

Webinar for DPs for Investment Management – advice on Covid19 related issues.

02/04/20 4pm

Moderator:

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Panellists:

Karoline Keane (Man Group)

Kevin McConnell (Independent Consultant)

This was the first in a series of webinars to be held over the coming weeks providing updates and a forum to exchange information within the DP peer group. The discussion covered various issues including the following:

- DPs for investment management should be aware that we are in unprecedented times, with no stress tests that could have foreseen the volatility and price declines in the market.
- DPs should consider what impact redemptions have on the underlying portfolio if more liquid securities are being sold off and the impact / implications on the profile, make up and future behaviour of investors in a fund.
- There could be increased trading errors and price errors given extreme volatility.
- Some market moves are more pronounced than even in 2008, with profound impacts on dividends and emerging markets.
- There is a need for increased documentation to report and record decisions at board level, including trade conflicts. It is important to record background information and context around decisions.
- If context and contemporaneous conditions are not documented at the time decisions are made they can have a very different appearance in hindsight, especially with highly volatile markets.
- If market moves continues for further weeks, boards are likely to have to consider difficult decisions regarding gating or suspensions to protect investors and this could impact the portfolio especially when deciding which assets to sell or to build liquidity back up within the portfolio.
- Sales teams may have some insight on investor behaviour, and they may have good connectivity with investors with valuable information on sentiment and future flows to assist with prediction and stress testing.
- Firms should have prep work done in terms of logistically and procedurally what needs to be done to implement gates etc, so decisions can be made quickly.
- The CBI have asked for historical incidents of swing pricing. If using swing pricing, which is a useful tool, DPs should be aware of any instances where it's deployed outside of policy, any decisions around this should be carefully documented.
- Consider movements in risk ratings of funds given the volatility and what possible impact might this have on investors.

Any DP or firm that has or anticipates issues should raise these with the CBI, who have committed to provide prompt and pragmatic responses.

A snapshot of the subsequent Q&A:

- Any views on how the CBI will treat onsite visits and delegate oversight?

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- We understand the CBI are aware on restrictions on onsite visit, we think they themselves are not going onsite for inspections. The CBI seem to be paying more attention to cyber security, and making sure DPs still have good visibility on delegates without needing to go onsite.
- There does appear to be cultural and behavioural shifts to more remote working.
- To what extent have DPs stepped up their oversight of investment execution, if at all?
 - It is a difficult environment to maintain execution oversight. There should be greater interaction, formal and informal sharing of information with portfolio managers, both in terms of investment strategy but also regarding whether it's even possible to actually execute an order.
- Any advice on how regularly and in what form we should engage with NEDs outside of quarterly meeting?
 - Remoteness can make this more difficult but there should be an ability to keep INEDs updated in a more informal way. Identify potential issues early with INEDs.
 - Also, regular VCs or conference calls and good flow of information helps.
 - Weekly DP meetings with the OE director attending and fortnightly updates to INEDs might be helpful.
- I am interested to know whether the comments on liquidity or flows mean the CBI would expect them to be covered by the IM DP and not Fund Risk Management DP for liquidity or Distribution DP for flow patterns?
 - This is a fair point. However, it may not be best to treat issues separately. It is important to share information and get views across risk, flows, investment management and valuations.
 - There is likely to be integration in decision making, especially given current market moves and volatility.

The next Webinar will take place the 7 April and will cover DPs for Operational Risk, please make sure to register and advise your relevant colleagues.