



association of the
luxembourg fund industry

| **guidelines**

ALFI CODE OF CONDUCT FOR LUXEMBOURG INVESTMENT FUNDS

Table of contents

ALFI Code of Conduct Revision 2022: Foreword	3
Introduction	4
Principles	5
Principles with recommendations	6

ALFI Code of Conduct Revision 2022: Foreword

The initial version of the ALFI Code of Conduct was published in September 2009 and then updated in 2013. The ALFI Code of Conduct has been the foundation of good governance for many funds and management companies in Luxembourg over the past decade. Recognising however that there have been numerous developments in respect of fund regulation and fund governance over the last few years, the ALFI Fund Governance Forum consulted with the largest investment fund managers by assets under management in Luxembourg, to understand what changes should be made to the ALFI Code of Conduct to ensure that it remains relevant and forward-looking. The consultation also sought to engage with investment fund managers that had not adopted any code of conduct, to understand and address any obstacles to adopting and implementing a code of conduct.

The feedback from ALFI members made it clear that impacts related to sustainability and environmental, social and governance (ESG) on funds and management companies should be addressed in the revision. On this basis we decided that it was necessary to incorporate aspects related to sustainability and ESG in a new and standalone Principle XI. ALFI members also recommended incorporating topics such as cybersecurity and digitalisation, which have been included in this revision. However, the overall approach of the ALFI Code of Conduct has not been changed insofar as it remains based on principles rather than detailed rules.

As in the earlier versions, each of the principles of the ALFI Code of Conduct remains supported by several recommendations.

ALFI strongly recommends that all funds and management companies in Luxembourg adopt the ALFI Code of Conduct, unless they have adopted and apply a similar code of conduct. ALFI and its Fund Governance Forum have engaged with the broad ALFI membership to endorse the ALFI Code of Conduct and will continue to advocate its wider acceptance. The changes made are intended to encourage broader adoption.

We would like to express our sincere gratitude to all those who have contributed to the extensive work involved in the revision of the ALFI Code of Conduct. We will continue to update the ALFI Code of Conduct in future to accommodate developments as relevant.

On behalf of ALFI, we urge and encourage all participants in the Luxembourg fund industry to carefully consider the contents of the revised ALFI Code of Conduct and to adopt its principles on a timely basis with a formal annual review of its application thereafter.

ALFI Board of Directors, June 2022

The purpose of the ALFI Code of Conduct (the “Code” or “Code of Conduct”) is to provide boards of directors with a framework of high-level principles and best practice recommendations for the governance of Luxembourg investment funds and of management companies where appropriate. The Code is principles-based rather than rules-based in that it relies upon good judgement rather than prescription. As such, the recommendations recognise that the right approach for many issues depends on the circumstances.

The Code is not designed to supersede applicable laws and regulations.

ALFI believes it is appropriate to apply the principles of the Code to all funds and to investment fund managers (“IFM”¹), in order to have a uniform and consistent approach in the marketplace.

References in the Code to the “board” are to the body responsible by law for managing, administering and supervising the relevant fund or the supervisory function responsible for the IFM. Unless otherwise specified or the context otherwise requires, all references to the board in the Code shall therefore include, as appropriate, the boards both of Luxembourg funds and of IFMs.

References to “fund” in the Code shall cover all types of Luxembourg undertakings for collective investment, whether undertakings in collective investments for transferable securities (UCITS) or alternative investment funds (AIF).

The Code was initially introduced in September 2009, and first updated and re-issued in 2013. It seeks to formalise and encapsulate existing best corporate governance practices. The Code has been updated and re-issued again in 2022 to reflect *inter alia*:

Changes to principles:

- The introduction of a new Principle XI to integrate as appropriate sustainability standards and objectives including environmental, social and governance (ESG) criteria in the business model and operations generally.
- The alignment of the wording under Principle I with the wording of Principle 1 of the 10 Principles of Corporate Governance of the Luxembourg Stock Exchange.

Changes to recommendations:

- A recommendation under Principle II for the board to establish a formal procedure for the appointment and renewal of members of the board.
- A recommendation under Principle V in relation to the protection and security of personal data of employees, customers and other third parties.
- A recommendation under Principle VIII in relation to being informed of existing and new mandates of all board members.
- A recommendation under Principle VIII in relation to gratuities received by employees to avoid conflicts of interest.

In addition to the principles and best practice recommendations, this Code is accompanied by guidance notes² on specific topics, providing more practical insight.

To improve transparency and demonstrate commitment to high standards of corporate governance, ALFI recommends that boards annually confirm adherence to the principles of the Code in their annual financial statements. Such confirmation demonstrates to investors the board’s explicit commitment to good corporate governance.

¹ *Investment fund managers incorporated under Luxembourg law as defined in the preamble to CSSF Circular 18/698.*

² <https://www.alfi.lu/en-gb/pages/setting-up-in-luxembourg/fund-governance>

Principles

- I. The board should adopt clear and transparent standards of corporate governance.
- II. The board should have good professional standing and appropriate experience and use best efforts to ensure that it is collectively competent to fulfil its responsibilities.
- III. The board should act fairly and independently in the best interests of the investors.
- IV. The board should act with due care and diligence in the performance of its duties.
- V. The board should ensure compliance with all applicable laws and regulations and with the fund's constitutional documents.
- VI. The board should ensure that investors are properly informed, are fairly and equitably treated, and receive the benefits and services to which they are entitled.
- VII. The board should ensure that an effective risk management process and appropriate internal controls are in place.
- VIII. The board should identify and manage fairly and effectively, to the best of its ability, any actual, potential or apparent conflict of interest and ensure appropriate disclosure.
- IX. The board should ensure that shareholder rights are exercised in a considered way and in the best interests of the fund.
- X. The board should ensure that the remuneration of board members is reasonable and fair and adequately disclosed.
- XI. The board should integrate as appropriate sustainability standards and objectives including environmental, social and governance (ESG) criteria in its business model and operations.

Principles with recommendations

I. The board should adopt clear and transparent standards of corporate governance.

Recommendations

1. The board is charged with ensuring good governance.
2. The board should discharge its functions soundly, honestly and professionally.
3. The board should demonstrate leadership, integrity, ethical behaviour and expertise.
4. The board should encourage and support sustainable business practices in accordance with relevant laws and regulations.
5. The board should place emphasis on promoting transparency, good practices and conduct of business rules and efficiently manage conflicts of interest.
6. The board should provide independent review and oversight, including effective oversight of delegated functions.
7. The board should ensure that sound management is in place.
8. The board should ensure an effective system to prevent fraud, bribery and corruption.

II. The board should have good professional standing and appropriate experience and use best efforts to ensure that it is collectively competent to fulfil its responsibilities.

Recommendations

1. The composition of the board should be balanced, promoting diversity in respect of but not limited to gender, ethnicity/culture, experience and skills, so the board can make well-informed decisions.
2. Members of the board should therefore have appropriate experience, with complementary knowledge and skills, relative to the size, complexity and activities of the fund.
3. The board should establish a formal procedure for the appointment and renewal of members of the board.
4. Consideration should be given to the inclusion in the board of one or more members that are, in the opinion of the board, independent.³
5. The chair should demonstrate leadership during as well as outside meetings. The chair's duties should include setting the agenda, managing the meeting, steering the discussions and ensuring that effective and fair conclusions are reached.
6. The board should ensure that it keeps abreast of relevant laws and regulations and that it remains vigilant about evolving risks and market developments.
7. The board may call upon expert assistance and/or create board committees for the proper fulfilment of its duties. The establishment of board committees should not affect the collective responsibility of the board.
8. The members of the board are expected to understand the activities of the fund and devote sufficient time to their role⁴.
9. The board should conduct a periodic review of its performance and activities.

³ See [ALFI/ILA Guidance Note on Director Independence](#)

⁴ See page 2 on "Role and Responsibility of the Board" in [ALFI/ILA Guidance Note on Board Reports](#).

III. The board should act fairly and independently in the best interests of the investors.

Recommendations⁵

1. The board should at all times put the interests of the investors first.
2. The board is expected to act fairly and independently irrespective of any board member's affiliation.
3. The board should ensure that the choice and selection of service providers is made fairly and in the best interest of the investors.
4. The board should arrive at decisions taking into consideration, where possible, any broader potential impact of such decisions on the market in which it operates and its relevant stakeholders.
5. The board should ensure that the fees and charges borne by the fund are reasonable, fair and appropriate.

IV. The board should act with due care and diligence in the performance of its duties.

Recommendations

1. Board members should in principle attend and participate actively at board meetings.
2. The board must meet as often as required in order to oversee effectively the fund's activities and all board meetings should be formally minuted.
3. The board is responsible for approving the fund's strategy and for ensuring that the fund consistently follows its stated investment objectives.
4. The board is responsible for outsourced or delegated activities.
5. The board should ensure it acts on an informed basis with due care.
6. Where required, the board should seek external professional advice or information to assist it in its duties.

V. The board should ensure compliance with all applicable laws and regulations and with the fund's constitutional documents.

Recommendations

1. The board should verify that adequate organisation, procedures and safeguards are established to ensure compliance with all relevant laws and regulations and with the fund's constitutional documents.
2. The board should consider prevailing guidance/guidelines issued from time to time by competent authorities.
3. The board should verify that regular monitoring of such compliance is in place and that it receives regular reports to that effect relevant to the respective business model.
4. The board should ensure adequate measures for the protection and security as well as an appropriate use of employees', customers' and other third parties' personal data.

⁵ See ALFI/ILA Guidance Notes on [Director Independence](#) and [Board Reports](#).

VI. The board should ensure that investors are properly informed, are fairly and equitably treated, and receive the benefits and services to which they are entitled.

Recommendations

1. The board should ensure that the information provided to investors about the fund, particularly with regard to the fund's investment and sustainability objectives, risks and costs, is true, fair, timely and not misleading.
2. The board should ensure that investors are kept informed of matters relevant to their investment in a form and language that is clear and easy to understand.
3. The board should ensure that information relating to the fund's financial situation and performance be prepared and disclosed in accordance with relevant accounting standards and applicable legal and regulatory requirements.
4. The board should take into account the interest of all investors, in particular where board decisions may affect investor groups differently.
5. The board should ensure each investor complaint is reviewed and, if it is upheld, that redress is provided within a reasonable time.
6. The board should ensure that investors receive the benefits and level of services to which they are entitled as defined by law, contractual arrangements and the fund's constitutional documents.
7. The board should ensure that there is adequate disclosure to investors of the fund's policies, as required by law.

VII. The board should ensure that an effective risk management process and appropriate internal controls are in place.

Recommendations

Risk management

1. The board should ensure that an adequate and documented risk management policy is established, implemented and maintained.
2. The board should ensure that the risk management policy enables the proper identification, measurement and assessment of the entity's exposure to market, liquidity, sustainability and counterparty risks, exposure to all other non-financial risks including operational risks and any other risk factors the entity is exposed to (including cybersecurity risk).
3. The board is responsible for the validation of the risk profile⁶.
4. The board should ensure that the risk management function is adequately staffed and skilled in line with the nature, scale and complexity of the activity, or proper oversight is performed when outsourced. It should be independent of the investment and operational processes.
5. The board should periodically review the adequacy and effectiveness of the risk management policy and of the arrangements, processes and techniques used in order to measure and manage risks and ensure compliance with the limits set.
6. The board should ensure that it understands the impact of any complex financial products or strategies on the risk profile of the portfolio and the aggregate exposure to these products to the entity.

Internal controls

1. The board should seek assurance that delegated parties comply with relevant and adequate compliance and internal audit obligations, where applicable.

⁶ CSSF Circular 18/698, paragraphs 191, 192 and 194.

-
- | | |
|--|--|
| <ol style="list-style-type: none"> 2. The board should ensure that compliance and internal audit functions are independent of the investment and operational processes. 3. The board should require direct and timely reporting of any material internal control | <p>and compliance issues, and ensure that they are appropriately addressed.</p> <ol style="list-style-type: none"> 4. The board should ensure that appropriate business continuity plans are in place, including for delegated parties. |
|--|--|
-

VIII. The board should identify and manage fairly and effectively, to the best of its ability, any actual, potential or apparent conflict of interest and ensure appropriate disclosure.

Recommendations

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. The board should identify the circumstances which constitute or may give rise to a conflict of interest which may entail a material risk of damage to the interests of investors. 2. The board should be informed at least annually on the existing mandates of each board member and throughout the year when a new mandate is accepted. 3. The board should be informed of any gifts, benefits or invitations received or offered from/to individuals or companies which either have or are trying to develop business relations with the entity, or in accordance with its policies, as appropriate. 4. The board should establish, implement and maintain an effective conflict of interest | <p>policy (i) to identify such conflicts of interest and (ii) to provide for procedures to be followed and measures to be adopted in order to prevent them where possible and to manage such conflicts in an independent manner.</p> <ol style="list-style-type: none"> 5. The board should make all reasonable efforts to resolve conflicts of interest, but in cases where a conflict of interest is unavoidable, the board should seek to address it on an arm's length basis and to adequately disclose it to the relevant parties. 6. The board 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. |
|---|--|
-

IX. The board should ensure that shareholder rights are exercised in a considered way and in the best interests of the fund.

Recommendations

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. The board should ensure that a policy on voting in investee companies (directly or by proxy) is in place and adequately disclosed. 2. The board should ensure the application of the voting policy, as applicable, especially in cases where voting and active ownership are applied to attain the investment objective. 3. The board should exercise the fund's voting rights in a considered, responsible | <p>and transparent way, where applicable taking into consideration Principle XI.</p> <ol style="list-style-type: none"> 4. The board should ensure that clear guidelines for the engagement with investee companies are in place, as applicable. 5. Summary information on the exercise of voting rights should be made available to investors with detailed disclosure upon request. |
|--|---|
-

Principles with recommendations

X. The board should ensure that the remuneration of board members is reasonable and fair and adequately disclosed.

Recommendations

1. The board should ensure that where appropriate a policy on remuneration of board members is in place and is adequately disclosed.
2. The remuneration of board members should reflect the responsibilities of the board, the experience of the board as a whole and be fair and appropriate given the size, complexity and investment objectives of the fund.
3. The remuneration of board members charged to the fund should be separately disclosed in the annual financial statements, either individually or collectively.

XI. The board should integrate as appropriate sustainability standards and objectives including environmental, social and governance (ESG) criteria in its business model and operations.

Recommendations

1. The board should ensure that processes are in place that are designed to protect human and social rights. Such processes should aim to prevent discrimination and harassment and promote diversity, equitable and inclusive behaviours.
2. The board should ensure that the choice and selection of service providers take into consideration the integration of ESG criteria.
3. The board should encourage the integration of sustainability-related aspects into entities' remuneration policies or principles, as applicable.
4. The board should regularly, at least annually, receive a dedicated report on the sustainability strategy of the entity, including status of implementation, as applicable.
5. The board should monitor adherence to applicable sustainability-related laws and regulations relevant to the design, implementation, management and distribution of the fund.



The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community, championing sustainable investing, mainstream and private assets. ALFI's mission is to promote Luxembourg as the world's leading cross-border investment fund centre, facilitate the transition towards more sustainable economies globally and empower investors to meet their goals.

Created in 1988, the Association today represents over 1,500 Luxembourg-domiciled investment funds, asset management companies and a wide range of businesses that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialist IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment funds are distributed in more than 70 countries around the world.

ALFI defines its mission as to “lead industry efforts to provide solutions and make Luxembourg the most innovative international investment fund centre”.

Its main objectives are to:

Help members capitalise on industry trends

ALFI's many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond to identify threats and opportunities for the Luxembourg fund industry.

Shape regulation

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg's competitive position as a centre for the domiciliation, administration

and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, the implementation of European directives and the regulation of new products or services.

Foster dedication to professional standards, integrity and quality

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organising training at all levels, defining codes of conduct, transparency and good corporate governance and supporting initiatives to combat money laundering.

Promote the Luxembourg investment fund industry

ALFI actively promotes the Luxembourg investment fund industry, its products and services. It represents the sector in financial and economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

ALFI is an active member of the European Fund and Asset Management Association, of the International Investment Funds Association, of Pensions Europe, of the International Association of Pension Funds Administrators and of the Global Impact Investing Network.

For further information, visit www.alfi.lu and follow ALFI on [LinkedIn](#), [Twitter](#) (@ALFI-funds), [Youtube](#) and [Flickr](#).



© 2022 ALFI. All rights reserved.



**ALFI Code of Conduct for
Luxembourg Investment Funds**