Clearstream Banking
Investment Fund Services

A view on the trends in global fund distribution

14 November 2019
Agenda

- Global market trends
- Funds Europe research project in collaboration with Clearstream
- Role of Clearstream in the global fund industry
# Global market trends

## 1 GROWTH IN SAVINGS / PENSION FUNDS
- Global fund industry has grown at 5% (CAGR) over the last five years fuelled by an increasing demand for managing savings. (e.g. rising pension requirements in Europe; increasing saving capacities in emerging markets).
- Asia Pacific region alone has grown 11% in the period.
- PwC predicts that CAGR for the next five year will continue at the same pace.

## 2 INSTITUTIONALISATION OF INVESTOR BASE
- Enhanced pension saving requirements are driving the increase in Institutional Investors’ share of total AuM.
- A large share of these investment flows is channeled through Global Custodians servicing Institutional Investors. Therefore, Global Custodians themselves are becoming an increasingly attractive client segment for Market Infrastructure players.

## 3 TECHNOLOGY THREATEN INTERMEDIATION MODEL
- Technology is hitting the Fund industry and disrupting it alike other industries.
- This disintermediation can come from a “direct to consumer” model whereby an Asset Manager invest both in communication to make his name recognized by final investors and in web or mobile app technology to connect directly to them.
- Blockchain technology has picked-up credibility in the last 5 years and new infrastructure and models are emerging that will make direct connection cheaper to operate via distributed ledgers.

## 4 POLARISATION OF INVESTMENTS (GROWTH OF ETF AND HF)
- As investors focuses more on specific outcomes, they are more distinguishing between active (including alternative) and passive strategies. This fuels the polarization between two investment strategies:
  - Index Funds: delivering β in line with the market at minimal administration costs
  - Hedge Funds: delivering α or at least performance uncorrelated with market, therefore able to command higher management fees
- ETFs and alternative funds are thus expected to grow at a faster pace than the traditional actively managed funds.

## 5 REGULATORY DEVELOPMENTS BLOWS IN OUR SAILS
- The extensive regulatory agenda also affect the investment funds industry.
- Mifid II impacts Open architecture because of impact on administrative burden to distributors and on trailer fee regime.
- Mifid II and other local version are changing the economics of the distribution compensation by banning or limiting Trailer Fees inducements.
Funds Europe research project in collaboration with Clearstream - Introduction
What is the most important distribution channels for an Asset Manager?

1. Fund platforms offering distribution of third-party funds
2. Private banks
3. Independent financial adviser
4. Retail banks
4. Insurers
5. Pension funds
6. Direct-to-customer
How will demand for open architecture distribution solutions change over the next two years?

- **71%** Increase
- **19%** Remain the same
- **10%** Decrease
What do you understand by the term fund platform?

Online service offering fund order routing, settlement, asset servicing and distribution support: 52%

Online service offering sales of asset managers' own investment products: 25%

Online service offering third-party sales of asset managers' investment products: 18%

Online service supporting order routing for fund transactions: 5%
Dynamics of the third-party distribution economy
Will the number of fund platforms offering third-party distribution increase or decline in the next 3 years?

- 38% Increase
- 35% Decrease
- 14% Remain the same
- 10% Large increase
- 3% Large decrease
What will be the primary drivers of this change?

- Consolidation of fund platforms: 44%
- Cost of providing platform services: 14%
- Regulatory drivers: 12%
- Demand for wider choice of investment products: 12%
- Customer (dis)satisfaction with service: 8%
- Change in AUM on fund platforms: 4%
- Asset safety: 3%
- Competition from other distribution channels: 3%
What will disrupt the market for third-party distribution of investment fund products? (up to 3 choices)

- Technology companies: 61%
- Cost pressure: 52%
- D2C from Asset Managers: 37%
- New entrants to distribution market: 31%
- Distributed ledger technology: 28%
- Market infrastructure eg CSD, ICSD: 21%
- Bank distribution: 13%
Improving the distribution experience

Survey Feedback
How can fund distribution platforms improve service to asset managers?

**Respondents prioritised:**
- Improved support for compliance reporting (KYC, AML)
- Better onboarding process for funds
- Improved transmission of sales data and information on end investors
- Improved automation across transaction lifecycle
- Better value for money

**Lower priority:**
- Better geographical coverage
- Improved asset safety
Improving service to end investors

Respondents prioritised:
- Wider geographical coverage
- Wider product range, esp alternatives and ETF ranges
- Better research data and online access to fund documentation
- Easy-to-use performance reporting and portfolio analytics tools

Lower priority:
- Improved account opening and registration procedures
- Improved cost structures, value for money to investor
Which region will experience largest increase in assets on fund platforms over the coming 3 years?

- United Kingdom: 7%
- United States: 11%
- Europe (ex UK): 44%
- Asia-Pacific: 28%
- Emerging markets: 9%
- Other: 1%
Points to consider?

• Use of fund platforms / intermediaries as a support to local fund platforms / CSDs for cross border trading.
• Better distribution support as key service to asset managers.
• Wider geographical coverage and wider product range as a key services to end investors.
• Asia Pacific as a key region where there will be growth in assets in the next 3 years.
Role of Clearstream in the global fund industry
Our answer to global trends in cross border trading – Expansion along the value chain

Services for fund providers:
- Fund distribution agreement management
- Commission management
- Fund distribution analytics
- Fund marketing support
- Fund distribution due diligence support

Services for fund distributors:
- Distribution agreement management
- Trailer fee management
- Fund Data and Documents
- Distribution due diligence support
- Fund research information

Services:
- Order routing
- Settlement
- Asset Servicing
- Connectivity Reporting

Instruments:
- Mutual Funds
- ETFs
- Alternative Funds

Segments:
- Universal & Private Banks
- Platforms & Global Custodians
- Investment Banks
- CSDs

Geographies:
- 50 Fund domiciles
- 74 Clients domiciles
Appendix
Our product offering today

The typical scenario

The problem

The solution: VESTIMA

1. Order placement
2. Cash transfer
3. Fund shares
4. Order confirmation

Banks
Transfer agents
Fund managers

Order routing
Settlement
Asset servicing
Connectivity reporting

Vestima
Clearstream
Deutsche Börse Group
Clearstream Fund Desk
Complementing Vestima

- Order Routing, Safekeeping and Asset Servicing
- Distribution Agreement and Trailer Fee Management
- Fund Data and Documents
- Fund Research

- Order Routing and Safekeeping
- Distribution Agreements and Trailer Fee Management
- Additional Services to Fund Providers