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Irish Funds Distribution Workshop

18 May 2018

Kindly hosted by:

irish funds

Matheson

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Welcome Address

Tara Doyle, Matheson

Introduction

Len Sutton, JP Morgan

Distribution Steering Committee

- Len Sutton - JP Morgan (Global) - *Chairperson*
- Audrey Behan - InterTrust Group (PRIIPS)
- Chris Christian - Dechert (USA)
- Liam Collins - Matheson (Latin America)
- Vincent Coyne - William Fry (UK)
- Jim Firn – Consultant (Global)
- Kieran Fox - Irish Funds (Global)
- Killian Lonergan - BBH (Switzerland)
- Conor Owens - Mediolanum (Europe)
- Tom Ryan - Blackrock (Asia)
- Tom McGrath - Blackrock (IF Council)

Objectives

- Develop an Irish Funds strategy for local markets in coordination with the Marketing Steering Group
- Assist in developing the IF profile and network in local markets by attending events, inviting contacts to local Irish Funds events and profiling Irish Funds when interacting with industry stakeholders
- Gather local market and distribution intelligence for Irish Funds and prepare distribution information/ marketing material
- Identify and advise on distribution challenges and opportunities in the local markets
- Work closely with the Events Group to assist in the preparation and planning for Irish Funds events in the local markets
- Arrange to meet with local distributors when attending overseas events

Panel Discussion: MiFID II & PRIIPs

Moderator:

Conor Clune, BBH

Panellists:

Manuel Brieske, State Street

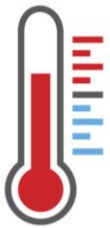
Chuck Bohner, SSGA

Marlyn Cooney, Pinsent Masons

Darragh Murphy, McCann Fitzgerald

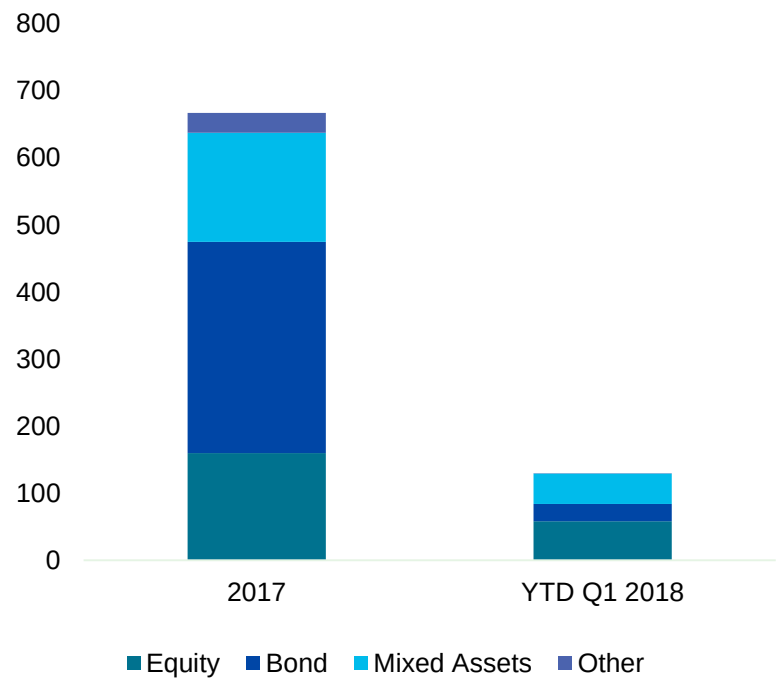
Update Session: Taking the Funds Industry's Temperature

Mark McFee, MacKay Williams

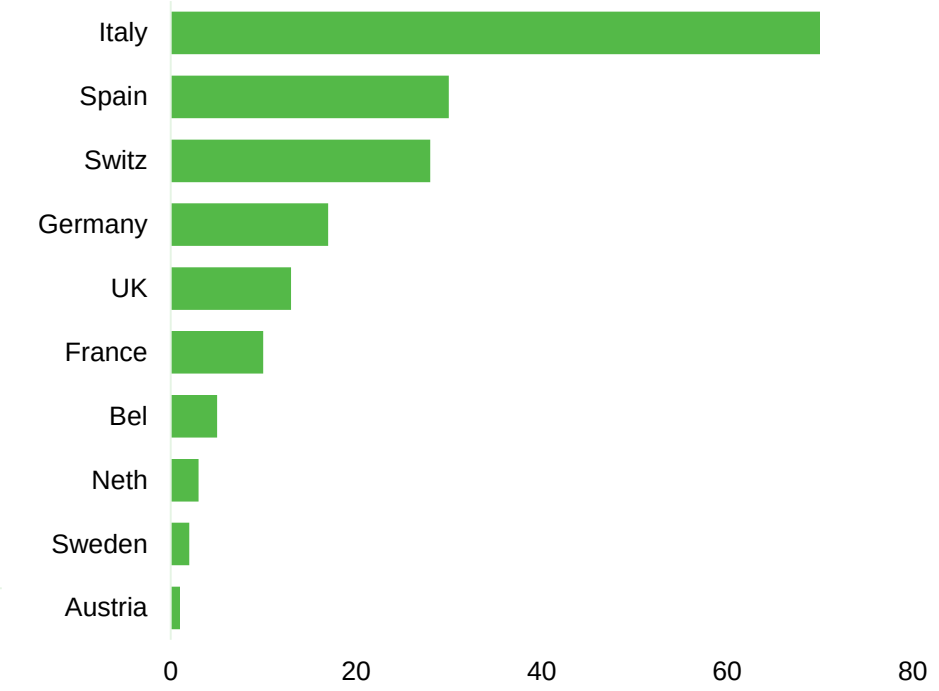


2018 – Hangover or keep partying?

Net flows – All Europe (€bn)

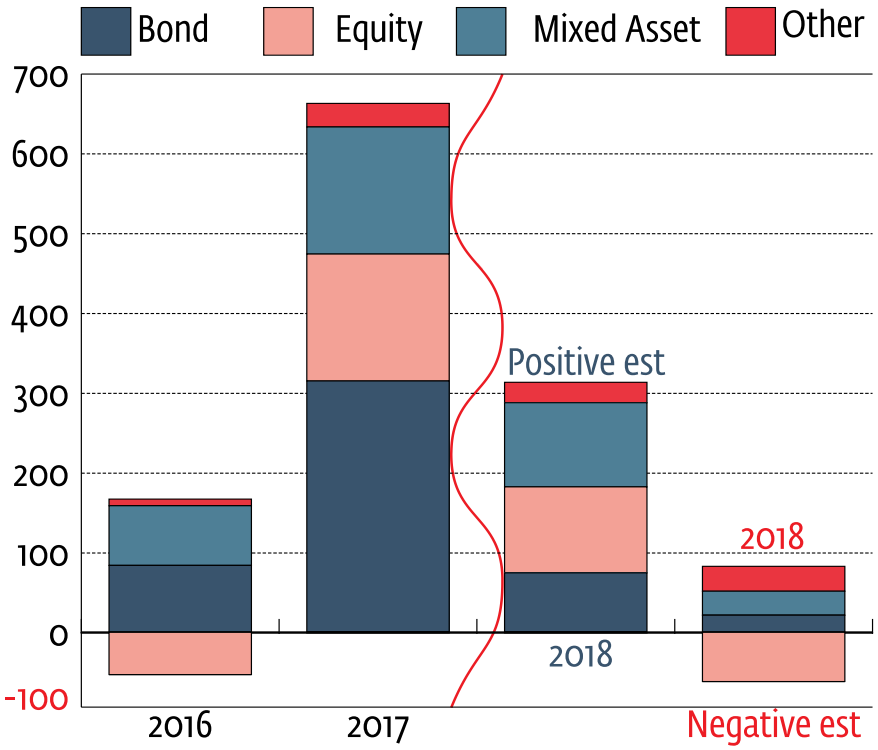


Cross-border flows by market, 2017 (€bn)



Source: Broadridge FundFile data at March 2018, excluding money market funds and funds of funds.
Cross-border flows data from Broadridge Data Digest 2018, excluding money market funds, funds of funds and ETFs.

2018 – Expectations

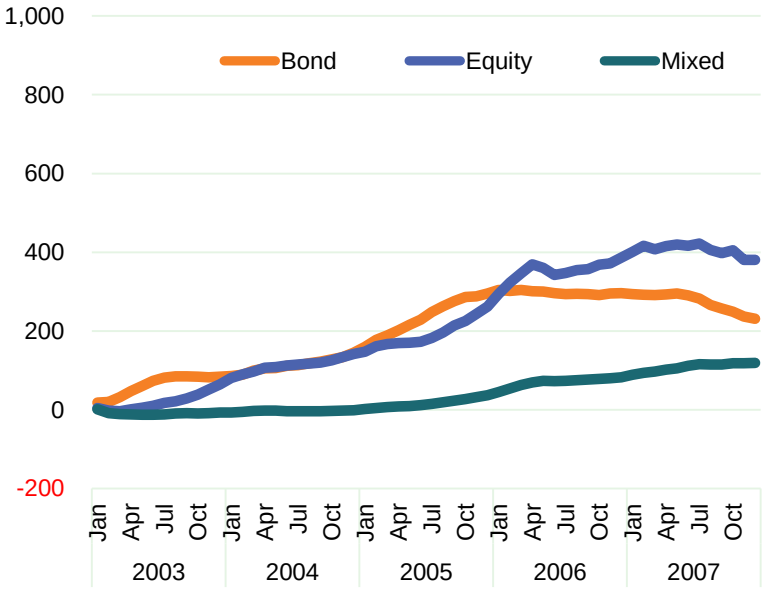


- Positive estimate: €314bn
- Negative estimate: €17bn
- Assumptions for positive scenario include:
  - Contracting flows into fixed income funds: €75bn – a quarter of 2017 volumes;
  - Marginally lower volumes for mixed asset and equity: ~ €100bn each.
- Negative scenario includes:
  - Equity redemptions of €70bn;
  - Severe contraction in sales of all other sectors: <€50bn.

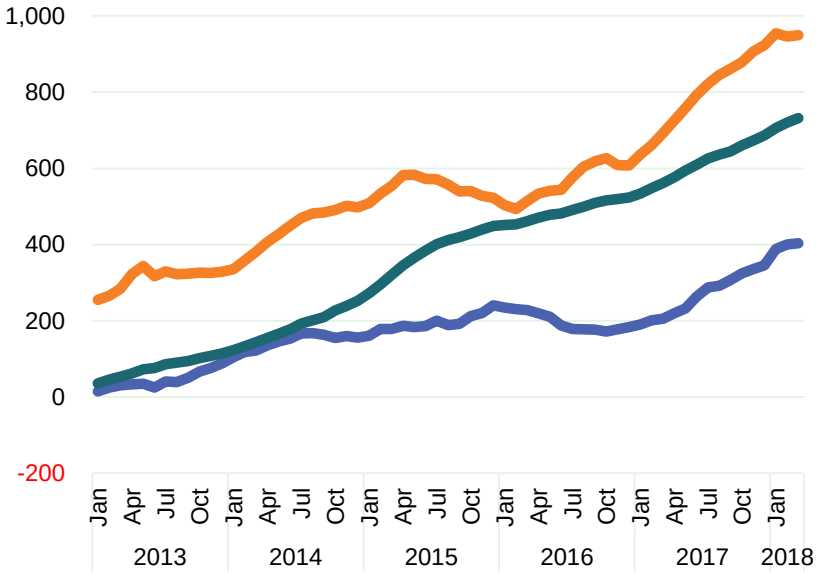
Source: MackayWilliams analysis based on Broadridge FundFile data, excluding money market funds and funds of funds.

Secular product shifts: Out of equity

Cumulative net sales: 2003 - 2007 (€bn)



Cumulative net sales: 2013 - Q1 2018 (€bn)



Source: MackayWilliams analysis based on Broadridge FundFile data – data include active and passive funds.

Demand drivers

Top/bottom five sectors by net sales, Q1 2018 (€m)[1]

Rank	Sector	Net sales	Assets
1	Asset Allocation	13,358	341,349
2	Equities Global	11,828	645,372
3	Mixed Assets Income	8,545	159,702
4	Bonds Emerging Markets	8,079	165,137
5	Fund of Funds Balanced	7,690	242,015

Rank	Sector	Net sales	Assets
1	Bonds USD Corp. High Yield	-4,988	56,081
2	Bonds EUR Corp. Inv. Grade	-4,214	136,988
3	Bonds Global High Yield	-3,607	111,725
4	Equities UK Income	-3,357	93,224
5	Bonds Target Maturity	-2,495	70,609

Top/bottom five sectors by net allocation intentions[2]

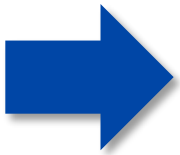
Sector	April '18
Alternative	17%
European equities	17%
Mixed/Flexible	15%
Emerging markets	12%
Japan equity	12%
Global bonds	-7%
Bonds North America	-7%
Equity North America	-9%
Bond High Yield	-12%
European bonds	-14%

Source 1: Broadridge FundFile data, excluding money market funds and funds of funds.

Source 2: MackayWilliams' net investment allocation scores based on 81 interviews with third-party fund selectors in April 2018.

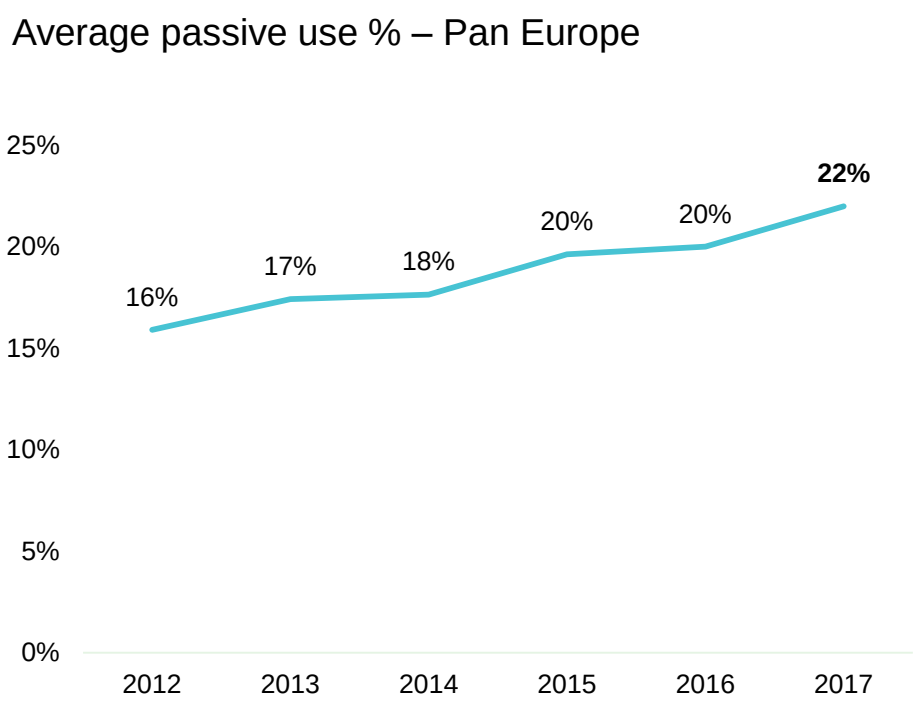
Selector themes

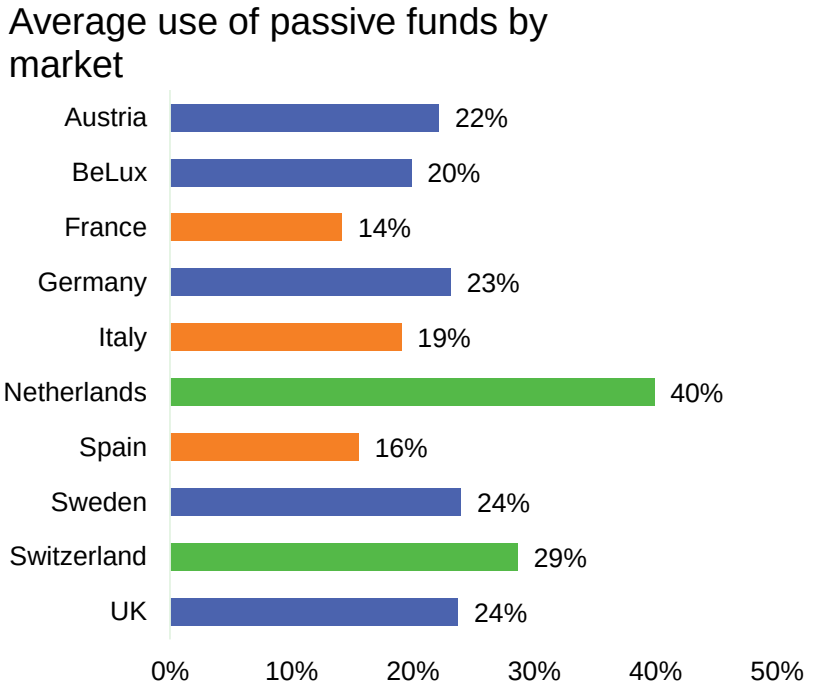
1. Revenues are under pressure
2. Time is under pressure
3. Risk-averse client base and a low-yield environment



- Shrinking buy lists
- Using more passive funds
- Funds of funds/sub-advisory
- Demanding greater transparency
- Service/value-for-money proposition
- Share-class options with flexible access
- Solutions-type funds

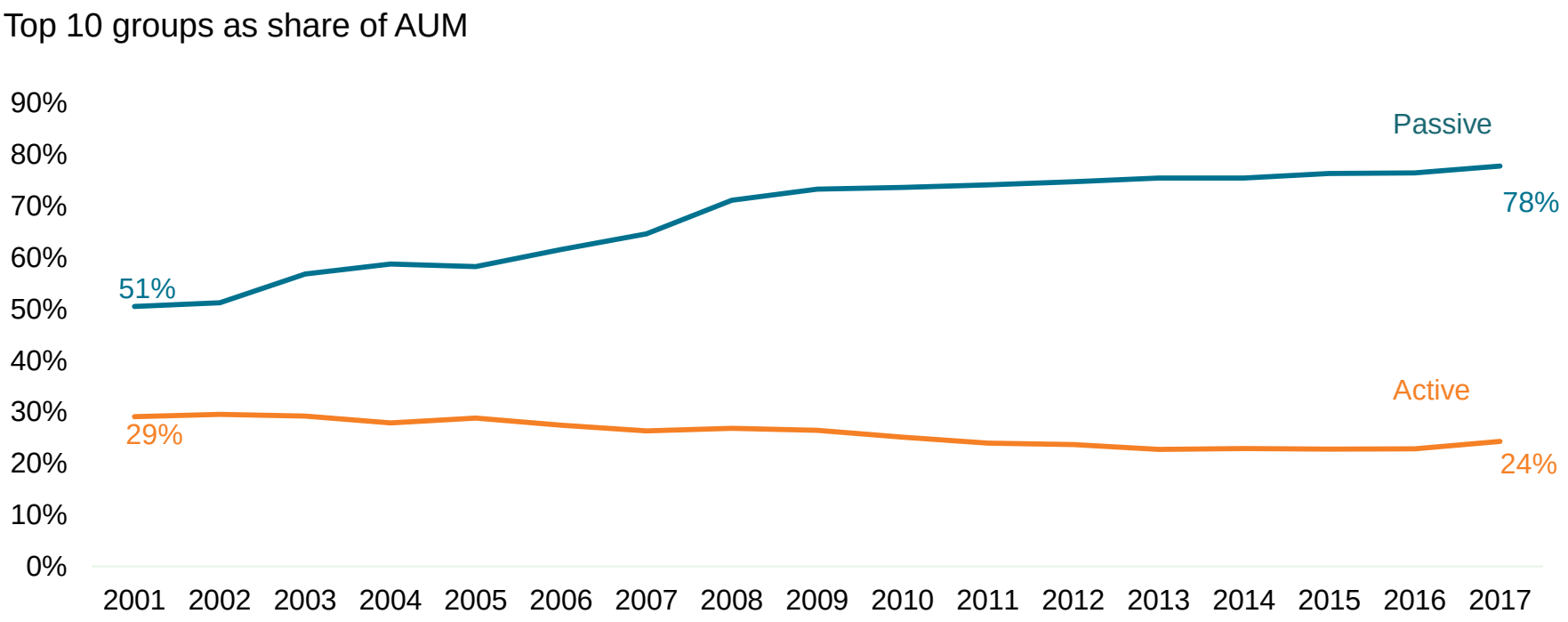
Passive use is still rising





Source: MackayWilliams, based on 937 interviews with third-party fund selectors in 2017.

Winner takes all?



Source: Broadridge FundFile data at December 2017, excluding money market funds and funds of funds. Val point calculation at each year end.

Little evidence size matters in active, yet

	Top 20 groups	Outside top 20 & 30+ funds	Fewer than 30 funds
AUM (end 16)	€2.5tn	€2.7tn	€1.2tn
Flows 2017	€160bn	€253bn	€87bn
Flows/Assets	6%	9%	7%

Source: Broadridge FundFile data at December 2017, excluding money market funds and funds of funds. Active funds only.

Stand out

“They should be more prepared to stand out from the crowd. For example, I have just been on a trip to see US fund managers and barely did a meeting start without the clichéd introductory claim of **‘We're different!’** Most of what you then heard, however, was anything but different!”

UK, Fund of Funds Manager

Survival tactics

1. Be an elephant or…
2. Differentiate:
    - Product innovation
    - Service
    - Brand

Innovation demands

Top 10 innovation requests from fund selectors

	Oct ‘16 – Mar ‘17	Oct ‘17 – Mar ‘18	
1	Alternatives / Uncorrelated	Alternatives / Uncorrelated	
2	Transparency / Simplicity	ESG / SRI	▲
3	Theme	Niche	▲
4	ESG / SRI	Theme	
5	Risk control / Vol management	Transparency / Simplicity	
6	Niche	True active	▲
7	Absolute return	Absolute return	
8	Flexible	Flexible	
9	Passive	Multi asset	▲
10	Conservative fixed income / cash alternative	Smart beta / factor / AI	▲

Source: *Product Innovation Perspectives,* MackayWilliams. Data from ~1000 selector interviews over the two six-month periods.

Into SRI

- Definitional complexity makes measurement difficult although EU currently promising guidance.
- Our measure – based on funds explicitly marketed as responsible investments via stated SRI terminology in fund names.
- Demand drivers coming from end-consumer, but so far fail to translate into noticeable sales uplift. 'Green washing' likely to be viewed negatively.
- Long-term, though, EU Commission favour implementing a regulatory kicker.

SRI/ESG – Key fund industry metrics

	SRI/ESG	Other
AUM (€bn)	170	8,529
3yr AUM Growth	92%	31%
3yr Net sales (€bn)	63	1,132
# Funds	807	27,643
Ave fund size (€m)	211	309
Passive share of AUM	21%	16%
Top 10 funds as % AUM	14%	3%

Source: MackayWilliams analysis of Broadridge FundFile data at February 2018. Data exclude money market funds and funds of funds.

Update Session: Sub-advisory trends overview

Andreas Pfunder, instiHub Analytics

European sub-advisory

The hidden dimension of asset gathering

Andreas Pfunder, Founder & CEO

instiHub

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MiFID II made existing third party fund distribution challenges irreversible

Barriers to entry increasing:
- Narrowing fund selection lists
- favouring 'big brand' fund providers

Perceived overexposure to 'blockbuster' funds by distributors

Unreliable revenue streams from FoF's relatively short holding periods

Crowded market place with undifferentiated fund offerings

Challenge for less visible providers of achieving scale in individual funds

Challenges abound for third party fund providers of all sizes

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Distributors' reaction and mindset drive sub-advisory growth

- Across Europe, distributors are seeking
  - ➢Higher margins to offset increased costs of distribution burden under MiFID II
  - ➢Greater control over the products they sell, achieved through in-house funds
  - ➢Lower cost, higher performance = 'better value' solutions for investors
  - ➢Differentiation through customised or exclusive solutions
  - ➢Risk diversification away from reliance on blockbuster third party funds

- Emergence of a 'private equity' mindset amongst distributors

  "My business is worth more as an asset manager than as a distributor"

The sub-advisory model offers distributors an optimal solution, creating valuable growth opportunities for sub-advisers

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instiHub's definition of sub-advisory

The sub-advisory industry comprises

Any fund
whose sponsor / initiator
formally delegates
investment management / advisory responsibilities
to a third party

Industry coverage within above definition on which the following data content is based: > 90% (estimate)

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Key statistics of the EMEA sub-advisory industry in Q1 2018

- €526bn AUM on 31st Mar 2018 with YoY annual growth of 10%
  - Wide spread of geographies to grow sub-advised business opportunities
    - 15 markets where selection decisions are made
- 132 sponsors (buyers/grantors of sub-advisory mandates)
  - Potential exists among a range of channel segments
    - Top 5 sponsors own 37% AUM
    - Top 35 (28%) own 83% of AUM (29 have > €5bn AUM each)
- 527 sub-advisers in 30 countries manage over 2,220 mandates
  - Specialist boutiques manage or advise on 37% of AUM
- Average holding period of 3 years and 9 months
  - varies by …
    - Channel & country
    - Multi-manager vs single manager implementation

*Source: **instiHub**, iPsa (public sub-advisory insights), 31/03/2018.*

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Latest trends: markets

Clear rankings for market size

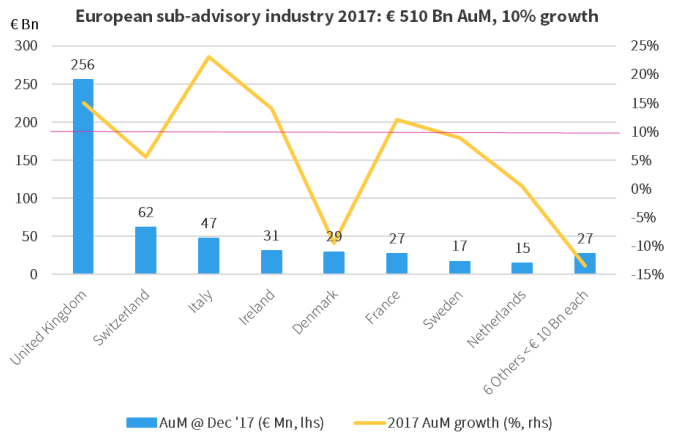
- Top 3 likely to retain rankings as smaller markets show differential expansion

Four hot sponsor countries

- 2017 - Italy, UK, Ireland, France
- 2018 – Switzerland, UK, Italy, France

Seasonal flows volatile – true pattern will emerge as year progresses

Largest markets by AUM (€bn)



Fastest growing markets – Q1 2018 vs 2017

Country	Uplift Jan-Dec 2017
Italy	23%
United Kingdom	15%
Ireland	14%
France	12%
Europe Average	**10%**

**Annualised growth rate*

Country	Uplift Dec 2017-Mar 2018
Switzerland	13%
United Kingdom	12%
Italy	7%
France	2%
Europe Average	**1%**

**Annualised growth rate*

*Source: **instiHub**, iPsa (public sub-advisory insights), 31/03/2018.*

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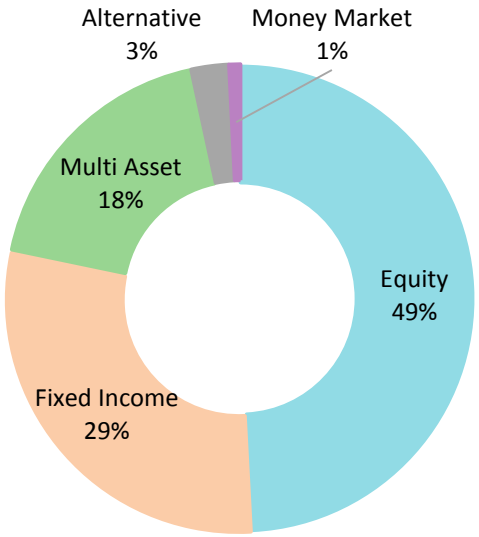
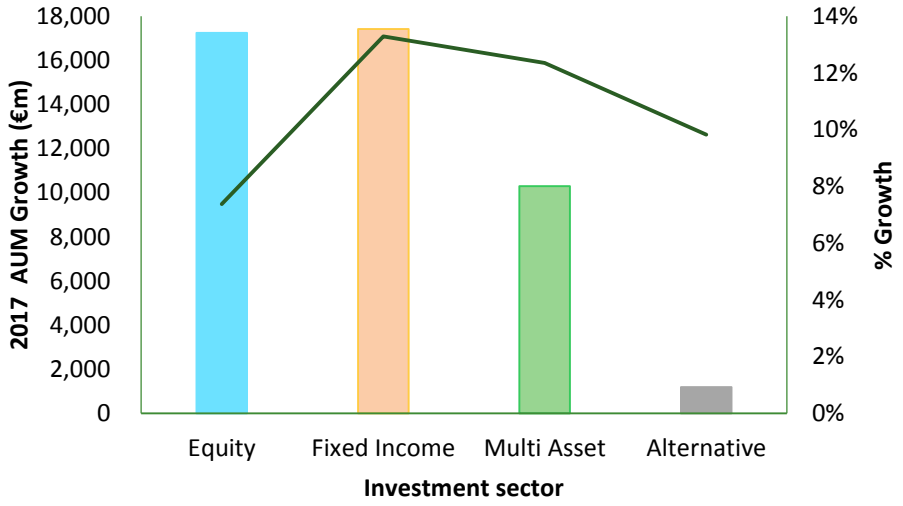
YoY trends: investment strategies

Breakdown of AUM by sector



Strongest growth from FI & Equities



- **Equity remains largest asset class (49% AUM) but with below average growth (7%)**
- **Fixed income (29%) grows most, i.e. 13% / €17.4bn**
- **Multi asset (18%) is also increasing above average - 12% / €10.3bn**
- **Alternatives (illiquid) are small – appeal more to institutional sponsors**

*Source: **instiHub**, iPsa (public sub-advisory insights), 31/03/2018.*

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Expected growth dynamics

Individual territories responding in different ways, driven by existing distribution landscape and needs for solutions

- **CH, IRL, IT, UK** - New sponsors emerging, e.g. bank distributors, wealth managers
- **CH, DE, ES, FR, IRL, IT** - Sponsors favouring sub-advised structures to improve margins & deliver better value to investors
- **CH, IT, Nordics** - Sponsors with in-house or institutional clients seeking to scale up through broader, external distribution
- **CH, UK, IT, DE, FR** - Large wealth managers, private banks with discretionary mandates transitioning to sub-advisory for greater operational efficiencies and lower cost-to-investors

Net effect creates sizeable growth opportunities for sub-advisers of all kinds

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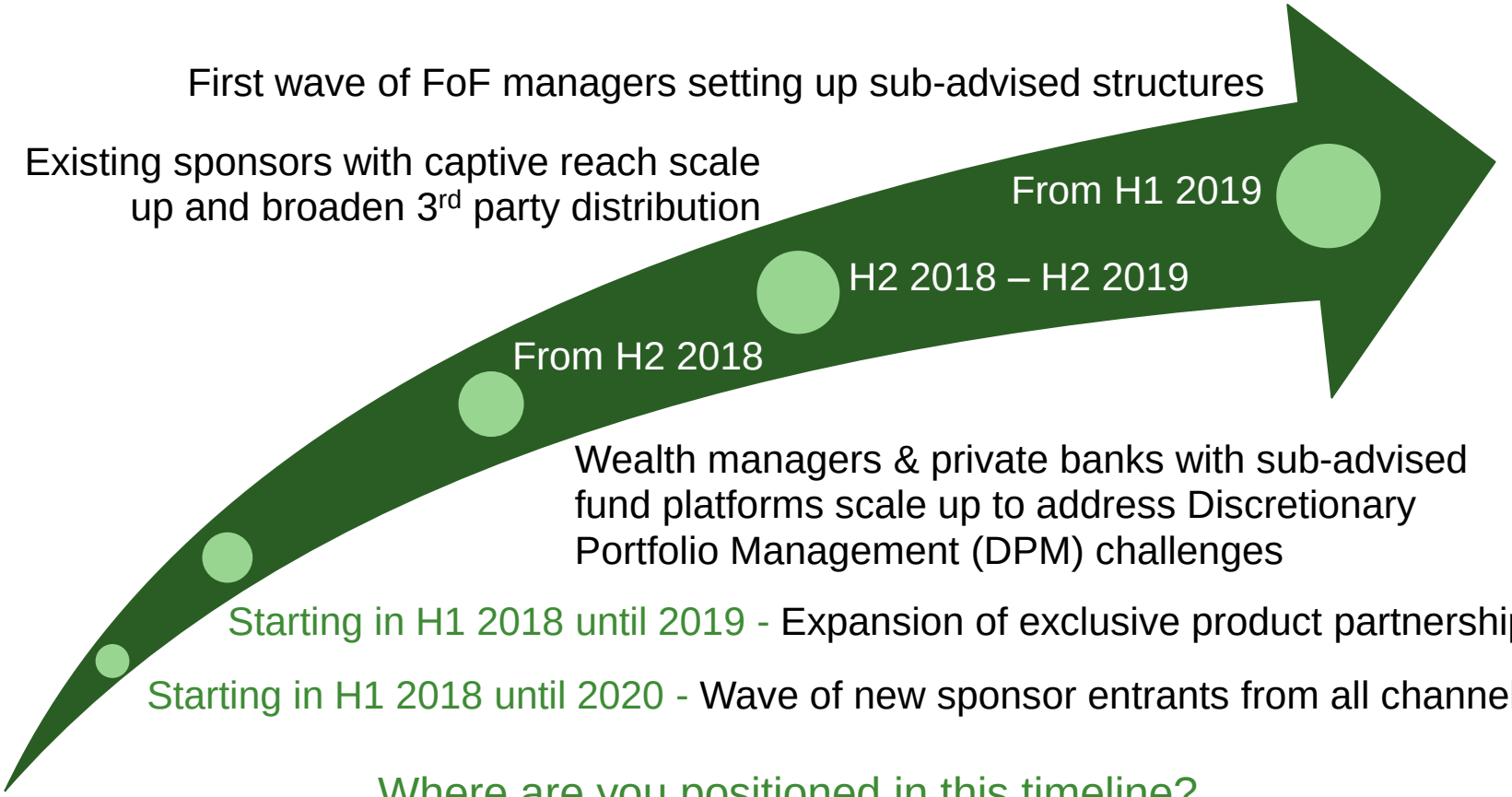
How fast will growth be impactful?

instiHub's ongoing engagement with both sponsors and sub-advisers provides crucial intelligence on likely milestones



Where are you positioned in this timeline?

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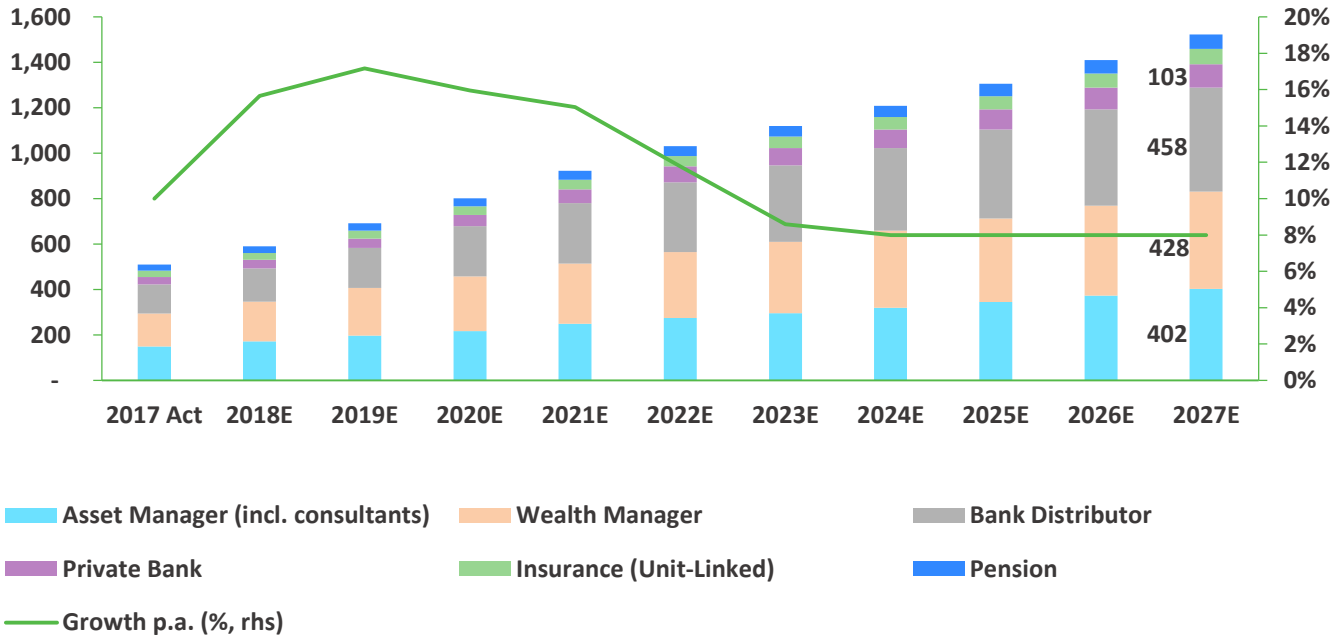
instiHub growth forecast: €1tn industry by 2022

10-year AUM growth expectation to €1.5tn with 10.5% CAGR



- Anticipating 18% uplift over 12m with €1tn AUM reached by 2022
- Thereafter, reversion back to recent levels (10%) or just below (8%) if capital return remain low

*Source: **instiHub**, iPsa (public sub-advisory insights), 31/03/2018.*

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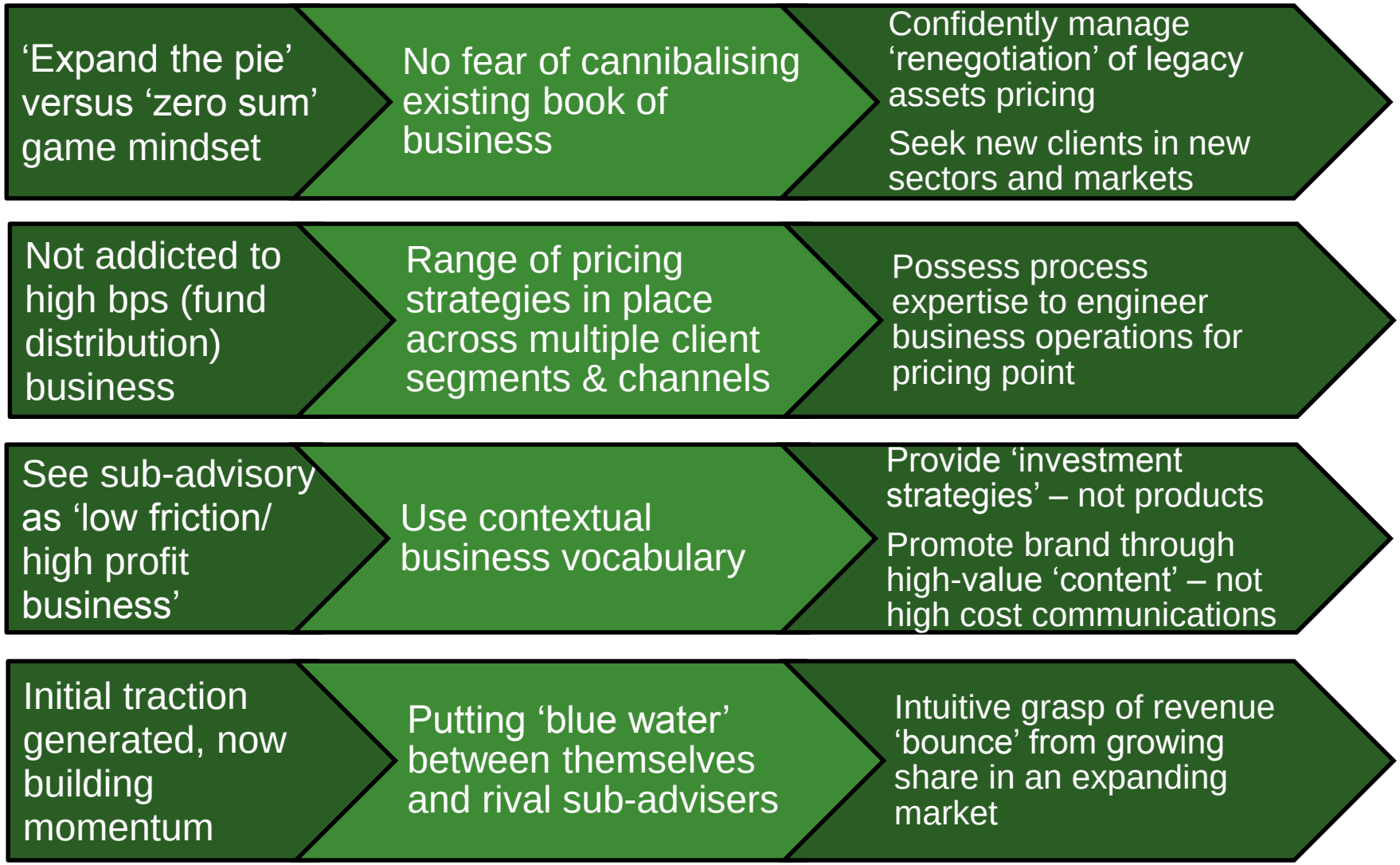
Early adopter ‘winners’ in sub-advisory have clear vision



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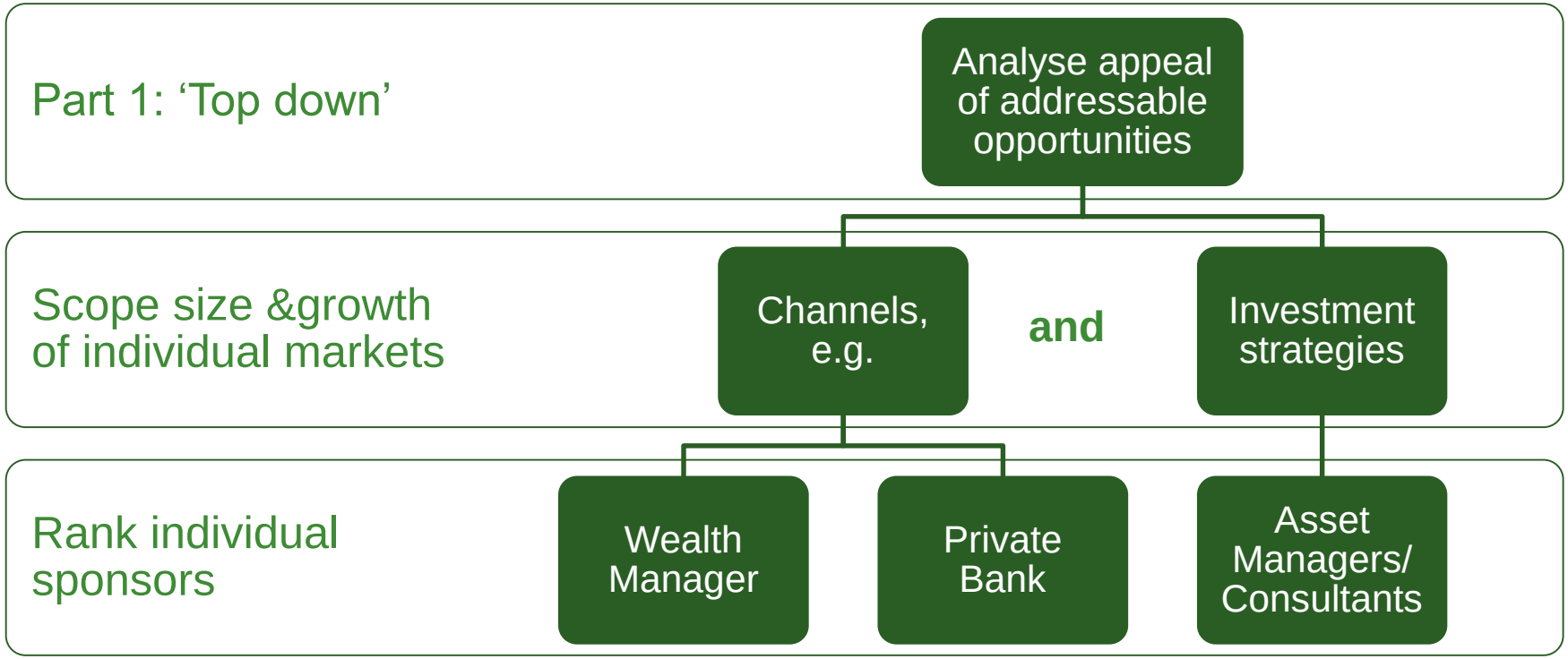
instiHub has developed a unique data analytics tool



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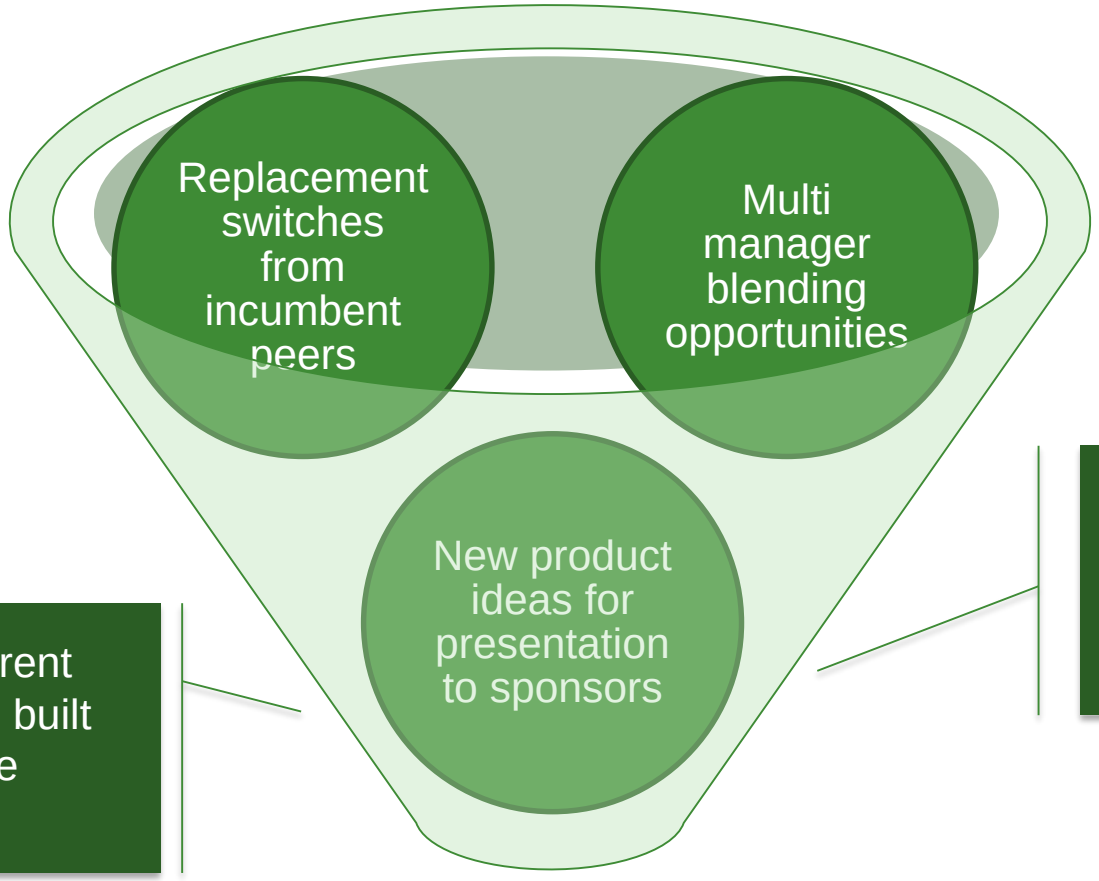
… that delivers the identification of potential sales opportunities



Fully transparent analytics tool built from mandate components

Profile individual sponsors to match engagement model and probability of success

Build prospect list by identifying specific opportunities

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Continuing the journey …

- If you are any of the following :
  - An existing advocate for sub-advisory
  - A C-suite executive excited by the potential of this channel
  - An inquisitive Head of Business 'spooling up' for growth in sub-advisory
  - then please contact me directly:

  ❖ for a confidential discussion

  OR

  ❖ to arrange a demonstration of **instiHub** *iPsa* - the only EMEA-transparent, actionable, sub-advisory data analytics tool

Andreas Pfunder

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Panel Discussion- Guide to setting up/distributing from Ireland

Moderator:

Conor Owens, Mediolanum

Panellists:

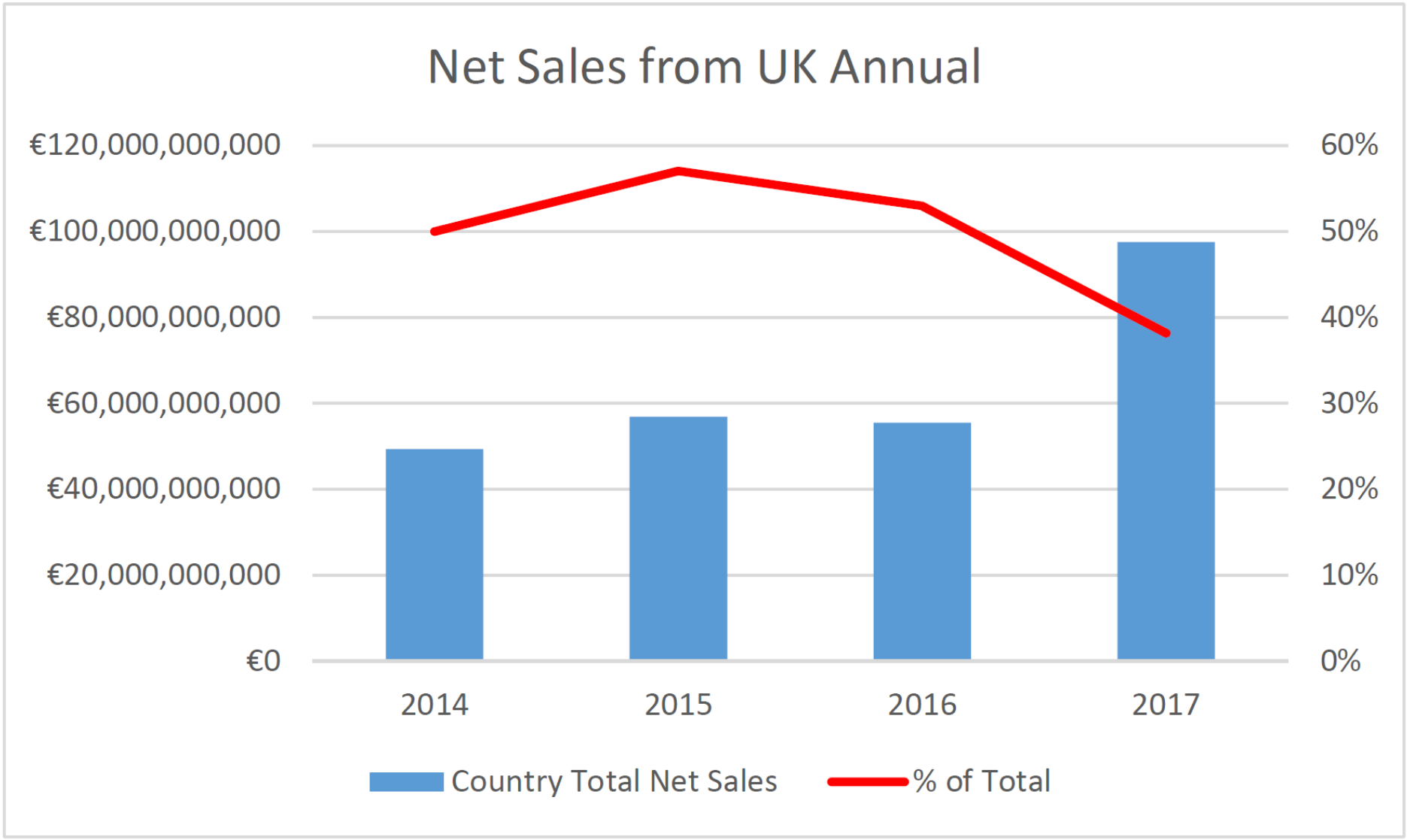
Conor MacGuinness, DMS

Kieran Fox, Irish Funds

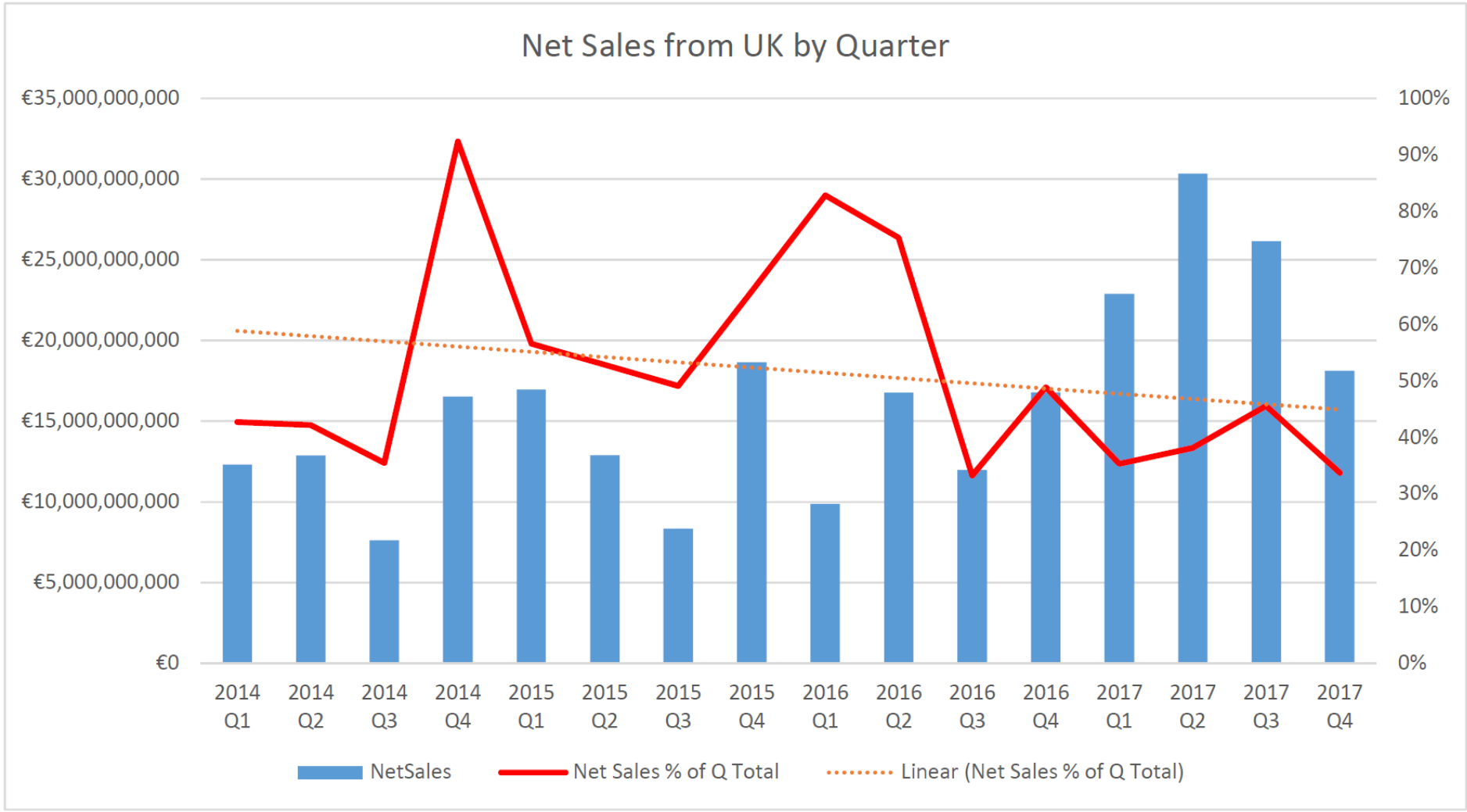
Sarah Murphy, PwC

Marion Mellett, BlackRock

Net Sales into Irish Funds from UK investors



Net Sales into Irish Funds from UK investors



Update Session – Opportunites for Irish Funds Distributing in Latin America

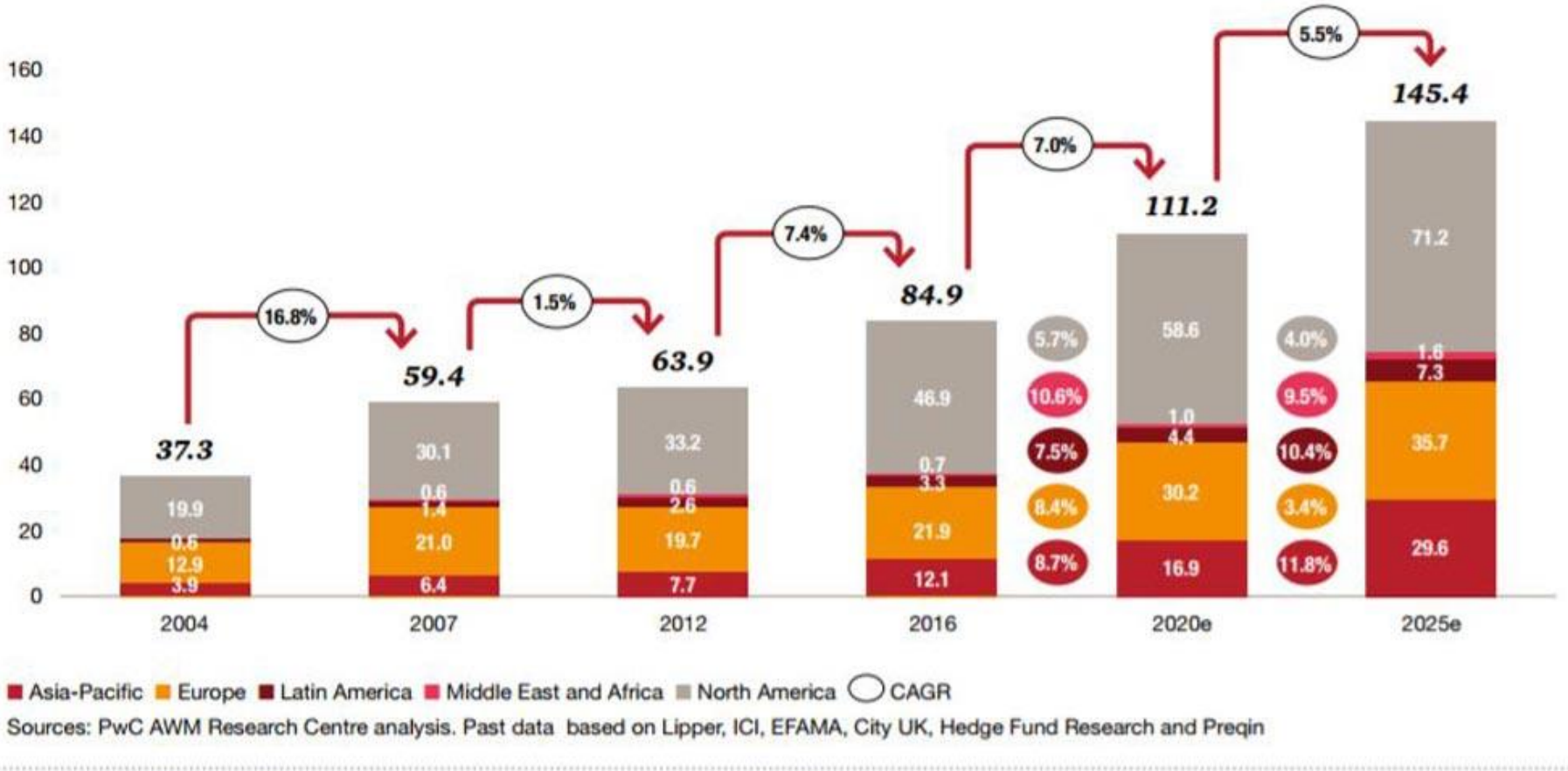
Liam Collins, Matheson

Introduction

- Post 2008 – investors move from unregulated to regulated product
- Local regulatory changes
- Managers seeking increased regional and sector diversification
- Underperforming economy

Expected AUM growth in Latin America

Figure 2: Global AuM by region in USD trillion Base scenario



Sources: PwC AWM Research Centre analysis. Past data based on Lipper, ICI, EFAMA, City UK, Hedge Fund Research and Preqin

Mexico

- New Investment Regulations – January 2018
- AFOREs – investment in mutual funds
- Exposure limited to 20%
- US$160 billion to invest

Colombia

- Decree 1756 of 2017 – October 2017
- Distribution of foreign funds in Colombia
- Inter-regulator agreement required

Chile

- Over 200 Irish funds registered for sale
- AFPs – US$210 billion to invest
- New Rules in November 2017 / April 2018
- Prohibition on investment in hedge funds
- Opening to alternative asset classes – private equity, private debt, real estate

Brazil

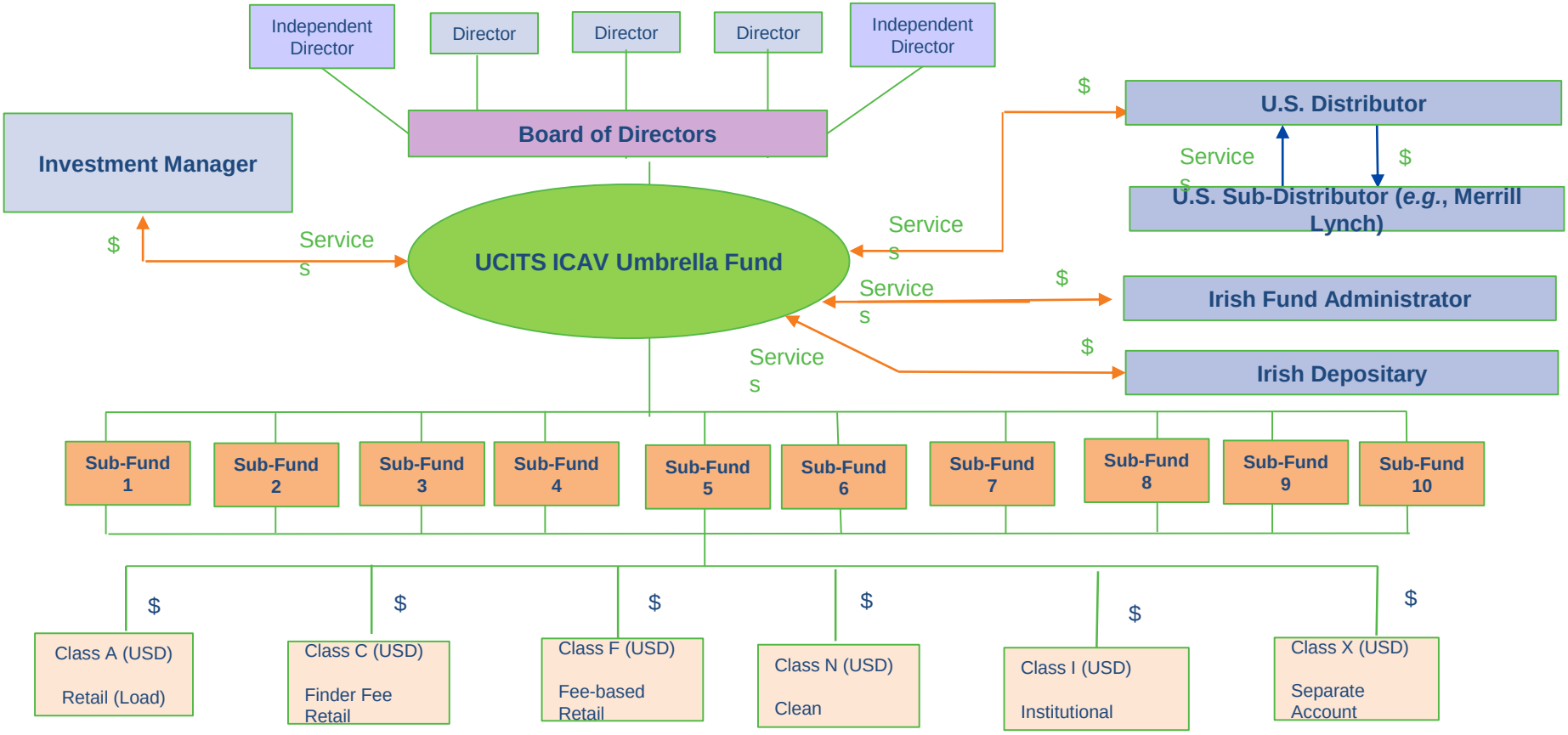
- CVM Resolution 555 - relaxes rules on foreign investment
- Facilitates investment in UCITS
- Qualified or Professional investor funds – investment without limit in foreign investment funds
- Invested vehicles must be subject to extensive regulation and supervision by recognised foreign authority
- Retail Funds – Increase from 10% to 20% in investment in foreign assets

Accessing the US Non-Resident Alien Customer Distribution Channel with Irish Funds

Christopher D. Christian
Dechert LLP

Janice Y. Barnwell
DTCC

Introduction: General Structural Overview



What is the Opportunity?

- **Non-Resident Customer (NRC) Market**
  - Continues to grow in size as economies in Latin America grow and investors look for safe places for brokerage
  - NSCC and wholesale coverage required
  - U.S. Financial Intermediaries
    - U.S. Broker-Dealers / Wire-House Channel
    - U.S. Wealth Management / Financial Advisers
    - Clearing Platforms for U.S. Advisers (*e.g.*, Pershing)
    - New York, Miami, Houston, San Diego Major Coverage Markets

How does a UCITS Access the NRC Market?

- **Focus on the NRC Market**
  - Understanding the NRC Market (wrap, fee-based, discretionary, non-discretionary)
  - Gateway Demands to Global Private Wealth
  - Share Class Structuring to Meet Demand
  - Understanding Platform Demands
    - Seed Capital
    - Track Record (Use of Related Performance)
    - Total AUM Requirements
  - DTCC Requirements

DTCC REQUIREMENTS

- NSCC* Fund Membership
  - Connectivity
  - Transfer Agent
  - Settling Bank

NSCC is a subsidiary of DTCC

Closing Address

Kieran Fox, Irish Funds

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