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BUILDING *for the future*

State Street Global Advisors CEO Ron O'Hanley says the next phase of active management lies in the assembly of investment building blocks

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Embrace transparency

While the measures in the UK FCA's Asset Management Market Study Final Report were not nearly as draconian as the regulatory watchdog had previously indicated, the pressure on asset management fees and transparency shows absolutely no sign of abating.

Even if they are not forced to change, asset managers cannot successfully occupy the index-hugging no-man's-land between true active management and low-cost indexed funds. It is a disreputable place to be and investors will increasingly not stand for it. The practice also lets down genuine active managers, ones that operate with high active share, and brings distrust to the door of the industry. One cannot be surprised that investors are relentlessly opting for passive funds.

There is no doubt about where the industry is headed, so why not get on board and embrace the change? Despite the inevitable, hold-outs remain. One head of institutional sales for Emea that I met this month, but who shall remain nameless, was up in arms about even this modest level of pressure. "When you buy a Mercedes you do not demand to know the price of every nut and bolt," he said. "Why should assets managers be forced to do it?"

It is very surprising that an asset management firm would allow someone with such unreconstructed views speak to the press, even off the record. It would be interesting indeed to hear him express his opinions when among friends. He may wish to consider listening to the views of The Transparency Task Force's new collaborative community for progressive asset managers *(see page 16)*.

The point, of course, is that there is a huge asymmetry of information between the asset manager and investor. Charges can be opaque and even if proficient investors can get to the bottom of what they are paying, it is no way to treat customers. Especially, as is increasingly the case, they are defined contribution (DC) pension scheme members that may have no experience of investing.

Many asset managers have clearly decided to embrace the future. State Street Global Advisors has reconfigured its business to where it can most effectively add value. CEO Ron O'Hanley has positioned his business as the assembler of building blocks to create outcome-oriented funds, from increasingly bespoke target-date DC pension funds to outsourced chief investment officer (OCIO) services for institutional investors *(see page 28)*. Environmental, social and governance (ESG) factors have also become an important component, further bringing its products into line with the long-term investment horizons of its investors.

Pete Cherecwich, president of Northern Trust C&IS, said that the transparency movement has "just started" and service providers are investing heavily in providing solutions, from proof of best execution to blockchains viewable by both investors and regulators. His approach of creating a minimum-viable product and going live has resulted in the first blockchain application for private equity and provides a bridgehead to create deeper services and products for other asset classes *(see page 19)*.

Alastair O'Dell, editor, Global Investor

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from globalinvestorgroup.com

Aberdeen to lend securities from US mutual funds

Aberdeen Asset Management will start lending securities from its US 40 Act funds from July, Global Investor can reveal. A US lending programme has been signed off by the fund's board and the firm is in the final stages of implementation.

"Securities lending has been active on Aberdeen's European funds for many years," said Matthew Chessum, investment dealer, securities lending at trading, at Aberdeen. "The US 40 Act funds have always been on the radar where securities lending is concerned and the potential revenues they can provide to clients have been tracked for a while."

The lending programme will be administered by one of its incumbent agent lenders – BNP Paribas Securities Services. According to Chessum, the strategy and risk profile will remain firmly aligned with the European programme: "We will be running a low volume, high fee programme and we will be accepting non-cash collateral only in the form of US Treasuries.

Treasury reform plans positive for US primes

Plans to revisit and potentially roll back parts of Dodd-Frank are a welcome boost for US prime brokers, according Chris Caruso, founder of consultant Pangaea Business Solutions.

He said recent proposals from the US Treasury contain changes to two regulations that will be positive for the business: "Specifically the proposals address some of the inefficiencies of the Supplementary Leverage Ratio (SLR) and broaden the definition of High Quality Liquid Assets (HQLA) to more closely align with that of the foreign banks."

Last month Treasury officials suggested numerous adjustments in a 149-page review of financial regulation ordered by President Trump and led by Secretary Steven Mnuchin.

"Most of the proposed changes will not require the approval of Congress, which makes it even more likely that many of these changes will happen," Caruso explained, adding that the Treasury is putting the brakes on any new regulation and is taking a significant look at what needs to be changed in the existing regulations.

Argus, Platts, TMX eye Trayport bids – sources

Energy data firms Platts and Argus, and Canadian exchange TMX are considering bids to buy energy platform Trayport from the Intercontinental Exchange, according to energy sources.

Platts and Argus, which offer energy data and analytics services, are said to be keen to want Trayport so they can use its pricing data to construct indices that they can resell to clients.

TMX, which is home to some of the world's top commodities firms but has no commodity futures market, would want Trayport to give it a foothold in the lucrative energy derivatives trading industry.

A spokeswoman for TMX said it does not respond to rumours. A spokesman for Platts declined to comment. A spokeswoman for Argus also declined to comment.

MSCI inclusion bodes well for China's sec finance market

The chairman of the Pan Asia Securities Lending Association (Pasla) says the move by MSCI to include China mainland stocks in its indices is a step in the right direction for the country's securities finance market.

The late-June decision to include China A-Shares into MSCI's international benchmarks represented a new milestone for China's capital markets, which have been gradually opening up in recent years.

Roughly 5% of China's A-shares market – the world's second largest with a market cap of $6.9trn – will account for less than 1% of an MSCI Emerging Markets index. Only stocks which can be traded through the Stock Connect programme in Hong Kong are included.

"While not directly opening up the securities financing markets onshore, or through the Connect, this is an important step in continuing to reform and open up the broader China market to international investors," Stuart Jones, Pasla chairman, told Global Investor.

Basel backlash

The OCC head is concerned about liquidity and market concentration, with the negative effects exacerbated by varying regional interpretations and timelines. **Luke Jeffs** reports

The head of US options clearing firm OCC has become the latest to add his voice to the growing chorus of opposition to the Basel Committee's proposed capital charges, arguing they will impact liquidity which could jeopardise the integrity of the market.

Craig Donohue, executive chairman and chief executive officer of Chicago-based OCC, the US derivatives clearing firm, said the various Basel II capital reforms, set to take effect internationally in stages over the next two years, are poorly drafted.

He told Global Investor: "From the industry's perspective, the most concerning issue is the capital pressure on bank affiliates and clearing member firms, which is having a trickle-down effect on market-makers and liquidity providers."

Basel III, the latest round of capital reforms aimed at banks, is made up of various new charges based on complex calculations such as risk-based capital, liquidity coverage ratio, leverage ratio or the net stable funding ratio. Individual countries' regulators are implementing the different requirements at different speeds, which is problematic for international firms.

"The risk-weighted assets calculation under Basel as implemented by the US banking regulators have caused a dramatic increase in the amount of capital to be held by bank-affiliated member firms in relation to their proprietary trading and market-maker customers. In some cases, they are as much as six to eight times what they used to be," he said.

Donohue, who was chief executive of CME Group for eight years until leaving the Chicago-based exchange in 2012, said the capital charges are already increasing the systemic risk in the market-place. "It's not currently having an effect on liquidity or the ability to trade but the lack of liquidity is our number one concern and could become a problem at a time of market stress or significant volatility," he said.

> "The lack of liquidity is our number one concern and could become a problem at a time of market stress or significant volatility"
>
> **Craig Donohue**

US exchanges, clearing houses and trade bodies have made much of the reduction in the number of US clearing brokers, a trend that could be further exaggerated by the Basel rules. "The consolidation and shrinkage among clearing members is concerning," said Donohue. "We currently have a fraction of the clearing members we had in 2008 so the business has become more concentrated, which is a problem."

But Donohue said the pressure is not limited to brokers: "Market-makers are consolidating also due to the low volatility environment, which limits trading opportunities, and the increased cost across the industry. This trend is concerning because of its overall impact on all participants in the market."

› EQUIVALENCE AGREEMENT

The OCC, which has become more vocal about the issues facing the US equity options industry in recent years, has called on its main regulator, the US equities watchdog the Securities and Exchange Commission (SEC), to move more decisively to reach an equivalence agreement with its European counterpart.

Without a clearing equivalence agreement between the US and Europe, counterparts on both sides face additional costs when trading into the other region. Donohue said: "Between the SEC on one side and the European Commission and the European Securities and Markets Authority (Esma) on the other, I don't have a huge amount of transparency on where things stand. We are told they are continuing to work together to achieve an agreement, but we are now more than a year after the Commodity Futures Trading Commission reached its agreement.

"Once we have the equivalence agreement, we can more earnestly work on the recognition process between OCC and Esma. We will work through the recognition process as quickly as possible once equivalence is reached."

Donohue sees the OCC's newfound role as an advocate for the industry it represents as a crucial function: "We used to have three or four options exchanges but today we have none of those left really so the leadership baton has been passed to OCC. We are the only pure-play US equity options enterprise so it is important for us to play that role and we are beginning to do that well."

Continental concern

There is a global push for Europe to be represented on UK clearing houses' crisis management committees, reports **Luke Jeffs**

The European Central Bank and Europe's top regulators should have seats on the crisis management committees of the top UK-based clearing houses, according to the world's top financial regulators. The Financial Stability Board, the Committee on Payments and Market Infrastructures, the International Organisation of Securities Commissioners and the Basel Committee on Banking Supervision published at the start of July five papers on central counterparty (CCP) regulation.

The paper *Guidance on CCP Resolution and Resolution Planning* made various recommendations including "the establishment and operation of crisis management groups". Crisis management groups (CMGs) are a committee of experts that sits within systemically important clearing houses to implement "resolutions plans… developed by the home resolution authority".

The regulators said CMGs have been established or are planned for 12 clearing houses including ICE Clear Europe and LCH, the London-based clearing houses owned by the Intercontinental Exchange and the London Stock Exchange Group respectively.

The regulators offered further guidance on the make-up of those CMGs, citing the inclusion of "supervisors and resolution authorities of major clearing members" and "central banks of issue of major currencies cleared". The regulators also recommended: "In the case of central counterparties belonging to a wider financial group, supervisors and resolution authorities of affiliated entities that would play a significant role the execution of the CCP's resolution plan."

> "The European Commission proposed in June to increase the oversight of systemically important clearing houses outside of the EU"

ICE Futures Europe and LCH offer many euro-denominated derivatives contracts and list as clients the largest European banks and trading firms so, under the current proposals, the European Central Bank and some of Europe's main national regulators are entitled to seats on their CMGs. Similarly, the Bank of England, which oversees the regulation of clearing houses, would get a seat on the CMGs of large European clearing houses such as Frankfurt's Eurex Clearing, Holland's EuroCCP or Switzerland's SIX x-clear.

The recommendations are not binding however. The regulators stated in their paper The *Guidance on CCP Resolution and Resolution Planning* is intended to assist authorities in their resolution planning and promoted international consistency.

"As part of the resolution planning and resolvability assessments, the home resolution authority and CMG should identify and address any challenges to the enforceability or effectiveness of resolution actions that may arise in a cross-border context, in particular in relation to: interoperating arrangements and cross-margining with CCPs in other jurisdictions; and critical services and functions provided by entities located in other jurisdictions."

The regulators also reported in a separate paper *Analysis of Central Clearing Interdependencies* on the level of interconnectedness between clearing houses: "The median number of CCPs that have two clearing members that could be impacted by the default of the top two clearing members in another CCP is around 16, and in about half of cases, the number ranges from zero to 20 CCPs".

The regulators issued a caveat, however: "The results presented in this report are largely descriptive and reflect the state of the central clearing system at a single point in time and do not account for feedback errors… Accordingly, it is not appropriate to draw any strong conclusions regarding the overall risk profile, adequacy of financial resources, or systemic risks posed based on these results."

The relationship between European authorities and London-based clearing houses has hit the headlines since the UK decision to leave the EU. The European Commission proposed in June to increase the oversight of systemically important clearing houses outside of the EU, citing the increased importance of central counterparties (CCPs) and the withdrawal of the UK from the EU as chief reasons.

The LSE Group sought to play-down the plan however, claiming its presence in various legal jurisdictions will insulate its clearing business. "Our clearing operations do not rely on equivalence as they are fully licensed and regulated directly in a number of jurisdictions across the US, EU, UK and Asia," said a spokesman for the UK exchange group.

Global regulators have becoming increasingly concerned about the prospect of a large clearing house failing since passing rules after the 2008 financial crisis that required banks to push more of their business though CCPs.

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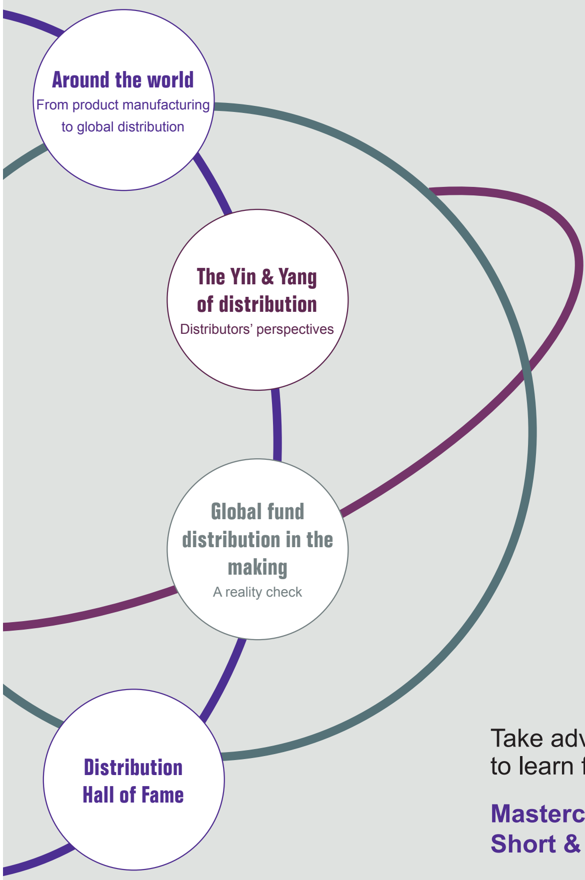

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Agents add to EUROZONE liquidity

Eurozone central banks are increasingly turning to agents to lend their securities, says **Andrew Neil**, which will inject much-needed liquidity into the market

Eurozone central banks are increasingly outsourcing the lending of the securities that they are holding on their balance sheets, which have built up due to purchases designed to kick-start the continent's economy. A handful of agent lenders are progressively taking over the facilitation of loans, largely of government bonds, acquired by national central banks (NCBs) under the so-called Public Sector Purchasing Programme (PSPP).

In late June Banco de España, the Central Bank of Spain, announced it had appointed Deutsche Bank to act as its securities lending agent, effective from July, supplementing its programme to loan securities on a bilateral basis to counterparties. Deutsche Bank is also being used by the European Central Bank (ECB) as well as Slovenia, Lithuania and Austria (which also uses BNP Paribas Securities Services).

Other NCBs have also opted to use agent lenders to reinject their securities into the market. Deutsche Bundesbank and Banca d'Italia, for example, make their PSPP securities available for lending via Clearstream. Meanwhile, Euroclear is the agent of choice for the Central Bank of Ireland, the Bank of Finland and Banque de France.

REPO IMPACT

The ECB has been purchasing bonds from the market since 2015, resulting in a shortage of high quality collateral, which has squeezed the repo markets. To make matters worse, the collateral drain came at a time when new rules began forcing banks to maintain large buffers of high-quality liquid assets (HQLA), such as bonds, on their books.

In a bid the counter the effects, the ECB has encouraged eurozone NCBs to lend securities and, in December 2016, it allowed cash to be used as collateral.

European government bonds drove securities lending rev-

enues higher in the first quarter of 2017, according to IHS Markit statistics, although the 19% increase in aggregate revenues generated over the first quarter was entirely driven by better pricing power, as fees jumped over 30%.

"Most of this fee increase occurred in the opening days of the year when HQLA were in high demand due to an overall shortage driven by the ECB's ongoing asset purchases," IHS Markit stated in its latest quarterly securities finance review.

Also in late June France's central bank said it plans to test a daily auction mechanism to lend French government bonds against cash collateral. This bidding process is another route for NCBs to get securities out on loan and some market participants argue it's the fairest way of allocating scarce collateral.

> "European government bonds drove securities lending revenues higher in the first quarter of 2017"

AGENT ADVANTAGES

Bilateral arrangements involve agreements between each counterparty and each NCB, which takes time, in particular due to the lack of harmonisation around such agreements.

One way to overcome this issue is to use agency lenders to act as intermediaries, so that agreements can be made between each NCB and one lender, instead of each central bank and each counterparty.

Tim Smollen, global head of agency securities lending at Deutsche Bank, said: "By using an agent lender, the NCB's gain access to the entire breath of the lender's approved counterparty list, providing a broad and diversified base for borrowing via standard market documentation.

At the same time, they are also able to take advantage of that lender's ability to carry out all of the day-to-day tasks associated with lending securities, from a diligent and expert mark-to-market process to full reporting and wide-ranging statistical data."

Smollen said Deutsche bank has spent a great deal of time, over many years, working with central banks across the globe to establish the most effective fixed income securities lending programmes: "We will use that expertise to assist the eurozone central banks to develop, and perhaps more importantly to continue to evolve, their securities lending arrangements for assets purchased under the PSPP."

CSDR rules threaten credit repo

ICMA warns that mandatory buy-ins will damage repo and securities lending, reports **Andrew Neil**

EU legislation designed to increase the safety of securities settlement is the biggest threat to the European credit repo and securities lending markets, a leading capital markets trade body warned in late June.

In a new study, Andy Hill, a senior director at International Capital Market Association (ICMA), said the Central Securities Depositories Regulation (CSDR) mandatory buy-in regime will do damage to the corporate bond repo business.

"The single biggest challenge to supply, and so the health of the credit repo market, is the CSDR mandatory buy-in regime," Hill wrote in the paper *The European Credit Repo Market: The cornerstone of corporate bond market liquidity*.

"The overarching market view is that this will have dramatic and potentially devastating consequences for credit repo market liquidity. Quite simply, it is the ultimate deterrent to lending corporate bonds."

CSDR aims to improve the efficiency of securities settlement and changes the post-trade landscape. It is also likely to increase competition between CSDs.

MANDATORY BUY-INS

The inclusion of a mandatory buy-in regime in CSDR, however, has been highly contentious. Essentially, the rules will supersede the current rights of a counterparty to a non-cleared trade that can, at their discretion, force delivery of securities (or cash) in the event of a settlements fail.

Rather than buy-ins being a contractual remedy available to a failed-to counterparty, under CSDR it will become a mandated obligation of the failed-to counterparty, the chosen place of settlement (the CSD), or even the trading venue on which the transaction was executed. Mandatory buy-ins will apply to all securities financing transactions apart from very short-dated or open maturities.

ICMA has previously stated that the "automatic and inflexible" nature of mandatory buy-in regulation presents an additional level of risk to market-makers that provide offer-side liquidity in securities that they may not necessarily hold in inventory.

More recently, ICMA's discussions with agent lenders have highlighted concerns that the mandatory buy-ins would reduce the supply of corporate bonds to the repo and lending markets.

"It was suggested that the risk of losing a lender relationship due to the failed return and subsequent buy-in of an odd-lot corporate bond loan was not commensurate with the low revenues generated through lending corporate bonds to the market," Hill notes in his study.

"One agent lender stated that given the relatively small size and revenues of the specific corporate bond portion of their lending books, it simply would not be worth the risk nor the hassle of continuing this activity once mandatory buy-ins come in."

Meanwhile, a hedge fund explained to ICMA that while lending specifics from their high yield portfolio currently helped to lower their overall financing costs, with the introduction of mandatory buy-ins they would no longer be able to run the risk of lending bonds to the market, and would instead rely on their prime broker to fund their longs via tri-party.

> "The single biggest challenge to supply, and so the health of the credit repo market, is the CSDR mandatory buy-in regime"
>
> **Andy Hill, ICMA**

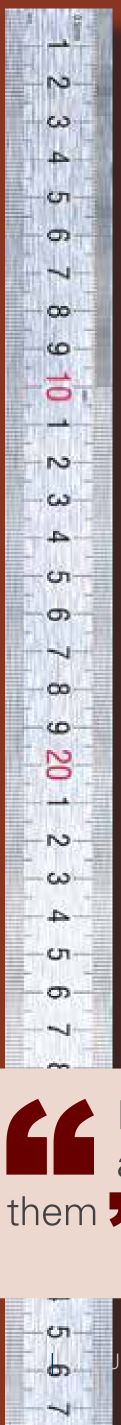
NSFR IMPACT

Meanwhile, ICMA's Hill says the Net Stable Funding Ratio (NSFR) will increase trading costs and limit the capacity of banks to fulfil the critical role of repo market intermediation.

"The major issue with NSFR for repo markets lies with the asymmetry with respect to the required stable funding weighting for short-term cash loans to banks and other financial institutions (i.e. where they borrow securities) and the available stable funding weighting for short term borrowing (i.e. where they lend securities)."

At this stage, Hill says interviewees are unable to quantify the overall impact on credit repo market pricing and liquidity, other than noting the fact that NSFR will significantly increase the cost of being short, as well as long, corporate bonds.

Benchmarking BENEVOLENCE



ESG funds are proliferating but quantifying performance and ethical standards is complex and potentially misleading, says **Ceri Jones**

Asset managers are increasingly claiming environmental, social and governance (ESG) credentials when marketing funds, but there are no standardised benchmarks and there is a scarcity of data with which to measure performance.

A recent report by Longitude Research and State Street Global Advisors (SSGA) found that over half of asset managers have difficulty benchmarking their ESG performance against peers, and over half also said they struggle to evaluate other managers and external research firms.

The May 2017 *Performing for the Future* survey found that the more deeply ingrained the ESG strategy, the greater the difficulty; it seems that as understanding about the subject grows ESG considerations proliferate.

Research and benchmarks tends to focus on one aspect only, such as Trucost research on climate risk. Therefore, managers are left having to use a variety of methods to assess impacts that range from company culture and engagement policies to third-party relationships.

› RETHINKING RATINGS

For consumers, ESG labels are even more opaque. Last year Morningstar started rating funds for their sustainability, using as its basis company-level ESG data from Sustainalytics on the funds' holdings. The results caused some consternation, as almost half of the so-called socially responsible funds came out as rated average or worse than conventional funds, including funds run by JP Morgan Asset Management, Aberdeen, Robeco, Pictet and UBS.

In fact, five of the 193 funds examined were rated low and 30 were categorised below average. Some 13 of Robeco's socially responsible funds scored below average, prompting the Dutch asset manager to point out the research did not take into account its active engagement with company managements.

"Most funds in this field measure up well using our sustainability rating, which is a holdings-based indicator of how well companies in a fund's portfolio perform on a number of sustainability measures," says Jon Hale, director, sustainability research, at Morningstar. "Most receive the highest two ratings. Those that do not may be ethical funds by virtue of having certain exclusions but probably do not incorporate sustainability – or ESG – analysis into their process."

He adds that any ESG fund ought to be awarded four or five globes under the Morningstar system but that there may be "a defensible reason if a fund doesn't rate highly," such as being in a competitive category where many funds score well or "some element of its investment process may not be captured in our rating".

This goes to the heart of the problem: there are too many aspects to capture and a wide variety of approaches are used, far more than a simple shift from negative screening towards active shareholder engagement.

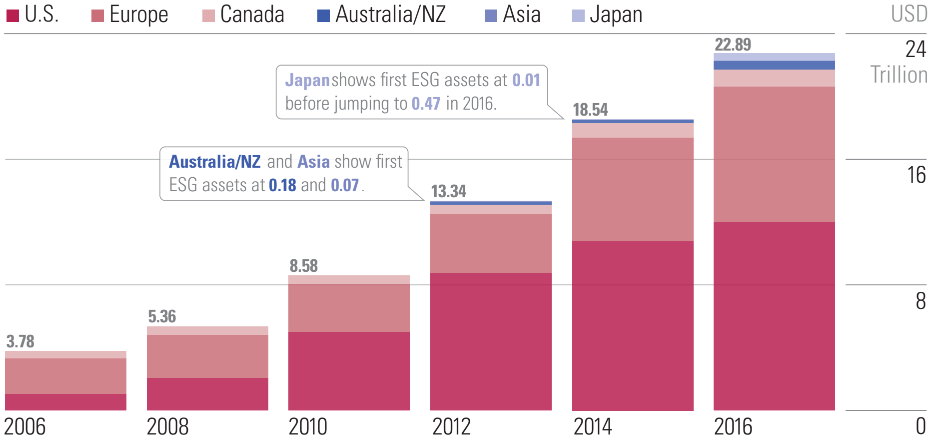
"Just because a fund uses some values-based

> "Many funds are making bold assertions but not living up to them"
>
> **Richard Butcher, PTL**

screens doesn't mean it is using ESG analysis at all," explains Hale. "It's values-based insofar as it's about wanting companies to be good stewards of the environment, great places to work, make safe and useful products and govern themselves with integrity and a long-term view.

"A fund can approach this in a number of ways. It can focus its investment universe on companies that perform better on ESG, and then move on to stock selection. It can make sure its analysts are integrating ESG factors in their routine analysis of companies and sectors. It can focus on a few key E or S or G issues that it thinks are especially material. Or, it can focus on broad themes – such as women in leadership."

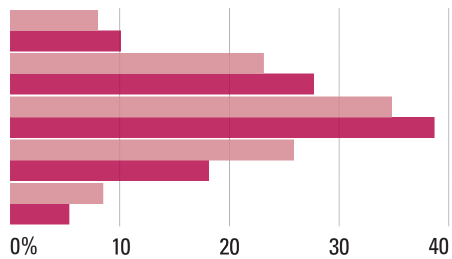
Green Grows Assets in sustainable investments are growing quickly



Source: Global Sustainable Investment Review, 2016, 2014, 2012

Star Performance The ratings of ESG-focused mutual funds have improved

Morningstar Rating	2006%	2016%
☆☆☆☆☆	8.0	10.1
☆☆☆☆	23.1	27.7
☆☆☆	34.8	38.7
☆☆	25.9	18.1
☆	8.5	5.4



Source: Morningstar. Data as of 03/31/2017.

› SHORT-TERM PRESSURE

Asset managers incorporating ESG into their investment process need to describe how they do so in their prospectus documents. Even then, however, the initial stock selection is only part of the story. Solid performance requires a buy-and-hold mentality, but this is at odds with the way the industry works.

This helps explains why ESG has not been widely adopted by pension funds even though pensions have such long time horizons, according to Richard Butcher, managing director of pension and actuarial consultancy PTL. "Every report produced for a board of trustees starts with three-month performance. The consultants and asset managers are both judged over a short timeframe, and there are parties in the investment chain that need to trade to make their money.

"Inevitably, in such a competitive industry, there are also many who pay ESG lip-service. Many funds are making bold assertions but not living up to them, often piggy-backing off someone else's research. Intellectually, it's a real snake pit."

The United Nations-sponsored Principles for Responsible Investment (PRI) organisation has made progress in setting industry standards, increasing accountability and educating investors. However, there is still much work to be done on filling skill gaps in ESG analysis and concerns about the costs of developing the necessary systems.

PRI has more than 1,600 signatories managing $62trn in assets, and has sometimes threatened to expose asset managers who are not toeing the line. In May, for instance, a handful of asset managers – BlackRock, Invesco, BNY Mellon and Vanguard – voted against climate change resolutions at the AGMs of the oil majors ExxonMobil and Chevron.

There is an irony here. For example BlackRock, alongside SSGA, has made the loudest stand this year to persuade investors that it sees climate change as a top priority, and has been heavily promoting the reporting framework developed by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures. Different parts of these behemoths clearly have very different priorities.

> "Just because a fund uses some values-based screens doesn't mean it is using ESG analysis at all"
>
> **Jon Hale, Morningstar**

Tech TAKE

US tech stocks have soared and are making up an ever-greater proportion of market indices, says **Cherry Reynard**, prompting fears of a bubble and a threat to passive funds

For much of this year, technology stocks have been the engine of growth in US markets. Large cap technology has delivered on earnings estimates and share prices have outpaced the wider S&P 500. But now investors appear to be becoming nervous, with stocks down around 5% over the past month. Is this simply a pause, or is this a bubble starting to burst?

David Jane, head of multi-asset investment at Miton, says that almost 30% of the return from US equities has come from just seven companies, the FANGs (Facebook, Amazon, Netflix and Google) plus Apple, Microsoft and NVidia. While this has been most evident in the US, the phenomenon has been seen in other markets. For example, Japan now has the so-called sunrise stocks or SNRS (Softbank, Nintendo, Recruit and Sony).

For some, technology sector valuations are worryingly reminiscent of the technology bubble that burst in such spectacular style in 2000. Amazon, for example, now trades on a price-to-earnings ratio of 178x. Facebook is more conservatively valued at 37x earnings, but this is still well ahead of the average for the S&P 500 of 26x.

> If a correction were to occur, some of the top stocks – which include many technology names – could be among the sharpest fallers
>
> **Dominic Rossi, Fidelity**

INDEX WEIGHT

Were this simply a question of share price falls for a few over-valued stocks, it wouldn't necessarily be an issue, but these technology stocks are a significant part of the index. Ian Heslop, manager of the Old Mutual North American Equity fund, points out that the top 10 stocks in the S&P 500 account for 2% of its number of stocks but currently 20% of its market capitalisation. Apple alone is 4% of the S&P.

Fidelity chief investment officer Dominic Rossi recently estimated that at least 50% of the US's largest companies' shares would be controlled by passive strategies within the next year. Heslop believes this is a concern: "We are not predicting a sharp market fall, but if a correction were to occur, some of the top stocks – which include many technology names – could be among the sharpest fallers."

The US is seen as an efficient market and therefore ripe for passive investment. The percentage of active managers outperforming the market is lower in the US. Research by Bank of America Merrill Lynch found that only one in five mutual fund managers that invest in shares of large US companies beat their benchmark in 2016. However, any sell-off in technology stocks may dent returns from passive investments and tip the balance back in favour of active funds.

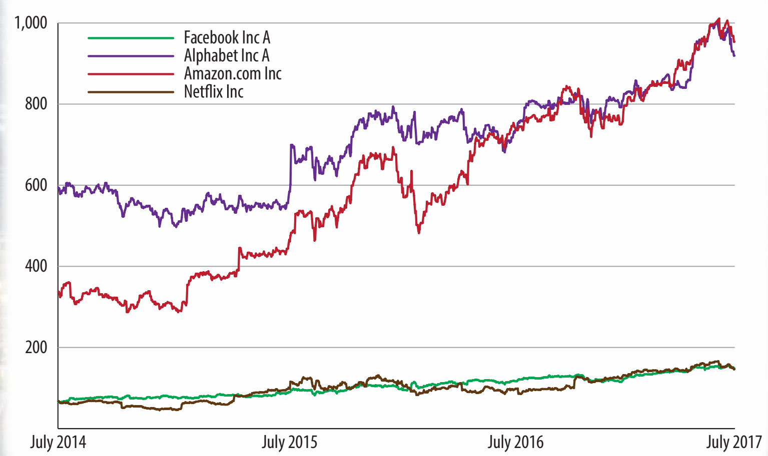
EARNINGS SUPPORT

The question for investors and asset managers is how likely they think it is that a crash will actually occur. A number of them argue that the recent share price rises for technology companies are well-supported by earnings. Nathan Sweeney, senior investment manager at Architas, says: "Very few sectors are delivering growth that people believe in. These companies are actually growing, so everyone is buying them." He points out that many of these companies have significant cash on their balance sheets and therefore valuations do not look as expensive.

Walter Price, manager of the Allianz Technology Trust, agrees. He says: "Earnings are growing really fast for these companies and that is being reflected in the stock prices... It would only be a bubble if there were no earnings." He points out that technology environment is strong, with individuals

nology OVER

US stock prices



Source: Morningstar

> Earnings are growing really fast for these companies and that is being reflected in the stock prices... It would only be a bubble if there were no earnings
>
> **Walter Price, Allianz**

and corporates spending more money on upgrading technology.

While Amazon's valuation of 178x looks high, it hasn't changed very much over the last 12 months and, if anything, is lower than its long-term average. Facebook's price-to-earnings is around half the level seen at the start of 2016. Only Apple has seen a significant expansion in its ratio, but its valuation was far less ambitious at 11x earnings. Today, it is lower than the market at 17x.

Miton's Jane says that while there is an argument that these stocks are overvalued and it may be worth rotating into other areas, the argument that the stocks are in bubble territory is weak. The real risk is that earnings are not sustained or simply that the market starts to favour other areas. In this case, a gentle deflation would be more likely.

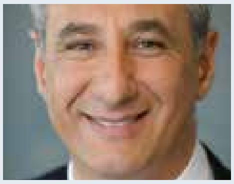
› OPPORTUNITIES REMAIN

There are technology stocks outside the US that have not participated in the general enthusiasm for the sector. For example, Roland Grender, European fund manager at Crux Asset Management, says that European technology stocks have not kept pace. While few can boast the earnings of US technology companies, there are some interesting areas. He holds Playtech, which makes gambling software and trades on around 20x earnings, and Scout24, a German property and car trading portal. He says that he has a higher weighting in technology than at any point in the past.

Allianz's Price adds that there are plenty of opportunities outside the large technology names, in mid-cap security companies, for example, or software-as-a-service providers.

While the recent rise in technology share prices is well-supported by earnings, it doesn't mean that market sentiment can't change relatively quickly. These companies are valued highly because there is little growth elsewhere. If that growth started to come through, it may be a different story for the technology sector.

Age of enlightenment



It is perfect timing for the launch of a community for progressive asset managers, says The Transparency Task Force's **Andy Agathangelou**

The Transparency Task Force (TTF) has launched a new community to facilitate collaboration between asset managers that have a more enlightened and progressive approach. The initiative was triggered by the publication of the Financial Conduct Authority's (FCA) Asset Management Market Study Final Report, presented by senior competition department executives Becky Young and Robin Finer at the TTF's special Transparency Symposium held on July 5 in London.

This will be the TTF's ninth collaborative community, each working on a separate issue. We're calling this new group Team PAM, for progressive asset managers. Member firms will already be completely comfortable with high levels of transparency on costs and charges so they are well-suited to operating in the post-FCA Report world.

Members will also possess one or more of these attractive characteristics: enlightened leadership; orientated to capital markets being a force for good; striving to deliver value for money; an evidence-based approach; advanced use of technology; an inclusive ownership structure, such as mutuality; a fee structure aligned with clients' interests; focus on the longer term; and/or determination to serve their clients' best interests.

We have already had our inaugural conference call and it has become obvious very quickly that there is much to be gained. The firms attracted to this initiative do not fear each other or the regulator; they are confident in the inherent strength of their offerings and are already working to high ethical standards.

> "Corrosive cultures have been the root cause of reputational damage"

It's early days for the initiative – just 48 hours at the time of writing – but Sparrows Capital, IG Group, Vontobel Asset Management, eVestor and Hermes Investment Management have already joined as founder members. As with all our communities, it will be down to founder members to agree objectives and the best strategies to achieve them. Any firm that has a pro-transparency and pro-client way of working is welcome as a founder member, so long as they join ahead of our next conference call on August 3. There are absolutely no fees; members just need to commit doing what they can, when they can, however they can, to help improve the way the sector as a whole operates and is seen. It's all about displaying values-based leadership for the greater good, and understanding how enlightened self-interest can work in the real world.

Membership is open to active and passive managers, as being tribalistic would just get in the way of progress. The sector is too complex and nuanced to be viewed in overly-simplistic, binary terms. For example, I really like the way that some active managers have fee structures that align to clients' interests while others that are dead serious about stewardship. What really matters is the mind-set of the firm's leadership; whether the client is seen as somebody to be served, or somebody to be exploited through information asymmetry.

> CULTURE IS KEY

My aspiration is that Team PAM will accelerate the culture-change underway in the industry, just as the FCA's work most certainly will. In my view, corrosive cultures have been the root cause of the reputational damage the sector has suffered in recent years. You've only got to think about how few asset managers signed up to Daniel Godfrey's Investment Principles when he was leading the Investment Association, and his subsequent forced departure, to realise there are deep-rooted cultural issues that need exorcising. One can't help wonder whether the FCA's Market Study would have been needed had his visionary leadership not been undermined by those that either failed to see the bigger picture or, more likely, turned a Nelsonian eye to it.

Members of Team PAM will be challenging themselves to display behaviour consistently that will help to rebuild trust in the sector. It will be made up of thought leaders who don't run away from the opportunity to commit to serving clients' best interests. They will be delivering what the market wants. Now that the FCA is making the changes necessary to allow the invisible hand of competition to work its magic, we can expect more enlightened and progressive firms to flourish. I may be naïve but, if we assume the FCA regulates for a competitive market, the only conclusion I come to is that doing the right thing makes complete sense both culturally and commercially. If you agree, please get in touch.

Andy Agathangelou is the founding chair of The Transparency Task Force

SFT reporting needs to be reconciled

Mifid II and SFTR contain contradictory reporting requirements and a consensus needs to be reached, says Isla's **Sarah Nicholson**

In January 2018 Mifid II, and the accompanying regulation Mifir, comes into effect and will mark a significant change in market structure transparency and investor protections. Most firms have made sizable investments in preparing for compliance but, from a securities finance perspective, many questions remain unanswered and interpretations vary between firms.

While there are a number of specific exemptions for securities finance in respect of some reporting obligations, such as pre-trade reporting and some post-trade reporting, there are many sections of text where no explicit carve-out is provided and firms are left scratching their heads trying to work out how to apply the directive to their lending activity.

The text attempts to dovetail with other regulation currently being drafted, such as Securities Financing Transaction Regulation (SFTR). This means that the definition of SFT given for Mifid II makes a direct reference to the definition for SFTR, and the timeline for regulatory transaction reporting is directly linked to the implementation of reporting under SFTR – despite the objective of the reporting and the format of the reports being quite different.

While the directive is clear in its definition of a SFT, the business model traditionally adopted in the markets for the activity is not as well recognised and so does not sit comfortably within the other definitions and applications in Mifid II. In many sections securities finance is recognised separately, as a "non-price forming" transaction. However, the directive still assumes that the financial service of facilitating securities finance on behalf of clients follows the same model as cash equity markets.

For example, the text is clear on the definition of how an asset manager should define an execution venue, but does not differentiate for securities finance transactions. As the market is almost exclusively a bilaterally-arranged OTC market, this has led to a number of very different interpretations around reporting requirements within the industry. The directive provides a separate report template for SFTs, requiring firms to report their top five execution venues as percentages of overall business, but defining what the venues are is not clear.

CLIENT REPORTING

A number of other areas are also causing concern to firms trying to apply Mifid II to their SFT activity. Firstly, there are client reporting requirements that require data fields that are not relevant to a SFT in the specific template provided for SFTs. Some agent lenders are asking whether it is really necessary to amend existing reporting, which achieves the objectives and is more relevant, to something less meaningful just to tick a regulatory box.

There are also requirements to maintain records of client orders and decisions to deal, but differing views on what, if anything, constitutes a client order for SFTs. Equally, there is a requirement under Mifir to maintain records of client orders and transactions for clients and the agent lender's own accounts. Likewise, there are requirements to consider the on-going appropriateness of collateral but no definition or description of what appropriate collateral might be, or how to measure it.

Unlike Mifid I, it is clear that best execution applies under Mifid II, and this is one area where the text does seem to recognise the different nature of SFTs and its non-price forming nature. Firms are required to have policies in place that define the factors considered when entering into a transaction and provide evidence that they are taking sufficient steps to obtain the best possible result for the client. For SFT it is recognised that price (fee) is not always the deciding factor and that many more relevant factors should be considered – and these need to be clearly explained in the firms' policy documents and the clients advised of this policy.

The challenges of interpretation are many with Mifid II and added to this is the potential for domestic regulators to interpret the directive differently in their local rules. In some cases this adoption may offer some clarification, but this is by no means certain. In recognition of these challenges, Isla has developed some workshops that are designed to aid firms in understanding each other's interpretation and seek consensus wherever possible.

Further details can be found on the Isla website: *www.Isla.co.uk*

Sarah Nicholson is an Isla consultant

> "The timeline for [Mifid] regulatory transaction reporting is directly linked to the implementation of reporting under SFTR"

Rewriting the rulebook

The UK FCA Market Study provides the industry, consultants and investors an opportunity to help build workable regulation, says the PLSA's **Caroline Escott**

In order for pension scheme members to get the best possible value out of their retirement savings, it is vital that the institutional investment chain is competitive and transparent.

UK schemes have £1.9tn of assets under management in the UK, comprising 57% of all UK institutional business undertaken by the investment management industry; pension schemes therefore have an important role to play in the debate on this sector.

There have been long-standing concerns from pension funds, the government and others about the alignment of interests within the industry, compounded by a lack of transparent, clear and consistent disclosure of charges. The combination of these issues has made it harder for trustees to properly scrutinise the value for money of their consultants and managers.

There was therefore support from across the institutional, as well as retail, investment chain when the Financial Conduct Authority (FCA) decided to investigate the investment management sector 18 months ago, as well as when it published its final report and recommendations on the June 28.

The FCA's proposed remedies focus on three specific areas: giving protection to investors that are less able to find value for money; driving competitive pressure on asset managers; and improving the effectiveness of intermediaries including investment consultants and investment platforms. Yet in a final report package that contains several consultations with promises of more to come and some recommendations that can be taken forward now, what stands out?

Probably the most high-profile issue has been the decision to consult on a possible referral of the investment consultancy sector to the Competition and Markets Authority (CMA). The three largest consultancies had previously presented undertakings in lieu (of a market referral) to the FCA, proposing a package of measures aimed at improving transparency and resolving conflicts of interest in the sector.

In its final report, the FCA has provisionally rejected these undertakings in favour of a market referral and is now in the process of seeking views on its decision, which we expect in September.

Another key recommendation was that the provision of investment consultant and employee benefit consultant asset allocation advice be brought within the regulatory perimeter of the FCA. The timescale on developments in this area will depend on whether or not the market referral goes ahead.

GOOD GOVERNANCE

The final report also directed the Department for Work and Pensions (DWP) to continue its work to break down barriers to pension scheme consolidation. This reflected the PLSA's findings, as part of its Defined Benefit Taskforce research, highlighting the link between scale and good governance; building scale can help provide the resources to challenge, or exercise greater negotiating power over, investment advisers and managers.

Finally, the report made a series of recommendations on governance, including requiring authorised fund managers (AFMs) to appoint independent directors to the board and introducing a specific rule requiring these boards to assess value for money using a variety of metrics. Although the general thrust is to be welcomed, we think more could be done on the specific factors used to evaluate value for money, as well as the benefits of mandating an independent chair of the AFM board.

After 18 months, many in the industry may have been hoping for some sense of closure from the final report. However, while some conclusions have been definitively drawn, a great deal of further work, consultation and investigation remains.

Now is the opportunity for the industry to help the FCA produce workable regulation; at the PLSA, we will be bringing consultants and their pension scheme clients together on this issue to work with the FCA and build a market which works in the interests of all, and especially scheme members.

Caroline Escott is the defined benefit and investment policy lead of the Pensions and Lifetime Savings Association

“There have been long-standing concerns from pension funds, the government and others about the alignment of interests within the industry”

Information IS EVERYTHING

In his first UK interview as president of Northern Trust's C&IS business, Pete Cherecwich speaks to **Alastair O'Dell** about how managing data will transform the role of custodian banks and provide opportunities as well as threats to even the largest organisations

What are you doing to prepare Northern Trust for the future?
Huge changes are coming in our industry – how we position ourselves for the future is very, very important. Today, financial services is not a utility – when a manager buy something such as a brand new OTC derivative they can't just snap their fingers and everything just operates. It will not become commoditised, not for a long time, but we have to prepare for where the world is going. Fees continue to be pushed down and we will continue to be asked to do more for less.

I have been in the business 30 years – there is a constant evolution and as long as innovation occurs there will be new things to focus on. All the literature says to invest in indexes but if the market is producing a return below what you need, you need alpha. Right now the whole world is moving towards alternatives– so that is where the innovation is happening.

What is being done to facilitate investment in these areas?
We picked one client problem that fits with a blockchain application and said 'let's run with it and actually get it live', rather than having a technology lab work on 15 proof-of-concept projects. A blockchain is not hard to implement from a technology perspective. If everything matches you have a transaction and an immutable record, then you are done. The hard part is everything around it.

Private equity has been a very manual asset class. In February we launched our first blockchain application in Guernsey. For an offshore fund to qualify certain transactions need to happen on the island. We worked with the government to get to the point where as long as the blockchain keys are on a server in Guernsey, the transaction is considered to be happening there. It's very simple but it took a while. We then put together the technology and then demo-ed it and carried out security audits. People will not just accept it – you need to go through a process and that takes time.

How does blockchain change the role of the incumbent service providers?
It will automate about 30% of the fund administrator's role. You have a perfect document storage facility, one document that is an immutable record, and audits become much easier. But the biggest benefit is that it shrinks the time from when commitments are made to actually spending money. People with dry powder want to spend it and we can shorten that time.

The investment manager, audit firm, legal firm, administrator and regulator all have access. In Guernsey the regulator

Pete Cherecwich is an executive vice president and a member of Northern Trust's management group in Chicago. He currently serves as the president of Corporate & Institutional Services business unit.
Northern Trust's Corporate and Institutional Services (C&IS) business unit is a provider of asset servicing and related services to institutional clients worldwide. Its clients include corporate and public pension funds, sovereign wealth funds, supranational organisations, investment management firms, foundations and endowments, healthcare organisations, insurance companies and other financial institutions.
Cherecwich has over 25 years of experience in a global organisation and managing large and complex client relationships. He joined Northern Trust in July 2007 as head of institutional product and strategy. Before joining Northern Trust, he held various executive and lead operational roles at State Street.

wanted to be able to 'break the glass' to audit it when needed. The next stage is to build in electronic capital calls and then finish off the whole life cycle of the asset class, before converting more clients.

The key is to create a minimum-viable product and go live – doing things in a proof-of-concept world is just not the same. Suddenly, issues such as legal compliance come up. It has really driven our innovation.

> People do not outsource when they are making 50% margins – they outsource when fees are shrinking and a capital investment is needed

How much of the technology does it make sense to develop in-house?

To get the talent you have got to have a certain work environment. We have an association with Pivotal Labs, which separates our teams out from the bank infrastructure.

They can dress down, have an open workspace and developers and users interact to build on an iterative basis. It can be within a bank – you just need a new environment. Call it a lab or whatever you want – it is an important aspect of doing things differently.

There is a reason people sit in a garage and develop things that are successful – they are unencumbered by bureaucracy. We can emulate that, but then put in controls. You need to create your minimum-viable product, and then make sure it works and is secure.

How do you attract the necessary skills?

If you ask 'where would you rather work, Google or a custodian bank?' the reality is the best and brightest kids are more attracted to technology firms and start-ups. We need to hire quality people and tap into those going elsewhere.

Executives from Northern Trust meet with Silicon Valley representatives twice a year. Half of each meeting is to discuss technology investment and the other is about how we could use the technology. We get the time because we have the cash and the brand. We get access to the best and the brightest, to figure out what innovations we can use and bringing them back, sometimes as an investor and sometimes as users.

How does this process work in practice?

As an example, FX relationship dealing has come to a crashing end over the last 10-15 years – spreads are lower and the need for proof of best execution is getting more heated. We are investing in a company called BEx and created a digital trading platform that allows clients to create alpha through their proprietary algorithms. We ensure there are perfect records and full transparency of every transaction and they can prove they have best execution. Building that ourselves would have been really hard so we took an ownership stake. Having the developers handle the innovation aspect, while we have a stake and can benefit from that, has worked very well for us.

How much further does the push for transparency have to run?

It's just started. People want transparency. We have got to be able to create data hubs that allow access to all of the data that clients are interested in. There is a rush to become as transparent as possible – and that is huge. The nature of transparency is that fees get squeezed – you have to be prepared.

> The key is to create a minimum-viable product and go live – doing things in a proof-of-concept world is just not the same

Are investment management fees still too high?

It's a high margin business. However, who determines that the current level is the proper margin? At some point, someone is always asking 'is that too much?' On the indexing side fees are getting squeezed. For active management in the middle, that conversation is happening, though it hasn't hit the private equity side.

There are more people chasing alpha than catching it. Managers that figure out how to get alpha for their clients will be paid well, because it is hard to create alpha.

Is investor services feeling the effect of fee pressure on clients?

It all rolls downhill. We are constantly being pressured on the fee side and we have to offset that with technology and new value-add products. We have a global model so we are able to balance labour costs but the reality is that technology is allowing this business to be done more easily.

On the flipside it is an opportunity. We are in the outsourcing business and I am convinced that over time everything post-execution, perhaps even execution, will be outsourced. It may take 10 years, it may take 50 years.

The capital needed to invest in a technology will be great and the scale to drive efficiencies will be such that we will be able to provide a much better product at a much lower price. People do not outsource when they are making 50% margins – they outsource when fees are shrinking and a capital investment is needed.

It is going to become tougher for mid-sized providers to compete. They don't have the capital to invest in technology or the global footprint. They can service niche markets but it's going to get harder to truly be a player.

Are you concerned that technology could disintermediate your business?

Today, people like to bundle fund accounting and custody as there are synergies. The doomsday scenario is if clients no longer need a custodian bank to get your data, if all you need is something like a Paypal account and to deal directly with a blockchain. If a technology provider could see what is held, in all markets, it could put all the data together and do the middle office work but wouldn't need to be a registered bank, as it is not actually holding any cash.

Suddenly a huge barrier to entry goes away. It could be harder for a large organisation, with huge platforms, to change than for a small firm to build all of this. It won't happen in the short term, but will we get to that position someday? Maybe.

How can custodian banks ensure they remain relevant?

You have to create a model that insulates you. Today, we compete on custody. If the custody layer is going to become much more automated and data-centric then we have to compete on information. We will be competing on data, how we make it available, how we manage it and how we present it. It doesn't matter if we get that from doing the custody, holding it physically, or getting it from a blockchain.

Hedge funds have administrators not custodians – all their assets are held by the prime broker – and those administrators do all their work without any custody. A pension plan may have OTC derivatives, private equity and investment funds – there is actually no custody there. Global custodians pull the data from all the investments together and produce valuable information. It's a misnomer even now that you need to be a global custodian.

What problems are emerging as a result of the increasing centrality of technology?

It's getting harder and harder to find people that understand the whole process, end-to-end. As a fund accountant I could pick up a pencil and tell you the net asset value (NAV). Today, things are so automated that nobody knows how to do that. How do you train people to solve problems if they don't know the end-to-end? It's really hard to find the root cause and fix it. If we do not invest enough in training we will get stuck as an industry – people will not know how to make things better. Anyone at a senior level needs to understand technology, or they will have a huge issue.

How much more information do asset managers and regulators actually need?

We could sell you all the data in the world but it could be expensive to put together – so you need to focus on the action you might actually take. If you are going to make an investment decision based on daily data of your underlying holdings and achieve alpha, great. If not, it is probably too much. You need to take some time, figure out what decisions you would actually make, and then what data you need to drive those decisions.

To understand the risks in the market, regulators are going to need more data in a more consumable structure. We already do a lot of reporting – but what is being done with that data? The regulators have the right idea and the industry is on the right path, but we are at step one. If there is opaqueness and you have a run, as with Lehman, you are done.

> It's a misnomer even now that you need to be a global custodian

RESEARCH revolution

The way investment managers consume third-party research is set to radically change under Mifid, says **Cherry Reynard**, but it is too soon to tell how the market will ultimately be structured

Mifid II looks certain to shake up the way investment managers buy external research. With implementation of Mifid just months away, some fund managers have shown their hand, but there remains considerable uncertainty as to how the rules will affect the quantity and type of research used by fund managers, and how much they will be willing to pay for it. In the meantime, investment banks are in a holding pattern, waiting to see how demand for their services will pan out.

The rules are clear – sell-side firms must not induce clients to trade by bundling research with their execution services. The quid-pro-quo of providing stock trading ideas in exchange for doing deals can no longer happen. In theory, this is fine. Investment banks merely have to unbundle the cost of trading and research, and make sure that investment managers pay the appropriate fee for each. However, the concern is that investment managers will become overly discerning in the research they use if there is a pounds and pence cost attached to it that either they must pay themselves or pass onto clients.

> “It is likely to be a couple of years into Mifid implementation before trends are seen”
>
> **Jeremy Davies, RSRCHXchange**

For the buy side, firms must make explicit payments for research and show that this research contributes to better investment decisions. This is designed to ensure that investors don't suffer from poor investment decisions enacted because the investment manager has a clubby relationship with an investment banker. However, it is not easy to prove. The definition of a good investment decision is wide open to debate, particularly as the success of investment decisions may not become clear for some years. This is also likely to impose increased reporting requirements on fund management groups using research.

› MARKET READINESS

A recent survey cast doubt on asset managers' readiness for the new rules. A recent survey by RSRSCXchange found 85% of asset managers were expecting to become compliant by Q4 2017 or later, pushing up against the January 2018 deadline. This makes it tough for investment banks to judge how to adjust their business to meet asset managers' requirements.

The UK FCA has recently laid out its interpretation of the rules. They have softened the rules in a number of areas. For example, research firms will now be able to offer trial periods of up to three months. They will also be able to offer connected research for primary market capital raising. How-

research themselves before the new rules are in place. Other asset managers, including Amundi, Janus Henderson and Schroders, plan to continue to pass the cost on to their clients.

The willingness and ability to pass on these costs depends on existing fee levels, the strength of products and whether clients appear likely to pay. It should be noted that investment management fees are already under pressure from the march of passive competition, and clients may not tolerate fee rises. However, the costs are, in many cases, not significant. Richard Pease, manager of the Crux Asset Management's European Fund, estimates that research accounts for around 4bps of cost, in a 0.8% management fee.

Clearly, the impact will also depend on the amount of research used. Many larger firms have deep internal research teams and only use external research selectively. An Aberdeen spokesperson says: "In our view regulators' intention is to stop managers using client commissions to pay for third-party research and we are well progressed in putting this in place over the course of 2017.

"Our investment process will be unaffected, grounded in internal research generated by our investment teams supplemented by third-party research, but payment for third-party research will no longer be made via client commissions but instead be borne by Aberdeen Asset Management. Given our focus on managing client commission costs, research payments having been trending lower for several years now and will continue to do through 2017 and cease completely by 2018."

ever, this does not change the general direction of travel.

In assessing the response of the buy side, the situation is easier for equities than bonds. Unbundling charges for equities is relatively easy; commission-share agreements (CSAs) are already in place in many cases, and the separate costs are clear. For bonds, the cost of research is embedded in the spread. Andrew Brooke, director of the Association for Financial Markets in Europe (Afme), says that the regulator is unlikely to relax the rules from here and therefore the buy and sell side must collaborate to find a solution. The other problem area is for US broker-dealers, where unbundled costs are not permitted without it being considered investment advice. Brooke says this problem is under discussion and the outcome is not yet clear.

WHO PAYS THE PRICE?

For buy-side, the question of who ultimately pays seems relatively far advanced. A poll for EY last year suggested that around a quarter of asset managers would absorb the costs themselves. This includes companies such as M&G, Aberdeen Asset Management, Woodford Investments and Jupiter, which have all stated publicly that they will pay for

PAYMENT OPTIONS

Buy-side firms have two options when paying for investment research. They can make it directly from their own account, or via a research payment account (RPA), supported by a commission sharing agreement (CSA), which outlines how execution costs are split between trading costs and research.

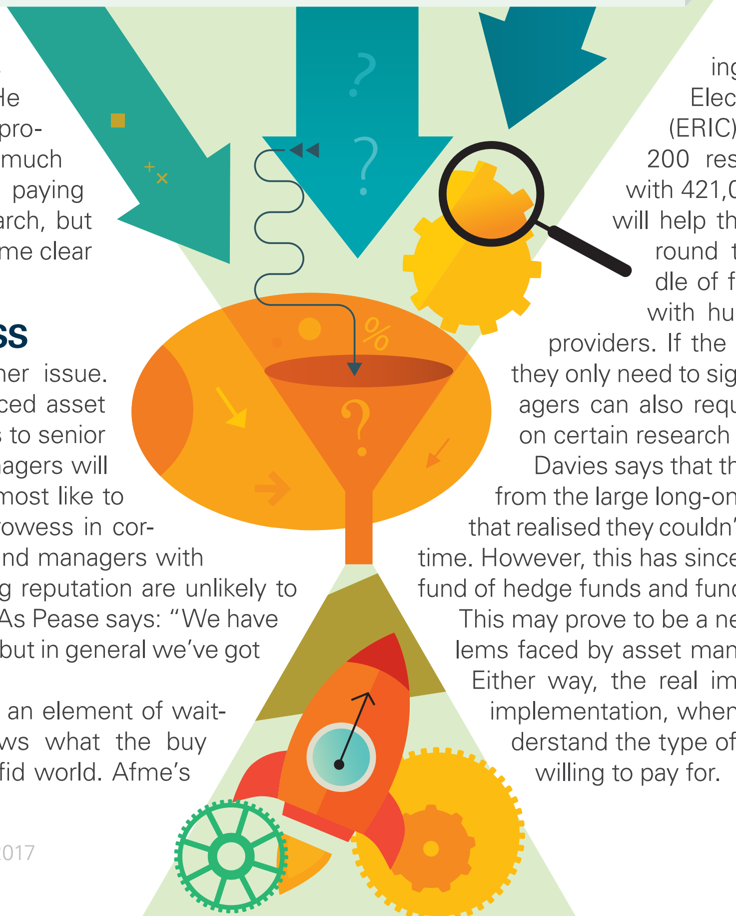
Some are still deciding on their approach. For example, a JP Morgan Asset Management spokesperson says that the group's policy currently remains under review. A third of asset management firms have yet to decide how they will pay for broker research once Mifid II rules come into force in January next year, according to the RSRCHXchange survey. Nevertheless, this should not be taken as a sign that asset managers aren't working to put a strategy in place. One group anonymously commented in the survey: "The industry is not asleep at the wheel. There is huge awareness of the implications for intermediaries and investors."

What is less clear is the amount of research the buy side will use after Mifid and this is unlikely to become clear until after implementation. Jeremy Davies, co-founder of research aggregator platform RSRCHXchange says that they have not picked up any clear patterns in the way the buy side uses the research on its platform: "Some pieces have sold a lot and some have never sold, but we would need more data. It is likely to be a couple of years into Mifid implementation before these trends are seen. Discerning consumption hasn't kicked in yet because most asset managers are still getting research for free."

Pease says that there is some research they find invaluable and they will pay to keep access to the strongest analysts; there are other areas where they just pay to keep their name on the research distribution list. "We have done some research to try to figure out the implications. We have concluded that nothing is going to change very much. There won't be an impact on the business or the way we do research. Some research we pay for out of our budget. Very few were pushed onto the ongoing charge figure, simply because we don't want to see it go up," he says.

"The key thing is that it will create extra work. We will need to detail how we use research and what is valuable. That's tricky because often you often don't know until years later whether it has been valuable or not." He believes there will be a process of working out how much fund managers should be paying investment banks for research, but this won't necessarily become clear until later.

> "More work needs to be done by the sell-side in deciding what type of research should be provided"
>
> **Andrew Brooke, Afme**



CORPORATE ACCESS

Corporate access is another issue. Some companies have forced asset managers to pay for access to senior executives. Few asset managers will admit to doing it because most like to sell themselves on their prowess in corporate access. Certainly, fund managers with enough assets and a strong reputation are unlikely to be affected by the change. As Pease says: "We have done it out of convenience, but in general we've got the CFO's phone number."

For the sell-side, there is an element of wait-and-see. No-one yet knows what the buy side will want in a post-Mifid world. Afme's Brooke says: "More work needs to be done by the sell-side in deciding what type of research should be provided."

Many have suggested that it will lead to the slow death of the equity analyst. Consultancy McKinsey said it would be "an end to equity research as we know it". A poll from RSRCHXchange shows that 74% of respondents foresee a decline in investment bank research. However, Brooke says it is less clear cut: "If the research is useful, it will still be produced. In this way, the rules will do what is intended. It will make it more complex, but whether it means more or less people doing research is not yet clear."

INVESTMENT BANK SUPPLY

Investment banks themselves are less willing to talk about the change. A spokesman for the Bank of America Merrill Lynch, for example, said its head of equity research did not want to discuss what it meant for their business. There are signs of consolidation in research departments already. For example, Union Asset Management, Germany's third-largest asset management company, recently said it will axe more than 100 external research providers. Amundi said it has halved the number of external providers it used in the process. There are concerns that fund managers have left it too late to negotiate all the agreements by the deadline, which will naturally leave some research groups off the list.

A number of providers have set up electronic platforms for research, including RSRCHXchange and the Electronic Research Interchange (ERIC). RSRCHXchange now has 200 research providers signed up, with 421,031 reports. They believe this will help the buy side and sell side get round the huge administrative hurdle of forging individual agreements with hundreds of different research providers. If the buy side goes to a platform, they only need to sign one document. Asset managers can also request that the platforms bring on certain research providers.

Davies says that the group's early interest came from the large long-only asset management groups that realised they couldn't negotiate the agreements in time. However, this has since broadened to smaller funds, fund of hedge funds and funds from outside Europe.

This may prove to be a necessary solution to the problems faced by asset managers in the run-up to Mifid. Either way, the real impact may not be seen until implementation, when investment banks finally understand the type of research that the buy side is willing to pay for.

Taking care of BUSINESS

Asset managers are having to think much more carefully about the costs and effectiveness of customer service, says **Paul Golden**, and a more focused approach is emerging

There has been a radical shift in asset managers' approach to client retention and acquisition in response to the emerging era of being required to work much harder to gain and maintain business. Managers are making changes that go well beyond merely responding to shifts in demand for specific products or asset classes – they are charting new strategic directions and taking a more tailored view of relationship management.

At first glance, such a fundamental rethink might appear unnecessary. Research by Roland Berger indicates that the average profit margin of the top six managers remained stable between 2010 and 2016. But below the highest echelon, the firm says those lacking a competitive edge are falling further behind. There is also a wave of regulations and initiatives – from Mifid II to the UK FCA's report on transparency *(see page 56)* – that are set to heap further pressure on managers to prove they are delivering real value to investors.

"We see more of an organisational focus on clients where the whole structure of the business – how it is managed, how it develops products and takes them to market, its branding – is geared towards client management," says Henry Weston-Davies, a partner at consultancy Gulland Padfield. This is contrast to the traditional approach where only the front line, client-facing teams wer e

> “Too many asset managers are struggling because they are trying to be all things to all people”
>
> **Vivek Kudva, Franklin Templeton Investments**

seen as important.

Phil Reid, head of wholesale at Royal London Asset Management, says there is an increasing emphasis on explaining the likely outcome from an investment strategy and focusing on the specific details of a particular portfolio when having conversations with clients.

“In response to demand from the IFA sector, we are devoting time to educating advisers on trickier areas, such as the details of bond markets,” he says. “As part of this, we recently organised a series of regional seminars for IFAs on fixed income, offering them a chance to develop their knowledge and hear from fund managers and other key members of our fixed income team.”

As managers seek to implement client strategies, they are undertaking a range of exercises from researching their clients more thoroughly to better understand their needs to repositioning their brands.

Weston-Davies says some managers have embraced this process more enthusiastically than others. He notes Aviva Investors as an example of a firm that has a single, coherent message around the benefits it delivers for clients across all channels. “In other cases we have asset managers whose brands are hard to find because they are part of a larger institution or are putting out the wrong message,” he explains. “Performance is no longer the only factor clients consider when they are engaging a manager, particularly with the rise of passive investment strategies.”

> CLIENT EXPECTATIONS

The best way to retain customers is to perform in line with the client expectations on a consistent basis. However, the variability of markets and business cycles means this cannot be done in a linear fashion and there will inevitably be periods of underperformance.

Therefore consistent and transparent communication with clients is extremely important to retain their confidence and is sometimes even more important than the performance itself, according to Franklin Templeton Investments managing director EMEA and India Vivek Kudva. “Firms that focus on the overall client service experience tend to be better at retaining assets than firms that are just focused on performance,” he says. “Managers now have to be able to deliver trusted advice along with customised solutions across multiple platforms, including mobile devices and social media.”

An effective way for asset managers to capture additional revenue is to develop capabilities that allow them to play an expanded role across the value chain. Examples of this include providing solutions to clients that include operations, risk management, asset allocation and technology front-end capabilities, in addition to traditional investment management functions.

Depending on the manager’s operating model, long-term strategy and delivery of client expectations, increased revenues should lead to higher profits. However, the pace of change in regulation and client sentiment is challenging many aspects of the asset management industry. Only some businesses will be able to translate increased turnover into higher profits and particularly those with the ability to scale, while others – particularly those with boutique operations – may see their margins shrink due to more onerous regulatory burdens.

> SCALABLE SOLUTIONS

Firms that want to translate increased revenue into higher profits have to focus on core competencies, competitive advantages and cost efficiencies, says Kudva. "They have to use this focus to develop and promote only those solutions that are scalable. Too many asset managers are struggling because they are trying to be all things to all people."

The most effective approaches for capturing additional revenue streams from new or existing clients will differ between single strategy boutiques and bank-owned managers, observes Paul Williams, head of Emea business development at RBC Global Asset Management UK.

"There are a wealth of opportunities to leverage client relationships and capture additional revenue streams," he says. "Building a trusted relationship – for instance, through providing advice and education – rather than one based on a simple sales push should result in a more effective understanding of a client's true needs and how these needs can be serviced."

Chantal Brennan, chief investment officer at Davy Asset Management, says that fund-by-fund transparency, a requirement of regulation, enables clients to see the value their manager is delivering and will increasingly impact customer retention.

"The focus for capturing additional revenue streams from existing clients is around securing new mandates, offering solutions to specific issues the client is facing," she says. "For example, are there more efficient ways of managing their cash flow that can deliver almost risk-free returns in a low interest rate environment? Clients are also more forgiving of a manager who admits when they have made mistakes and explains why those performance issues arose."

Retaining local contact with clients remains the backbone of client retention according to Robert Higginbotham, head of global investment services at T Rowe Price, who also stresses the importance of robust staff hiring programmes and appropriate incentivisation schemes.

> Clients are more forgiving of a manager who admits when they have made mistakes and explains why those performance issues arose
>
> **Chantal Brennan, Davy Asset Management**

"From a service perspective, there is a balance to be struck between driving efficiency while recognising that clients will want different types of relationships," says Higginbotham. "This demands smart use of data and the ability of relationship managers to capture that data in customer relationship management systems so that other people in the organisation can learn from it."

APPROPRIATE SERVICE

Managers need to carefully analyse the level of service they want to provide to each client segment. "In the past, the one-size-fits-all approach has meant that managers are over delivering for some clients who don't need that level of service and don't generate the revenue to justify it," says Weston-Davies. "When clients are analysed by profitability rather than size, it becomes clear that the largest are often less profitable than mid-sized clients."

Certain investment strategies within asset classes are working particularly well in terms of attracting new business. In relation to fixed income, Brennan says that where the client has a hold-to-maturity strategy they are being offered bond ladders – portfolios of fixed income securities in which each security has a significantly different maturity date – to increase the yield. Meanwhile, the dynamic for equity funds it is about creating products that potentially limit downside; there is strong demand for market-neutral-type strategies or strategies that offer a specific level of return in exchange for a specified level of volatility.

Key factors to consider when targeting a new client segment include secular shifts such as ageing populations or the move from defined benefit to defined contribution pensions, adds Mike Walsh, head of institutional distribution at Legal & General Investment Management.

"For example, we recognised that the corporate pension scheme derisking trend was likely to play out globally. We entered the US in 2006 on the back of our expertise in managing liability-driven investment strategies in Europe," he concludes. "At the time, the derisking market in the US was relatively immature and we did not think this trend would play out for a number of years. We now manage $197bn across 115 clients, including five of the top ten largest US corporate defined benefit plans."

Building

SSGA CEO Ron O'Hanley tells **Alastair O'Dell** that asset management is becoming about assembling outcome-oriented solutions and ESG factors will play an increasingly pivotal role

Ron O'Hanley has been at the forefront of asset management for almost 30 years, leading three of the top-five asset managers in the world. He experienced the dominant days of active management at Fidelity Investments and BNY Mellon Investment Management before in 2015 becoming the CEO and president of the world's third-largest asset manager, State Street Global Advisors (SSGA), which now boasts $2.56trn AuM.

It has been a career spanning industry mega-trends and spent purposefully capturing the resulting tailwinds, which he fully intends to do in the current era at the helm of a behemoth that spans active equities and alternatives to a leading position in beta and smart beta funds.

"I see very significant sea changes in the industry," he says. "There's so much change underway that it's driving how we think about our clients, how our clients think about us and even how we think about products."

Asset management was blessed by circumstance as it got started in its modern form – from rising equity markets and falling interest rates to market liberalisation and technological developments – as it became a global, institutionally-organised system. "Since 1974 there's been extraordinarily positive tailwinds

for the FUTURE

buyouts but this has often proved too expensive due to low bond yields, on which buyouts are based. The inability to achieve the required funding level has left funds looking for alternative ways of reducing their involvement, if not discharging their liabilities.

Many are turning to the outsourced chief investment officer (OCIO) market (or fiduciary management in the UK), where institutional investors hand over asset allocation decisions to a third party. It was one of the strategic rationales for purchasing GE Asset Management, a deal it completed on July 1 2016 and brought in fresh expertise and more than $100bn of additional AuM. "It took our own capability, which was substantial, and brought what we saw as distinctive capabilities in the high-end corporate OCIO market."

but that led to the productionisation of what we do," he says. "It really helped the economics of the industry, but it wasn't great for clients."

While it was easy to create funds, and multiple vehicles to lower the minimum efficient scale, it led investors to focus on products. "But that's not what they needed, what they needed were outcomes and the achievement of objectives."

One crucial objective for many is securing retirement income, whether by pension fund trustees or individual defined contribution (DC) scheme members. "Actuaries now play a major part, as we think about how to help clients get where they need to be," he says.

This approach has also reprioritised the facets of the investment process. He sees value in both passive and active funds, but considers them as components in the more important stage of asset allocation.

"The technology helped us to do really important things such as separating out pure beta and smart beta exposure into highly precise building blocks – but now they need to be put together," he says. "We've got a long history in what I call assembly, or asset allocation. I would argue that the new active management is actually the assembly of building blocks."

› BESPOKE ASSEMBLY

The asset allocation role can be applied on many levels. At one extreme SSGA creates target-date funds, where it puts everything together in a way that's usable for retail investors, and at the other it produces highly-customised bespoke work for large institutional investors, often working alongside a consultant: "What the consultants need are incredibly high-quality building blocks – it's not about going after the role of consultants."

Pension schemes, most notably in the UK but increasingly around the world, have strived to de-risk their liabilities through insurance-based

> "There's so much change underway that it's driving how we think about our clients, how our clients think about us and even how we think about products"

The longstanding global move away from DB to DC pension schemes – a trend O'Hanley says that he personally doesn't like – takes longevity risk away from the sponsor and places it on the individual. While traditional investment funds build DC assets efficiently the result is divorced from retirement income so a new generation of products is needed.

Target-date funds, which de-risk as the investor's retirement date approaches, have emerged as a powerful low-cost technology but suffer from the assumption that one-size-fits-all within each cohort. A group of people of a similar age could have radically different incomes and liabilities – some may have a working partner while another may be caring for elderly parents for an unknown length of time.

"Why shouldn't all of that be incorporated into a savings plan?" he says. "I think you will see the rise of multiple target-date funds, maybe even evolving to the point where you have a structure where you've got a target-date fund that is almost liability-driven for the individual."

It represents a new area where the best-equipped firms have an opportunity to add real value. "It's always been difficult for large firms because the small firms could be laser-focused

> The technology helped us to do really important things such as separating out pure beta and smart beta exposure into highly precise building blocks – but now they need to be put together

on a particular asset class. I would argue that for the first time, maybe ever, that's not relevant any longer. Putting together the pieces requires economies of scale that many small and medium-sized managers don't have."

The regulatory push for fee transparency on both sides of the Atlantic also provides a tailwind for O'Hanley's model. "It's driving the providers towards these low-cost building blocks, which is great. But where is a small firm of IFAs going to get the technology from to actually put it all together?"

APPROPRIATE MIX

Given that the SSGA straddles the active and passive worlds it is unsurprising that O'Hanley sees a role for both approaches. "It's very firmly and clearly not just about everything going to passive. A 100% passive portfolio only guarantees that you will get a benchmark-minus return, which in most cases is not enough to meet liabilities. Portfolios should be a mix of passive and active."

Taking on the asset allocation role means that incorporating a wide range of building blocks is essential, including third-party funds. "If you're taking on the role of an assembler, by definition you need to source all sorts of assets. For some of the large frozen pension plans, our OCIO business is sourcing everything. We've got real estate, private equity and venture capital in there. Some of that is ours, but much of it isn't."

For retail investors the challenge is less complex and more readily lends itself to be automated. "For individuals, there is a role for so-called robo-advice. If somebody completes the questionnaire, you could have a risk and age-based model that would be better than nothing. It can take a lot of work out of it, and enables individuals that wouldn't normally be able to get one-on-one treatment to get a pretty good model."

Commoditising the product construction element and separating out the asset allocation leaves open the question of who is best placed to make these decisions – it could potentially be done by some form of advisor or consultant but O'Hanley is clear on which entity he thinks is best placed. "The asset managers should dominate it because the key underlying skill is asset allocation, which is an asset management skill. New entrants clearly could have an opportunity here but asset allocation is hard to do on a repeatable, tactical basis."

Demand for alternatives is expanding rapidly among investors, which have faced low yields for a very prolonged period. "We see a role for alternatives in a long-term, properly-allocated pool," he says, noting that different ones fulfil particular purposes over the investment lifecycle.

For example, he says that those approaching retirement but still need to remain invested in risk assets could benefit from counterbalancing investments: "Traditional hedge funds are very important, operating as a risk mitigant."

Likewise, younger investors could benefit from the illiquidity premium offered by private equity and real estate, although work needs to be done to manage the liquidity mismatch: "Right now, many vehicles don't permit that. The industry needs to work on new vehicles, but also with the regulators."

O'Hanley sees an opportunity to capture the useful characteristics of these asset classes in more suitable products. "We believe that many of these exposures are identifiable and isolatable factors that can be provided at a lower cost. We've got a lot of work underway that's aimed at doing just this, to put out a multi-strategy type product.

"It won't be completely passive, but it will be closer to what you and I might today call smart beta. An assembly of factors will replicate some, but probably not all, of those things that alternatives providers can do. In the near future you could see some kind of multi-strategy alternatives funds with lots of passive exposures."

State Street already has an index-replicating private equity product, based on data that it has access to as a servicer of the sector and built on proxies for actual holdings. It is not designed to replace a high-skill private equity investment, but provides baseline exposure or a temporary exposure while an allocation is being built. "We've been able to replicate, albeit crudely, what's going on at any given point in time through an understanding of current holdings. You'll see all sorts of big data applications like that."

ESG PRINCIPLES

Another prominent industry trend is for the inclusion of environmental, social and governance (ESG) factors in investment strategies. In the past, ESG was limited to specialist firms or funds but now tier one asset managers are taking it seriously and applying it across mainstream fund ranges. It has become a central philosophy for SSGA and O'Hanley is notable among the leaders of the largest asset managers in exposing its benefits.

He says the debate has moved beyond the initial stages – of the negative screening of undesirable stocks and then positive screening for progressive companies – to a third stage where it is viewed as fundamental to long-term investing.

"This is the real challenge for the industry," he says. "The vast majority of our investors are long-term oriented, because that's the nature of their liabilities, whether an individual saving for retirement or a sovereign wealth fund for the next or two or three generations. [The problem is] we've got a measurement system that has forced the industry to think very short term – quarterly, annually, maybe three-to-five years, but seldom more than that."

He says extending the investment timescale is a far from simple: "If you try to put together a portfolio for the long term, how do you know if you've actually achieved that? How do you know you're making progress? Investors may be committed – but they will not just check back in 10 years, they will want to know they are making progress."

He says that passive investment logically leads itself to ESG; as it is not possible to disinvest there is an interest in pushing for long-term value creation.

"The easiest example is gender," he says. "There's empirical evidence that diverse boards more often than not lead to better long-term outcomes. We can't not-own a company – but we can vote against them. We do that."

Passive managers have an intrinsic problem as they are not able to disinvest or underweight a stock. In theory they have limited coercive power over company boards – which could decide to weather criticism and risk losing the occasional vote. Indeed, many managers have taken a defeatist point of view and smaller managers have little choice. SSGA, leveraging its trillions of AuM, is in a stronger position.

"Boards are very responsive and becoming even more so," he says. "We acknowledge that we don't have the resources to be able to tell every company, in every index, what it should be doing. Our approach is principle-based and we're looking for evidence that the board is performing its oversight role properly. We want to make sure that boards recognise that they've got a duty to us as shareholders."

> In the near future you could see some kind of multi-strategy alternatives funds with lots of passive exposures

› FACING CHALLENGES

State Street and other investors are not having this entirely their own way, however. A countervailing trend is for companies to offer fewer voting shares. Between 2007 and 2017 the amount of non-voting shares in the S&P 500 has risen from 5% to 12%. Snap, the owner of Snapchat, became the first firm to list with no voting shares at all attached to the $3.4bn of shares it listed in March. The social media firm could have set a damaging precedent.

"I think it's a problem that a company can access public capital markets yet not be answerable to shareholders," he said. "This is something that money managers, exchanges and the regulators need to look at, although I'm not sure regulation is the answer."

He says the trend been partly been enabled by exchanges becoming private companies, rather public utilities, bringing the need to compete for listings: "It feels to me like a race to the bottom."

To counter this, O'Hanley is contemplating the creation of new products and is preparing to gauge investor interest. "At the very least, we're thinking about offering an alternative to the basic cap-weighted index," adding that a fund could be weighted for both market cap and voting rights.

ESG-based ETFs can certainly work. In March 2016 SSGA launched the Gender Diversity Index ETF based on female board representation in large US companies and it became the second most successful launch of the year, by AuM. It was also a PR coup, celebrated by the Fearless Girl statue to face the Charging Bull on Wall Street.

› NEXT STEPS

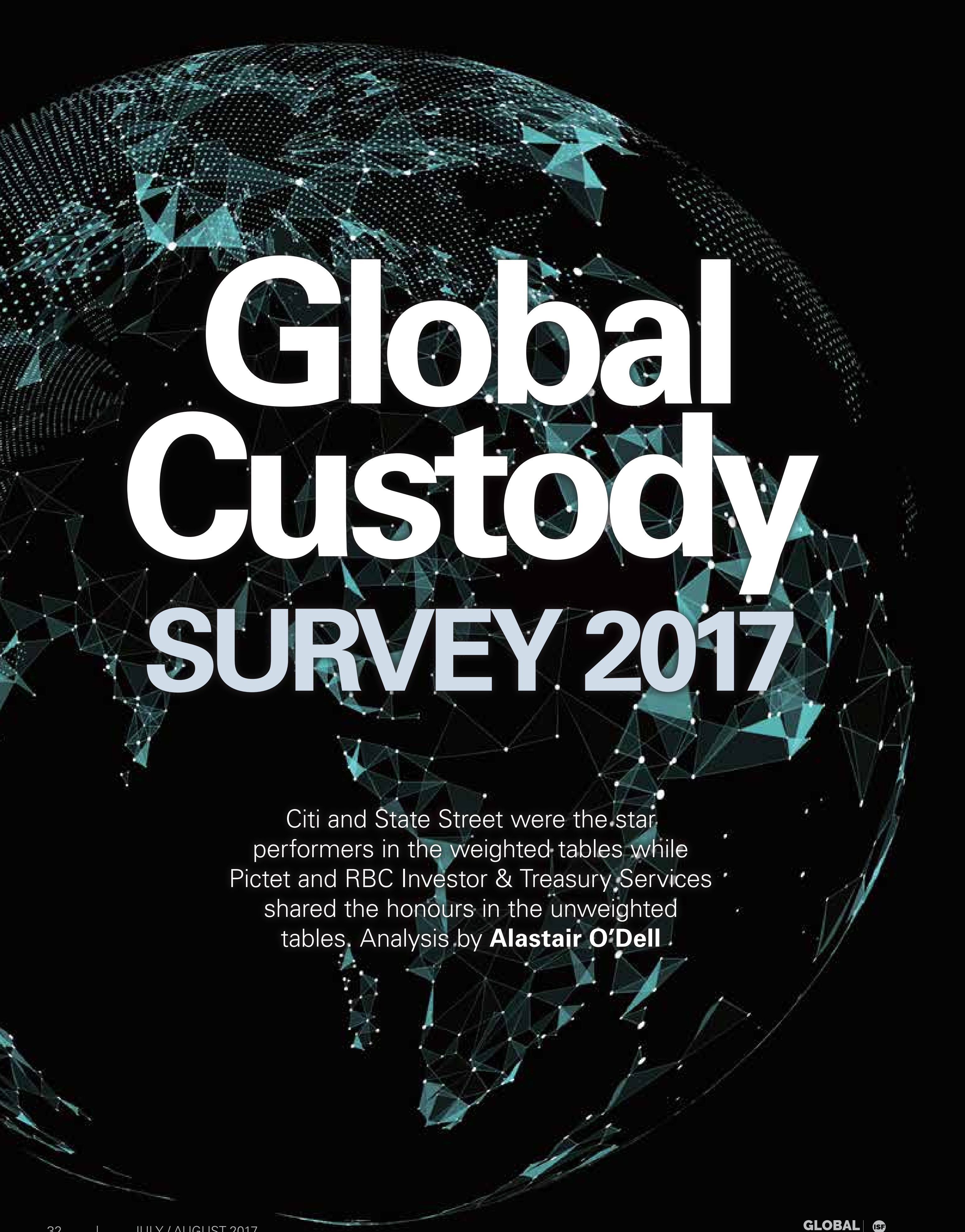
While ESG has become central to SSGAs message, he acknowledges that the evidence remains inconclusive as to whether it actually improves investment returns. "The research is divided," he says. "Part of it is we haven't yet had enough time with this kind of investment approach in place."

The measurement period distorts the picture. For example, coal hit peak market cap in 2011 so a portfolio that excluded it in the run-up would have underperformed the index but would have outperformed since 2011. "Herein lies the problem. How do we put in place the appropriate measurement regimen that acknowledges these things when we're talking about decades and not quarter-to-quarter?"

With signatories to the UN principles approaching 1000 there is a danger of the ESG brand being devalued. "It's almost become a fashion, so it's at your peril that you say you don't think about it. Most firms don't have the set of skills and relatively few are able to act on it. But the reality is that clients are going to drive all of us this way."

Examples abound; Swiss Re announced in July it was to move its entire portfolio to some form of ESG investing, which perfectly fits the long-term nature of its liabilities and potential exposure to climate change.

"I'm very optimistic about the industry. There will be pressure on margins, appropriately so. It's a high margin business to begin with and there's a lot of smart people in the industry, so we're going to figure it out. I think it's going to lead to better and better outcomes, so I'm very positive."



Global Custody SURVEY 2017

Citi and State Street were the star performers in the weighted tables while Pictet and RBC Investor & Treasury Services shared the honours in the unweighted tables. Analysis by **Alastair O'Dell**

Global Investor invited asset managers, asset owners and banks to rate the performance of their global custodians. In this year's survey there are 16 service categories tables – each of these categories was broken down into sub-categories in the survey questionnaire. Respondents were asked to rate their global custodians from 1 (very poor) to 7 (excellent) in each of these sub-categories.

The tables below are presented in a heatmap format, which was introduced last year. Global custodians' results are presented in alphabetical order with the winning score in each region or category highlighted. Tables contain global total and global average scores, and regional ones for Europe the Middle East and Africa (Emea), the Americas and Asia Pacific. The region is defined by where the respondent is based.

The weighted tables are based on a two-stage calculation process. The first stage gives a greater weight to the scores of respondents with larger assets under management (AuM) and the importance that the respondents collectively attach to each service category. Unweighted scores are constructed by averaging all relevant respondents scores, with no weighting for AuM or category importance.

› STATE STREET

State Street achieved the highest global average score in this year's survey according to the weighted methodology. Its score of 7.42 made it a winner by a considerable margin, 0.43.

State Street was the highest rated custodian in Asia Pacific, according to both the weighted and unweighted methodologies. Asia Pacific was generally a low-scoring region in the survey – State Street actually received a higher weighted score for the Americas but came in second. In the Americas it came joint-third unweighted.

In the overall service categories State Street was the dominant custodian under the weighted methodology. It achieved the highest score in 13 of the 16 categories: cash management, class actions, client services, corporate actions, foreign exchange services, fund accounting quality, income collections, industry knowledge,

OVERALL (WEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	6.04	X	4.83	10.87	5.56
BNY Mellon	5.98	X	5.48	11.46	6.13
Citi	6.90	7.86	5.42	20.18	6.99
JPMorgan	6.89	X	X	X	X
Northern Trust	5.62	6.88	5.86	18.36	6.01
Pictet	5.63	6.87	X	12.50	6.04
RBC Investor & Treasury Services	4.12	4.19	6.02	14.33	4.46
Societe Generale	4.72	X	X	X	X
State Street	X	7.66	7.16	14.82	7.42

OVERALL (UNWEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	5.54	X	5.21	10.75	5.41
BNY Mellon	5.38	X	5.64	11.02	5.49
Citi	5.44	5.84	5.26	16.54	5.57
JPMorgan	6.03	X	X	X	X
Northern Trust	5.64	5.85	5.59	17.08	5.68
Pictet	5.99	6.25	X	12.24	6.10
RBC Investor & Treasury Services	5.85	6.09	6.27	18.21	6.02
Societe Generale	5.76	X	X	X	X
State Street	X	5.85	6.27	12.12	5.95

OVERALL SERVICE CATEGORIES (WEIGHTED)

COMPANY	CASH MANAGEMENT	CLASS ACTIONS	CLIENT SERVICES	CORPORATE ACTIONS
BNP Paribas	4.79	X	5.56	5.21
BNY Mellon	5.84	X	6.29	6.08
Citi	6.61	7.22	6.79	6.53
Northern Trust	5.91	5.59	6.13	5.89
Pictet	5.39	5.98	6.09	5.93
RBC Investor & Treasury Services	4.08	4.54	4.48	4.14
State Street	7.33	7.70	7.56	7.23

COMPANY	EXECUTION SERVICES	FOREIGN EXCHANGE SERVICES	FUND ACCOUNTING QUALITY	INCOME COLLECTIONS
BNP Paribas	5.67	5.01	X	5.22
BNY Mellon	6.06	5.62	X	6.10
Citi	6.93	5.88	X	6.68
Northern Trust	5.76	5.77	5.62	5.84
Pictet	5.79	X	5.95	6.07
RBC Investor & Treasury Services	4.39	4.13	4.35	4.31
State Street	X	7.24	7.24	7.53

COMPANY	INDUSTRY KNOWLEDGE	NETWORK	PERFORMANCE MEASUREMENT	RELATIONSHIP MANAGEMENT
BNP Paribas	5.37	5.30	5.14	5.56
BNY Mellon	5.91	5.98	X	6.30
Citi	6.88	7.09	X	7.11
Northern Trust	5.88	5.77	5.52	6.12
Pictet	5.81	5.60	5.77	6.00
RBC Investor & Treasury Services	4.38	4.52	X	4.42
State Street	7.41	7.62	X	7.54

COMPANY	REPORTING	SAFETY OF CLIENT ASSETS	SETTLEMENTS	TAX SERVICES
BNP Paribas	5.10	5.69	5.38	4.97
BNY Mellon	6.07	6.35	6.23	5.49
Citi	6.85	7.11	6.87	6.43
Northern Trust	5.74	6.35	5.98	5.55
Pictet	5.64	6.14	6.08	X
RBC Investor & Treasury Services	4.21	4.56	4.37	4.33
State Street	7.34	7.81	7.34	X

network, relationship management, reporting, safety of client assets and settlements.

Unweighted it had the winning score in two: cash management and network.

When only the ratings of respondents that used multiple custodians were taken into consideration State Steet achieved a clean sweep of top scores in the weighted table, taking leading positions in Emea, the Americas and Asia Pacific and therefore also in terms of global total and global average. In the corresponding unweighted table State Street also had the highest score in Asia Pacific and the highest global total.

Among mutual fund/Ucits respondents State Street again had a very strong set of scores. It had the highest global total score both weighted an unweighted. It also had the highest scores in the Americas weighted and Asia Pacific unweighted.

One respondent in Asia Pacific praised State Street for its "excellent client service and stable network". Another commented: "Good in services for emerging markets investments and [it has a] good connection with local sub-custodian banks located all over the world."

Respondents with AuM greater than $3bn provided State Street with the winning global total score as well as the highest score in Asia Pacific, both weighted and unweighted.

A respondent in the Americas stated: "State Street is an industry leader for good reason."

PICTET

Pictet achieved the highest global average score under the unweighted methodology. Its strongest region was the Americas, for which it also achieved the highest unweighted score.

It also performed excellently in its home market of Emea, achieving the second highest unweighted score. One respondent simply stated: "Probably the safest custodian in the world in our opinion."

Given its overall position it is unsurprising that Pictet had a strong showing across the service categories. Unweighted it was the winner in the following: client services, corporate actions, income collections, performance measurement, relationship management, reporting, safety of client assets and settlements.

Respondents that used multiple custodians awarded Pictet the highest global average score unweighted. It was also the highest rated custodian by these respondents in the Americas unweighted.

Mutual fund respondents rated Pictet as the best performing custodian in the Americas unweighted. Likewise, respondents that had AuM greater than $3bn rated Pictet as the best performing custodian in the region unweighted. A respondent in the region stated: "We haven't had any problems with settlement of our trades and the client service team is excellent. [It] always responds quickly to our emails/questions."

OVERALL SERVICE CATEGORIES (UNWEIGHTED)

COMPANY	CASH MANAGEMENT	CLASS ACTIONS	CLIENT SERVICES	CORPORATE ACTIONS
BNP Paribas	4.99	X	5.56	5.35
BNY Mellon	5.37	X	5.69	5.49
Citi	5.46	5.88	5.65	5.43
Northern Trust	5.59	5.42	5.95	5.69
Pictet	5.57	5.97	6.39	6.20
RBC Investor & Treasury Services	5.66	6.32	6.25	5.95
State Street	5.89	6.03	6.08	5.88

COMPANY	EXECUTION SERVICES	FOREIGN EXCHANGE SERVICES	FUND ACCOUNTING QUALITY	INCOME COLLECTIONS
BNP Paribas	5.67	5.30	X	5.35
BNY Mellon	5.58	5.27	X	5.67
Citi	5.74	5.06	X	5.50
Northern Trust	5.72	5.46	5.69	5.64
Pictet	6.15	X	5.91	6.21
RBC Investor & Treasury Services	6.18	5.94	6.22	6.00
State Street	X	5.88	5.80	6.00

COMPANY	INDUSTRY KNOWLEDGE	NETWORK	PERFORMANCE MEASUREMENT	RELATIONSHIP MANAGEMENT
BNP Paribas	5.57	5.45	5.40	5.68
BNY Mellon	5.43	5.55	X	5.73
Citi	5.63	5.74	X	5.89
Northern Trust	5.68	5.68	5.70	5.94
Pictet	5.91	6.03	6.24	6.27
RBC Investor & Treasury Services	5.97	5.93	X	6.17
State Street	5.89	6.09	X	6.05

COMPANY	REPORTING	SAFETY OF CLIENT ASSETS	SETTLEMENTS	TAX SERVICES
BNP Paribas	5.17	5.92	5.46	5.14
BNY Mellon	5.49	5.87	5.75	5.13
Citi	5.62	5.98	5.73	5.10
Northern Trust	5.63	6.03	5.79	5.48
Pictet	5.99	6.53	6.31	X
RBC Investor & Treasury Services	5.87	6.34	6.03	5.94
State Street	5.91	6.28	5.94	X

MUTUAL FUND/UCITS (WEIGHTED)					
COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	5.77	X	X	5.77	5.82
BNY Mellon	6.75	X	X	6.75	6.65
Citi	7.24	6.69	5.60	19.53	6.64
JPMorgan	8.23	X	X	8.23	8.27
Northern Trust	6.49	X	7.11	13.60	6.95
Pictet	6.26	6.82	X	13.08	6.36
RBC Investor & Treasury Services	4.36	4.17	X	8.53	4.75
Societe Generale	5.16	X	X	X	5.31
State Street	7.50	7.90	6.94	22.34	7.44

MUTUAL FUND/UCITS (UNWEIGHTED)					
COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	5.54	X	X	5.54	5.42
BNY Mellon	5.36	X	X	5.36	5.22
Citi	5.39	5.75	5.58	16.72	5.56
JPMorgan	5.97	X	X	5.97	5.75
Northern Trust	5.58	X	5.59	11.17	5.57
Pictet	5.74	6.25	X	11.99	5.98
RBC Investor & Treasury Services	6.17	6.14	X	12.31	6.13
Societe Generale	5.29	X	X	X	5.40
State Street	5.36	5.68	6.20	17.24	5.80

MULTIPLE CUSTODIAN (WEIGHTED)					
COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	6.32	X	5.60	11.92	6.09
BNY Mellon	6.76	7.17	5.87	19.80	6.60
Citi	6.92	7.34	5.42	19.68	6.68
JPMorgan	6.87	7.82	X	14.69	7.09
Northern Trust	6.52	7.47	6.16	20.15	6.63
Pictet	5.78	6.87	X	12.65	6.25
RBC Investor & Treasury Services	5.01	4.36	X	9.37	5.03
Societe Generale	4.79	X	X	X	4.91
State Street	7.50	7.94	7.70	23.14	7.75

MULTIPLE CUSTODIAN (UNWEIGHTED)					
COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	5.68	X	5.34	11.02	5.57
BNY Mellon	5.46	5.39	5.62	16.47	5.49
Citi	5.34	5.67	5.26	16.27	5.44
JPMorgan	6.10	5.43	X	11.53	5.81
Northern Trust	5.86	5.63	5.66	17.15	5.74
Pictet	5.97	6.25	X	12.22	6.09
RBC Investor & Treasury Services	5.96	5.90	X	11.86	5.90
Societe Generale	5.56	X	X	X	5.60
State Street	5.36	5.72	6.38	17.46	5.93

AUM GREATER THAN $3BN (WEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	6.72	X	5.74	12.46	6.29
BNY Mellon	6.36	6.94	X	13.30	6.61
Citi	7.54	8.42	5.70	21.66	7.52
JPMorgan	8.30	8.09	X	16.39	8.00
Northern Trust	6.74	6.88	6.91	20.53	6.84
Pictet	7.08	7.95	X	15.03	7.47
RBC Investor & Treasury Services	6.00	X	X	X	6.62
Societe Generale	5.38	X	X	X	5.38
State Street	7.50	7.73	8.04	23.27	7.81

AUM GREATER THAN $3BN (UNWEIGHTED)

COMPANY	EMEA	AMERICAS	ASIA PACIFIC	GLOBAL TOTAL	AVERAGE
BNP Paribas	5.52	X	5.31	10.83	5.43
BNY Mellon	5.39	5.53	X	10.92	5.43
Citi	5.45	5.90	5.24	16.59	5.60
JPMorgan	6.32	5.56	X	11.88	5.92
Northern Trust	5.66	5.85	5.46	16.97	5.68
Pictet	5.71	6.07	X	11.78	5.87
RBC Investor & Treasury Services	6.01	X	X	X	6.01
Societe Generale	5.38	X	X	X	5.38
State Street	5.36	5.75	6.57	17.68	5.99

Respondents that had AuM of less than $3bn rated Pictet as the best performing custodian in the Americas, both weighted and unweighted. Among respondents that use just a single custodian Pictet was the highest rated in Emea unweighted.

A respondent in Asia Pacific stated: "Pictet Asset Services is very effective when it comes to getting things done. Since the inception of the relationship, there has never been an issue that's dragged on for too long. Reporting is very thorough and easy to understand."

CITI

Citi achieved its best results in the weighted tables, where it achieved an impressive string of winning scores. It was the highest rated custodian by this methodology in Emea and the Americas, which was enough to secure it the highest global average score and the second-highest average score.

In the overall unweighted table Citi achieved the third-highest global total score.

A respondent in the Americas commented: "Great custodian with best global network. Great team with excellent product knowledge. Relationship managers know our business and are very responsive." One in Emea praised its "excellent relationship management".

Citi was also a strong performer in the corresponding weighted service categories, achieving the top score in two cases: execution services and tax services.

Respondents that had AuM greater than $3bn rated Citi as the best performing custodian in the Americas weighted. One large respondent in the region stated: "Excellent client service. Citi goes above and beyond understanding our business and [we appreciate the] quality of its subject matter experts."

Among respondents that use just a single custodian Citi was the highest rated custodian in the Americas unweighted and weighted.

RBC INVESTOR & TREASURY SERVICES

RBC Investor & Treasury Services (RBC I&TS) achieved its best scores in the unweighted tables. Overall it had the winning global total score and joint highest score in Asia Pacific. It was a strong performer across the board with second-place scores in the Americas for global average, as well as a third-place score in Emea.

Weighted, RBC I&TS was the second-best performing custodian in Asia Pacific.

In the unweighted service category tables RBC I&TS achieved the top score in an impressive six areas: class actions, execution services, foreign exchange services, fund accounting quality, industry knowledge and tax services.

Mutual fund/Ucits respondents also rated RBC I&TS very highly. It was the top-rated custodian unweighted in Emea and in terms of global average. Among respondents with AuM greater than $3bn the Canadian custodian achieved the highest average global score unweighted.

NORTHERN TRUST

Northern Trust qualified in every continent and received consistently solid scores throughout.

In the overall unweighted table Northern Trust achieved the second highest global total score. It also achieved joint-third place in the Americas unweighted.

A respondent in the Americas commented: "Settlement issues, which are extremely rare, are resolved very quickly and efficiently and are traditionally due to a broker's error and not the custodian's error. Customer service is outstanding and turnaround time for any inquiry is short."

It achieved the second-highest weighted global total score based on third-placed finishes in the Americas and Asia Pacific. One respondent in Asia Pacific commented: "Quick response times, after-hours response is much appreciated, awesome client service ethic."

A respondent in Emea commented: "We have an excellent working relationship with NT across a range of services

and they truly understand our business and requirements, working with us to deliver them."

Among mutual fund/Ucits respondents Northern Trust was the top-rated custodian in Asia Pacific weighted.

JPMORGAN

JPMorgan achieved excellent scores in the single region that it qualified for, Emea. Unweighted it was the highest rated custodian and weighted it was the second-highest rated.

It had a similar showing based on the views of mutual fund/Ucits respondents, which also considered it to be the best performing custodian in Emea weighted and second-best unweighted. Respondents that used multiple custodians also rated JPMorgan as the best performing custodian in Emea unweighted.

Among respondents with AuM in excess of $3bn JPMorgan achieved even better results. It was the top-rated custodian in Emea both weighted and unweighed. It also achieved the winning global average score weighted.

Although it did not qualify for the region, one respondent in the Americas stated: "The online system for JPM is superior to other banks online offerings. JPM is faster at notifications than most banks and offers a longer deadline timeframe. The trade settlements team we have is outstanding."

Likewise, while it did not qualify in Asia Pacific it still received praise: "JPM is efficient in their execution of custody service, at the same time providing quality insights to the subject matter. Their expertise, coupled with timely and precise communication, results in an overall exemplary standard."

BNP PARIBAS

BNP Paribas achieved third place in its home region of Emea, weighted. BNP Paribas was the highest rated custodian in Emea weighted according to respondents that had AuM of less than $3bn.

One respondent in Emea commented: "Our client relationship manager is always available to help us. He always look for the better solution and in a very reasonable time. He is our main contact for whatever query we have."

Another stated: "BNP stands out for the quality of the services it provides. In all of the categories it is strong, and we have few complaints."

In Asia Pacific a respondent stated: "Relationship management is excellent."

BNY MELLON

BNY Mellon achieved third position overall for its global average score under the weighted methodology reflecting consistently solid performance across the two regions for which it qualified, Emea and Asia Pacific.

Unweighted BNY Mellon also achieved third position in Asia Pacific. One

AUM LESS THAN $3BN (UNWEIGHTED)			
COMPANY	EMEA		AMERICAS
Societe Generale	6.36	Pictet	6.55
Pictet	6.24	RBC Investor & Treasury Services	6.14

AUM LESS THAN $3BN (WEIGHTED)			
COMPANY	EMEA		AMERICAS
BNP Paribas	5.06	Pictet	5.02
Pictet	4.34	RBC Investor & Treasury Services	3.69

SINGLE CUSTODIAN (UNWEIGHTED)			
COMPANY	EMEA		AMERICAS
Pictet	6.04	Citi	6.24
RBC Investor & Treasury Services	5.78	RBC Investor & Treasury Services	6.20

SINGLE CUSTODIAN (WEIGHTED)			
COMPANY	EMEA		AMERICAS
BNY Mellon	5.31	Citi	9.07
Pictet	5.07	Northern Trust	6.18

respondent commented: "The client service in [our market] is very professional and cooperative, replying back to the client promptly."

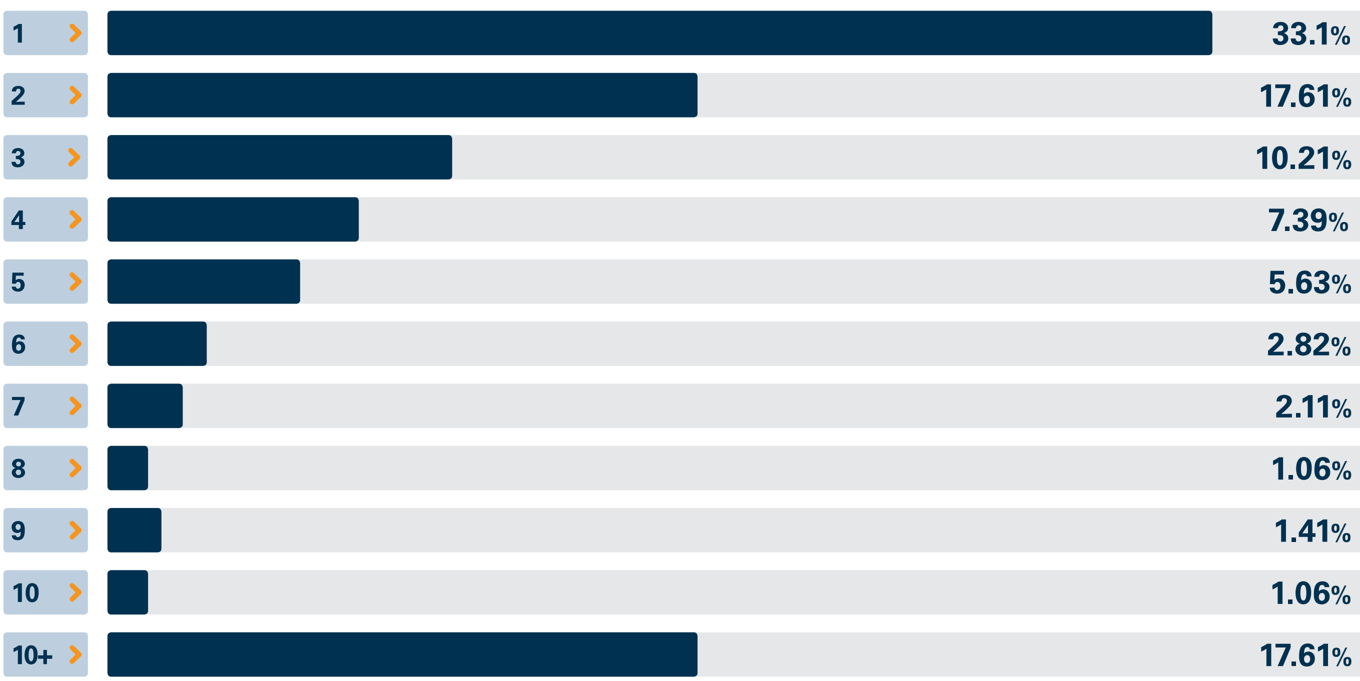
Among respondents that use just a single custodian BNY Mellon was rated as the best performing custodian in Emea weighted. In the region one respondent commented that it had an "excellent relationship manager" and another stated: "Good all round services provided, willingness to improve wherever we feel the standards could be better. Excellent relationship management, always going the extra mile."

SOCIETE GENERALE

Societe Generale was the highest rated custodian by respondents with AuM less than $3bn in Emea unweighted. In the region a respondent commented: "We are happy with quality of service received. Teams are very well trained. IT systems are great."

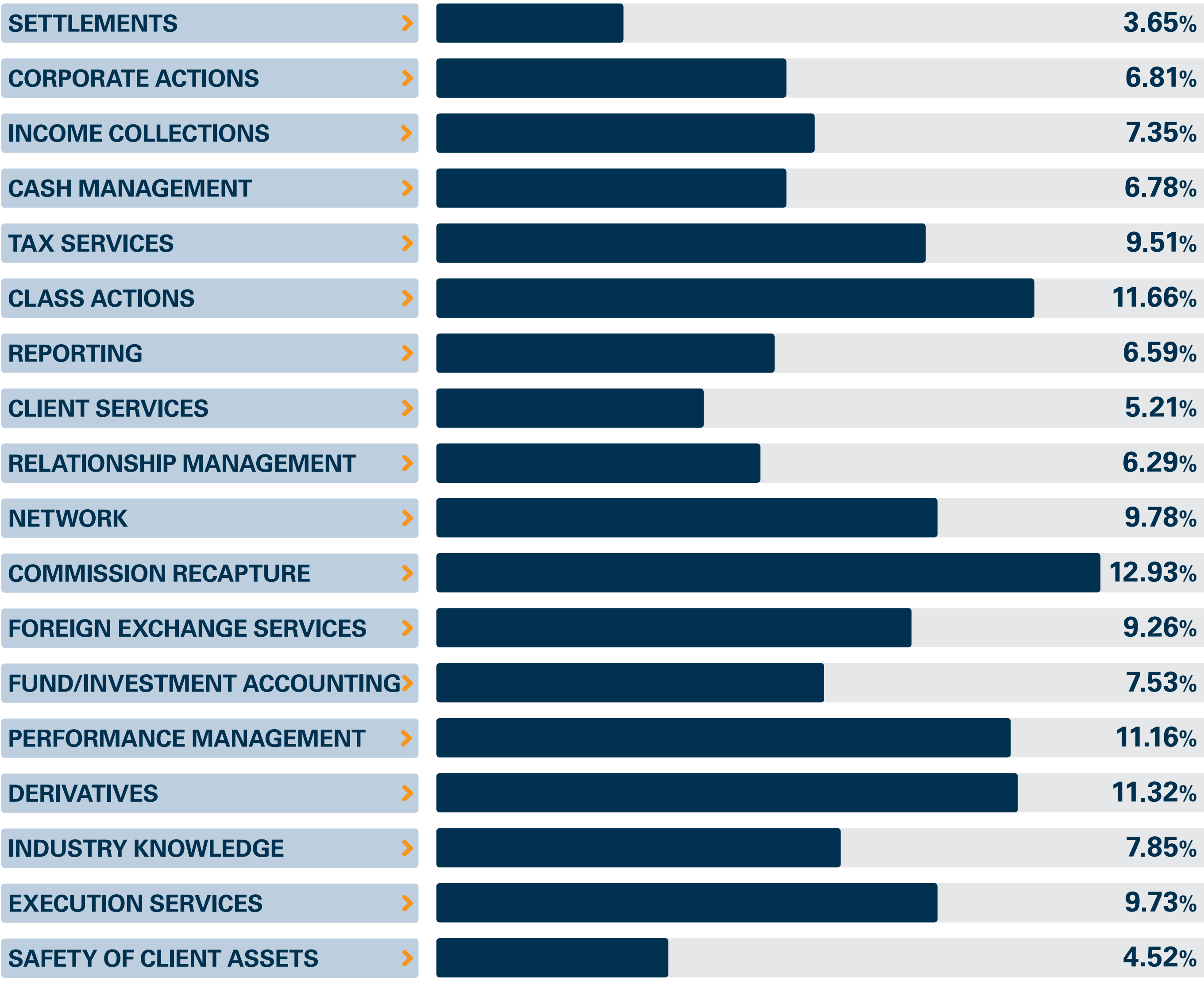
Another stated it had "excellent knowledge, support, flexibility and willingness to help," while a further one noted that it had "all round excellent service".

HOW MANY CUSTODIANS DO YOU DEAL WITH?

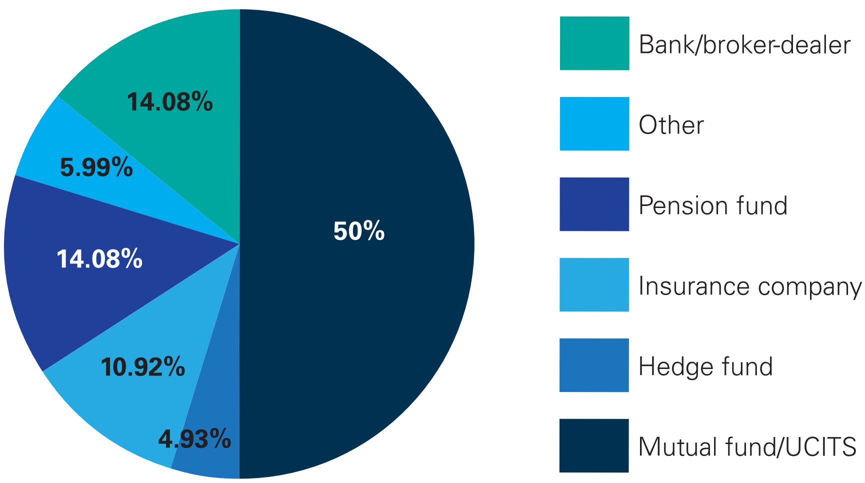


IMPORTANCE OF SERVICE CATEGORIES

AVERAGE RANKING



IN WHAT BUSINESS CAPACITY ARE YOU COMPLETING THIS SURVEY?



citi

Stepping up TO THE GLOBAL CHALLENGE

Sanjiv Sawhney, Global Head of Custody and Fund Services at Citi, explains how the firm's future-focused, technologically enabled global custody and funds offering is helping develop and empower its long-term client relationships

› WHAT ARE ASSET MANAGERS LOOKING TO THEIR CUSTODIANS FOR TODAY?

Asset managers are having to provide a different, more responsive, more customised set of products from those they once offered to institutional and retail investors. The days of one-size fits all are behind us; managers must fight hard to find their niche in the sector where they can prosper. The questions of investment, domicile, distribution and regulation provide continued challenges. Add in the focus on costs and you can see that adapting to this brave new world is no easy task.

We are looking to make the life of our customers as easy as we can. It's a given that this means being able to settle trades, perform safe-keeping, calculate NAVs, settle corporate actions and provide support for distribution. Increasingly, it also means several other things, too.

Firstly, clients need help future-proofing their business model, for the time when they will launch new products in new markets. When this day happens, they want the option to do so with their existing provider – preferably one that can facilitate the shift quickly and with minimum disruption to their existing operation – rather than have to search for an alternative partner.

Secondly, they are looking to custodians to provide tools to enhance fund performance and facilitate their growth. This could be anything from improving portfolio return to liquidity management and collateral optimisation. For us, this means supplementing custody with Citi's other core service offerings – in particular, a strong agency lending business and an integrated FX service. Our agency lending network spans 76 markets; in many of these our competitors are not even present. Wherever clients want to invest, to sell and to domicile, they know we will be there, with a local team versed in domestic regulations, operating in the same time zone and in the same language (factors that are especially valuable when clients are looking for help with services provided to end investors).

> “Clients need help future-proofing their business model, for the time when they will launch new products in new markets”

› HOW WOULD YOU SAY THAT CITI IS DISTINCTIVE IN THIS MARKET?

Certainly, our global reach is one of the things that picks us out. We provide our clients with a network of 105 markets, of which 62 are proprietary Citi sub-custody branches. Our custody network covers approximately 97% of the world's market capitalisation. In 80 markets we provide FX services; in 76 we are, as I say, agent lenders.

This footprint means that, when our customers want to expand geographically, they know the process will be quick, efficient and smooth. Our global custody contracts provide the means for clients to reach into any of those 105 markets quickly (subject to the account opening rules and the local regulatory requirements, of course).

For example, we are seeing a lot of interest in Asian-domiciled products lately. Managers who have seen considerable success in European domiciled funds are keen to replicate their strategies leveraging Asian domiciled vehicles. In these cases, our familiarity with the holdings and strategy of the manager coupled with our consistent global platforms ensures that the set up process can proceed very quickly.

› WHAT ARE THE BENEFITS OF BEING A FULL SERVICE BANK?

When you overlay these technical benefits onto the diversity and financial strength of our bank, you can achieve considerable added benefits. The fact that we are a full service bank means that we will often find ourselves providing a multitude of products and services to a client, from core banking and execution through to M&A and capital markets activity. The more that we do with a client, the better we get to know their business and the more we are able to develop it with the range of services we have access to.

The more long standing and deeper the relationship across Citi, the better placed we are to do this. It helps us to understand the DNA of the client – how the firm runs, how its strategies are constructed and so on.

In addition, other areas of the bank, such as the private bank, or the distribution network, provide a wealth of information and experience that will typically benefit asset manager clients. Often we see the custody services we provide as the foundation upon which we can explore the provision of other services the client may benefit from.

› CAN YOU DETAIL THE BENEFITS OF A GLOBAL CUSTODY NETWORK FOR CLIENTS?

One of the legacies of the financial crisis has been a marked increase in the focus on ensuring the safety of assets especially in times of market stress.

When you look at the recent major regulatory initiatives, such as AIFMD or UCITS 5, there is almost always a provision for resolution and recovery planning. The most effective way that this can be provided is if the custodian can segregate assets in the name of the beneficial owner throughout the custody structure, at every layer of the chain. In this respect, our infrastructure of proprietary sub-custodians across the world gives us an unmatchable capacity to provide this consistent level of segregation regardless of the asset type or location.

This integrated custody overlay, which collapses the layer between the global custodian and the sub-custodian, produces a number of benefits. In the first case it removes not only the risk, but also the latency associated with a transaction, meaning better cut -off times. It also provides more transparency, which is a cornerstone of stronger, more consistent reporting.

A related benefit that arises from having a global network concerns the improved service associated with having a local team on the ground doing the sub-custody. This familiarity with the local market has proven particularly valuable in times of stress – through the Arab spring for markets in the Middle East, and during the ensuing political crisis in Egypt, or in Latin America, where our clients were presented with questions during the debt resolution issues in Argentina. It is when times get particularly tough that the benefits of a local presence may become more visible.

› CAN YOU EXPLAIN HOW YOU ARE USING BIG DATA TOOLS TO IMPROVE THE SERVICES AVAILABLE TO CLIENTS?

We have spent considerable time and money recently on refining our data

> “When our customers want to expand geographically, they know the process will be quick, efficient and smooth”

products, producing an intelligent data engine over the last year and we are currently in the process of rolling it out to our larger clients.

Effective, timely and manageable access to data concerning asset managers' portfolio has a material impact on the speed and ease with which they can provide this information to regulators and to their own clients. It thereby has a big influence on how well they are able to perform their responsibilities, duties and services. Unfortunately many of the existing tools in the marketplace associated with providing data to clients, or giving them the means to mine it themselves, continue to be slow and archaic.

How does our engine work to overcome the obstacles associated with these more traditional tools? It allows clients to query their data and return results in an adaptable and user-friendly way and provides them with the means to investigate their exposure to specific variables, such as a single holding across the full range of funds, geographies or markets. The engine also provides for the full gamut of a client's standard reporting needs: from the generation of NAV reports to the provision of corporate action information and supply of a settlement report.

The interface for the new data engine is available across multiple devices, including mobile phones. Equally, it provides the data in the format the clients need to feed it into their own back and middle office systems in order to process it further, enhanced with their own data.

This process of data supplementation is becoming increasingly valuable to our clients. Consider cases where asset managers conduct one or more elements of their asset servicing themselves – here, clearly there is a need to supplement our data with their own.

Another example is the regular one-page monthly fact sheets that asset managers provide to their clients, which typically include information about the index performance, key holdings and a quote from a portfolio manager. These are often outputs where considerable adjustments must be made to the raw data to assimilate the look and feel of the asset manager's brand – ensuring graphs appear in the house style and featuring the livery, fonts and style particular to that company. This means combining data from the custodian with data and formatting from the asset manager.

› WHERE ELSE HAVE YOU BEEN FOCUSSING YOUR EFFORTS RECENTLY?

Another target of our recent work has been improving our services around funds and instrument types that are growing to be particularly popular in the market at the moment. The most striking example here is the growing use of passive funds such as ETFs, which have now moved beyond their beginnings in the US and Europe and are becoming established at the heart of the Asian investment landscape. We are upgrading our infrastructure to accommodate this global growth in ETFs. Traditional managers, meanwhile, are using OTC instruments in ever greater numbers; many employ OTCs as much as their hedge fund peers now. Here, again, our capabilities are among the best in the market.

> "A critical focus for us has been the time, effort and resources that we have spent on securing our platforms from cyber-attacks"

And finally, a critical focus for us has been the time, effort and resources that we have spent on securing our platforms from cyber-attacks. We have an established expertise in this area that has grown out of our global experience. It has spawned technology that can interrogate the source of instructions received online – by examining the IP address – and match them against previous sources for the client in question. It also provides the means for timely and accurate examination of the destination of a client's transactions – again, comparing these with the historical behaviour of that client – in order to detect and respond to fraudulent instructions. In an STP world, where transactions increasingly occur from end-to-end without manual input, these detections systems become essential.

ISLA 2017

Over 600 market participants gathered in Berlin at the end of June to attend Isla's 26th Annual Securities Finance and Collateral Management Conference. **Andrew Neil** reports

New technologies and trade structures continue to emerge across the securities finance market in a bid to counter stringent regulation and balance sheet constraints. Throw in geopolitical uncertainty – from US financial reform under President Trump to Brexit – and it's no surprise that a mix of caution and optimism shaped discussions during the flagship International Securities Lending Association (Isla) event.

"While I would not suggest the regulatory agenda is behind us, I did detect a different mood among delegates this year," Andy Dyson, Isla chairman, noted in his round-up of the conference. "For the first time in several years, there was much debate about how to make money and create value for clients and not just how to comply with regulations."

As a trade body, Isla has dedicated significant resources in recent times to SFTR, Mifid II, Basel III and Europe's Capital Markets Union (CMU). It is also continuing to monitor the effect of Trump and activities relating to Britain's coming exit from the EU. Challenges and opportunities associated with each area were explored in depth during the three-day conference in Berlin.

In addition, delegates were formally introduced to the new UK Money Markets Code of Best Practice – a voluntary set of principles setting out the standards expected from firms operating in the repo and securities lending markets. Blockchain, peer-to-peer lending, central counterparty clearing, effective collateral management, pledge structures and settlement efficiency were also on the agenda.

› BORROWER DEMAND

Demand to borrow securities is set to rise during the remainder of this year and extend into 2018, senior prime brokerage executives said at the conference. The appetite to sell short in the current market has waned in recent months, particularly in the US where markets have marched up. This has negatively impacted securities lending balances and reduced revenues for beneficial owners and their agents.

Q1 statistics from IHS Markit show overall industry revenues down by over 6% from the same period last year. Equities were the main culprit as the securities lending fees earned by the asset class came up short by 21%. There were some bright spots, particularly fixed income lending and scrip dividends.

Alessandro Cozzani, managing director & head of asset optimisation for Emea & Asia Pacific, Bank of America Merrill Lynch, said he expects equity borrowing demand to rise. "We are approaching an inflection point where demand will start to pick up again," he told delegates. "On our side, we will have demand to borrow. Shorts are expected across regions."

James Treseler, managing director & global head of cross asset secured funding, Societe Generale CIB, added that corporate actions and scrip dividends will likely boost equity lending revenues as education on such trades improves. He added that fixed income lending returns have been "quite significant" so far in 2017.

Beneficial owners earned over $106m of securities lending revenues around the 85 scrip dividends paid by Stoxx 600 constituents last year, according to IHS Markit.

Meanwhile, according to Cozzani, delays to the Net Stable Funding Ratio (NSFR) and the potential loosening of regulatory red tape may also lead to more borrowing and financing activity.

MIFID II

Securities finance participants are still seeking clarity on Mifid II requirements despite the deadline being just over six months away.

Sarah Nicholson, a consultant representing Isla, said that ambiguity exists around certain aspects of the rules. As a result, the association is working with lenders and borrowers to establish an industry consensus approach in order to ease the compliance burden.

The trade body is also partnering with a law firm to publish a full review of Mifid II as it relates to securities finance. "There was a debate whether Mifid I applied to securities finance. Under Mifid II there can be no doubt," Nicholson told delegates at ISLA's annual conference in Berlin.

"However, we don't have all the answers yet. Some areas are referenced clearly, others aren't. Interpretations of the rules also vary widely on a country and firm-level basis."

When Mifid II enters into force on January 3 2018 all areas of securities markets will be affected, some dramatically. Most experts agree that the EU legislation will trigger a complete overhaul of the existing financial markets infrastructure.

In broad terms, the rules focus on the framework of trading venues/structures in which financial instruments are traded. In relation to securities finance, Nicholson said market participants need to be aware that areas such as recordkeeping, transaction reporting and best execution are captured.

> "There was a debate whether Mifid I applied to securities finance. Under Mifid II there can be no doubt"
>
> **Sarah Nicholson**

BREXIT

Britain's exit from the European Union (EU) could hamper progress towards an integrated collateral ecosystem, experts warned.

Transparency of collateral inventory is now a top of the agenda item for individual banks and brokers globally sourcing cash or securities to back trades. This is largely due to a range of new regulations, such as margin requirements for non-cleared derivatives, to ensure collateral mitigates risk between counterparties.

However, the UK's plan for a clean break from the EU via a so-called hard Brexit, which would see the UK giving up full access to the single market, could undo some of those efforts. "There are concerns that following a hard Brexit, collateral interoperability could be impacted," a senior executive at a US custodian bank said at the event.

"The system works efficiently today, collateral flows fairly seamlessly. Brexit is a barrier and will create more challenges, costs and complexity," the individual added.

SFTR

A US-based securities lending executive working for a custodian bank told Global Investor at the event that he believed, generally speaking, securities finance transparency is a good thing.

However, he added that market participants are expected to hand over "almost ridiculous" amount of data to trade repositories under the upcoming EU rules. The majority of delegates responding to a survey at the event stated they are in the process of reviewing and/or responding to SFTR.

Participants attending a roundtable on the topic raised concerns about the costs of SFTR compliance. In a note to clients, published in time for the ISLA conference, consultants at The Field Effect (TFE) described the SFTR deadline as "aggressive".

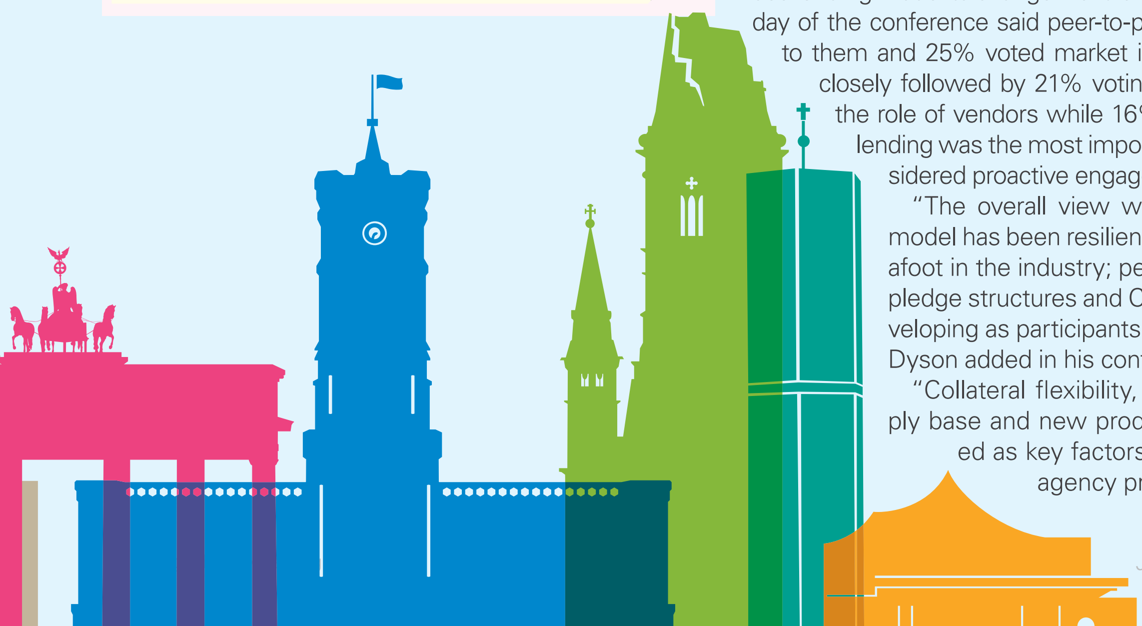
"The timeline for implementation is aggressive, given the work required across multiple silo business areas with differing levels of maturity. We see 67 impacts and have categorised these into three key areas – data & reporting, process & lifecycle and business strategy," TFE's note added.

ROUTES TO MARKET

When asked to consider whether it's time for the traditional securities lending model to change: 16% of audience members on the final day of the conference said peer-to-peer lending was most relevant to them and 25% voted market infrastructure (CCPs). This was closely followed by 21% voting for technology solutions and the role of vendors while 16% said the evolution of agency lending was the most important factor. The remainder considered proactive engagement across all areas as key.

"The overall view was that the securities lending model has been resilient but there are already changes afoot in the industry; peer-to-peer activity has started, pledge structures and CCP businesses are actively developing as participants look at new solutions," ISLA's Dyson added in his conference round-up.

"Collateral flexibility, long prospect list, huge supply base and new product development were all cited as key factors for the continued success of agency programmes."



PARTICIPANTS

- **Julie Aelbrecht**, Global Investor (chair)
- **Pat Lardner**, chief executive, Irish Funds
- **Grainne McEvoy**, director of securities and markets supervision, Central Bank of Ireland
- **Tara Doyle**, partner, Matheson
- **Padraig Kenny**, managing director, RBC Investor & Treasury Services
- **Paul Giblin**, CEO, Davy Asset Management

DESTINATION

Ireland is well positioned to build on its success in investment services, especially for ETFs, despite the uncertainty caused by Brexit

Julie Aelbrecht: How has the asset management community in Ireland reacted to Brexit? What are the concerns, and what preparations have been made in anticipation of the disruption that may arise?

Grainne McEvoy: We're very cognisant of the unintended consequence of Brexit creating regulatory arbitrage, so we are very strongly discussing, both within Eiopa and at Esma, the issue of supervisory convergence and supervisory cooperation. In our view, it is key to ensure that there isn't a race to the bottom among national competent authorities. We've put an awful lot of time and effort into designing the European rules, creating a single rulebook and detailed guidance, so the regulatory regimes and supervisory approaches should be largely identical across European authorities.

Paul Giblin: In the asset management community I think that there has to be a working assumption that a hard Brexit is what will happen, and therefore you need to consider the consequences of that for your business. Brexit is something that requires action on the part of fund managers, but actually it has also triggered a broader sense of opportunity. This is something that we need to get on top of – we need to decide how we're going to distribute, where we distribute and the distribution priorities.

Pat Lardner: The ability to continue

FROM LEFT, PAT LARDNER, GRAINNE MCEVOY, PADRAIG KENNY, JULIE AELBRECHT, TARA DOYLE AND PAUL GIBLIN

DUBLIN

distributing EU/Irish-domiciled products into the UK is something that people want. They also want the ability for their UK-based investment managers to continue to act as advisers for those funds, which are then distributed across Europe. That means that there will be elements of their asset management business that they may need to reconfigure or re-orientate to be able to maintain distribution and serve clients.

McEvoy: In the area of cross-border distribution, the central bank might hold a view that may not be popular among some of our regulatory peers, on the issue of local facilities agents or consistency of marketing rules across the EU. In the case of passporting fees, for example, we wholeheartedly support the reduction and elimination of such fees. The application of passporting or notification fees is not really in keeping with a single market, and would often be considered a barrier to its operation.

Padraig Kenny: Although it's been a year since the referendum result, it's too early to say what this will mean for anybody over the long term. While it's common sense for contingency plans to be put in place, many will feel it's premature to pull the trigger until an understanding of how the negotiations between the EU and UK develop.

Tara Doyle: The longer Brexit takes to become a reality – the longer the agreement takes to negotiate, the longer it takes to actually have everything settled – the more jurisdictions that have a history of prudent regulation will win out. The winners will not be the jurisdictions rushing in to offer tax breaks to get big insurance companies or asset managers in, but the ones that say: 'This is what we offer, this is how we do things and this is the certainty you can expect'.

Kenny: Some big firms have made big decisions about locations and so on. But, from conversations with asset managers, I don't think there have been that many that have reached their conclusions. I think a lot of them would be happy to perform their investment activities in the countries where they have previously been operating. The focus is on preserving what has taken a long time and has been very carefully constructed, inasmuch as that is possible.

Giblin: The infrastructure that would be required to deal with a hard Brexit is in place. In other words, there are UK-based managers with Dublin funds and there are Irish managers distributing in the UK and so on, and indeed across the world, and all of that infrastructure is in place in Dublin today to enable that.

Aelbrecht: What global demand trends are you seeing and how do they impact Ireland and Europe? What kind of new products are being launched and which existing products are growing particularly strongly?

Giblin: With the increasingly passive nature of fund management and end investors' demand for outperformance or alpha generation, people are looking at global products. If they're going to be in equity markets they want high a conviction strategy, investing in a low number of stocks globally that represent the best opportunity set available and actually demonstrates some form of outperformance over the longer term.

Kenny: There is still the sort of demand we have seen for a long time for single asset classes, in big countries, in regions or even globally, but I would agree that they are becoming more and more a part of a multi-asset solution. Multi-strategy offerings also include infrastructure funds, private equity and ETFs, for example. A lot of the individual product lines for the mass market, for the Ucits retail market, are now being combined and presented as a packaged solution with a return objective that is related to the risk profile of the individual investor and more probably absolute return in nature, rather than measured relative to a benchmark.

Aelbrecht: Would you say that the Icav structure is attractive for private equity funds, or are there better solutions out there?

Doyle: The Icav structure can do everything clients need a private equity fund to do – it's a very adaptable, flexible fund structure. But Icav has only been around about three years now, so it's still very new. The difficulty in practice is having to explain a new structure to investors. For clients that are selling to an existing investor base that is used to limited partnerships (LP) the Icav is just an extra hurdle they don't need, so they're less interested in it and are demanding LP structures.

Lardner: For us, Icav really fills out a very nice and complete set of tools to allow pretty much the full spectrum, from money market funds through conventional funds, in either the active or the passive space, to alternatives. There is clearly penetration of things such as ETFs and there is a strong track record in hedge funds, absolute return-based funds that still work within the Ucits guidelines, and now we add into that private equity, infrastructure and real estate, it rounds it out. Given the growing importance of private and real asset investing we felt it was also important to update our investment LP legislation that recognises the use of this structure and how it fits in with the needs of investors. This process is underway and will further complete our range of available fund structures.

Giblin: We are seeing consolidation taking place at the largest end of the fund management industry. It has been well-voiced, but the industry again is bifurcating between essentially a group of very large solutions companies – very big brand name firms that want to offer everything to their end investors when they come in the door – all the way down to more focused, alpha generating boutiques.

McEvoy: It might be interesting to note that of all the umbrella structures established in the last eight months have been Icav structures, so while it has a short history it's very much a popular vehicle.

Aelbrecht: The Irish Central Bank recently published a whitepaper on ETFs. What was the aim of this whitepaper?

McEvoy: We looked at ETFs from the context of dealing arrangements, how primary dealing happens, how secondary dealing happens, how liquidity is provided not only at the underlying asset level but by the use of authorised participants and other players. We also examined how ETFs utilise collateral management techniques and manage counterparty risk. Once we get all of the responses back, we'll take stock of the situation and evaluate how we can influence European and international policy debates, and also whether our regulatory regime requires amendments.

> Firms must be in a position to demonstrate the control and oversight of those outsourced functions and to ensure it is properly monitored and managed by the Irish operation
>
> **Grainne McEvoy, Central Bank of Ireland**

Kenny: There is also a connection between the active versus passive debate and the sort of fees that are appropriate, so it gets into the commercial side of asset management as well. Can value be added and what are the total costs for the investor – can sufficient returns be made available relative to all those costs?

Aelbrecht: The European ETF market is still quite small compared to that of the United States. 56% of European ETFs are Irish – as the market grows will Ireland be able to sustain its position as the largest jurisdiction?

> It's incredibly important that the growth continues and it's supported by what is already a robust regulatory environment
>
> **Padraig Kenny, RBC Investor & Treasury Services**

Lardner: You have to ask: why is it 56%? The reason is that there are a range of capabilities here that have facilitated this growth. We expect to see an increase in investment fund assets generally and our growth rates across all segments, typically, have been higher than any other market. But we would be in no way complacent about making sure that we continue to deliver the services to support ETF launches and distribution.

Giblin: It is inevitable that any product that grows at this pace will experience issues along the way. An example is in the high yield bond market, where you have a mismatch between the liquidity that's available to the end investor and the actual liquidity of the underlying market. In terms of future growth there's no reason that the market won't continue to grow and its far better for Ireland, as a big stakeholder, to be seen to be leading the thought process rather than reacting to it.

Doyle: I think growth is going to come from the existing models and existing participants, the really big ETF players that are comfortable with Ireland, with its regulatory and service provider environment. But it's also going to come from innovation, new entrants into the market and new product types, I think that's really key. As the leading ETF jurisdiction we have to be able to deal with the existing managers and product types, but also be open to innovation.

Lardner: In the same way that there's no single manifestation of what constitutes active management or passive/beta management, therefore there's no one particular description of an ETF solution. If you go back over many decades of development of active management strategies or fixed income management strategies, of illiquid asset management strategies, they've all taken different twists and turns along their path of evolution as they've grown and gathered assets. Therefore, it's reasonable to expect that the same is happening in delivering a combination of risk and return within ETFs.

Aelbrecht: What other areas of innovation are there? What opportunities are there within loan origination?

Doyle: People are interested in debt and loan origination, it's an increasingly popular asset class. To investors this is an area where they can achieve yield, more so than just traditional fixed income investing. Where we had a block was we didn't allow loan origination in Irish funds, we released that block two and a half years ago. A lot of other jurisdictions don't have rules around their loan origination products, or if they have rules they're a lighter touch than the rules that we have, so that presents something of a challenge for Ireland. There are loan origination funds being established here, people are embracing the product, but maybe not in the numbers they would if they weren't able to actually set them up in other jurisdictions with a lower regulatory threshold.

> As the leading ETF jurisdiction we have to be able to deal with the existing managers and product types, but also be open to innovation
>
> **Tara Doyle, Matheson**

Giblin: It's a difficult one, because the growth in loan origination is a structural change in the market that will continue for many years. As investor demand picks up, it will move into a much more regulated environment – in a sense it will move into the fund structures that Ireland is prepared for. The problem is that actually the activities are taking place outside of that environment, in structures such as limited partnerships today in other jurisdictions. We are either going to have to wait for the industry to move towards our fund structures, which will require a lot of patience, or we look at other jurisdictions and match their structures.

Lardner: It links back to what investors are looking for. It's increasingly important that you have the ability to introduce these different types of return and risk streams and combine them. So, you need to be able to originate or provide these services within portfolios, you need to be able to mix and meld them in with other parts of your investment exposures that you're putting into products.

Aelbrecht: How do you see the regulation of the Irish funds industry evolving over the medium term, and how do the changes at Iosco and to the Capital Markets Union impact that?

McEvoy: The Iosco investment management committee has shifted its focus away from the Sifi debate towards the assessment of structural vulnerabilities. Specifically, Iosco has undertaken quite a bit of work on leverage and liquidity within investment funds. The real areas of focus include methodologies for calculating leverage, identifying where leverage builds up in the system, what interconnectedness exists and how to identify where there's pockets of build-up, as well as what to do in these kinds of scenarios and what the appropriate regulatory approach should be. This topic has been the focus of attention not only of Iosco but also the FSB.

Giblin: The idea that you would not have seamless distribution across the European Union would just be extraordinary in terms of costs. It would be very disappointing if, after Brexit, rather than continued integration across all markets within the eurozone, local interpretations begin to dominate once again in an effort to gain market share.

Lardner: We've had a continuum between policy, regulation and supervision. Now we've clearly had an acknowledgement that the investment fund management industry is an important contributor to the financial system and a source of capital for the real economy. We are big advocates of removing barriers at borders and we would as an industry have a very heightened sense of alert to anything that suggests reducing product choice or solutions choice for investors, or that you could not deliver those through a pretty broad range of organisational structures as well. Ultimately, they're the things that allow product choice and solutions to get to the market and feed capital into economies.

Aelbrecht: How are management companies preparing for CP86? What are their biggest challenges and how are they addressing them?

Doyle: We have until July 1 2018 before existing management companies have to comply with CP86. That long lead-in time is something that was really welcomed by the industry. Every single management company is going to have to realign its business plan and look at whether the models it has make sense, whether it needs to appoint different designated persons and whether it needs to change its board composition.

Kenny: We see the governance practices of our clients that have 1940 Act fund boards in the US European governance structures. What is evolving and being put in place in Ireland is going to build on what we have and take any other good practices available internationally. We should take maximum advantage from the types of people and skills that are around the table.

Giblin: As a fund manager, our management company is already CP86 compliant a year ahead of time. But when I look at the activities, areas such as organisational effectiveness and distribution, those sorts of things, and the impact that they will have both on whoever the appointed person is and the directors, I think it's a challenge that shouldn't to be underestimated. It's going to be interesting to see how people get on with that.

> "The idea that you would not have seamless distribution across the European Union would just be extraordinary in terms of costs"
>
> **Paul Giblin, Davy Asset Management**

Aelbrecht: The Irish Central Bank has said that it will start a cross-sectoral review of outsourcing practices. What do you anticipate the result will be and how has the industry reacted?

McEvoy: It's quite obvious that not just fund service providers but banks, insurance operations and asset managers all engage in some degree of outsourcing. That's a normal course of events. Our focus is the governance and controls for outsourcing, ensuring that the balance is right between the mix of activities that occur within Irish operations and those that are delegated or outsourced to other parties. Firms must be in a position to demonstrate the control and oversight of those outsourced functions and to ensure it is properly monitored and managed by the Irish operation.

Lardner: It's always dangerous to generalise, but we haven't seen issues in this space. It's acknowledged there's a range of models. We've been at this for 25 or 30 years and we're now servicing circa 900 investment managers from different jurisdictions. We have a full suite of providers and within that there are lots of ways of delivering those services, which are driven by client needs and the changes that exist in the outside environment as well. It's something we'll continue to work on.

Kenny: I would say the question is probably most directed at custodian banks and administration service providers, and all of those firms, of which we're one, have global operating models. They've had different models, they've worked on different timescales, and they've had different levels of automation coming in. So, it is timely to try and have a full view of what's happened in operating models over the last say 15 years, because in the early days everything was done here, then it was a very gradual thing, and it's probably now accelerating.

Aelbrecht: Ireland has secured a Chinese RQFII quota. How is it being used in practice and do you see any other international deals coming up in the future?

› **Lardner:** The People's Bank of China granted Ireland RQFII quota in December last year. It was an important development because it signalled a willingness for cooperation between the two jurisdictions, and it recognises the fact that China will be an important destination for inbound investment by global managers. With quota, Ireland can provide another important access route for global managers. Secondly, as the Chinese investment management industry internationalises it will need to find ways to distribute – hence the point of selecting Ireland as a fund and distribution base to attract European capital.

Aelbrecht: Have any new areas of financial and regulatory technology emerged recently, or grown quickly?

› **Lardner:** In close proximity we have a very, very significant financial services hub and a technology hub. Within literally a square mile in Dublin there are representations from 15 of the top 20 banks in the world, eight of the top 10 software companies in the world and seven of the top 10 born-on-the-Internet companies. All of the skills are here, the question is how do we apply them? We are doing our part by fostering collaboration across our member firms, which is in addition to the many initiatives being undertaken by individual companies.

> "As the Chinese investment management industry internationalises it will need to find ways to distribute – hence the point of selecting Ireland as a fund and distribution base"
>
> **Pat Lardner, Irish Funds**

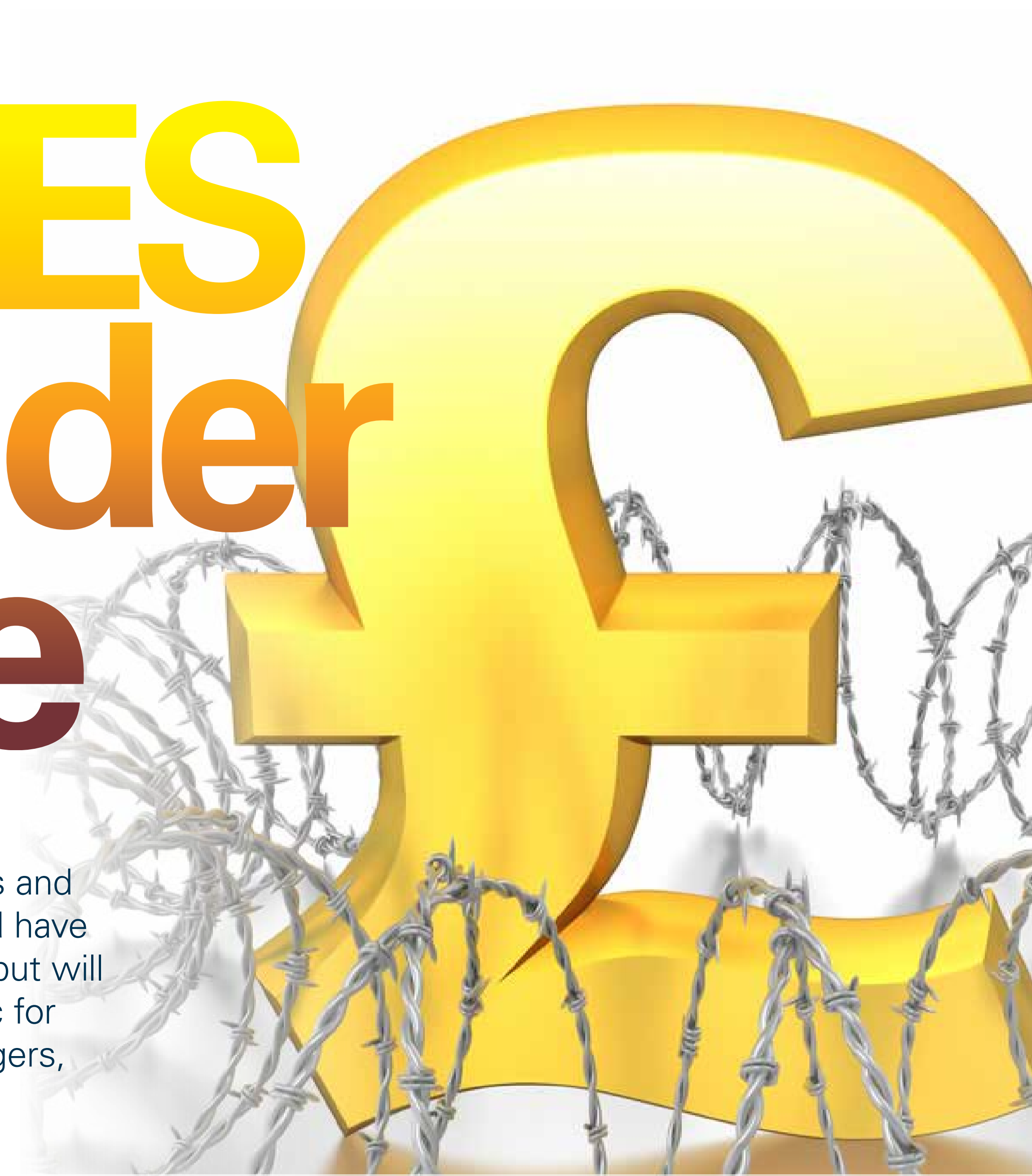
› **Giblin:** There is also the digital distribution angle. Everybody talks about robo-advisers taking over the world and enabling distribution. First of all, we're living with an emerging population that has grown up in the information age. They're going to want to access financial services, so why not invest in funds digitally? That's something that should be enabled. However, I think replacing people and advice and imagining investors will just buy and sell funds on our phones is some way off.

› **Doyle:** One of the themes that we're seeing emerge is the idea of convergence between financial services and technology, to the point where financial services companies are saying they're not an asset manager anymore, they're a tech firm. Then you have the tech firms and the technology brands increasingly going into financial services, for example Facebook with its payments capability. Ireland is really well placed to capitalise on this convergence, given its history as a European technology hub.

Aelbrecht: PwC predicted that the funds industry will grow to €4.7trn. Where will this €500bn+ in growth come from?

› **Kenny:** There is a global requirement for greater savings as people take responsibility for their own pension futures, which is going to lead to growth in overall assets under management and administration around the world. I think that leads to inevitable growth in the overall scale and size of the asset management industry globally, so Ireland should make sure it will play an even larger part in it. I think that it's incredibly important that the growth continues and it's supported by what is already a robust regulatory environment. We can, in fact, go beyond our targets.

FEES under fire



The UK regulator's final report on fees and transparency could have gone a lot further but will still be problematic for some asset managers, says **Ceri Jones**

Although some of the asset management industry's more opaque fee and disclosure practices have long been panned by consumer bodies and other organisations, the UK Financial Conduct Authority (FCA) stopped short of imposing wholesale reform in its final paper, issued in June.

So scathing had been the regulator's Asset Management Market Study in November 2016 that the industry had been braced for the imposition of an all-inclusive fee structure and stringent measures to improve transparency and strengthen price competition.

In the event the regulator settled on making asset managers disclose all actual fees and estimated costs to clients and promised a further consultation, which will report back on December 2017. There will also be a working group looking at improving clarity around funds' objectives and the use of benchmarks and performance reporting.

> TRANSACTION COSTS

The FCA remains concerned that charges are inconsistently presented and are often opaque, and it may have been unable to reach a conclusion, particularly around transaction costs, which are central to full transparency.

The proposal to provide transaction cost estimates will mean investors still end up paying for any variance from that estimate, although persistent underestimating will be easy to identify and perhaps even penalise. Furthermore, while there are explicit charges such as the costs of dealing and stamp duty, the implicit costs of spread and implementation shortfall are more challenging to account for precisely.

The plan is to build on the revamped Europe-wide Markets in Financial Instruments Directive (Mifid II) and Packaged Retail and Insurance-based Investment Products regulations (Priips), which focus on the expectation of a fixed cost and estimates of transaction costs and will be implemented in January 2018. Mifid II will be extended to the whole fund management industry, not only the intermediaries where the European regulation actually applies.

Both Mifid II and Priips will require pre-sale generic disclosure well before a product's sale. But Mifid II is more extensive, and covers the cost of ongoing services provided around the products, such as distribution and advice, discretionary management, trading, research and reporting. Moreover, the calculation of a fund's transaction costs differs under the two regimes – the market impact is included in the Priips calculation but not in the Mifid II calculation. How these will be fully aligned is not yet clear.

"Neither Mifid nor Priips achieve what needs to be achieved, they are an artificial simplification," says Daniel Godfrey, co-founder of The People's Trust and the former chief executive of the Investment Association who was effectively ousted by Schroders and M&G Investments in October 2015 for trying to push through precisely these types of reform. "We should do better – a single all-inclusive charge including research, and then an additional execution cost estimate for dealing and stamp duty, and we should keep managers on the hook for that, perhaps fining them if they go over by say 20%."

Making transaction charges explicit should discourage asset managers from overtrading, at a time when they spend about £3bn of their clients' money on dealing commissions per year. But while transaction costs could be estimated in advance, no methodology is perfect and some managers may overestimate in order not to be caught out subsequently. Likewise, some might underestimate and be reluctant to trade when they should do. Another downside is dealing with one-off or unpredictable events; for example, when a portfolio needs to be repositioned because the economic backdrop shifts.

› CLOSET-TRACKING FUNDS

The FCA also found that some £109bn is invested in closet indexers – funds with a tracking error of below 1.5 that still charge handsome fees – and has promised a clearer statement on strategy and targets and when managers are deemed to have succeeded or failed. "Many fund managers are just being paid to control tracking error," Mr Godfrey says. "They pay to buy shares in which they are underweight, which immediately presents a conflict of interest as these are shares they do not like."

While charges for passive funds have fallen, fees for active management have scarcely reduced over the past 10 years, and tend to be set around certain price points, between 0.75% and 1%, when arguably they should have fallen as economies of scale have become greater. The FCA is investigating how to make it easier to switch investors into cheaper share classes.

In a hint at the behind-the-scenes disagreements, FCA chief economist and director of competition Mary Starks said on launching the report: "We have had lengthy discussions with the Investment Association, which would rather we looked at a three-year period, which shows a tail-off in active fees, but over the longer run of 10 years this is imperceptible."

The regulator is also seeking to end the practice of funds making so-called box profits, fees managers generate through the dual-priced funds struc-

FCA PACKAGE OF REMEDIES

Remedies to give protection to investors who are less able to nd better value for money

- **Strengthening the duty on fund managers to act in the best interests of investors** and **introduce independent scrutiny** of this
- Requiring fund managers **to return risk-free box pro ts to the fund** and disclose box management practices to investors
- Making it easier for fund managers to **switch investors to cheaper share classes**

Remedies to drive competitive pressure on asset managers

- Supporting the disclosure of a **single all-in fee to investors**
- Supporting **consistent and standardised disclosure of costs and charges to institutional investors**
- Chairing a working group to provide investors with **clearer and more useful objectives.** Consulting on **how benchmarks are used and performance is presented**
- Recommending that the DWP **remove barriers to pension scheme consolidation and pooling**

Proposal to improve intermediaries' e ectiveness

- Proposing to **reject the undertakings in lieu** of a market investigation reference to the CMA on investment consultancy services and seek views on this proposal. Make a final decision on making this market investigation reference to the CMA in September 2017
- Recommending the Treasury considers bringing **investment consultants into the FCA's regulation**, depending on the outcome of the provisional market investigation reference to the CMA
- **Launching a market study into investment platforms** shortly

> I am disappointed that there were no concrete measures in this report, which was supposed to be final
>
> **David McCann, Numis**

ture. This has already prompted Jupiter and Schroder to move to single pricing – creating a £13m hole in Jupiter's profits – but leaves others such as Liontrust Asset Management in a dwindling pool of big retail managers still operating the structure.

› PERFORMANCE

In terms of reporting past performance, poor practices among fund managers include omitting certain funds from the sample quoted, not using appropriate benchmarks and reporting performance gross of fees. David McCann, an analyst at Numis, has been taking managers to task on these issues, which has encouraged managers such as Henderson Global Investors and Premier Asset Management to reveal the precise percentage of assets under management (AuM) included in their headline performance statements.

"No doubt the FCA faced a lot of emotive arguments for different approaches," McCann said. "But most commercial companies take a risk in their pricing. I am disappointed that there were no concrete measures in this report, which was supposed to be final. It's a big missed opportunity."

There is particular confusion about the benchmark used by the 100-strong absolute return fund sector, as many of these funds use riskier strategies, but some among their number produce marketing material simply showing returns against cash.

A minority of asset managers charge performance-related fees, which at least is a move away from the ad valorem fee model, in which managers collect a percentage of AuM regardless of performance. "Some clients like performance fees," explains Nick Sykes, partner and European director of consulting at Mercer. "The reservation is that they are not symmetrical i.e. managers don't lose as much as they gain. You may like small boutiques with higher performance but they often cap the mandate size, and limit capacity after two to three years, so the managers need performance fees to make enough money."

› RESEARCH COSTS

Asset managers have also been warned by the FCA for failing to give clients value for money for research, having long lumped together the fees they pay investment banks for research, such as analyst notes, with trading costs and passed these on to investors.

Mifid II will require asset managers to set separate budgets for research and trading, and decide whether to charge clients for research or pay for it themselves. However, research providers are failing to engage with groups on pricing setting, according to a survey by Fintech firm RSRCHXchange. While over half of asset managers have at least begun to set their research budgets and choose a payment method, 23% have not received pricing information from any of their providers (data collected during Q2).

Sykes says that some asset managers still charge clients for research such as access to a CIO. "If research is charged to the investor, that would be something that we would not be enthusiastic about," he says. "One or two managers have even quite recently asked us to pay for research after fees."

There are countless pieces of research stretching back decades showing that while active managers sometimes beat the benchmark, the returns from any outperformance are typically eroded completely by the fees charged and furthermore while outperformance is rarely repeated, poor performance has a dogged persistency. Back in 2008 Cuthbertson showed that among equity funds there are a few top performers and a multitude of poor performers and that past performance is indeed no guide to the future. That echoed previous work by Fletcher & Forbes in 2002, which looked at unit trust performance from 1982-96 and discovered that any degree of outperformance was followed equally swiftly by a period of underperformance. Regarding transaction fees, in 2000 Quigley and Sinquefield found limited outperformance in equity unit trusts and that to achieve it required 80% turnover that would have wiped out any gains.

"There is greater evidence and more acceptance now that active management is hard-pressed to deliver in efficient markets such as the US, but is the only option in certain asset classes, such as emerging market bonds and some private markets," says John MacDonald, senior manager research consultant at Hymans Robertson. "We would say that arguments should be framed around efficient and inefficient markets. Pension funds increasingly use passive for the core with some active satellites. While there is now a greater focus on charges, there is no evidence to suggest much has changed yet. I guess that will only happen when asset managers are coerced."

GLOBAL INVESTOR | ISF FOW

GLOBAL INVESTOR AWARDS 2017

CELEBRATING OUTSTANDING PERFORMANCE AND CONTRIBUTIONS TO THE **FINANCIAL INDUSTRY**

LIFETIME ACHIEVEMENT IN SECURITIES SERVICES

Daron Pearce

Pearce has consistently set an excellent example for colleagues during his career, including 17 outstanding years at BNY Mellon

Daron Pearce has held the position of CEO of Emea Asset Servicing at BNY Mellon since June 2016, the latest stage in his 17 years with the custodian bank. Throughout this time it has been the people he has worked with that have left the greatest impression.

LIFETIME ACHIEVEMENT: DARON PEARCE, CENTRE

"The thing you recognise when you progress in your career is how the journey is all about the people you meet," he said. "That has certainly been true at BNY Mellon, when I think about the phenomenal teams and people that I have worked with."

He is responsible for day-to-day delivery of services, setting the strategic direction and ensuring businesses adhere to risk, compliance and regulatory guidelines. "I would like to take the profitability and revenue of the business to the next level," he said. "It has been tracking very successfully – hopefully I will continue down that road, improving profitability, gaining more clients and creating an even better capability set."

The main area he is currently focused on is the bank's digitisation programme, Nexen. "To have consultants who I have known for 25 years say 'you guys are at the forefront' is phenomenal to hear. To step into that leadership position at such a critical time is very exciting."

Pearce sits on several committees including the corporate operating committee, Emea operating council, senior leaders meeting and the Emea revenue council. He has held a very long list of roles within BNY Mellon, including most recently CEO of global financial institutions, between 2015 and 2016, and head of global financial institutions Emea, 2012 to 2015.

He was also head of asset servicing, UK, Ireland and Sub-Saharan Africa, between 2009 and 2012 and delivered some of his greatest achievements. He was also head of Emea relationship management between 2007 and 2009, where he successfully integrated three companies while retaining 100% of its clients through the first year.

"People continue to be key," he said. "In some very mature markets the lowest price will be critical but there are also markets where the quality and consistency of the relationship as well as the reliability and trust that has developed between the service provider and client is still of primary importance."

Michael Cole-Fontayn, Emea chairman for BNY Mellon, said: "Outstanding attention to detail and a passion to enhance client service is the secret to Daron's outstanding career."

Hani Kablawi, Emea CEO of Investment Services, said: "Having joined BNY Mellon in 2000 and advanced through the ranks, Daron is a true advocate not only for the institutional investors we serve, but for the end investor, bringing our mission of 'improving lives through investing' to life. I've witnessed with admiration Daron's capacity to climb a steep learning curve and his ability and patience to help others climb their own. Daron leads with both head and heart. He will never expect anything of anyone that he wouldn't do himself. His people know that and admire and respect him for it."

Luke Jeffs, managing editor of Global Investor Group, added: "Daron Pearce has consistently shown himself over the past 20+ years to be a big advocate for and insightful commentator on the European custody industry. He also happens to be one of the nicest guys in the business."

Before joining BNY Mellon in 2000 he held roles at Baring Asset Management, Norwich Union Investment Management, JP Morgan and HD International Limited. "One highlight was going in to start the master custody business at JP Morgan. There were just four of us to kick the business off and we took it from zero to a very big business. Being part of that start-up was a particularly exciting a fruitful period," he said.

"This award was a wonderful shock and honour – everyone did a wonderful job of keeping it a secret." ■

Dr J Mark Mobius

The emerging markets pioneer retains his enthusiasm for active management and creating value

This year Dr J Mark Mobius, who is 80 years of age, is set to enter into his thirtieth year as executive chairman of Templeton Emerging Markets Group. The group continues to flourish under his leadership and continues to be recognised as one of the largest and most expert emerging markets groups globally, with benchmark-beating performance across a number of its strategies. Today, he oversees $26bn in emerging market equities.

LIFETIME ACHIEVEMENT: DR J MARK MOBIUS, CENTRE

"When I first started investing in emerging markets in a more formal way with legendary investor Sir John Templeton back in 1987, there were many challenges as an investor in this space, including a very limited number of markets to invest in," said Dr Mobius.

"Today, we can invest in a variety of emerging markets around the world, as well as a host of lesser-developed frontier markets, which we think hold exciting potential over the next 30 years and opens up an array of new opportunities within the asset class."

Although he has stepped back from the day-to-day management of several funds, he continues to be actively involved in mentoring and cultivating the next generation of investment leaders.

"When mentoring new team members, I try to first lead by example," he said. "Explanations can only be effective to a certain point. After that, it's important to implement the procedure so its effectiveness can be seen. Second, we need to tolerate mistakes. Third, I encourage new members to be creative. I try to ensure that any new idea is given serious consideration, even if it may appear crazy."

Dr Mobius He boasts one of the highest profiles of any investor in the emerging markets sector and is regarded by many in the financial industry as one of the most successful emerging markets investors over the last 20 years. He was once named 'the king of emerging markets' by The Wall Street Journal.

Dr Mobius holds the status of being a true pioneer, having entered the field 16 years before the first Bric fund. He joined Templeton in 1987 as president of the Templeton Emerging Markets fund with assets of only $100m, which has grown circa 25,000% over the last 30 years.

"I would cite my greatest success as growing Franklin Templeton's flagship emerging markets unit from just three employees and a single fund in 1987 to more than 80 staff in 18 offices around the world."

Today the group, still under his leadership, is one of the largest and skilled of its kind. It has grown under his leadership to 50 analysts and portfolio managers, the most senior of which have all worked with Dr Mobius for an extended period.

To this day, he continues to live the true principles of active management and the value approach, spending over 200 days a year travelling to meet the management of the more than 2000 companies he invests in, using his investment knowledge to transform companies for the better.

"While Sir John Templeton is no longer with us, his lessons live on," he said. "Even after he became a wealthy man, he lived and worked very simply. He didn't spend a lot of money and abhorred waste. This resourcefulness was reflected in how he worked – he was constantly reading and studying in order to make the most informed decisions possible.

"I also learned about humility from Sir John. He always said that without humility we won't be able to learn and adapt to changing environments. And he didn't just talk about those things, he really led by example. That's something I try to emulate."

Mobius seeks improvements across many aspects of these businesses from operational efficiencies to corporate governance, to make them truly sustainable and profitable to return maximum shareholder value.

"The key thing is that you have to love what you're doing, that's number one," said Dr Mobius. "Forget about the money – that will come. The second thing is to keep an open mind. Don't draw conclusions based on your own opinions or biases. Be ready to accept new ideas – it's very, very important."

Roll of honour

The Global Investor Awards 2017 took place at a gala ceremony on July 5 in central London

LGIM took the awards for fiduciary manager of the year as well as ESG manager or the year

The exchange of the year award went to Eurex Exchange

Former chief executive of Standard Chartered Peter Sands made a speech after dinner

Ulf Noren on his way to collecting multiple sub-custody awards for SEB

Amundi was awarded the prize for equity smart beta manager of the year

BlackRock was the 2017 asset manager of the year

ASSET MANAGER OF THE YEAR

BlackRock

The world's largest asset manager by AuM continues to go from strength to strength

In a year of dramatic change and uncertainty, clients continued to put their trust in BlackRock. It delivered the strongest annual net inflows in the firm's history of $202bn for 2016. Of this vast sum $98bn came in the fourth quarter, including $18bn in cash management.

An expansion in its operating margin over the previous year reflected its discipline in controlling expenses and allowed it to return $2.7bn to shareholders. Demand for BlackRock technology solutions drove 13% full-year revenue growth in Aladdin, its proprietary risk and portfolio management system.

In 2016 BlackRock launched several important technological initiatives. It launched Aladdin Risk for Wealth Management, which took Aladdin's analytical power beyond its traditional institutional client base. It built iRetire to redirect the focus of retirement planning to the estimated yearly income individuals will need in retirement. It acquired FutureAdvisor to provide high-quality, scalable, digitally-enabled advice capabilities to its distribution partners. And, BlackRock invested in iCapital, a technology solution to deliver illiquid alternative investments to retail clients and financial advisors.

BlackRock offers a complete set of solutions across asset classes and geographies, extensive market intelligence and industry-leading risk management and analytic capabilities. Its clients have entrusted it to manage $5.42trn (at the end of March 2017) earning BlackRock the honour of being the world's largest fiduciary investment manager.

"BlackRock is trusted to manage more money than any other investment firm," says a spokesperson. "We believe that we are uniquely positioned to help our clients meet their long-term goals, combining a fiduciary mindset with a comprehensive offering and an in-depth understanding of local needs. Above all, it is our ability to take a holistic approach to our clients' challenges that sets us apart."

BlackRock launched a number of new products during 2016, most notably the UK Strategic Alternative Income Fund, for UK pension schemes to match long-term liabilities, and the BSF Sustainable Euro Bond Fund, which screens companies using MSCI ESG methodology. ■

BOUTIQUE ASSET MANAGER OF THE YEAR

Unigestion

The boutique manager is steadily attracting clients with its value for money proposition

Unigestion performed well in a challenging environment over the past year. Its assets under management rose from CHF18.8bn ($19.6bn) to CHF23bn over the 12 months to the end of March and it attracted prestigious new clients in several countries, according to the firm.

Unigestion developed and launched a number of innovative projects over the year to 31 March 2017. It launched a long-short multi-factor equity strategy based on close collaboration with its longstanding client RPMI Railpen. It constructed an equity portfolio with similar return potential to the MSCI World but with a 75% lower carbon footprint. And, it helped its clients maximise the return potential of their alternatives allocation through its Alternatives 2.0 proposition.

The boutique manager conducted extensive research into how to incorporate environmental, social and governance (ESG) considerations into its investment processes over the past year, which resulted in the evolution of some of its existing investment solutions and the launch of new ones. It also continued to publish research into ESG integration in the alternatives industry.

"At Unigestion we never claim to be able to compete with the biggest investment firms in terms of assets under management or product range. For a boutique like ours to survive, we must be at the forefront of innovation and develop high-quality, creative solutions," says a spokesperson.

Unigestion places huge importance on providing its investors with value for money, according to the firm. For example, its research showed much of hedge funds' returns can be replicated through lower-cost exposure to liquid alternative risk premia and in December it broadened its offerings in the sector. "We worked alongside several clients last year to help them reduce the cost of their alternatives exposure by allocating to alternative risk premia and negotiating fees with their hedge fund managers. We saved one client 93 basis points in fees in 2016," adds the spokesperson.

In February 2017 it merged its private equity business with that of Akina, a small- to mid-market private equity specialist, together trading under the Unigestion's brand. ■

EQUITIES MANAGER OF YEAR

Artisan Partners

Several of Artisan's equity strategies are in the top fifth percentile

Artisan Partners is a global investment management firm that provides a broad range of high value-added investment strategies to clients around the world, with AuM of $96.8bn (at the end of 2016) of which over 65% is from its institutional channel.

Since 1994, the firm has stuck to its policy of taking on experienced and disciplined investment managers. Seven of the firm's eight autonomous investment teams are dedicated to managing active equity investment strategies.

At the end of 2016 Artisan Global Opportunities was first out of 64 strategies in eVestment's global growth equity universe. Similarly, Artisan Global Value was fourth out of 90 in the global equity value universe and Artisan Global Equity was 18 out of 592 (third percentile) in the all global equity universe. All were therefore ranked in the top fifth percentile since inception, gross-of-fees, in their respective eVestment universes.

The AuM of Artisan's Ucits equity funds stood at $3bn at the end of 2016, a 69% increase over the year. At the same time, assets from clients domiciled in Emea stood at $13.8bn, having grown 31%. Artisan also saw net equity inflows of $2.4bn in the Emea region over the year.

"The stability of our business model allows us to remain focused on who we are. Artisan Partners is a high value-added investment management firm designed for talent to thrive in a growth-oriented culture," says CEO Eric Colson.

Artisan focuses solely on active, high value-added strategies where it can differentiate itself from its peers and benchmarks by utilising fundamental research and a disciplined investment process. Each autonomous investment team pursues alpha based on its individual investment process.

Artisan aligns the interests of its investment professionals with its clients through its equity ownership structure, which encourages the teams to emphasise long-term results.

Artisan says it is "thoughtful" in its approach to new investment talent and investment strategies. In 2016, Chris Smith joined Artisan as founding portfolio manager of the thematic team, the firm's eighth autonomous team. ■

BOUTIQUE EQUITIES MANAGER OF THE YEAR

Quadra Capital Partners

Its global equity long-short fund has achieved sustained outperformance in volatile markets

Over the last 12 months, the Global Equity Alpha fund realised performance (net of all fees) of 16.2% while keeping volatility between 5% and 6% (as of April 2017).

Quadra has also notably outperformed its peers during special events. As a result of Brexit the MSCI and HFRX indices were down -0.45% and -0.22% respectively but Quadra's global equity fund achieved +0.75%.

Quadra has also been remarkably accurate at predicting M&A activity. Over the last 12 months, the firm says four stocks that it held in its portfolio have been subject to M&A activity, the largest two of which were Actelion and Mead Johnson.

Quadra utilises a "consistent and robust approach" developed by portfolio manager Paul-Georges Moucan, who started the strategy at Amundi in 2005 and continues to replicate it today.

"We have an experienced and consistently outperforming portfolio manager over the last 10 years, realising an annual average performance of 11% since 2005 vs 0% for peers and 6% for the MSCI," says a spokesperson.

Quadra says that achieving performance is key but controlling volatility is also an important aspect, which is capped at 10% and typical around 5-6%. "Quadra mixes the robustness of the institutional structure (Sicav) with the agility of a boutique," says the spokesperson. "We are small and yet outperform larger institutions by far. We differentiate ourselves also by our originality."

Quadra's global equity long/short strategy has proven itself to work well. Moucan has developed a unique and original strategy with stable grounds and proven to outperform once again in the long run while managing the drawdowns and controlling the volatility, according to the firm.

Quadra was ranked number one within the global equity long/short category in the Citywire ranking selector at the end of March, with a 13.3% one-year rolling average, volatility of 5.6% and max drawdown of 2.2%.

Quadra has very low drawdowns (max -2.2%) and a quick recovery time after they occur, according to the firm. ■

FIXED INCOME MANAGER OF THE YEAR

Royal London Asset Management

The active manager's experienced team is able to venture beyond mainstream index bonds

Royal London Asset Management (RLAM) has a 25-strong fixed income team with an average of 17 years of investment experience and takes a collegiate approach to investing the £58bn of bonds and cash under management (at end-2016).

Across the fixed income spectrum, many of its funds and mandates have outperformed their benchmarks over both short and long time periods. Its process is value-oriented and based on research of a wider universe than that covered by mainstream credit indices. Rather than relying solely on ratings agencies, its team seeks to add value by incorporating unrated bonds.

"We use market knowledge to exploit investment opportunities and build robust and diversified portfolios, with a high weighting in secured bonds that perform well through changing economic conditions," according to a spokesperson.

In August 2016, a new fund manager and three credit analysts were appointed to its global high yield team ahead of the launch of a Multi Asset Credit (MAC) fund in 2017. The fund will comprise a directly-invested, globally-diversified portfolio concentrating on the alternative part of the credit universe.

The Buy & Maintain Credit Fund, which was launched in 2015 to meet a particular appetite for risk-adjusted returns, attracted gross sales of £1.2bn into the strategy in 2016. The strategy follows its established credit process based on exploiting market inefficiencies through robust credit research, in a low-turnover portfolio.

RLAM also attracted £1.3bn of gross sales into its cash funds; its range of products met demand for well-diversified, secure and liquid solutions, suiting a range of different risk appetites.

In July 2016, RLAM appointed Nick Woodward as head of LDI, to work across RLAM and the wider Royal London Group, to advise and oversee cashflow-focused bespoke solutions for current and prospective clients. ■

BOUTIQUE FIXED INCOME MANAGER OF THE YEAR

BlueBay Asset Management

The fixed income specialist takes a collaborative approach to fund management

BlueBay prides itself on a "collaborative, innovative and dynamic approach," which applies to client service as much as its investment process.

In December 2015 BlueBay launched the Global Sovereign Opportunities Fund, which employs a global unconstrained approach that enables investment across both developed and emerging markets. The fund has an annualised return since inception of 9.78% (net of fees, end-March 2017) and in was the top performer in its peer group in 2016, according to Morningstar.

In February 2017, BlueBay expanded its ESG offering by launching the Global High Yield ESG Bond Fund. In addition to product development, BlueBay has been focusing on culture and values. "We believe our strong culture and collaboration internally is an asset that clients can benefit from," says a spokesperson.

BlueBay's is set up to respond quickly to market conditions, both in terms of investment decision-making and product innovation. Collaboration is evident in increasing collaboration across investment teams and a greater focus on team dynamics and decision-making. BlueBay has been seeking new ways to analyse and make investment decisions, particularly relating to social media. This analysis is actively included in investment strategies, including its sovereign fund.

BlueBay's house view is that a structural shift is taking place in fixed income markets – with rising interest rates, inflation, QE tapering and increased dispersion – and, coupled with ongoing requirement for income and diversification, means active management of the asset class will become increasingly relevant.

"Our unconstrained approach to fixed income investing is well suited to the current market environment and we believe offers clients the potential for positive returns in, what we believe, is the end of a fixed income bull market," adds the spokesperson.

Its Global Sovereign Bond Fund illustrates this unconstrained approach, according to the firm, and its ESG strategy highlights its ability to nimbly respond to investor needs. ■

ETF MANAGER OF THE YEAR

iShares

The provider has attracted record inflows to equity and fixed income products on both sides of the Atlantic

In a year marked by unprecedented political change and periods of significant market uncertainty investors turned to ETFs in record numbers, and iShares has been investors' preferred manager.

It set a new growth record in the US with net inflows of $107bn (beating $97bn in 2015) and market-leading $32bn of net inflows in Europe. iShares was the market share leader in both regions – 38% in the US and 61% in Europe – and investors in Asia Pacific also set a regional iShares record of over $10bn.

iShares bond ETFs gathered a record $60bn, capturing 52% of all net inflows into bond ETFs globally, attracting record net inflows in the US ($38bn) and Europe ($21bn) in the process. iShares Core ETFs added a record $67bn in global net inflows. BlackRock re-priced its US iShares Core ETFs in October and since then investors have adopted iShares Core ETFs faster than expected, adding $27bn.

Institutional investors looking for simpler, less costly alternatives to derivatives switched around $10bn to iShares ETFs from futures or swaps positions.

iShares ETFs and BlackRock Index Funds are managed by the same portfolio management team, which has extended access to BlackRock indexing experts to provide market and instrument insights. The team has a disciplined focus on optimal tracking, enhanced returns and low total cost of ownership. "We leverage our scale, strategy breadth and client diversity with a view to minimising costs and preserving investment value."

BlackRock is the world's largest asset manager with more than $5.4trn (at the end of March 2017) of client assets, of which its index investment platform represents more than $3.4trn, 64% of the total AuM.

iShares launched the first ETF in Europe in 2000 and offered both the first equity and bond ETFs. "Today, our clients benefit from a unique indexing product offering including 2,500+ funds managed against 750+ benchmarks – the most comprehensive index range across market exposures and product features," says a spokesperson. ■

ESG MANAGER OF THE YEAR

LGIM

The firm's Future World Fund has ESG at its core but could achieve widespread application

Legal & General Investment Management (LGIM) launched an innovative ESG pension product last year, in addition to its ongoing ESG-conscious investment process and demonstrable long-term commitment to driving long-term positive change in the market.

Last year LGIM launched the Future World Fund, a product specifically designed for the growing defined contribution (DC) pension scheme market with ESG at its core. The fund targets enhanced risk-adjusted equity returns by using an alternatively-weighted index. It also incorporates a climate tilt to address the long-term investment risks associated with climate change, reallocating capital to the likely beneficiaries of the transition to a low-carbon economy.

Through LGIM's climate impact pledge, it also works directly with the companies in which it invests to bring about positive change, and threatens those companies that do not meet the minimum criteria for strategy, governance and transparency with exclusion.

"LGIM has extensive dialogue with the management of investee companies throughout the year on a range of topics, such as governance, financial performance and strategy," says a spokesperson. "The objective of LGIM's engagements is to have an open dialogue that is constructive and helpful. Voting is one of the tools available to LGIM to ensure companies behave responsibly and have sustainable policies for long-term growth."

The Future World Fund is designed as a core, long-term equity holding for DC schemes, which is particularly suitable for schemes with a younger member demographic that is likely to be more engaged with ESG themes.

LGIM designed and launched the fund in partnership with the index provider FTSE-Russell and the HSBC UK Pension Scheme, which is transitioning its £1.85bn equity holding into this new default fund. "Three of Britain's biggest companies have come together for the launch of this ground breaking new fund, which is a testament to our status as the world's leading financial centre," said Philip Hammond, chancellor of the exchequer, at the fund's launch. ■

EMERGING MARKET EQUITIES MANAGER OF THE YEAR

Investec Asset Management

The firm has not forgotten its South African roots in the process of becoming a significant emerging market manager

Investec Asset Management celebrated its 25th anniversary in 2016, a milestone for a business that has navigated its development from emerging market origins into a firm serving over 1,700 clients across advisor, institutional and corporate networks. Its clients are now domiciled in 35 countries across Europe, Africa, Asia and the Americas and its longest-standing client relationship spans more than two decades.

Under the leadership of CEO Hendrik du Toit, Investec Asset Management has grown AuM from £40m to $119bn (at end March 2017) and now employs more than 870 staff across the world.

Approximately half of Investec's AuM is invested in emerging markets. It has evolved and innovated its emerging markets offering, including broad emerging market, frontier, LatAm, African and single-country equity strategies. Investec was the first global investment manager of Ucits funds set up to invest using Stock Connect, for funds within its flagship Luxembourg-domiciled Ucits Global Strategy Fund range.

Given Investec Asset Management's unique heritage and focus on global investment, the firm has pioneered both international investment into Africa, and global allocation of capital from the South African savings pool. The firm says it remains deeply aware of its broader responsibility to society at large and, more specifically, to the communities in which Investec Asset Management has an investment footprint.

Aside from the firm's strategic focus on ESG integration and work in the area of active stewardship, Investec Asset Management is committed to the development and support of social projects that have a measurable and positive impact on society. Examples include South Africa's JL Zwane Community Centre, Songo, the Starfish Great Hearts Foundation and the Tusk Trust, with which it created the Tusk Conservation Awards, now in its fifth year. ■

EMERGING MARKET FIXED INCOME MANAGER OF THE YEAR

Pioneer Investments

Pioneer's London team is a centre of excellence and its broadening fund range increases its appeal

Pioneer Investments' emerging markets fixed income organisation is one of the industry's leading managers of emerging market debt, having developed several innovative strategies over the years to offer a broad range of compelling investment options.

Pioneer's emerging markets bond and high-yield team is led by Yerlan Syzdykov, who has been involved in the flagship Pioneer Funds – Emerging Markets Bond fund since 2000.

In June 2015 Pioneer Investments launched the Emerging Markets Bond Short Term strategy, which was designed to appeal to investors seeking protection from rising rates through shorter duration exposure. The fund was one of the fastest growing emerging bond funds globally in 2016, reaching over €950m AuM at the end of 2016.

Pioneer Investments emerging markets fixed income fund range attracted over €1.7bn net sales in 2016, bringing the AuM of the range to €14.6bn by the end of the year. Pioneer Investments has built an emerging markets centre of excellence in London, with a highly integrated and complementary team of research analysts, portfolio managers and macroeconomists with a culture of collaboration and debate.

The Emerging Markets Corporate Bond and Emerging Markets Corporate High Yield Bond strategies, launched in recent years and managed by the London team, broadened the potential solutions for clients by targeting higher levels of risk and return than its more established products.

"Our overarching investment philosophy is conviction based, where we believe that a highly active, flexible and research-driven process should be rewarded in non-homogenous markets such as emerging ones," says a spokesperson.

The London-based emerging market fixed income team consists of eight portfolio managers, whose investment philosophy is conviction-based. They follow a highly active, flexible and research-driven process and are supported by a 13-person emerging market, high yield and European credit research team.

Pioneer Investments is an active investment management firm, based in 28 countries, with 2000 employees, and approximately €228.4bn in AuM at the end of 2016 ■

> MULTI-ASSET MANAGER OF THE YEAR

Aberdeen Asset Management

Aberdeen offers a truly diversified product drawing on deep skills across many asset classes

Many managers claim their funds are multi-asset, but close examination reveals portfolios that are often dependent on simple equity and bond allocations. Aberdeen's Diversified Multi-Asset (DMA) funds give investors access to the kind of diversified portfolio that is typically only available to the world's largest, most sophisticated investors.

DMA is delivered in easily accessible vehicles, with a competitive cost structure. The core investment team, headed by Mike Brooks, is able to draw on Aberdeen's broad investment resources, as well as its economic and thematic research group, tactical asset allocation team, specialist portfolio construction and investment risk teams.

DMA is also integral to Aberdeen's institutional offering, which grew by approximately £1bn in the year to March 2017. During 2016 its Diversified Growth Fund (DGF) returned 7.6% net of fees. Since inception it has returned 5.7% per annum (November 2011 to March 2017), ahead of its long-term objective, while volatility remains well below equities at circa 4.4%. Meanwhile, its Diversified Income Fund has delivered regular income in-line with its current annual target of 4.5%. It also launched its £450m Aberdeen Diversified Income and Growth Investment Trust in February 2017.

DMA funds can invest in 25 different asset classes including listed equities, high-yield bonds, infrastructure, renewable energy, emerging market debt, insurance-linked securities, property, alternative risk premia, litigation finance, aircraft leasing and peer-to-peer lending.

In November 2016 Aberdeen launched its alternative risk premia strategy, which is designed to deliver low volatility and low correlation with other assets and enable the DMA team to access alternative beta at low cost. Allocations to local currency emerging market debt, frontier market and Indian debt take advantage of Aberdeen's traditional skill-set. ■

> INFRASTRUCTURE MANAGER OF THE YEAR

Hermes Infrastructure

Hermes offers institutional clients the benefit of co-investing with its BT Pension Scheme owner

Over the last twelve months Hermes Infrastructure has been busy building its reputation as a leading UK-based and UK-focused direct infrastructure investor. Its maiden fund became substantially invested two years into its five-year investment period, outperforming target returns with 12.4% gross IRR and 7.3% gross cash yield as at end-2016. It deployed or committed in excess of £800m in two major new UK direct investments – Energy Assets and National Grid Gas Distribution – along with a follow-on investment in Southern Water.

Since its formation in 2011, Hermes Infrastructure has had close links to institutional investors; is majority-owned by the BT Pension Scheme (BTPS), one of the UK's largest occupational pension schemes, and appointed Robert Wall as infrastructure partner from the Canada Pension Plan Investment Board.

It provides other investors access to infrastructure, offering clients the opportunity to choose between two separate investment strategies, core and value-added, each with its own risk-related fee structure. It also and offers unique pooling arrangements for Local Government Pension Schemes.

Hermes Infrastructure expanded its co-investment platform to provide new European and Asian clients with access to direct investment opportunities, bringing its AuM to £4.1bn. Its platform allows investment alongside BTPS, enabling UK pension funds – which account for around 92% of its investors – to benefit from large scale investments as well as to fund tomorrow's technologies such as renewable power generation. It also has strong relationships with overseas investors, with long-term partnerships with institutional clients in Canada, the Middle East, China and Australia.

It has a longstanding commitment to holistic returns, offering clients appropriate risk-adjusted returns in a sustainable and ethical manner. It remains committed to responsible investment, engaging with its portfolio companies, factoring ESG into its investment process and contributing to the development of policy by regulators and government.

"Our approach to investment and asset management embody these core principles," according to a spokesperson. "This enables us to support boards and management committed to building long-term sustainable businesses." ■

FUND OF FUNDS MANAGER OF THE YEAR

Aurum Funds

The London-based manager brings an ESG component to hedge fund investing

Aurum Funds has a goal to mobilise the hedge fund industry to have a net positive environmental impact. "The hedge fund industry deals with complexity and risk every day," says a spokesperson. "An industry strength is analysis of data and seeking to understand the impact of trends and system changes. By extending this approach to environmental impact, the industry is ideally placed to both understand the problems and be part of the solution."

The Aurum Synchronicity Fund was launched back in 2002, aiming to deliver returns that go beyond financial returns. It gives investors an opportunity to both make money and make a difference and has generated over $7m for over 70 organisations in nearly 40 countries. Over the 12 months to March the Aurum Synchronicity Standard Dollar Restricted Fund returned 5.70%. It has positive returns for 83.33% of months, volatility of 1.61% and a Sharpe ratio of 2.93 (indexed risk free rate of return of 0.87%).

The Synchronicity Fund donates its entire management fee to Synchronicity Earth, a registered charity that supports biodiversity and species at risk globally. Synchronicity Earth uses the type of rigour and skills that help Aurum to deliver alpha into maximising environmental and social benefits.

Aurum manages several other successful fund of funds: its longest running fund, the Aurum Investor Standard Dollar Restricted Fund, returned 7.32%; its flagship Aurum Isis Standard Dollar Restricted Fund returned 4.97%.

In 2015 Aurum Fund Management Ltd, in conjunction with Synchronicity Earth, created Project Regeneration, which is an initiative to create strategic funding partnerships between corporates and environmental NGOs in order to regenerate natural habitats. In 2016 Aurum had success encouraging support from others in the industry, co-hosting a briefing with independent hedge fund research Albourne to demonstrate how firms can address environmental factors, including ecological projects in Thailand and Ecuador. ■

WEALTH MANAGER OF THE YEAR

Brewin Dolphin

The wealth manager has thrived through a focus on discretionary investment management, a wide range of services and excellent regional network

Brewin Dolphin is a FTSE 250 provider of discretionary wealth management. Its interim financial results for the half-year ending March 31 2017 saw total funds under management grow 15% to £37.8bn. Its focus on discretionary investment management has led to significant growth in client funds and it now manages £31.5bn on a discretionary basis.

Brewin Dolphin offers personalised wealth management services that meet the varied needs of over 80,000 account holders, including individuals, charities and pension funds. In May 2017, the company successfully completed its acquisition of Duncan Lawrie Asset Management (DLAM).

Chief executive David Nicol stated in the interim company report released in May: "The Group has had a successful first half of 2017 in a period with a favourable market environment. The delivery against our growth strategy has contributed to an excellent financial performance, with underlying earnings growth of 14.1%. We are exceeding the organic growth targets we set as net inflows into our core discretionary service were £1.1bn, in the period, a record and helping drive year-on-year growth of 22.1% in discretionary funds."

The wealth manager specialises in helping clients protect and grow their wealth by creating financial plans and investment portfolios that meet personal and professional ambitions and aspirations, according to the firm. Its services range from bespoke, discretionary investment management to retirement planning and tax-efficient investing.

Brewin Dolphin has built a network of 29 offices across the UK, Channel Islands and Ireland, staffed by qualified investment managers and financial planners, supported by a dedicated investment research team.

Brewin Dolphin unsurprisingly focuses on client service, given its target client base. Nonetheless it is a standout performer in the sector and its regional offices are often singled out for special praise and consumer awards. "We are proud of our success and have the vision and ambition to grow into the UK's leading provider of discretionary wealth management," says a spokesperson. ■

EQUITIES SMART BETA MANAGER OF THE YEAR

Amundi

Amundi has a long track record and a deep pool of expertise to draw on to keep it at the forefront of smart beta innovation

Amundi manages over €12bn in smart beta, across solutions based on both efficient risk management and factor investing, divided into passive and active funds. Its smart beta teams leverage Amundi's other resources, such as its quantitative research and ESG capabilities, allowing it to build customised products for its clients, one of its key strengths.

Over the last 12 months Amundi has developed its smart beta ETF range with the launch of a new multi-factor ETF on European equities, in partnership with index provider ERI Scientific Beta, and two new ETFs that enhances its mono-factor ETF ra tors, such as portfolio factor analysis and solutions that combine its smart beta approach with ESG analysis or portfolio decarbonisation.

Amundi was one of the first firms to embrace Smart Beta so it now has a 10-year track record and offers a full range of solutions. As it has a 30-year track record in index construction and an extensive knowledge in quantitative modelling, Amundi has developed a large spectrum of smart beta expertise. Such know-how enables Amundi to implement customised solutions to meet investor's specifications.

Amundi's investment professionals can also draw on the firm's independent research platform. Together with fund managers, the quantitative research team is strongly involved in designing risk based smart beta strategies, understanding their behaviour and enhancing the added value of the firm's investment process.

Amundi's track record dates back to 2007. During this time it has developed complementary and innovative solutions and become one the most experienced smart beta managers in the industry. Investors are offered open-ended funds, ETF, index funds, mandates, bespoke solutions, backed by in-house and external research with trusted partners such as EDHEC Risk Institute. ■

FIXED INCOME SMART BETA MANAGER OF THE YEAR

Lyxor

The European manager has been producing innovative fixed income smart beta products for five years

Lyxor was an early entrant to the fixed income smart beta market and has had strategies in place since 2012, drawing on its experience of creating equity products three years earlier.

Its fixed income smart beta products are based on risk-budgeting techniques and a proprietary model to measure the credit risk of bond portfolios. The aim of these products is to correct the various biases present in debt-weighted indexes.

It is unusual in offering a variety of strategy styles and has partnered with Societe Generale, JPMorgan and FTSE to launch a wide range of investments across the wider smart beta sector. Lyxor's products are targeted at investor outcomes, with products that target income, enhance returns or reduce risk.

"Lyxor sweats the small stuff," says a spokesperson. "Our background is academic, we spend a lot of time and attention to get the details right on its investments. We take a lot of care to ensure our products work as investors expect. In 2016, we have been changing the index being tracked on its investments to ensure its investments work as investors need them to.

"We've had a long time in the market – we launched the first ETFs sixteen years ago, when the market was in its infancy. This means we've got the experience to get things right. Most of our products are index tracking and accuracy really matters to its investors."

In a year when fixed income is under pressure, it's vital to get the right product. "Investors are fearful of the 'great rotation'. Inflation protection, bonds which are resistant to rate hikes and higher yielding options are all appealing. Lyxor offers exactly these," says the spokesperson

In 2016, Lyxor attracted a total of over €3bn of inflows. In the year to May 2017 it has already taken in €5bn, cementing its place as a top ETF provider. Lyxor is indeed innovative, having launching products such as inflation expectations investments that give access to inflation but hedge out interest rate rises. ■

SMART BETA is increasingly becoming a core portfolio strategy

Given the current context, yield-starved institutional investors are turning towards riskier assets while still seeking to limit potential drawdown. By definition, such asset classes tend to be more volatile and more risky than bonds. Smart Beta, however, could provide an appropriate solution for investors juggling these different constraints.

A Smart Beta approach makes it possible to increase diversification and to improve risk management, while seeking to capture new sources of performance.

Today, at Amundi we consider two major families. The first is made up of approaches that focus on efficient risk management. These include diversification and "minimum variance" strategies, which aim to construct portfolios to minimize drawdowns.

The second is made up of factor-based strategies, which involve structuring a portfolio to take advantage of risk premia. Each of these factors can be implemented alone or as part of a multi-factor strategy. We believe allocation between factors must be risk-based to better address new market regimes and ensure diversification.

These approaches are currently quite popular with institutional investors. Initially used as a satellite to complement more traditional strategies, they have enjoyed a reverse trend over recent years. More and more investors are choosing to consider them as core to the portfolio, and to complement them with riskier satellite strategies in order to capture a potential short-term performance. This attractiveness is compounded by the fact that Smart Beta solutions can be easily customised to take into account the specific requirements of each investor. Of course, this shift relies on asset managers having the necessary skills and size for core portfolio management and thus be able to manage large volumes without compromising risk control or performance.

Three questions for Bruno Taillardat, Global head of Smart Beta & Factor Investing at Amundi

Can you tell us about Smart Beta at Amundi?
We manage over €12bn[1] in Smart Beta, covering both solutions based on efficient risk management and on factor investing. These solutions are available under passive (index-based or ETF) and active management. Our Smart Beta teams also leverage Amundi's other resources, such as our extensive quantitative research and ESG capabilities. This allows us to build customised products for our clients, one of Amundi's key strengths.

Could you give an example of a customised approach?
Amundi seeks to be a partner for our investors. We like to be involved in the development process quite early on in order to be able to provide solutions and advice best suited to investors' particular needs and constraints. For example, we can carry out a factor analysis of a portfolio so as to identify if there is a bias towards one of the factors and then possibly suggest diversification. We have also developed a number of solutions that combine our Smart Beta approach with ESG analysis or portfolio decarbonisation.

> "Amundi seeks to be a partner for our investors"

Do you also offer solutions which take into account regulatory constraints?
Institutional investors tend to express a keen interest in solutions that help lowering the cost of capital. This can be done by using option strategies or by offering a capital guarantee, an area in which Amundi has great expertise. Smart Beta solutions are suited to this because they make it possible, by construction, to absorb market downturns and thus to frame hedging costs.

1. Source: Amundi as of 31/03/2017

LIABILITY DRIVEN INVESTMENT MANAGER OF THE YEAR

Insight Investment

Insight remains a leading provider of LDI solutions due to constant innovation

Insight Investment's expertise in LDI, as well as fixed income generally, has enabled it to provide the key building blocks for an increasing number of UK pension scheme clients. It achieved substantial growth in AuM, including assets from both new clients and existing clients asking it to manage a greater proportion of their assets.

The depth of its relationships was demonstrated by the large amount of new business it won from existing clients. Over the year, of growth in LDI AuM of £106bn, over £19bn was from mandate extensions: "In other words, a substantial proportion of our growth was a result of satisfied clients asking us to manage more of their assets," says a spokesperson.

Integrated solutions that effectively combine its approaches to LDI and fixed income was a major theme of the year, as the focus of many pension schemes shifted towards aiming for greater certainty of income. Insight continued to develop new approaches and ideas over the year, maintaining its reputation as an innovator within the LDI market. A key theme for this year was developing solutions to reduce the funding costs associated with the reduction of liquidity in the repo markets.

Both its segregated and pooled fixed income and LDI mandates performed strongly over the year. Over the year to October 31 2016, over 80% of its full discretionary segregated LDI mandates were ahead of their performance target. Insight helped clients protect their funds against adverse outcomes and to seek potential returns more efficiently. Its proactive approach included providing strategy ideas to help pension schemes to design holistic scheme-specific strategies, according to the firm, and involved a high degree of bespoke tailoring through which it builds valuable long-lasting relationships.

Insight says that client advocacy lies at the heart of its business model. A major client service initiative last year was the development and launch of a dedicated online training portal.

FIDUCIARY MANAGER OF THE YEAR

Legal & General Investment Management

LGIM has tackled the thorny issue of conflicts of interest within the sector

Legal & General Investment Management (LGIM) launched its innovative fiduciary management service in 2016, offering full and flexible fiduciary management service, delivering advice, holistic portfolio management and clear and complete monitoring. It says its approach focuses resources where they can deliver the most value for clients; its unconstrained growth portfolio returned 14.6% over 2016, well above its 4.9% target.

LGIM has set new industry standards for managing conflicts of interest. It appointed Deloitte LLP as an independent third-party to review its offering and provide advice to ensure its clients' interests were put first and conflicts are identified and managed appropriately. It acts dynamically in asset allocation, it says, while avoiding the layers of fees and hidden trading costs that reduce performance or lead to higher risk in more traditional approaches.

"Our approach improves on the weaknesses of existing fiduciary management models, and we believe it delivers better outcomes for our clients," says a spokesperson. "Conflicts of interest can be a thorny issue for many fiduciary managers, but by appointing an independent third party to oversee our offering and advice we have demonstrated our commitment to putting our clients' interests first, and driving best practice in the industry."

Despite the relatively brief period since its launch, LGIM reports enthusiastic client take-up. It is already delivering its service to several schemes, and reports positive feedback: "We were introduced to fiduciary management by our investment consultant, but we ultimately chose LGIM because they were clearly best suited to meet our pension scheme requirements," says Lee Neesham, country manager, Yamaha Motor Europe NV, Branch UK.

While traditional fiduciary management models have focused largely on manager selection LGIM focuses its resources on the key determinant of portfolio outcomes, asset allocation. It does not delegate the underlying management of assets so it can ensure that consistent investment beliefs are applied throughout the whole portfolio.

FUND ADMINISTRATOR OF THE YEAR

RBC Investor & Treasury Services

The Canadian bank says its aim is to always increase efficiency and reduce risk

RBC Investor & Treasury Services (RBC I&TS) delivers fund administration services via a worldwide network of offices across four continents, calculating over two million net asset values annually. The firm is widely recognised as a leading provider of private equity and real estate fund administration solutions, with nearly $92bn in combined assets under administration at end the March 2017.

Recent developments include the launch of a new fund accounting application as part of RBC One, the company's single point of online access to its products and services. It has also launched an initiative to support the implementation of the Packaged Retail Investment and Insurance-based Products (PRIIPS) Key Information Document (KID).

A global exception monitoring and workflow management solution is now active and automating the NAV production workflow allowing for full straight through processing. In addition, RBC I&TS has partnered with a third-party to enhance its tax reporting offering to US investors requiring passive foreign investment company (PFIC) reporting.

As a prominent offshore provider, the firm has nearly 30 years of Ucits expertise. Its fund administration services cover 13 markets, with funds distributed across 80 countries and centres of excellence in Luxembourg and Dublin. Its fund administration capabilities are underpinned by robust control measures, high levels of automation and a strong quality culture, according to the firm.

The aim is always to increase efficiency and reduce risk. Teams work to deliver efficiency gains through a combination of automation, standardisation and reducing manual processes.

The approach is reflected in the company's multi-year technology strategy. RBC I&TS works closely with RBC's Innovation teams to ensure it is at the leading edge of developments around disruptive technologies, including blockchain, artificial intelligence and big data. ■

HEDGE FUND ADMINISTRATOR OF THE YEAR

BNP Paribas Securities Services

One of the firm's key strengths is its global platform with local expertise

The focus for BNP Paribas Securities Services in 2016 was to complete the integration of Prime Fund Services (PFS). This was achieved, with the retention of all key clients.

The integration didn't stop the firm from winning mandates either, including a US-based global hedge fund management company that selected the firm for administration, global custody, depositary, transfer agency, collateral management and IRP services for its European and international business units.

Additional client wins include a prominent Asian family office appointed us for administration, custody & financing, a prestigious European alternative fund manager and one of the world's largest alternative fund managers.

With service and technology central to its proposition, BNP Paribas Securities Services launched an innovation and digital lab during 2016 with offices in Paris and Dublin. The Dublin office is working with alternative asset manager clients to co-design technological solutions to challenges presented by a fast-changing business environment.

One of the firm's key strengths is its combination of a global platform and local expertise. A fully-integrated platform exists across all fund services: fund administration, investor services, global custody, depositary services, financing services, OTC derivatives middle office and valuation, performance and risk analytics. The bank's global footprint enables it to provide a harmonised offer across multiple jurisdictions and local expertise.

BNP Paribas Securities Services has also been able to integrate new global and local regulations fast, allowing clients understand and comply with changing markets and regulations ranging from the QFII in China to AIFMD, Ucits and Emir in Europe.

The firm currently has more than 500 alternative asset professionals across 10 locations including the US, Europe and Asia Pacific and services 1920 alternative funds – including around 1000 hedge funds and fund of hedge funds – with $440bn in assets under administration. ■

REAL ESTATE FUND ADMINISTRATOR OF THE YEAR

Societe Generale Securities Services

SGSS increased its market share it Europe's two largest fund domiciles

Last year was very positive for Societe Generale Securities Services (SGSS) regarding its fund administration businesses generally and its real estate business, which celebrated its ten-year anniversary in 2017, in particular.

Assets under administration (AuA), across the world and all asset classes, increased more than 2% and have reached for the first time more than €600bn. The increase is significant for funds that are domiciled in Luxembourg for cross-border distribution goals: they are increasing in terms of AuA by more than 10%.

The number of funds under administration is also considerably increased by more than 10% in Luxembourg and more than 20% in Ireland. The level of funds in the others main fund centres (France, Luxembourg, Italy) remained stable.

The key differentiator of SGSS remained in the capacity to adapt our range of services to the most specific needs of our clients, according to the firm. "We are also actively working to launch new offers and allow our customers to benefit from the last technologies. Over the last year, the capacity to manage internal data, and to answer to the requests of the regulator are two elements that have been key in the daily demands of our clients," says a spokesperson.

To face these demands, SGSS has been working closely with clients to ensure that its analytics solution aligns with their requirements: it added 36 additional variables in its multi-factor analytics solutions, it extended its market risk analysis across a broader range of markets, it upgraded its delivery channels for its analytics engine, and it extended the web interface on a white-labelled basis to a number of European asset management companies.

SGSS has improved its Luxembourg market share rankings, to second for European fund administrator and the seventh for administrator, according to the Monterey Insight Fund Report 2016. ■

PRIVATE EQUITY FUND ADMINISTRATOR OF THE YEAR

Northern Trust

Chicago-based bank's blockchain solution is adding efficiency to private equity administration

Northern Trust partnered with technology giant IBM and other key stakeholders to launch the world's first commercial deployment of blockchain technology for the private equity market in February 2017. This milestone followed an intensive project to create the innovation solution for the market and represents a potential game-changer for private equity administration and later other asset classes.

While private equity returns can be attractive, the infrastructure supporting it has not significantly benefited from innovation in recent years during a time when investors are seeking greater transparency, security and efficiency.

Northern Trust and IBM built a security-rich blockchain, or distributed ledger solution, based on the Hyperledger Fabric. It is available for use for managing the administration of a private equity fund managed by Unigestion, a Switzerland-based asset manager with $20bn in assets under management. The bank also conferred with a number of other private equity managers and asset owners and found strong support for the initiative.

It allows the fund to transfer ownership stakes and be managed, serviced and audited throughout the investment lifecycle on a transparent platform offering a single version of the truth to participants that gain access via secured means.

Having been focused on blockchain initiatives and proofs of value for the past two years, this is Northern Trust's first commercially-launched solution. It is an important first step to connecting participants much more effectively, including investors, managers, administrators, regulators, advisors and auditors. "Northern Trust has drawn on its global approach to cutting edge technologies and combined this with its understanding of regional markets such as Guernsey where the fund is domiciled," says a spokesperson.

While Northern Trust's primary focus has been delivering value to the private equity space, the architecture and technology is designed to accommodate a wide variety of asset classes. Northern Trust has $4.9trn assets under administration, including $73.7bn in private equity (at the end of 2016). The firm says it will explore expanding the solution into other asset classes and jurisdictions in the future. ■

EQUITIES MANAGER OF YEAR

bfinance

bfinance is applying its innovative approach to manager selection to an ever-wider range of asset classes

It has been a year of rapid innovation and service development for bfinance. Over the course of 2016-17 bfinance has propelled itself to the forefront manager selection for the nascent alternative risk premia (ARP) sector.

Before January 2016 the firm had not conducted any manager selection or research engagements in the ARP sector. However, building on its experience in the related fields of equity smart beta and hedge funds, between February 2016 and February 2017 the firm conducted over $1.8bn in ARP searches for global clients.

During 2016 the ARP sector developed dramatically, with the number of firms offering products expanding by more than 30%. Providing selection services required the development of new portfolio risk analytics, since ARP targets portfolio diversification. "The bfinance process ensured clients received up-to-date accurate insight and this was a key reason why investors have employed us," says a spokesperson.

The firm has also introduced new services over the last 12 months to support clients in the areas of renewable infrastructure, for which bfinance claims three times wider coverage, as well as taxable municipal bonds and asset pooling, designed ahead of creating of LGPS co-investment funds.

Bfinance is an independent service provider with a bespoke approach to manager selection. It has no pre-built buy-lists, allowing it to start each selection from a fresh perspective. It is independent of any fund management business, which eliminates conflicts of interest.

As it is targeted purely on selection its business depends on covering the widest universe of asset managers. bfinance reports that it is repeatedly told this factor is a key reason, alongside independence, why clients choose it for manager selection rather than their traditional full-spectrum consultant.

The bfinance spokesperson says its blind-bid process also achieves lower fees for its clients: "In an industry where asset owners are often at a structural and informational disadvantage relative to providers/sellers, bfinance strives to put power back in the hands of our clients." ■

MANCO PLATFORM OF THE YEAR

FundRock

The third-party management company has built on its success in Luxembourg with a new office in Dublin

It's been over two years since RBS Luxembourg was sold to BlackFin Capital Partners and became FundRock Management Company (FundRock). Since then the third-party management company, or manco, has expanded its reach and enhanced its offering in response to the growing needs of asset managers.

Setting up structures to distribute funds can be complex, time consuming and costly. Plugging in to FundRock's Ucits and AIFM platform significantly eases the process for clients.

Current uncertainty in the market, particularly after the UK's vote to leave the EU, means buy-side participants are identifying the best location for their funds. According to figures from the Association of the Luxembourg Fund Industry (Alfi), fund managers from the US and the UK are increasingly domiciling their funds in the grand duchy.

FundRock has more than 60 people based in Luxembourg, speaking in excess of 20 different languages, so is an ideal partner to assist asset managers on cross-border fund domiciles.

Ireland closely follows Luxembourg as a destination of choice. Earlier this year, FundRock opened a branch in Dublin and hired a head of legal and compliance, Louise Harris, to support its expansion.

Fund management and governance is FundRock's core business. This includes overseeing the investment management, marketing and central administration of funds, as well as establishing a risk management and due diligence process that protects investor interests.

FundRock also ensures that all regulatory reports relating to funds, such as AIFMD and Solvency II, are completed and sent to the regulator on time. In addition, the business introduces and connects clients to partners, from legal advisers to auditors, tax agents and local custodians.

One of the highlights for Fundrock last year was partnering with Standard Chartered to launch a platform that gives managers in Asia and the Middle East room to grow in Luxembourg, until they have the scale to provide their own infrastructure.

This incubator approach provides complete infrastructure including a full licence to operate, a distribution network and an established operating model with all third-party providers in place, plus a robust compliance, risk, control environment. ■

> TRANSITION MANAGER OF THE YEAR

Citi TM

The global transition manager is expanding its team to manage growth in its business

In 2016 Citi TM executed in excess of 150 full-service transition events, all executed on time, efficiently and without error with a total value of assets transitioned at $150bn, according to the firm.

In 2017, Citi TM continued to grow in terms of both new clients, including six large new clients, and transition activity, with an increase exceeding 67% over 2016 year-to-date, across its three transition management (TM) offices in London, New York and Sydney.

"This was a great success for Citi TM considering it was a year witnessing a significant increase in global market volatility with macro events such as the UK Referendum and the US Elections, seeing transaction volumes decrease from both a transitions volume perspective as well as the broader market," says a spokesperson.

Citi TM has also expanded its interim management service. As some clients take time to decide on a new manager, it currently looking after a $500m passive equity portfolio.

Citi TM has continued to invest in its business, including three additional hires across its global team (two in Emea), while some of its competitors were retrenching.

The Citi TM team is situated on the private side of Citi Global Markets. "We work on a designated private side floor and are separated by strict Chinese Walls from the trading areas of Citi Global Markets and are continuously monitored by Citi Legal and Citi Compliance to ensure client information remains completely protected and confidential."

All project management, trading and settlement is controlled by Citi so there is typically very limited involvement of third parties, enhancing confidentiality.

Citi TM provides clients with 24-hour global coverage and all three offices use the same systems, project management approach and multi-asset class capabilities. Citi TM has not or been required to compensate any clients for errors in the past seven years.

"Our primary goal is not to execute the highest number of transitions, but rather to deliver the best service for our clients," adds the spokesperson. ■

> PRIME BROKER OF THE YEAR

Societe Generale Prime Services

Societe Generale Prime Services is steadily increasing its revenues and looks set to increase its global market share

Revenues for the Societe Generale Prime Services business, sitting within Corporate & Investment Banking, totalled €176m ($201m) in the first quarter of 2017, up 9.3% on the same period last year.

The revenue boost was the highest level since the integration of Newedge and is a direct result of the firm's successful formula – leveraging the strength of the investment bank with the multi-asset class, multi-instrument prime brokerage. The early part of 2017 saw healthy commercial momentum particularly in execution and financing activities, the bank pointed out in its most recent quarterly results. As a result, the business is actively pursuing commercial expansion to increase its prime services market share by 1.9 points to 14.8%.

Cross-asset solutions are in place across equities, fixed income, foreign exchange and commodities via physical or synthetic instruments. The division also provides customised solutions through bespoke financial engineering services, helping hedge funds launch, support and build their business. With access to around 130 markets and execution venues, the unit has a deep and stable global equity inventory from both internal and external sources.

Portfolio cross-margin capabilities are well established and a range of innovative financing solutions are on officer across the complete range of securities finance and delta one structures: swap, stock loan, repo and futures as well as synthetic financing exposure to emerging & developed markets.

The capital introduction team serve investors and hedge funds globally and there is an established cross-asset research unit with strong expertise across regions, assets and themes.

The Societe Generale Prime Services proposition includes: global execution services, cross-asset financing, portfolio margining, financial engineering, intermediation, listed and OTC clearing and value added services.

On June 21 Societe Generale CIB announced the completion of the project to combine its execution teams. The final stage of this integration was for the high-touch cash equity team to move into the global execution services team in Societe Generale Prime Services. ■

Eurex Exchange

The derivatives exchange's innovative new products offer asset managers volatility protection and opportunities for yield

Eurex Exchange is the first recipient of the exchange of the year award, which was created this year to measuring excellence in the exchange world across asset classes and geographies.

The derivatives arm of the Deutsche Bourse group, Eurex Exchange offers trading and clearing in a wide range of instruments from interest rates to dividends. Asset managers surveyed for the award praised the exchange's understanding of their requirements across both trading and clearing business.

Particular praise was given for Eurex Clearing's ISA Direct client clearing model, which a number of firms said they had engaged with during the year for the first time. The firm has also made great strides during the year with its securities lending clearing service, which reduces counterparty risk and improves efficiencies in the market.

It now offers clearing in OTC and exchange traded derivatives, repo and securities lending to bring the full spectrum of clearing to asset managers. On the trading side, Eurex's continued commitment to the conversion of over-the-counter products in to exchange traded derivatives was praised by respondents.

During the year it launched total return futures and continued to invest in growing the fledgling exchange traded FX market. In addition it listed the LDX Constant Maturity Future, which one asset manager described as "the most innovative rates product in a generation" despite its muted trading volumes to date.

As derivatives increasingly come back on to the radar for asset managers as way of increasing yield and protecting against market volatility, Eurex's understanding of the specific requirements of asset managers will enable the exchange to continue to grow participation.

Not only are asset managers seeking lower margin, more efficient means of trading derivatives through futurised OTC products traded on exchange, Eurex is constantly adding new products, such as the expansion of its MSCI suite, that facilitate portfolio diversification and reach.

FINTECH INNOVATION OF THE YEAR

EquiChain

EquiChain enables the direct interaction and the exchange of value between market participants

EquiChain's distributed ledger technology platform redefines the investment management and capital markets value chain for emerging markets by equipping asset managers with a one-stop suite of functions including investment management, custody, brokerage and transfer agency, while connecting them directly with market infrastructure such as CSDs and exchanges.

Asset managers can now invest with greater efficiency, less investment risk and with greatly reduced operational costs.

EquiChain operates two invitation-only working groups, one for asset managers and the other for market infrastructure providers. Clients within these groups include Janus Henderson Investors, Legal & General Investment Management, Bahrain Bourse, Abu Dhabi Global Market and the Qatar Stock Exchange.

EquiChain is differentiated by its people, culture and deep industry knowledge. With its headquarters in London, regional offices in Hong Kong and the Middle East, EquiChain has a near 50/50 gender ratio and seven different nationalities.

The team comprises of globally-recognised industry veterans from finance and technology backgrounds. The company's management team is often quoted in a variety of news sources and regularly speak at major industry conferences to advance the evolution of the investment management industry.

EquiChain has a clear strategy and execution plan supported by its world class advisory board including Peter Sands, former CEO Standard Chartered Bank, Markus Ruetimann, former Group COO of Schroders, Sonia Rossetti, senior banker & chair Swift UK NMG and Professor Eva Micheler of the London School of Economics.

EquiChain is committed to providing its clients with technological solutions that position them as leaders in the next generation of asset management. EquiChain's platform is a hybrid system which consolidates the currently siloed functions of a securities transaction such as an asset manager, custodian, broker, exchange and central securities depository. ■

BEST TECHNOLOGY PRODUCT: REGULATORY CHANGE

Droit

The international regtech firm has grown substantially and has on-boarded many top-tier institutions

Originally designed as a solution to help banks comply with Dodd-Frank, Droit's technology platform, Adept, has evolved into a unique tool that isolates data, metadata and decision logic from infrastructural software components.

Currently serving seven of the world's largest banks and financial institutions, with others slated to be fully on-boarded by mid-2017, Droit acts as a real-time guide to navigate regulatory filings.

In November 2016, Droit completed a Series A investment round of $16m led by Goldman Sachs, Wells Fargo and Pivot Investment Partners.

In February 2017, Droit expanded its presence in Europe by hiring additional staff in London, including a new head of business development. Two weeks later, Droit announced a partnership with Trax (part of MarketAxess) for an Emir eligibility and derivatives reporting service.

With new products scheduled for release in 2017 and further expansion into the EU and Asia, Droit continues to forge a rapid growth trajectory as one of the industry's leading providers of regulatory reporting solutions.

Adept provides users with a robust adaptable framework that is capable of keeping pace with market structure unpredictability and regulatory developments for the global derivatives markets. Its proprietary infrastructure design unifies front-office pre-trade decision-making with post-trade compliance analysis for unparalleled regulatory transparency across trade lifecycles.

One of the primary reasons that Adept has been successful is that, not only is data becoming more valuable in making efficient trade decisions, compiling data and understanding regulatory and compliance purposes is overwhelming and arduous.

Additionally, there is a growing demand for point-of-trade compliance for the full suite of global, often complex, derivatives that determine which instrument can be traded where, with whom and when. Droit's Adept platform comprehensively covers the global regulatory framework, including all-G20 aligned regimes.

Demand for accurate and comprehensive regulatory logic is being fuelled by the imminent clearing mandate in Europe, the complexity of bilateral margining and the ongoing efforts to harmonise the US and European derivatives markets. ■

INDEX PROVIDER OF THE YEAR

MSCI

The index provider is applying its 40-years of experience to modern issues such as ESG and gender diversity

During the last 12 months assets benchmarked to MSCI indexes globally exceeded $11trn. Within this, assets exceeding $2.8trn are benchmarked to MSCI ACWI Indexes, more than $184bn is benchmarked to MSCI Factor Indexes and more than $58bn is benchmarked to its ESG-based indexes, all at the end of 2016.

The MSCI ESG Universal Indexes family was launched in February 2017. The innovative indexes, aimed at universal owners, re-weight free-float market cap weights based upon certain ESG metrics. It seeks to increase exposure to those companies demonstrating a robust ESG profile while minimising exclusions from the parent index.

In Sept 2016 the Wealth Management Association (WMA) announced it would end its 20-year relationship with FTSE as provider of its Private Investor Index Series; in March 2017 MSCI took over as sole index provider. The association stated: "The WMA board has been impressed with MSCI's willingness to consider these needs and deliver solutions where necessary."

The MSCI World Women's Leadership Index, representing companies that exhibit a commitment to gender diversity on their boards and in leadership positions, was launched in July 2016.

MSCI has been at the forefront of index construction and maintenance for more than 40 years, launching its first global equity indexes in 1969. Globalisation and the rapid integration of markets has led MSCI to explore alternative approaches to categorising the global equity universe and product development.

MSCI has remained an independent market leader by expanding and enhancing its offering. "We reflect the evolving and complex needs of the institutional investment community with ground breaking new products, innovative research, high quality data and dedicated client support," says a spokesperson. "We realise that in today's challenging market environment, it's more important than ever to have confidence in your index provider. Today, MSCI continues to lead innovation in areas our clients tell us are most important to them."

RISK MANAGEMENT SYSTEM OF THE YEAR

Axioma

Cloud-based Axioma Risk is a constantly evolving solution for multi-asset class investment

Axioma Risk is a cloud-based multi-asset class risk management platform offering asset managers, asset owners and hedge funds a flexible, scalable and customised risk solution for the complex and evolving multi-asset class investment environment.

Axioma Risk sets itself apart from its competitors through its unique flexibility and the continuous development of tools and solutions for an evolving market. On a daily basis, thousands of users trading trillions of dollars rely on Axioma's software and risk models. It is recognised as an industry innovator and appreciated for its products' reliability and problem-solving functionality.

Over the past twelve months, Axioma has invested significantly in its multi-asset class capabilities. This has included the acquisition of ConceptONE, which provides clients with a multi-asset class solution that aligns the front, middle and back offices.

Axioma Risk's key functionalities lie in the delivery of extensive risk measures for portfolios with different underlying strategies, asset classes and investment horizons. Further, Axioma Risk provides analytics with integrated market data to over five million active and ten million inactive fixed income, derivative and equity securities across all major currencies and liquid emerging markets.

The flexibility of Axioma Risk means that clients can run scenarios, stress tests and analytics through cloud-based technology and interactivity, effectively responding to changes in the investment outlook.

Axioma Risk was launched in 2013 and bolstered by the acquisition of ConceptONE's regulatory and risk-reporting units in 2016. "Axioma's continuous application of research and analysis methods has ensured the business can consistently deliver tailored, flexible solutions, positioning itself a leader in the development of new and innovative solutions," adds a spokesperson.

Axioma has expanded its managerial expertise with several executive hires, bringing the company's headcount to 200. It increased its international presence with the opening of offices in Frankfurt, Paris, Tokyo and Melbourne. While internal legacy solutions can struggle to keep up with new asset classes and instruments Axioma Risk's innovative design allows to maintain a continuously leading position, according to the firm.

CLEARING HOUSE OF THE YEAR

LCH

The world's largest clearing house has made significant product enhancements and seen volumes increase in the past year

LCH operates an open access model, enabling unprecedented choice and greater efficiencies for market participants. It offers clearing services across asset classes for a variety of market participants of all sizes, from the largest dealers to smaller regional banks and pension funds, while maintaining a laser-focus on offering the highest service and risk management standards.

SwapClear continues to lead in clearing inflation swaps, with volumes up five-times over the past year. Inflation cleared notional in March 2017 reached $397bn, up from $51bn in March 2016. There are more buy-side participants than ever before, according to the firm. SwapClear also continues to lead interest rate swaps clearing, clearing $666 trillion in notional in 2016.

LCH has announced plans to launch LCH SwapAgent, a service for the non-cleared derivatives market, designed to standardise and simplify trade processing, margining and payment processing for bilateral trading. 14 major dealers have confirmed their support the service.

LCH's FX clearing service ForexClear has passed several milestones this year. Since the introduction of the non-cleared margin rules in September 2016, the average monthly notional cleared has increased by 500%. It has now cleared over $10trn in notional since launch in 2012.

Clearing volumes and market share continue to grow for CDSClear. In March, LCH announced that CDSClear's first European buy-side client, Amundi, went live. In December, the SEC approved LCH to clear single-name CDS for US clients.

LCH takes seriously its role as a systemically important institution and has issued a number of whitepapers on the topic of CCP risk management and stress testing. LCH continues to review and improve processes, adding new products that deliver significant capital and operational efficiencies, such as inflation swaps clearing and compression.

"LCH is a leading global clearing house that is recognised by its members and clients as maintaining the highest of industry standards, while offering innovative solutions that drive greater efficiencies," says a spokesperson."

COLLATERAL MANAGEMENT SYSTEM OF THE YEAR

Citi

Citi has launched several innovative services to meet regulatory challenges

Citi acquired new clients in all regions and more than doubled the volume of collateral agreements on its platform in 12 months. Citi guided its clients through the complexities of the uncleared margin rules, ensuring new operating models and same-day margining capabilities were tested and deployed globally ahead of the planned big-bang transition on March 1 2017.

Citi developed and launched several innovative new services to meet the regulatory challenges faced by its clients. It launched its initial margin estimator for cleared swaps across all users' clearing brokers; its comprehensive simulation capabilities empower clients to reduce funding requirements, better understand next day calls and more efficiently instruct the allocation of assets.

Citi introduced intra-day cash predictions in response to the uncleared margin rules. By simulating collateral allocations in advance of the margin call process, Citi enables its clients to efficiently manage excess cash during the narrow trading window for cash products.

It also launched its Segregated Initial Margin service, leveraging its global custody network to help its institutional clients meet new regulatory requirements, innovatively supporting both cash and non-cash collateral.

Citi's collateral management service focuses on the needs of the client group of investor. It has been a pioneer in creating an integrated buy-side collateral platform, which provides a single, automated collateral service solution spanning the full complexity of global asset managers' requirements. Clients can collateralise any obligation, via any eligible asset, held at any custodian, facing any clearing broker or bilateral counterparty while all movements are tracked through to settlement in real-time, according to the firm.

Clients can rely on Citi to ensure their margin obligations are covered and their use of collateral is optimised for every fund, without the need for the fund managers to ring-fence assets or maintain buffer accounts. "Citi is the only firm which is structured to provide a fully integrated derivatives offering, including execution, clearing, middle office, custody and margining," adds a spokesperson.

PEOPLE moves

ASSET MANAGEMENT

Kathryn Sweeney joins SSGA

State Street Global Advisors (SSGA) has hired former Goldman Sachs global head of distribution Kathryn Sweeney to run Americas institutional sales of the fund manager's flagship SPDR exchange-traded fund.

KATHRYN SWEENEY

She will be based in Boston and will report to Nick Good, co-head with Rory Tobin of the global SPDR business. She will start her new role in the autumn.

In the newly created role, Sweeney will be responsible for defining and leading the sales strategy and will also collaborate with the Americas Institutional Client Group (ICG) team under Barry Smith, head of the Americas. She joins SSGA after 19 years at Goldman Sachs, where she helped build its ETF business, first in London and then New York.

Legg Mason hires Alexander Barry

US money manager Legg Mason has hired Alexander Barry, who left JP Morgan AM after 20 years, as its new London-based head of sales. He will start in August, reporting to head of Europe and Americas distribution Justin Eede, and lead distribution of a range of actively-managed UK- and Dublin-domiciled equity, fixed income and alternative funds to the UK wholesale and institutional market.

He replaces Adam Gent, who announced in December 2016 he was leaving Legg Mason after nine years. Gent joined Allianz Global Investors in March as head of retail wholesale, Northern Europe, a new role. Eede is handling Gent's responsibilities in the interim.

Barry will relocate from New York, where he has been serving as global strategic relationship manager for the last 10 years. He joined JP Morgan in 1998.

Franklin Templeton creates shariah CEO role

Franklin Templeton Investments has appointed Nor Hanifah Hashim into the expanded role of CEO of its shariah-compliant entity in Malaysia, Franklin Templeton GSC (FTGSC) Asset Management. Hashim will also continue her role as head of Malaysia fixed income and sukuk.

Based in Kuala Lumpur, Hashim is responsible for identifying market trends to formulate new shariah product ideas to increase market presence of FTGSC in Malaysia. She joined the firm in 2011 and oversaw the launch of the Franklin Malaysia Sukuk Fund in November 2015. She is also working closely with the fixed income team in the Middle East on global Sukuk mandates, supporting Franklin Templeton's global fixed income capabilities.

CUSTODY & FUND SERVICES

Ronan Singh heads to BNY Mellon

Ronan Singh has been appointed as head of asset servicing for Asia Pacific at BNY Mellon, effective June 27, leaving Northern Trust after 17 years. Based in Singapore, Singh will report to Samir Pandiri, executive vice president and CEO of asset servicing. Singh replaces Francis Braeckevelt, who had been serving on an interim basis, after Michael Chan left the role in August 2016 after nine years.

Singh will drive the execution of growth opportunities for the Asia Pacific business, leveraging BNY's cloud-based technology platforms, including the Nexen digital investments ecosystems and Eagle Investment Systems. Singh will also join BNY's Asia Pacific's leadership council and extended leadership team.

Intertrust expands global fund services

Intertrust, the global provider of trust, corporate and fund services, has created a string of new roles in its fund services team across its regional offices. The new hires all report to Paul Lawrence, global head of fund services at Intertrust, and their local managing directors on an operational day-to-day basis.

Michael Johnson joins as head of funds in the Channel Islands. James Donnan has been appointed head of fund services in Hong Kong office. In Luxembourg, Christine Jacquemart is the commercial director of fund services and Harald Thul the director of alternative investment services. Joost Broekhuis is executive director of capital markets and funds services in Amsterdam.

HSBC hires Terry Alleyne

London-based asset servicing expert Terry Alleyne has left Citi to join HSBC Securities Services in a relationship management role will involve working closely with HSBC's insurance clients across Europe. He will report to Linda McLennon, director of the bank's European client management unit.

Alleyne joined Citi in 1993 and was most recently the head of custody business management for its investor services business across Emea. He worked for JP Morgan's custody business earlier in his career.

Matthew Bax heads to Citigroup

Citigroup has appointed Matthew Bax, who had been with JP Morgan since 2004, to the newly created role of Emea head of sales for custody and fund services.

London-based Bax is responsible for driving the growth of the European custody and fund services platform, and further strengthening its client franchise. He reports regionally to London-based Emea head of investor services sales Danny Caplan. Globally, Bax reports to Pat Curtin, Citigroup's New York-based global head of sales and client management.

DERIVATIVES

CFTC commissioner Bowen to exit

Sharon Bowen, the only Democratic commissioner at the Commodity Futures Trading Commission (CFTC), is stepping down from her post in the next few months, leaving the US derivatives watchdog with only one serving commissioner.

SHARON BOWEN

Bowen, who joined the CFTC in mid-2014, made the announcement in a speech lamenting the lack of progress since the departure of former chairman Timothy Massad.

"Without a full complement of commissioners to consider the far-reaching implications of our decisions, we are frozen in place while the markets we regulate are moving faster every day. This fact is intolerable."

Ali Hackett quits LCH

LCH's global head of sales Ali Hackett resigned her post in June, in the latest senior change at the LSE Group-owned clearing house. Hackett, global head of sales and relationship management at LCH and the head of the LSE's US operations based in New York, left the firm in early July.

Hackett joined in 2015. Before this she worked for four years at US exchange giant CME Group, where she was a senior MD of global client development and sales. Before this she worked for a decade at Citigroup where she was latterly co-head of the US bank's prime finance arm.

Citigroup's European head of futures to leave

Citigroup's European head of futures, clearing and collateral Silas Findley is set to leave.

Findley, who has been Citigroup's London-based managing director, head of futures, clearing and collateral for Emea for nearly three years, is one of the US investment bank's top derivatives experts in London.

He joined Citigroup's Global Markets unit in New York as credit derivative attorney before being promoted to managing director in early 2013 and moving to London later that year as the bank's European head of over-the-counter clearing.

Morgan Stanley hires former CS salesman Cottrell

Morgan Stanley has hired an experienced former Credit Suisse and UBS futures salesman just weeks after one of the US bank's European derivatives sales directors left the firm, the latest in a swathe of recent moves involving London-based investment banks.

Morgan Stanley hired Paul Cottrell, a futures and options salesperson with almost 20 years' experience, to its listed derivatives sales trading team in London. Cottrell was latterly with Credit Suisse where he was a listed derivatives sales director after more than eight years with its London arm.

Before joining UBS in June 2009, Cottrell spent more than 11 years at UBS in London where he worked in listed derivatives sales for seven-and-a-half years after three-and-a-half in the middle office.

SECURITIES FINANCE

Ex-HSBC Paul Busby joins fintech

Paul Busby has joined Enso Financial Analytics as the firm's global head of sales, having recently left his role as a senior exec for prime finance for the Americas region at HSBC.

PAUL BUSBY

New York-based Busby has spent over 25 years in the equity finance industry, including 18 years at Deutsche Bank, and described his new role at Enso as a natural next step in his career.

"As a fintech company, Enso couldn't be more aligned to the prime brokerage and alterative investment businesses," Busby told Global Investor.

Jon Yalmokas heads to RBC

Jon Yalmokas has resigned from his post as head of US prime brokerage at Bank of America Merrill Lynch (BAML) and is heading to RBC. The New York-based executive left BAML in June after having worked for the firm since 2011. Yalmokas will be joining the Canadian bank later this year.

Global Investor understands that he will continue to be based in New York where he will build out RBC's financing business for investment managers. Before joining BAML, the executive worked at UBS as a managing director within the Swiss bank's prime brokerage unit.

Tomi Adu takes London Scotiabank role

Tomi Adu has joined Scotiabank as an associate director in a newly-created role focusing on client capital management and funding. Adu was previously at UBS, where she focused on executing financing solutions across multiple asset classes and structures.

Scotiabank said in a statement that this new role, based in London, will help shape and deliver financing strategies and optimise financial resources across the collateral management & funding. She will also support Scotiabank's growing prime services businesses globally.

HSBC creates two new roles

HSBC is set to bolster its securities lending business with two new hires following the departure of Grant Mackenzie. Mackenzie, most recently head of securities lending trading, left the company in May. He had worked at HSBC since 1996 covering global equities and bonds on the agency lending desk.

Global Investor can reveal that the bank plans to hire a senior executive focused on securities lending sales and oversight in London. The firm is also creating a new Asia-based role focused on securities lending sales and strategy. Both positions are expected to be filled within the coming months.

HILTON’S CORNER

The battle to remain relevant

Anthony Hilton says that asset managers need to consider innovative approaches if they are to continue to add value

The need to curry favour with influential investment consultants – often more concerned with process than performance – creates conditions that discourage innovation, imagination and a willingness to go against the crowd.

At the same time, the high costs associated with genuine active management, interacting with fund management group business strategies, discourages individual managers from departing too far from the benchmarks by which they are judged.

The difficulties active asset managers face in generating above-market returns on a sustained basis in these conditions is reflected in the surge in popularity of passive index-tracking strategies.

With this business background, a macroeconomic environment of low investment returns and little to no inflation, it is only to be expected that the majority of active asset managers struggle to deliver significant out-performance.

But asset owners want and, in most cases need, something more. Those with particularly long time horizons – sovereign wealth funds being a case in point – are devoting ever more of their money to illiquid and unlisted investments in order to capture a higher return by harvesting the illiquidity premium. At the same time they are becoming ever more aware of the unrewarded risks they are taking because of the developing impact of climate change, demographics and water shortages, all of which could have material effects on the value of portfolios in years to come.

Amundi, the French firm which has risen in the last few years to be Europe’s largest independent asset manager has a particular approach to these challenges and sees its future at least in part in developing new products in partnership with its clients rather than simply as a supplier to them.

There are already a couple of examples. One of the difficulties with illiquid investments in areas such as infrastructure is that few asset managers have any idea what to do when something goes wrong. They cannot easily sell out because by definition the assets are illiquid; but they cannot improve the asset’s operational performance because this is usually an area where they lack the required skills.

One solution last year was to form a partnership with EDF, the French energy utility to raise a €1.5bn fund to invest in renewable energy strategies and projects. Amundi has the clout and track record to raise the money; EDF provides the credibility and expertise to be able to assess the merits of projects from the operational perspective.

Earlier this year came a second and similarly innovative idea which saw the firm partner with the International Finance Corporation, part of the World Bank, to create and seed a green bond designed to channel finance into environmentally-friendly projects in emerging markets, thereby providing funding for projects in countries that currently could not support a bond issue.

IFC has provided $325m towards what ultimately, when it is fully invested in about seven years’ time, will be a $2bn fund. In addition, the bank has also put in place an arrangement where it will absorb the first loss on any of the projects as a further way to reduce the risk profile associated with investing in these difficult markets. Meanwhile Amundi will provide training and technical support for financial institutions in these emerging markets to give them the skills to be able to launch bonds that would be suitable for the fund to buy.

This is quite a stretch beyond traditional asset management but that is the way the world is going. If the mainstream becomes commoditised the specialists have to move into ever more sophisticated areas in order to add value. In this, asset management is no different from any other business.

ANTHONY HILTON
City Editor of the London Evening Standard

“If the mainstream becomes commoditised the specialists have to move into ever more sophisticated areas”

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