TheNED Risk and Governance

Independent intelligence on fund governance issues

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Risk: danger ahead?

The tidal wave of liquidity that has kept markets buoyant is ending as QE is wound down. Concern over what is to come has begun to burst bubbles in outlier markets. Are fund boards on top of the various risks that may well be on the way?

Markets expect the Fed to start quantitative tightening (QT) in the next few months. US inflation is running at 6.8% and the economy is growing at 7%, according to the Atlanta's Fed's GDP tracker. If this isn't the right time to switch from QE to QT then when would be?

QT means that the tidal wave of liquidity that has kept markets buoyant will likely come to an end. Michael Hartnett from Bank of America says we're seeing the end of the 'liquidity supernova'. Central banks have been buying $26 billion in assets for every trading day since Covid began. They added $10.5 trillion from 2020-2021.

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Fund governance by jurisdiction series: Luxembourg

Following on from reviews of fund governance in Cayman and Ireland The NED continues the series by examining Luxembourg. (Next month, Guernsey.)

There are a number of things that make fund governance in Luxembourg different from what occurs in the Anglo Saxon jurisdictions, especially the offshore ones. The biggest difference is that Luxembourg effectively works with a de facto double tier of boards.

The real and actual board appoints the management company (ManCo). The ManCo then oversees all the delegates to the fund, which tend to range between a minimum of two and possibly as many as seven. The point is that the local Luxembourg AIFM acts in many ways like a board of directors, even though it is a delegated entity.

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Make cheque payable to:
IFI Global Ltd.
10 Arthur Street
London EC4R 9AY

For additional information please contact Tamara Sims at sims@ifiglobal.com
IFI Global Ltd, 10 Arthur Street, London EC4R 9AY Tel: +44 (0) 207 220 9077

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The NED is published by IFI Global Ltd, 10 Arthur Street, London EC4R 9AY Tel: +44(0)207 220 9077

Editorial & research enquiries:
Simon Osborn e-mail: osborn@ifiglobal.com

Directory, event & subscription enquiries:
Tamara Sims e-mail: sims@ifiglobal.com