PUBLICATION

HANDLING MACROECONOMIC STRESS: KEY INSIGHTS FROM ILA'S 2ND FUND INDUSTRY "MACROECONOMICS EVENT"

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On 6 March 2025, the ILA Alternative Investment Funds Committee, in partnership with EY Luxembourg, invited members of ILA to EY's premises in Kirchberg, Luxembourg City, for the second "Macroeconomics Event" entitled "Handling macroeconomics-driven stress situations". The two-hour session welcomed 70 participants drawn from a wide range of Directors, alternative investment fund managers, consulting practices, and service providers.

1. MACROECONOMIC LANDSCAPE

Philippe Bruch, a Portfolio Management specialist, opened with a comprehensive overview of global macroeconomic trends, covering GDP growth, inflation and deflation dynamics, unemployment trajectories, and the respective roles of monetary and fiscal policy.

He compared the United States' resilient GDP growth, hovering around 2.5% year-on-year, with the Eurozone's more modest 1.3% pace, even as inflation rates in both jurisdictions remained elevated near 4%.

He emphasised several critical factors currently impacting the global economy, including the implications of Trump's second administration, high regulatory pressure in Continental Europe and significant business culture differences across regions.

The presentation also addressed emerging political risks, including the uncertainties surrounding US-China-Russia relations, the protectionist policies of the Trump administration and European monetary policy implementation.

Mr Bruch also highlighted the lagging transmission of central-bank interest rate actions into the real-estate and infrastructure sectors, where funding costs and asset valuations can move more slowly and diverge sharply from headline index figures.

Illustrating the contrast between macroeconomic concepts and market realities,, Mr Bruch examined NVIDIA's recent performance as a case study. He noted how pandemic-era, AI demand and prolonged low interest rates fuelled a dramatic valuation surge—followed by a sharp correction amid renewed competitive pressures from Chinese AI firms such as DeepSeek, who do not use NVIDIA chips. This example underscored how quickly market sentiment can shift when macro drivers and industry-specific developments intersect.

2. IDENTIFYING CRITICAL RISK AREAS

i. Navigate Macroeconomic, Geopolitical & Regulatory Crosswinds

Moderated by Evanthi Savvoulidi of Nordea, the panel framed the key stress drivers that Directors should monitor. Central to these are monetary-policy mismatches between the U.S. Federal Reserve and the European Central Bank, which can exacerbate cross-asset dislocations. Attendees discussed the risks of unrealised losses in mark-to-market asset classes like real estate and infrastructure, liquidity mismatches in private-equity funds, and the growing threat of geopolitical volatility—from U.S. domestic policy shifts to Sino-U.S. tensions.

Other focal points included stretched credit and equity valuations, ESG compliance pitfalls such as greenwashing and escalating cybersecurity threats in an increasingly digitised fund ecosystem.

ii. Real-Estate Fund Liquidation: A Director's Checklist

Arlena Obispo (Pradera), Graham Cook (Talisman) and Eric Chinchon (MEBS) provided a practical roadmap for voluntary liquidation. Ms Obispo outlined a two-pronged due-diligence approach: a rigorous financial assessment to ensure sufficient liquidity for redemption, guarantees and fees and a legal review to secure CSSF approvals, investor consents and audit sign-offs on pre-liquidation accounts. Mr Cook warned of gaps in "claims- made" policies and non-renewal risks and emphasised safeguarding the entity's and Directors' personal liabilities by reviewing indemnification clauses and Directors & Officers insurance, especially considering the nuances of claims-made policies and extended coverage options. Mr Chinchon shared lessons from recent liquidations, such as the value of clear decision-path documentation, realistic asset-realisation timelines and proactive investor communication to maintain trust.

iii. Beyond Liquidation: Continuation Funds & Governance

Ms Obispo then explored continuation funds as an alternative to fire-sale liquidations. By transferring high-quality assets into a successor vehicle at mid-cycle pricing GPs can avoid forced dispositions during market troughs, provided that LPs consent, debt-refinancing is secured, fees are renegotiated and conflict-of-interest protocols are observed. Christoph Vandendorpe of EY Luxembourg highlighted governance best practices for continuation vehicles, including independent valuations, robust conflict-management policies, LP advisory committees and transparent reporting to ensure Directors fulfill their fiduciary duties.

iv. Liquidity Management Toolkit & Regulatory Outlook

Adrian Aldinger of Arendt & Medernach focused on Luxembourg's liquidity-management toolkit under AIFMD II. Tools such as swing pricing, redemption gates, side-pockets and notice-period extensions were discussed alongside enhanced stress-testing requirements. Mr Aldinger stressed the importance of real-time cash-flow monitoring, scenario-based modelling and governance frameworks that strike a balance between investor protection and operational agility.

vi. Geopolitical Disruptions & Investor Engagement

Forbes Fenton of M&G Luxembourg concluded the formal presentations by urging directors to embed geopolitical shock scenarios into fund planning. He recommended extension provisions, strategic hedging, and diversification of investor geographies to mitigate concentration risks. Transparent, data-driven updates on stress-test results were highlighted as essential for sustained investor confidence.

3. KEY TAKEAWAYS FOR DIRECTORS

i. Translate Macro Trends into Fund-Level Risk management

Key Message: Don't leave macro inputs at a superficial level – Proactively plan for policy shocks by embedding them in your own fund's models.

- From GDP to Granular Impact: focus on macroeconomic trends - Ensure that inputs such as diverging growth/inflation dynamics are translated into fund-specific scenarios e.g. hedging covenants to cover permit adjustments depending on macroeconomics, stress testing (e.g., ±100 bps in refinancing spreads to capture the divergences between US vs Eurozone growth, inflation and interest rates) etc..

- Case Study Calibration: focus on black swan scenarios - The NVIDIA roller-coaster illustrated how sector-specific disruptions (e.g., AI supply-chain constraints, Chinese competition) can amplify broader macro shifts. Ensure that analogous "sector stress points" are identified ("What macro moves would push this asset into distress?") and reverse-stress tests are performed.

ii. Review Liquidity Management Tools Now

Key Message: With redemption pressures rising, review and test your liquidity management toolkit.

- Testing liquidity management tools: Commit to regular dry-runs of each liquidity management tools to verify operational readiness (service-provider workflows, board-approval processes, communication templates etc.).

- Real-Time Cash-Flow Dashboards: Static cash-flow projections are not enough. Require real-time dashboards showing investor demand, asset sale cadence and covenant headroom, updated regularly and trigger pre-agreed mitigation actions when thresholds are breached.

iii. Strengthen Governance & Liability Defences

Key Message: Strengthen processes and conflict-management as part of your fiduciary duty.

- Independent Valuations on Highly-Leveraged Assets: Continuation-fund discussions underscored the importance of third-party pricing for mid-cycle transfers. Consider independent appraisals for any asset representing >10% of NAV.

- Conflicts of interest & Continuation Funds: When GPs and LPs negotiate buy-outs of high-quality assets, conflicts of interest intensify. Establish an independent committee to oversee continuation terms and fee concessions.

- Professional Liability Insurance Reviews: Schedule regular insurance-review workshops to confirm policy coverage, renewal and extended tail coverage for vintage exposures.

iv. Navigate Regulatory Crosswinds

Key Message: Ensure mastery of diverging regulatory agendas

- Ensure that current and upcoming regulatory obligations, such as ESG disclosures, SFDR enhancements and AIFMD II, are met e.g. by assigning a board sub-group to track regulatory milestones, escalate potential breaches and pre-approve remediation budgets.

- Ensure that a strategy is in place to deal with divergences between regulatory agenda (e.g. US vs EU agendas on Sustainability / ESG, diversity, etc.)

v. Deepen Investor Engagement Under Stress

Key Message: Transparent, data-driven dialogue with invests builds trust when markets turn.

- Stress-Test Summaries: Share with investors concise “dashboard snapshots” of stress-test outcomes, key metrics, action plans and timing, on a regular basis.

- Decision-Path Documentation: Ensure that there are clear audit trails for liquidity management decisions and liquidation scenarios including mails, meeting minutes, valuation memos which are all critical when justifying hard choices (liquidations, gate implementations, continuation launches).

CONCLUSION

As 2025 unfolds, the interplay of tightening monetary policy, uneven growth and geopolitics will continue to test the resilience of alternative investment funds. By converting high-level macro insights into fund-specific stress protocols, reinforcing liquidity governance, tightening liability safeguards and deepening transparent investor communication, Directors can navigate the challenging macroeconomic environment with confidence and purpose.

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