC AWM & ESG Market Research Centre

Oversight of investment management

The majority of boards of funds and management companies (77%) receive **regular reporting from the investment manager**, up from 72% in the 2020 survey, which allows them to oversee the implementation of the investment policies. However, there are some relatively minor discrepancies between the different respondent categories. Whereas 83% of AIFM boards and 84% of UCITS boards received regular reporting, the numbers go down to 72% and 68% among AIF and Super ManCo boards respectively.

The majority of boards supervise the investment strategy and verify its coherence with the general investment policy of the fund. Only 36% of boards are involved in setting investment policies such as risk profiles. The highest number was among Super ManCo boards, with 46% of them doing so, while the lowest number was for AIF boards, with just 16% setting investment policies.

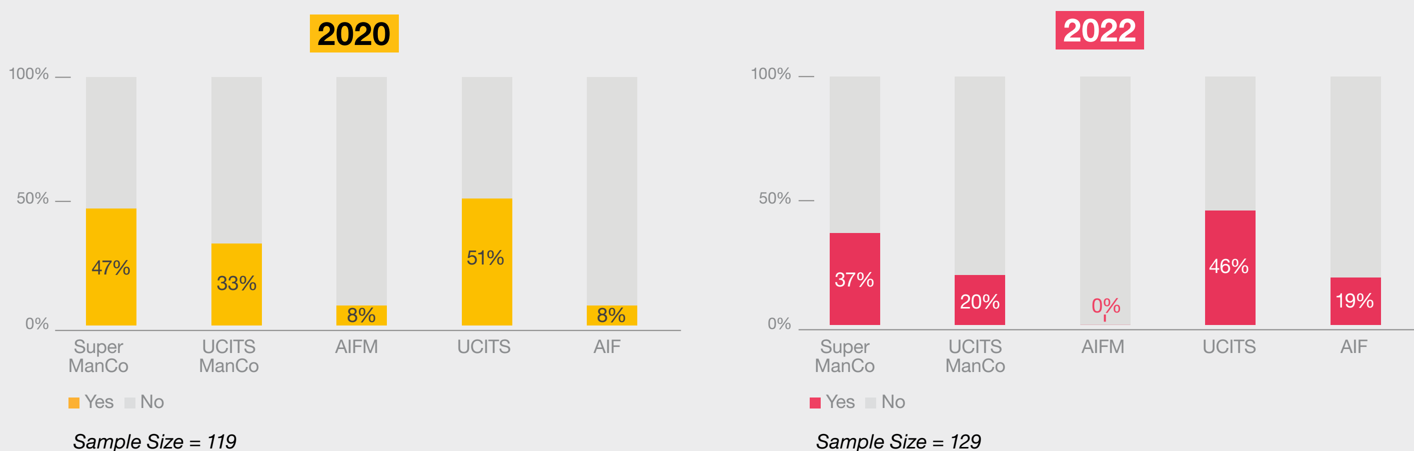
As for funds' investment performance, the 2022 survey's findings are similar to those of the 2020 survey, as the majority of boards continue to receive regular reporting from the investment manager and monitor the investment performance. The number of boards that intervene in case of underperformance stands at 24%.

Oversight of fund expenses

Transparency of fund expenses has been a long-standing discussion in the fund industry, and a fixed Total Expense Ratio (TER) is one way by which investors can be assured of a certain level of consistency and the resulting comparability. However, TERs can in certain instances be disadvantageous to investors if implemented in an arbitrary manner, which is why regulatory authorities across Europe have been increasingly pressuring funds to unbundle their expenses so as to improve transparency and protect investors.

Whereas the 2020 survey found that fixed TERs were increasing in popularity among UCITS and Super ManCos, the 2022 survey finds that the proportion of entities charging shareholders a fixed TER has decreased across all categories, except for AIFs. For instance, whereas 47% of Super ManCos and 33% of UCITS ManCos charged a fixed TER in 2020, the figures declined to 37% and 20% respectively in 2022. None of the AIFMs surveyed charged a fixed TER, compared to the already-low figure of 8% in 2020. As for AIFs, 19% of them charged a fixed TER, up from 8% in 2020. On average, less than one-third of respondents stated that they charge a fixed TER to guarantee a certain level of service and continuity to shareholders.

Figure 28: **Are the fund expenses covered by a fixed TER?**



Source: PwC AWM & ESG Market Research Centre

Around 32% of boards surveyed changed their approach to monitor expenses based on new regulatory requirements. However, there are some discrepancies among the different respondent categories, with Super ManCos and UCITS ManCos appearing to be more responsive to new regulatory requirements than other funds and management companies. Indeed, 59% of Super ManCo boards and 40% of UCITS ManCo boards changed their approach to monitor expenses based on new regulatory requirements, compared to only 22% of AIF boards, 19% UCITS boards and 18% AIFM boards.

When it comes to overseeing fund expenses, close to half of all boards review the budgets against actual expenses (49%) and are involved in monitoring fund expenses (48%). These are the most used practices of boards exercising their responsibilities, and these findings are in line with the 2020 survey. Boards of UCITS ManCos and UCITS appear to prefer monitoring fund expenses, while boards of AIFM and AIF instead appear more involved in reviewing budgets compared vs. actual expenses. Only 37% of boards monitor their expenses with competitors' comparable funds, a slight increase from the 2020 survey. UCITS boards continue to be in the lead, with 57% of them comparing funds' expenses to their competitors, while AIF boards continue to have the smallest proportion, with just 19% of them doing so. This could be intrinsically linked to relatively greater ease for UCITS to compare themselves against a relevant peer group.

Oversight of risk management

The vast majority of boards (87%) review the effectiveness of risk management processes, up from 78% in 2020, and most of the boards do so on an annual or quarterly basis.

Boards receive adequate and sufficient reporting in most risk areas. For instance, when it comes to credit risk, only 5% of respondents did not receive sufficient reporting. The figures are slightly higher for risks related to market performance, liquidity, counterparty, valuation, collateral, operational and fraud, ranging from 8% to 18%.

Nonetheless, there are several areas of risk where the respondents indicated that they do not receive sufficient reporting. For instance, half of AIFM boards did not receive sufficient reporting on regulatory risks, although the average for all respondents was only 20% of boards. Similarly for marketing and distribution risks, 44% of Super ManCo boards did not receive adequate reporting, although on average, only 23% of boards did not receive adequate reporting. Cybersecurity and tax risks remain the most in-demand areas of reporting. Regarding the former, 48% of boards on average – and 59% of UCITS boards – did not receive sufficient reporting, while 46% of boards on average did not receive sufficient reporting on tax risks, with the figures being higher among AIFM boards (60%) and Super ManCo boards (56%).

As a whole, as with the findings of the 2020 survey, boards continue to be well-versed in risk management issues.

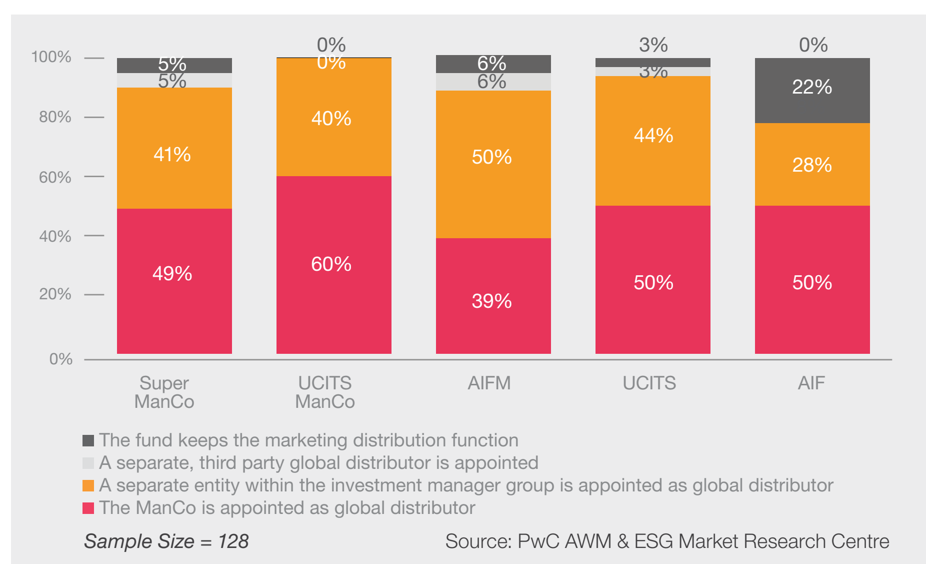
Oversight of distribution

As with the 2020 survey, the global distribution function is often performed internally, either by the ManCo (48%) or by a separate entity within the investment manager group (40%). Only 3% of respondents appointed a separate, third-party global distributor, while 9% stated that the fund kept the marketing distribution function.

The majority of respondents perform due diligence on their distribution function – 87% of management companies and 83% of funds. However, we notice that the figures tend to be smaller among AIFM and AIF boards, whereby only 67% and 68% of them respectively or their ManCo carried out distribution due diligence. As a whole, there was a slight decrease in the number of funds performing distribution due diligence from 2020, whereby 92% of them did so. It is important to consider that our respondents refer both to open- and close-ended funds where the distribution activity and its oversight is different, entailing separate considerations.

Anti-Money Laundering (AML) is the greatest risk the boards of Super ManCos, AIFMs, UCITS and AIFs face, while UCITS ManCo boards stated that failure to comply with local jurisdiction sales and marketing laws was the greatest risk they faced. In addition to these two types of risks, know your distributors (KYD), reputational and insufficient due diligence and ongoing

Figure 29: How does the fund handle global distribution?



Sample Size = 128

Source: PwC AWM & ESG Market Research Centre

monitoring risks were listed as the top five greatest risks directors face with regards to global distribution – findings which are consistent with the 2020 survey.

Involvement outside of board meetings

In a large majority of boards, directors also participate in ad-hoc meetings (86%) and sign agreements in-between board meetings (81%). A sizable number of directors (44%) also have meetings and engage with C-level executives.

The notion that directors are tasked with a variety of additional responsibilities outside of regular board meetings is borne out across various data points. For instance, 15% of directors meet with investors in between regular board meetings, and this number rises to 35% for AIFM directors. In-line with findings from the 2020 survey, some directors also carry out due diligence of service providers (22%) or investment managers (16%).

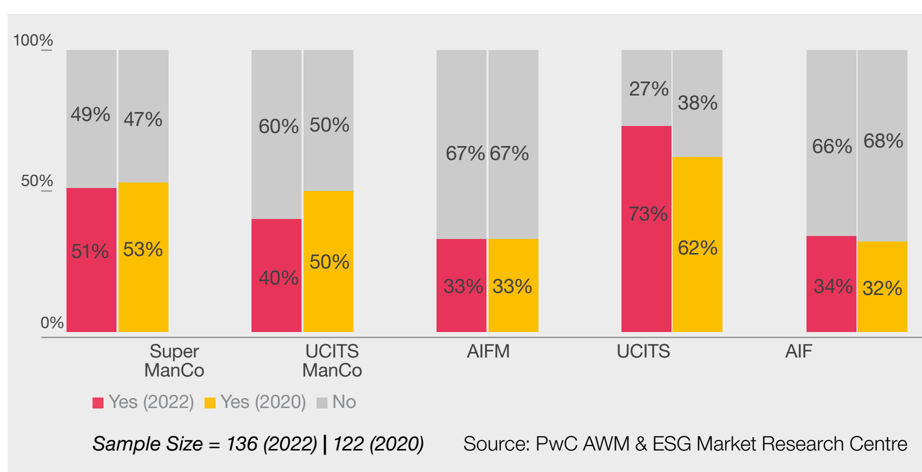
Board performance reviews

While our findings aren't clear-cut across categories, we observe positive trends regarding board performance reviews. For instance, whereas 62% of UCITS boards underwent performance evaluations in 2020, the number increased to 73% in 2022. A majority of AIF and AIFM boards do not evaluate their performance, which is in line with the 2020 survey. In line with the ALFI Code of Conduct's calls for boards to conduct periodic reviews of their performances and activities, we strongly encourage the boards of all management companies and investment funds – but particularly those of AIFs and AIFMs – to carry out regular performance evaluations. The ILA's board evaluation template is a useful guide in this regard.[26]

Among boards who do evaluate their performance, the majority tend to do it on an annual basis, and we notice an increase in the frequency of board evaluations among almost all respondent categories, as in the 2020 survey, board evaluations tended to take place once every two years. In the vast majority of the cases, the board evaluation process is documented: among Super ManCo, UCITS ManCo and AIFM boards, the process was always documented; for UCITS boards, 96% of respondents stated that the evaluation process was documented; as for AIF boards, 64% of respondents stated so.

As to whether the board evaluation process results in a **remedial action plan**, this is the case according to 82% of respondents, which is a **significant increase** since 2020 when only 47% of respondents stated that a remedial action plan resulted from the board evaluation.

Figure 30: Do you evaluate board performance?



26. More information can be found on ILA's website.

Board training

As with the 2020 survey, directors are more likely to spend time on trainings taken on a personal level than on trainings provided by the board. For instance, 52% of respondents spend less than a day in training provided by the board, while 67% spend 3 days or more on training taken on a personal basis.

The primary topics and issues board members receive training on, either board-provided or on a personal basis, is AML/KYC, followed by legal and regulatory updates, and sustainability/ESG investments. The latter issue has seen a noticeable increase since the previous survey: Whereas 31% and 61% of directors received training on sustainability/ESG investment from the board or on a personal basis respectively in 2020, the figures rise to 52% and 73% in 2022, indicating the growing importance of this subject.

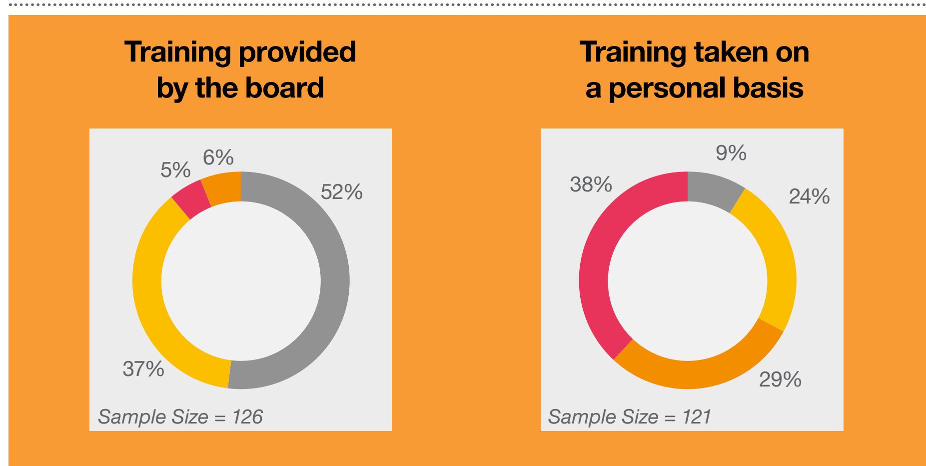
Cybersecurity remains an important subject which directors have been receiving training on, either from the board or on a personal basis. On average, 33% of directors received cybersecurity training from the board, with the number being highest among Super ManCo boards, while 39% of directors underwent cybersecurity training on a personal basis. Now that the European Parliament has voted in favour of the Digital Operations Resiliency Act (DORA), which is expected to come into effect by the end of 2024, we can expect that directors will undertake more training on cybersecurity in the coming years, be it from their boards or on an individual basis.

Board members seeking to further their knowledge and skills on key topics that affect their field are encouraged to consult the courses and training sessions offered by ILA, which range from ESG-related topics, corporate governance and strategy, to AML and CFT, to name a few.[27] This is of particular relevance to directors who come from abroad as they may not be aware of new Luxembourg-specific regulation that impacts the entities they are charged with overseeing.

ILA Certified Director program

Ten years ago, ILA introduced the Certified Director program to support directors into becoming highly qualified and effective, and to equip them with the tools of good corporate governance. We notice a slow but steady uptick in the number of directors taking up the program. In 2020, 17% of respondents had completed the Certified Director program or were in the process of completing it, while in 2022, the figure has increased to 22%. We expect that this trend will continue in future editions of the survey.

Figure 31: How many days have directors spent on average on continuing professional education in the last twelve months?



Less than 1 day
1 to 2 days
3 to 4 days
5 days or more

Source: PwC AWM & ESG Market Research Centre

27. For more information, visit the ILA's website.

4 Conflicts of interest and legal liabilities

Conflicts of interest

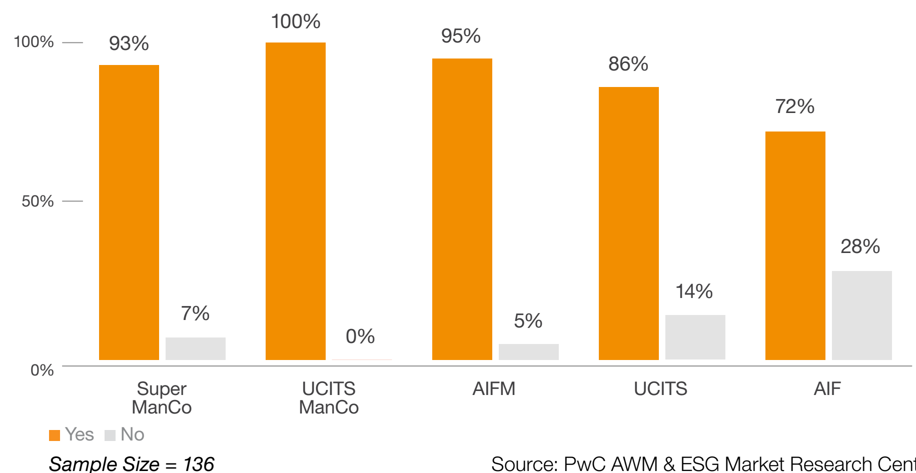
When board members and senior executives in the asset and wealth management industry use their position or authority for personal gain rather than to benefit the organisation or entity to which they belong, a conflict of interest arises, causing significant reputational harm as well as a deep loss of trust. Given the asymmetry of information between asset managers and investors in private markets, as well as the misaligned interests in funds which asset managers and investors may have, potential conflicts of interest are particularly worrisome. Regulatory authorities across Europe and the United States have been increasingly pursuing situations of alleged conflicts of interest in recent years.

In Luxembourg, Section 5.5.7 of CSSF Circular 18/698 outlines the minimum requirements needed by ManCos to deal with conflicts of interests, such as the need to have a policy to identify, mitigate, manage and disclose potential conflicts of interest, as well as the obligation to keep records and, in certain instances, inform investors. As per ALFI Code of Conduct,[28] boards of ManCos and investment funds "should identify and manage fairly and effectively, to the best of [their] ability, any actual, potential or apparent conflict of interest and ensure appropriate disclosure" in a transparent and efficient manner, in line with good practices and business rules. In addition, boards "should keep an updated record of the situations where conflicts of interest entailing a material risk of damage to investors may arise, have arisen and how they have been addressed."

In line with the 2020 survey, the number of boards taking this issue seriously and putting in place appropriate procedures remains very high. A large majority of boards continue to maintain a register and have a policy in place for handling conflicts of interest. Among AIFMs, the number of boards with a conflicts of interest register grew substantially from 75% in 2020 to 95% in 2022. While a majority of boards across all respondent categories require conflicts of interest to be declared at each board meeting, certain discrepancies can be noted, whereby only 79% of AIFM boards require this – compared to 93% of Super ManCo boards and 100% of UCITS and AIF boards. In order to ensure good and transparent governance, all boards should carry out this practice, without exceptions.

A majority of boards systematically refer to these conflicts of interests in the register, and a majority across all categories asks for conflicts of interest to be declared at each board meeting in view of the agenda of the day (the figures have increased for all categories since 2020, except for UCITS ManCos).

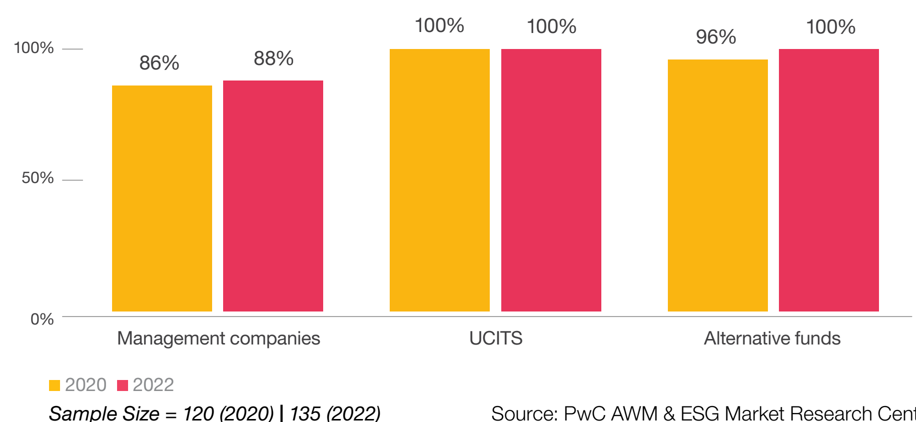
Figure 32: Does the board maintain a register of conflicts of interest?



Sample Size = 136

Source: PwC AWM & ESG Market Research Centre

Figure 33: Proportion of boards asking for conflicts of interest to be declared at each board meeting as a standard agenda item



Sample Size = 120 (2020) | 135 (2022)

Source: PwC AWM & ESG Market Research Centre

28. ALFI Code of Conduct for Luxembourg Investment Funds, June 2022

As with the findings of the 2020 survey, in most cases directors continue to be allowed to invest in the funds they oversee, albeit with certain restrictions. For instance, in 2022, 61% of Super ManCo directors were allowed to invest in the funds, albeit with restrictions, such as pre-trade compliance and disclosure requirements. As for UCITS ManCos directors, 100% were allowed to invest, also with restrictions. However, we notice an upward trend whereby limitations placed on directors' ability to invest in the funds they oversee is increasing. For instance, the share of directors who may invest in the funds they oversee – with restrictions – dropped from 70% in 2020 to 57% in 2022, and the percentage of directors prohibited from investing in such funds increased from 17% in 2020 to 32% in 2022.

Legal liability

When it comes to making directors of the board aware of the extent of their legal liability, including sanctions, we continue to observe mixed practices. For instance, 65% of directors are made aware via self-information, 44% through letters of appointment, 33% through specific training, 34% and 31% through external and internal legal counsel respectively, and 6% by other means – such as via compliance reports or being briefed by the RC. Although self-information remains the most likely means through which directors become aware of their legal liability, letters of appointment are steadily rising in prominence. Whereas only 28% of directors were made aware through letters of appointment in 2020, the number increased to 44% in 2022.

As for mitigating their liabilities, we observe a clear trend whereby directors employed by promoters or service providers do so through insurance and indemnity provided by the promoter group. As for NEDs, we observe a mix of mitigation practices – the two most likely being self-insurance and insurance provided at the level of the fund, with self-insurance being far more likely to be taken by NEDs. Overall, directors' liabilities are adequately covered, with most liabilities likely to be covered either absolutely (42%) or to a large extent (53%).

It is worth noting that directors seeking training and advice on their legal liability have recourse to several training opportunities available in Luxembourg, and we recommend that directors review their insurance policies thoroughly in order to ensure that their terms align with their personal needs and preferences.

Figure 34: How is the board made aware of the extent of its legal liability, including sanctions?

	Total	Super ManCo	UCITS ManCo	AIFMs	UCITS	AIFs
Sample Size	133	39	5	19	37	32
Self information	65%	63%	80%	53%	65%	72%
In letters of appointment	44%	38%	40%	26%	43%	66%
Briefing by external legal counsel	34%	18%	20%	47%	41%	41%
Briefing by internal legal counsel	31%	33%	20%	58%	24%	22%
Specific training	33%	33%	20%	21%	38%	38%
Other	6%	5%	0%	5%	5%	9%

Source: PwC AWM & ESG Market Research Centre

Figure 35: Are directors' liabilities adequately covered?

	Total	Super ManCo	UCITS ManCo	AIFMs	UCITS	AIFs
Sample Size	135	40	5	20	37	32
Absolutely	42%	44%	60%	45%	38%	41%
To a large extent	53%	51%	20%	50%	57%	59%
To some extent	4%	5%	-	5%	5%	-
To a limited extent	1%	-	20%	-	-	-

Source: PwC AWM & ESG Market Research Centre

5 Code of conduct

Adopting and implementing a code of conduct for boards of management companies and investment funds is widely seen by investors and regulators alike as a core pillar of good governance. Codes of conduct help board members uphold their fiduciary duties and ascribe to the same values and principles, namely transparency, integrity, fairness, and abiding by the rules and regulations.

The majority of boards have adopted one or more codes of conduct, with 68% having adopted one, and 3% having adopted more than one code. However, we notice some discrepancies between the different respondent categories. For instance, whereas 85% of AIFM boards and 74% of Super ManCo boards had adopted a code of conduct, only 53% of AIF boards had done so – a very slight improvement from the 2020 survey.

Among the boards who did adopt one or more codes of conduct, 80% stated that the one adopted was the ALFI Code of Conduct. This represents a slight decrease from 2020, whereby 83% of boards with a code of conduct had adopted the ALFI code.

While a majority of boards disclose the adoption of a code of conduct, we notice a significant decrease in the number of disclosures among Super ManCos. Whereas 81% of them disclosed this information in 2020, the number went down to 68% in 2022. A similar decline was noticed among AIFs, whereby the number of boards disclosing their adoption of a code of conduct went down from 91% in 2020 to 63% in 2022. Nonetheless, we notice that on the other hand, a growing number of AIFMs and UCITS are disclosing this information. Whereas 70% of UCITS boards disclosed their adoption of a code of conduct in 2020, the figure increased to 81% in 2022. As a whole, the majority of boards across all respondent categories continue to disclose this information, which is usually located in the Board of Directors' report in the annual reports.

The ALFI Code of Conduct

The ALFI Code of Conduct provides board members of management companies and investment funds in Luxembourg with a framework to ensure that they act in accordance with the best recommended practices for good governance. The overwhelming majority of respondents (95%) believe that the principles-based approach in the ALFI Code of Conduct is appropriate, and 90% don't think the code should be more prescriptive. Close to 100% of respondents do not find any principles they disagree with.

However, respondents highlighted certain issues which the code does not address. For instance, 13% and 11% of respondents stated that the code does not address tenure or gender diversity issues respectively. Nonetheless, the number of respondents indicating gender as an issue unaddressed by the code has declined since 2020, where the figure stood at 36%.

The 2020 survey found that 50% of board directors felt that ESG was not sufficiently addressed in the ALFI Code of Conduct. The figure has gone down to 26% in the 2022 survey – however, given that the ALFI code was updated in June 2022 and now includes a principle on ESG and ESG-related recommendations, it is possible that some of the respondents had not yet read the latest version of the code.

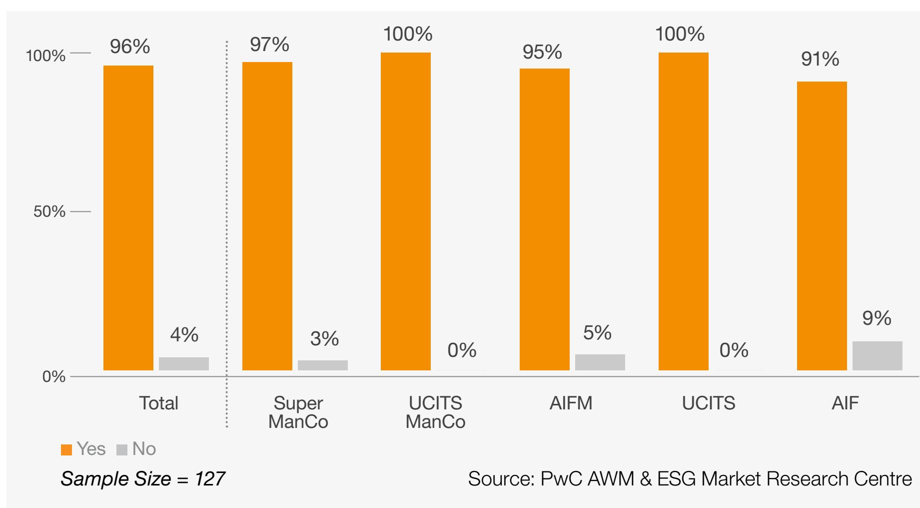
6 AML

In 2012, the CSSF issued a regulation (amended in 2020)[29] to provide a strong overarching framework to combat money laundering and terrorist financing in Luxembourg's financial sector.

The Financial Action Task Force's (FATF) first on-site inspection since 2009 was conducted in late 2022 – at the time of writing this report – after a two-year delay due to the COVID-19 pandemic, and it provides a moment to reflect on how Luxembourg's fund industry is dealing with AML-related matters.

Claude Marx, CSSF's director-general, recently stated that "[AML] is in the DNA of all players in Luxembourg" and that it "is being taken seriously by all supervised entities in Luxembourg."[30] Our survey provides overwhelming evidence to back his claim, as a vast majority of the boards of management companies and investment funds have approved an AML policy in the last 12 months. In addition, a vast majority of the 'Responsable du Respect des Obligations (RR)'[31] approved or validated the suspicious transaction and screening processes.

Figure 36: Did the board of the fund approve the AML Policy of the fund in the last 12 months?

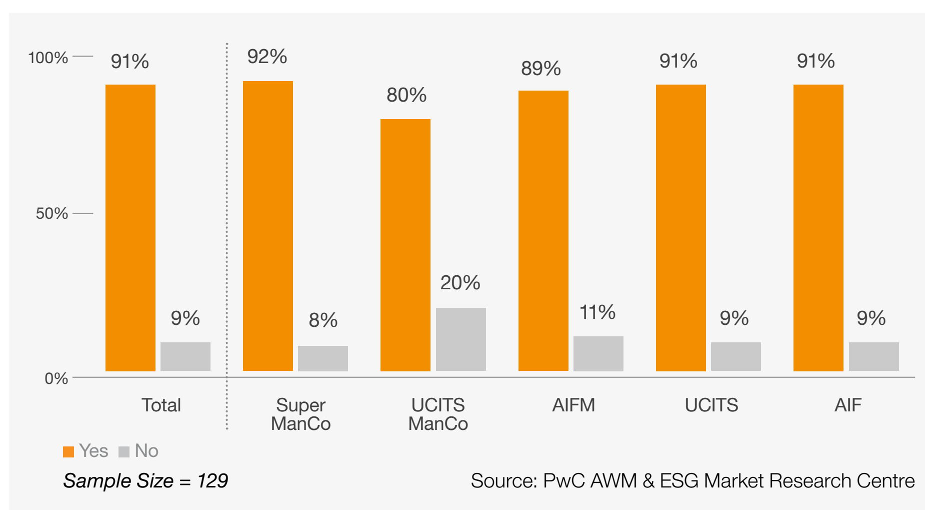


29. CSSF Regulation 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing; CSSF Regulation No 20-05 of 14 August 2020
30. Investment Officer, 'CSSF's Marx: Efficiency focus is in the interests of investors,' 23 November 2022
31. As per Law of 12 November 2004, boards of investment funds and management companies must appoint a 'responsable du respect des obligations' (RR) who can be a board member or the board acting in a collegial manner. RRs must have sufficient knowledge on AML and CFT matters, be knowledgeable about the funds or managers' investment and distribution strategies, and available to answer any questions without delay from Luxembourg's AML/CFT competent authorities.

Regarding ManCos' and investment funds' risk appetite framework – in other words, the frameworks established to determine the amount of risk they are willing to accept to reach their strategic objectives – we also observe that very few boards (6%) have not approved their risk appetite frameworks. In addition, 97% have acknowledged the AML/CTF Business Risk Assessment and the funds' inherent and residual risk score in the last 12 months. As for the boards of AIFs, our survey found that 88% of them have put in place an AML framework for their unregulated AIFs.

All in all, our survey's responses indicate that the Luxembourg fund industry has come a long way since the FATF's 2009 evaluation, and AML has become strongly anchored among the boards of management companies and investment funds.

Figure 37: Did the RR of the fund approve, or validate at least initially, the suspicious transaction and screening process?



Sample Size = 129

Source: PwC AWM & ESG Market Research Centre

7 ESG

The ESG trend in the asset and wealth management industry has been rapidly gaining steam in the last few years, and is showing no signs of slowing down, particularly given the increasingly visible effects of climate change and the material impacts it has on many different asset classes. ESG-related regulations are increasingly being rolled out across the world, and particularly in the EU. The majority of asset managers in Europe are in the process of launching new ESG products or retrofitting existing products so that they become ESG-compliant, while investors are increasingly seeking such products and are even willing to pay higher fees.[32]

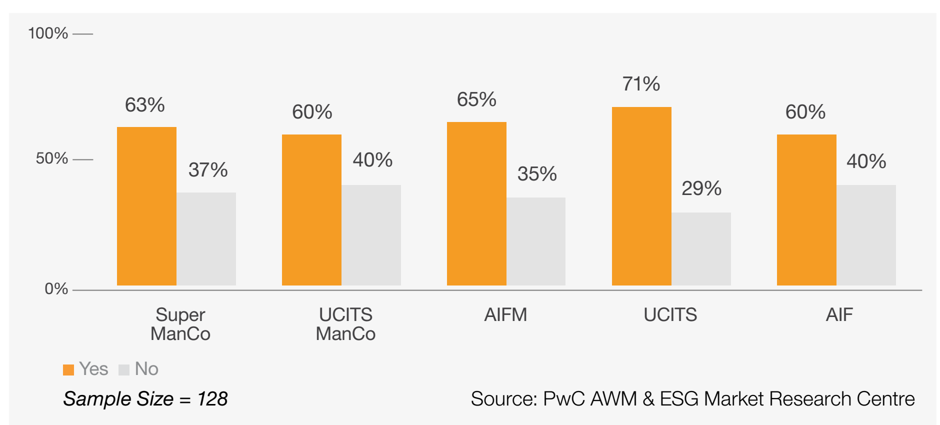
With Luxembourg firmly anchored as a leading centre for sustainable finance, evaluating how the boards of management companies and investment funds domiciled in the Grand Duchy are dealing with ESG is of the utmost necessity.

Common definition and importance of ESG

In the 2020 survey, the majority of boards had neither agreed on a common definition for ESG nor on its importance to the company or the fund. For instance, only 31% of Super ManCo boards and 32% of UCITS boards had done so. At the time, the ESG strategy was still largely driven at the level of the manager group and the fund sponsor, rather than at the level of the boards of ManCos or funds.

In 2022, the findings could not be more different. Firstly, when it comes to agreeing on a common definition of ESG and its importance, the majority of boards now do so. For instance, whereas **only 17% of AIFM boards had a common definition of ESG** and had agreed on its importance **in 2020,** the number has **increased to 65% in 2022**. As for **Super ManCo** boards and **UCITS boards**, the **figures have shot up to 63% and 71%** respectively. Such increases highlight how boards of management companies and investment funds are increasingly considering ESG investing as part of their activities.

Figure 38: **Has the board agreed on a common definition of ESG and its importance to the company/fund?**



Sample Size = 128

Source: PwC AWM & ESG Market Research Centre

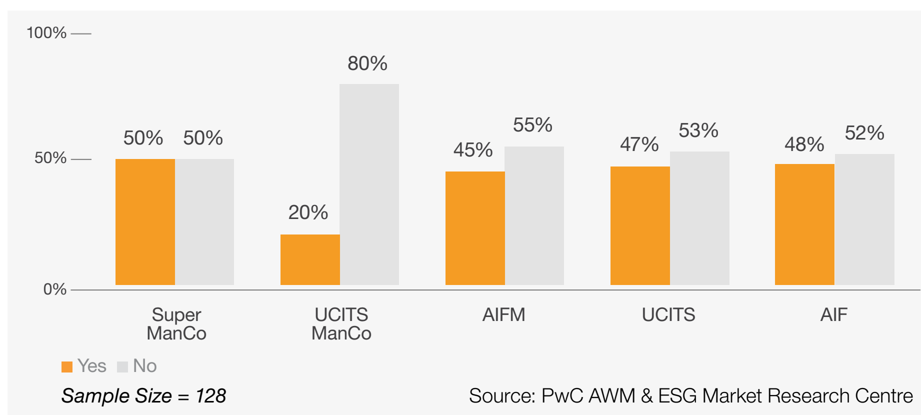
32. See PwC's latest report "Asset and wealth management revolution 2022: Exponential expectations for ESG"

Board engagement with ESG risks and opportunities

Reflecting the ongoing uncertainties which remain around ESG classification, **few boards had decided** which ESG opportunities and risks were of **strategic significance in 2020**. For instance, a little over a quarter of Super ManCo boards, and less than a fifth of AIFM boards had given attention to this matter, while only 30% of UCITS boards and 22% of AIF boards had done so.

In 2022, in tandem with the growing prominence of ESG in the funds industry, **a noticeable increase** is detected among boards of management companies and investment funds when it comes to deciding which ESG opportunities and risks are of strategic significance. Among Super ManCo boards, half of them have now decided on this matter, while over 45% of the AIFM, UCITS and AIF boards have done so.

Figure 39: **Has the board decided which ESG opportunities and risks are of strategic significance?**



Sample Size = 128

Source: PwC AWM & ESG Market Research Centre

Board investment oversight and review of ESG

Although the majority of boards believed that they had the right **composition, structure and processes in place to oversee ESG investments** in 2020, an even higher number of them do so now. Among **Super ManCos**, the number of boards with the right attributes to oversee ESG investment went **up from 55% in 2020 to a whopping 84%**. As for the boards of AIFs and UCITS, 77% and 79% of them respectively believe that they have the right setup to oversee ESG investments. Even among AIFM boards, whereby half had the right processes in place in 2020, the number has increased to 65%. As a whole, we observe that boards are becoming more confident when it comes to their adequacy and ability to oversee ESG investments.

As for **taking ESG criteria into account in the investment review process** performed by the board, the figures for 2022 are very encouraging. Whereas **only 42% of respondents in 2020 did so, a majority of boards have now adopted this practice.** Among **Super ManCo** boards, **the figure more than doubled since 2020**, reaching 76% in 2022. As for AIFM boards, close to four-fifths of them now take ESG criteria when reviewing their investments, up from 45% in 2020. Given that the Sustainable Finance Disclosure Regulation (SFDR) came into effect on 10 March 2021, and that the SFDR's final regulatory technical standards[33] (colloquially known as 'SFDR Level II') will be applicable starting 1 January 2023, it is unsurprising to see that boards of management companies and investment funds are now much more focused on integrating or taking into account ESG criteria when reviewing investments.

However, when it comes to determining what will be the **minimum percentage** of investment that are to be **aligned with the taxonomy,**[34] **only 7% of boards had resolved** what the minimum percentage will be, while 50% stated that they will seek to be taxonomy-aligned but have not yet defined the minimum percentage. Similarly, the **vast majority of boards have not yet determined a minimum threshold for sustainable investment**, although 49% of respondents stated that they will invest in sustainable investments but have not yet defined the minimum percentage. We believe that we will see an increase in these figures going forward as some of the challenges facing the industry around the availability and reliability of data are solved.

Lastly, when it comes to **principal adverse impact (PAI)**, 34% of boards will consider PAIs but have not yet finalised the details of the policy, while 7% will not consider PAIs. It appears that **uncertainty remains prevalent in this area**, as 52% of respondents have not yet decided on whether they will consider PAIs or not.

ESG greenwashing

In recent years, regulatory authorities in Europe and the United States have grabbed headlines as investigations have been started in several jurisdictions over alleged mislabelling or deliberate 'greenwashing' of funds that are purported to only engage in sustainable investing. With such increased attention over this crucial issue, it is unsurprising that boards are now much more concerned with greenwashing and significantly exerting more oversight.

In 2020, only 23% of AIF boards, 32% of UCITS boards and 21% of Super ManCo boards **reviewed ESG communications** and messages to stakeholders in order to ensure that greenwashing is avoided. The **figures have increased to 35%, 57% and 45% respectively in 2022**. However, the most dramatic increase was among AIFM boards. In 2020, a mere 8% reviewed ESG communications – two years later, the number shot up to 71%, indicating that AIFM boards are heavily concerned with potential greenwashing.

33. Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022
34. Regulation (EU) 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment

8 Current Challenges and Looking Forward

Strategic and operational implications of new regulations

In light of the ESG-related findings of the survey, it comes as no surprise that **90% of boards have reviewed the strategic (52%) and operational (38%) implications of the SFDR**, particularly given that the SFDR Level II will be effective starting 2023. Only 10% of boards have not reviewed the strategic or operational implications of the SFDR, and they are relatively evenly distributed across the respondent categories.

As for the **taxonomy, not as many boards have reviewed its implications** as for the SFDR. Regarding its strategic implications, 40% of boards have reviewed them, while 28% have reviewed its operational implications. We notice a significant discrepancy between the respondent categories, as 56% of AIFM boards have reviewed neither the strategic nor the operational implications of the taxonomy. It should be noted that the relevance of this exercise may vary depending on the underlying investment vehicles and strategies (i.e., Article 6 funds).

Regarding the European Commission's latest **anti-tax avoidance directive ('ATAD III')**, published on 22 December 2021, the **majority of boards had not yet reviewed** its strategic or operational implications.

In the coming two years, boards will need to continue monitoring legal and regulatory changes, while keeping track of ESG-related issues, which is in line with the 2020 survey results. Additionally, across almost all respondent categories, **investment performance and risk management entered the top 5 areas requiring priority attention** which come as no surprise given the negative and volatile market environment whereby investors' risk appetites have been impacted by high inflation and interest rates, and disrupted supply chains caused by geopolitical tensions and the still ongoing COVID-19 pandemic.

Figure 40: Top 5 areas requiring additional attention from the board in the coming 12-24 months

	Super ManCo	UCITS ManCo	AIFM	UCITS	AIF
#1	ESG	Investment performance	Law & regulation changes	Law & regulation changes	Law & regulation changes
#2	Laws & regulation changes	Laws & regulation changes	ESG	ESG	ESG
#3	Market developments	Market developments	Governance	Investment performance	Investment performance
#4	Governance	ESG	Investment performance	Governance	Market developments
#5	Risk Management	Risk Management	Risk Management	Compliance	Valuation and pricing

Source: PwC AWM & ESG Market Research Centre

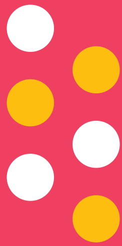
Conclusion

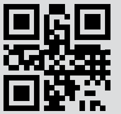
Luxembourg's tradition of forward-looking and strong good governance practices among management companies and investment funds continues with the 2022 survey, even amidst unprecedented geopolitical calamities and macroeconomic volatilities and shocks. The vast majority of boards continue to be well-versed in risk management issues and to review their practices for risk management on a regular basis. In addition, boards in the fund industry are very well-versed in AML-related matters, with the overwhelming majority of board members taking training in this area.

As the home of the world's first and leading exchange platform dedicated to securities which are green, sustainable and socially responsible, Luxembourg's fund industry continues to lead the way when it comes to ESG investing. Boards of management companies and investment funds are increasingly paying close attention to this issue, enhancing their knowledge and expertise on all ESG-related matters, and examining what their prospects for the future will be. With the SFDR Level II regulation coming into effect in January 2023, and with more taxonomy-related criteria expected to be published in the near future, boards will continue to a play a leading role in overseeing and scrutinising ESG investments, as well as in reviewing ESG messages so as to avoid instances of mislabelled funds or inadvertent greenwashing.

Our sample of 137 participants – a robust increase since the previous survey – is our largest yet and represents 48% of Luxembourg-based UCITS AuM and 42% of AIF AuM. It is heartening to see that good governance practices continue to be widespread among boards in the Luxembourg fund industry – a key reason why the asset and wealth management industry in the Grand Duchy remains robust – although there are areas where room for improvement exists. The high and growing response rate continues to highlight that the Luxembourg Fund Governance Survey remains a highly valued tool for all stakeholders to better understand the governance practices, challenges and opportunities in the fund industry in Luxembourg.

Notes



www.pwc.lu 

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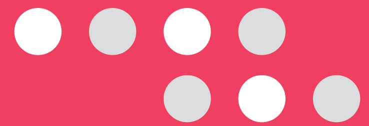

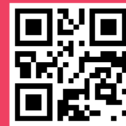 www.ila.lu

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