
UCITS IV

FIRST MOVER

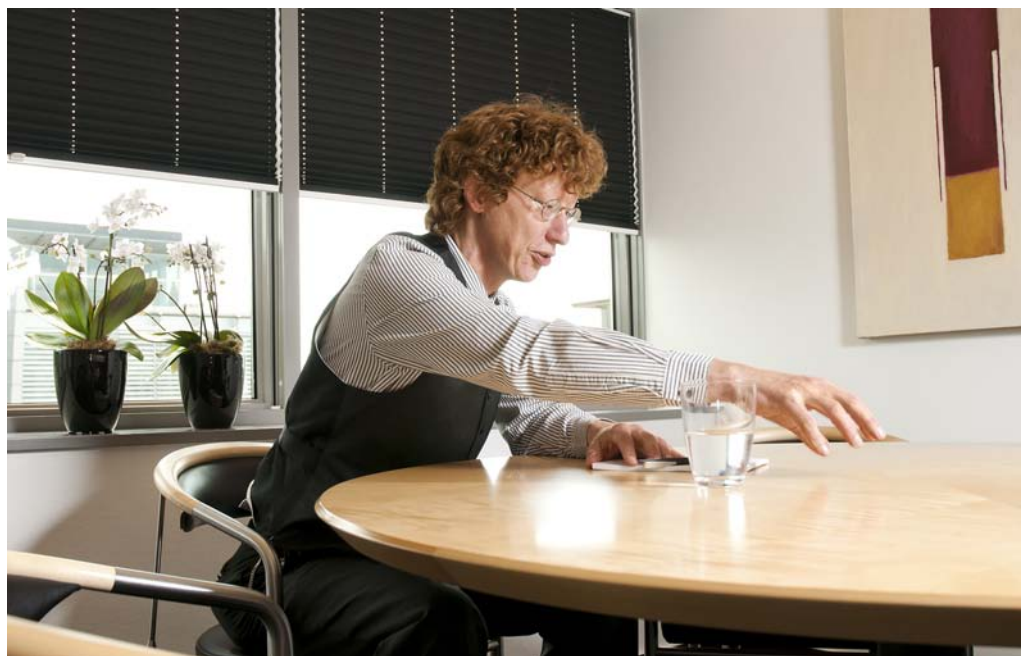
A Danish mutual fund company wants to build a big cross-border business. So why is it moving its headquarters to small Luxembourg?

Text: Aaron Grunwald — Photos: Luc Deflorenne





JAN STIG RASMUSSEN:
Luxembourg is his central hub



Andrés Lejona (archives)

THORSTEN HENS:
value investing approach
pays extra dividends

Two Luxembourg-domiciled mutual funds mark their 10 year anniversaries on December 14, a global value and a Danish long bond fund. The event would not normally be major news, except that the funds' manager, Sparinvest, has quietly been building a presence in the Grand Duchy as part of a long-term internationalisation strategy, and currently is in the process of re-registering its corporate headquarters from Denmark to Luxembourg.

Today the firm manages nine billion euro in assets, plus advises pension funds on managing a further four billion. The company's holding group is in the process of being relocated and its board will soon start meeting in the Grand Duchy. "So, why Luxembourg?" Jan Stig Rasmussen, Sparinvest's Luxembourg CEO asks rhetorically. "Luxembourg is obviously the world's largest cross-border distribution centre. It's the second largest fund centre in the world. This is really the core of it."

Sparinvest became the very first mutual fund in Denmark, when it launched in 1968. The company was founded by a number of local savings banks ("spar"

means "save" in Danish), and those cooperative banks are still among unlisted Sparinvest's 90 institutional shareholders. For years it focused solely on the domestic market. It eventually became the fifth largest fund family in Denmark, but that was more or less the upper limit of its growth.

VALUE INVESTING

In 1989 the company merged with the bank that became Nordea, and its funds began to be distributed internationally across the Scandinavian group's network. That gave Sparinvest a taste of having a cross-border footprint, but "we sort of lost our independence a little bit," Rasmussen says. A few years later, Sparinvest was de-merged. "Suddenly we had no distribution network." When Per Noesgaard was hired as group CEO, in 1996, he repositioned the entire firm. "All of the concepts that we're following today, he introduced. And the most important is the value investment concept."

Value funds focus on finding quality companies that are undervalued and then holding long-term stakes, explains

Professor Thorsten Hens of the University of Zurich, who is also a member of the Sparinvest Advisory Board and has consulted for several Swiss private banks. Currently the best known practitioner of this approach is Warren Buffett. And the same approach is paying off for Sparinvest's clients. "If you look at their value fund, while the financial market was flat from 2002 to 2010, Sparinvest created 60 percent extra returns," Hens says.

"The value concept has become more and more important to us, and that is really the core of Sparinvest's business today," Rasmussen adds.

By the same token, the company set about re-building its presence outside of Denmark. In the spring of 2001 the firm opened an office in Luxembourg, to manage all its non-Danish business. "We were a Danish asset manager with an ambition of international growth," comments Rasmussen. Its first Grand Duchy-domiciled fund was an exact clone of its flagship Danish value fund, which like all of its heritage funds remains managed separately by Sparinvest's offices in Copenhagen and Randers.



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SPARINVEST:
 probably the first of many
 European fund companies that
 will re-register in Luxembourg

At first the Luxembourg funds “were used to build up a track record, because if you don’t have a good story to go out and tell, it’s actually hard to market and sell” a fund in a new market. “The operation here was very tiny from 2001 to 2005. It was just a four or five man team running the daily operations. In 2005, we reached a point where we had a very good track record on all the funds that we introduced: we had four or five Morningstar ratings,” out of maximum of five stars on the independent research firm’s scale, for all its Luxembourg-based funds. Indeed, that was the year Rasmussen was hired, after he had spent 25 years with Nordea’s private banking and funds businesses. “We then decided to make a more international sales and marketing plan, and we decided to slowly but surely enter into more markets. Today we are authorised in 16 jurisdictions around Europe.” It also started to open local market offices in key markets, such as Amsterdam, Frankfurt and Paris, which are managed by the Luxembourg hub. Which brings us back to Rasmussen’s hypothetical question of ‘why Luxembourg?’ He says: “It’s the entire set-up

around here. The CSSF is a very business oriented financial services authority. There is a lot of expertise in Luxembourg: legal expertise but also administrative expertise.” “We have a legal framework that everybody out there in the world understands, including in the new [emerging] markets in Asia, which is obviously going to be interesting for Sparinvest sometime in the future.” However, he is quick to note the firm is not “moving into Asia tomorrow. Europe remains very important for us. The countries where we are now, we want to grow the distribution platform even further.” At press time, Sparinvest had officially taken all the legal steps needed to re-register in the Grand Duchy and was awaiting for the official reply from Luxembourg authorities, which the company expects to receive by the end of the year.

FIRST OF MANY?

Europe’s new cross-border fund rules, called UCITS IV, came into effect earlier this year and Luxembourg was the first to put the regulations into practice. That “creates some possibilities going forward. I believe that many fund compa-

nies out there are thinking about doing something like this. Due to the fact that we are a mid-sized fund company, we’re probably faster in taking the decision and actually carrying it out.”

Rasmussen predicts that “what we are going to see over the coming years, in general terms, is a lot of cross-border mergers. Not Sparinvest because we still have [a specific Danish] tax issue. But many organisations that are running hundreds and hundreds of funds can actually reduce down to perhaps half or one-third” of funds in their current portfolio.

“Why should you choose a small country to register your funds?” he asks rhetorically again. “If you already have an operation here, you know this is best place, the most flexible place, you have the knowledge in place, you have the languages in place, you have everything in place. This is and will remain the central point for doing a thing like that.”

He has heard that some competitive funds “are evaluating” re-registering in the Grand Duchy as Sparinvest is doing, “but I don’t know if anybody else has taken the decision. I would guess we are among the very first ones to do this.” ●