FUNDFORUM INTERNATIONAL TALKING POINTS:
Volatility, disruption and distribution

This year's FundForum takes place in Berlin. Ahead of the conference, we ask industry figures about some of the hottest topics.

VINCENT INGHAM, EUROPEAN FUND AND ASSET MANAGEMENT ASSOCIATION

What is the biggest concern to the funds industry at present?
Two of our biggest concerns regard the implementation of the MiFID II and the Priips rules. Whereas the content of the MiFID II rules are, largely, workable, the time taken to decide on the delays and their content is leading to a situation where market participants will not have the time required to implement the new systems, especially the IT updates.

Regarding Priips, we strongly feel that the level 2 process is being rushed through to the detriment of the consumer. The ESAs [European Supervisory Authorities] did an enormous job in coming up with a KID that is meant to encompass all Priips. However, the importance of the task and the extremely short deadline sometimes led to unsatisfactory outcomes that ought to be corrected in order to maintain the quality of the information provided to investors in comparison with the Ucits Kiid standards. On top of this, time for implementation for Priips manufacturers is clearly insufficient.

Is concern over various overlaps between MiFID II regulation and Priips justified?
Although there are clear linkages between MiFID II and Priips, notably in terms of information to be disclosed to the investors, we do not see substantial overlaps. However, given that some of the information to be disclosed in the Priips KID will only be available once the MiFID II directive will come into force (such as concerning the identified target market), a harmonisation in the dates of entry into application of both regulations would be advisable.

How important is liquidity risk in the funds industry and what measures are being taken to address it (Emir etc)?
We acknowledge concerns that liquidity has become more fragmented. However, we remain convinced that our industry is not a significant source of systemic risks. There is a comprehensive framework available to managers to manage liquidity in difficult market conditions. First, regulatory requirements such as the Ucits and the AIFMD regimes form a very far-reaching, strict and sound regime. Second, market-based liquidity risk management tools, for example swing pricing or redemption gates, work well.

SONJA UYS, PORTFOLIO MANAGER, INSIGHT INVESTMENT

What strategies are best for dealing with market volatility?
Investment strategies that do not track a market index are better equipped to deal with market volatility, given the high degree of investment freedom. The ability that absolute return strategies have to take long and short positions, and to shift exposures and allocations in response to changing conditions, mean they can avoid, reduce, or hedge exposure to falling assets. Their flexible nature also allows them to increase their cash holdings ahead of a volatile spell, enabling them to then make use of the investment opportunities often created during such periods.

Which is the best way to protect against geopolitical uncertainty?
The simplest way to protect against the impact of geopolitical uncertainty is to avoid assets or investments that are susceptible to such risk. In some cases the risk premium embedded in the valuations is sufficient to compensate for the uncertainty, in which case uncertainty can also be a source of well-rewarded investment opportunity.

AKBAR SHERIFF, GLOBAL HEAD OF STRATEGY, OFFICE OF REGULATORY INITIATIVES, STATE STREET

How will blockchain impact the funds industry?
Blockchain will have a significant impact starting with inefficient areas, that are (a) manual, (b) require a lot of stakeholders to engage, align and sign off, and (c) have intermediaries that create a single point of failure and add cost to the system. Meaning the areas likely to be impacted first will be things like bank-loans, liquidity management (collateral management, securities borrowing), derivatives and broader settlement.

Blockchain isn't expected to impact trading systems or matching where speed and automation already exist, but does have multiple possibilities for our clients, including the need to hold less liquidity (due to settlement speed of trades) and at the same time have quicker access to liquidity, such as securities lending. It also has the potential to offer the ability to invest efficiently and securely in volatile emerging markets, and could effectively address regulatory expectations around 'knowing your customer'.

What topic will generate the most heated debate at FundForum and why?
At the moment, the topic at the forefront of mind is the impact and readiness around Brexit. As we've talked to clients, readiness levels differ greatly, as do the implications.

FIONA FRICK, CHIEF EXECUTIVE, UNIGESTION

Do you feel the term 'shadow banking' is a fair representation of what asset managers do?
I don't like the term 'shadow banking' because an asset manager is not a bank and a shadow looks like a greyish zone. The Financial Stability Board definition of shadow banking refers to credit intermediation involving entities outside of the regular banking system. So a better name would be 'alternative credit intermediation' – although admittedly this is much less fancy.

Obviously some credit intermediation is moving away from banks to other financial institutions. This phenomenon is positive as it helps finance the real economy and potentially boost growth in a period where we are desperately looking for some. However, such new channels can also become a source of systemic risk. Therefore I understand the need for this activity to be monitored by government bodies.

Do asset managers need alternative investment products in these market conditions?
In a period where bonds are at their lowest historical level and equity returns are more volatile, investors need to explore other asset classes to achieve adequate returns. For Unigestion, alternative investment goes beyond hedge funds and private equity. As a result of work that we have carried out on risk factor performance, we have developed a deep understanding of the drivers of hedge fund manager performance. What might have been considered as alpha in the past can in fact be the result of exposure to an alternative risk premium. This exposure can be invested directly in a more transparent and liquid manner than through a hedge fund manager.

CHRIS EDGE, HEAD OF HSBC SECURITIES SERVICES, LUXEMBOURG

What topic will generate the most heated debate at FundForum and why?
While fully resigned to MiFID II/MiFIR compliance, the industry is grappling with the sheer extent of its requirements including, for example, the need to capture 65 data points for transaction reporting. Despite delayed implementation, we expect MiFID II/MiFIR debate to take centre stage, as firms look to identify data gaps and tackle the reporting challenge.

Less heated, yet more forward-looking debate will centre on innovation. After nearly 20 years of technological stagnation, we are in the vanguard of transformation. The seemingly endless possible uses for blockchain and data analytics particularly make this a very exciting era.

What challenges are there for the global distribution of Ucits funds?
Ucits V has reinforced Ucits as the investor-protection gold standard and the best globally distributable product. Ucits assets under management are at an all-time high, with Asia flows accounting for 20%. Evolving Asia passport schemes are gaining traction, but are likely to have greater success if they can evolve as complementary, not competitively, to Ucits.

Service providers must focus on turning investor flow data into intelligence, empowering global managers with the tools they need to enhance asset gathering for local or global products.

MARIO MANTRISI, ADVISOR TO CEO OF KNEIP

How prepared is the industry for MiFID II and is the timeframe workable?
There is still a lot to be done with MIFID II, and there is no doubt that the timeframe was always going to be challenging. However, with the additional delay we believe it should still be feasible. One aspect the industry really needs to prepare for is the potential impact the regulation will have on distribution costs. One key driver of this could be the retrocession issue because it might cause the need for additional specific share classes per country that will in turn raise distribution costs. Also, considering market volatility, the target market definition is very challenging. In addition, it would be in the interests of the industry to come up with common definitions at European level.

Given the difficult market conditions in Q1, what issues are causing you the most concern?
In terms of the volatile market conditions, I personally believe that this is something that will prevail for the next coming years. However, I also believe that volatile market conditions could benefit active fund managers. Beating the benchmark in such conditions may happen more frequently than in very stable markets.

PAUL STILLABOWER, GLOBAL HEAD OF CLIENT EXPERIENCE, GLOBAL CLIENT COVERAGE, RBC INVESTOR & TREASURY SERVICES

What topic at FundForum will generate the most heated discussion from a fund administration perspective and why?
We expect to see plenty of discussion around the potential of fintech to help clients to increase transparency, lower costs and reduce operational risk, but also the uncertain regulatory environment and whether there is a level playing field for all participants. And while fintech has the potential to improve the client experience, the funds industry needs to consider how that potential can be successfully translated and brought to the market.

How much importance are you placing on cyber security?
Understanding a service provider's procedures around client privacy and data breaches is becoming increasingly important and is already a significant part of a fund manager's due diligence processes when appointing third-party providers. As such, we continue to thoroughly evaluate and evolve processes to protect our clients against cyber security risks on an ongoing basis.

Are you seeing an increase in alternative investment funds?
As a specialist provider of fund administration services for real estate and private equity funds, we have seen an increasing amount of activity in these assets as investors look to achieve the returns they need to meet their liabilities in a low interest rate environment and real estate funds undergo a degree of consolidation.

NICK LYSTER, CHIEF EXECUTIVE, PRINCIPAL GLOBAL INVESTORS (EUROPE)

Have emerging markets bottomed out and are they due for a comeback?
Emerging markets have struggled relative to developed markets, particularly to US equities, due to a noticeable slowdown in earnings caused by slower asset turns, lower returns and adverse currency effects. Looking ahead, idiosyncratic opportunities will play a bigger role in shaping returns in the EM space rather than a generic return of EMs as an asset class.

On the macro side, the three things that will separate winners from losers are demographics, institutional reforms and the role of the private sector.

On the micro side, it will be the corporate focus on shareholder wealth. Private ownership will reap much bigger rewards relative to state ownership due to its dominance of the 'new' economy (IT, healthcare, consumer services, etc).

With traditional asset classes falling out of favour, how do you gauge the appetite for alternatives and which type will see the most inflows?
Low bond yields will keep the demand for alternatives strong as long-term savers continue to look for ways to enhance returns. However, the search will get more nuanced, given disappointing performance in some categories of alternatives in recent years. A deep understanding of the drivers of alpha and an ability to deliver uncorrelated return streams will be crucial for the success of the asset class.

LARRY HATHEWAY, HEAD OF MULTI-ASSET PORTFOLIO SOLUTIONS AND GROUP CHIEF ECONOMIST, GAM

Are emerging markets finally set for a rebound?
After several years of poor risk-adjusted returns, emerging equities, bonds and currencies have returned to favour in 2016. To some extent their recovery is justified, given relatively attractive valuations for emerging asset classes. Still, it is difficult to see a sustained period of outperformance. For one, emerging market fortunes are linked to a weaker dollar and improved China growth prospects, which may prove transitory. Moreover, prolonged outperformance requires genuine sources of growth, accompanied by reform, both of which remain elusive. As such, we remain cautious about the prospects for most emerging markets over the remainder of 2016.

What are the best strategies to employ in a volatile market?
Bouts of volatility are likely to recur over the remainder of this year. Against a backdrop of subdued returns, the corresponding fall in risk-adjusted returns requires a greater emphasis on robust portfolio construction. Multi-asset approaches that actively diversify risk across factors and take into account correlation and volatility are designed to deliver stable returns amid more volatile trading conditions. Those that employ relative value, non-directional positions are also well placed to dampen portfolio volatility.

PAOLO BRIGNARDELLO, HEAD OF PRODUCT MANAGEMENT AND MARKETING, FUNDSQUARE

How important are know-your-customer (KYC) utilities for the funds industry?
Many financial sector business lines are becoming increasingly uneconomic due to regulation, with KYC rules being particularly onerous. So-called KYC utilities have emerged and are helping to cut costs dramatically in different market segments in a number of jurisdictions. However, they fall short of their potential, and none caters specifically for the funds industry.

KYC utilities are central warehouses in which client data is shared, checked and screened, to be accessed by clients' counterparties when needed. This cuts the time needed to on-board a new client or work with new partner institutions. However, especially for the fund industry, KYC remains the financial firm's responsibility, and regulators still require in-house checks, thus restricting the potential advantages and savings from utilities. A new bold approach might be needed. There are justified concerns about the financing of crime, but a balance has to be kept to enable the provision of good-value financial services.

ETIENNE DENIAU, HEAD OF BUSINESS DEVELOPMENT, ASSET MANAGERS & ASSET OWNERS, SOCIETE GENERALE SECURITIES SERVICES

Which topic will generate the most heated discussion and why?
The market situation in Europe: declines since the second half of 2015, low and declining bond rates, negative short-term interest rates.

Distribution challenges caused by regulations: restriction of inducements leading to redefining the manufacturer-distributor relationship, causing asset managers to develop direct links with investors whilst distributors try simultaneously to harness their clients better.

Technology-driven changes: asset managers challenged or taking advantage of robo-advisers, intermediaries threatened by blockchain, very focused fintechs challenging established players.