

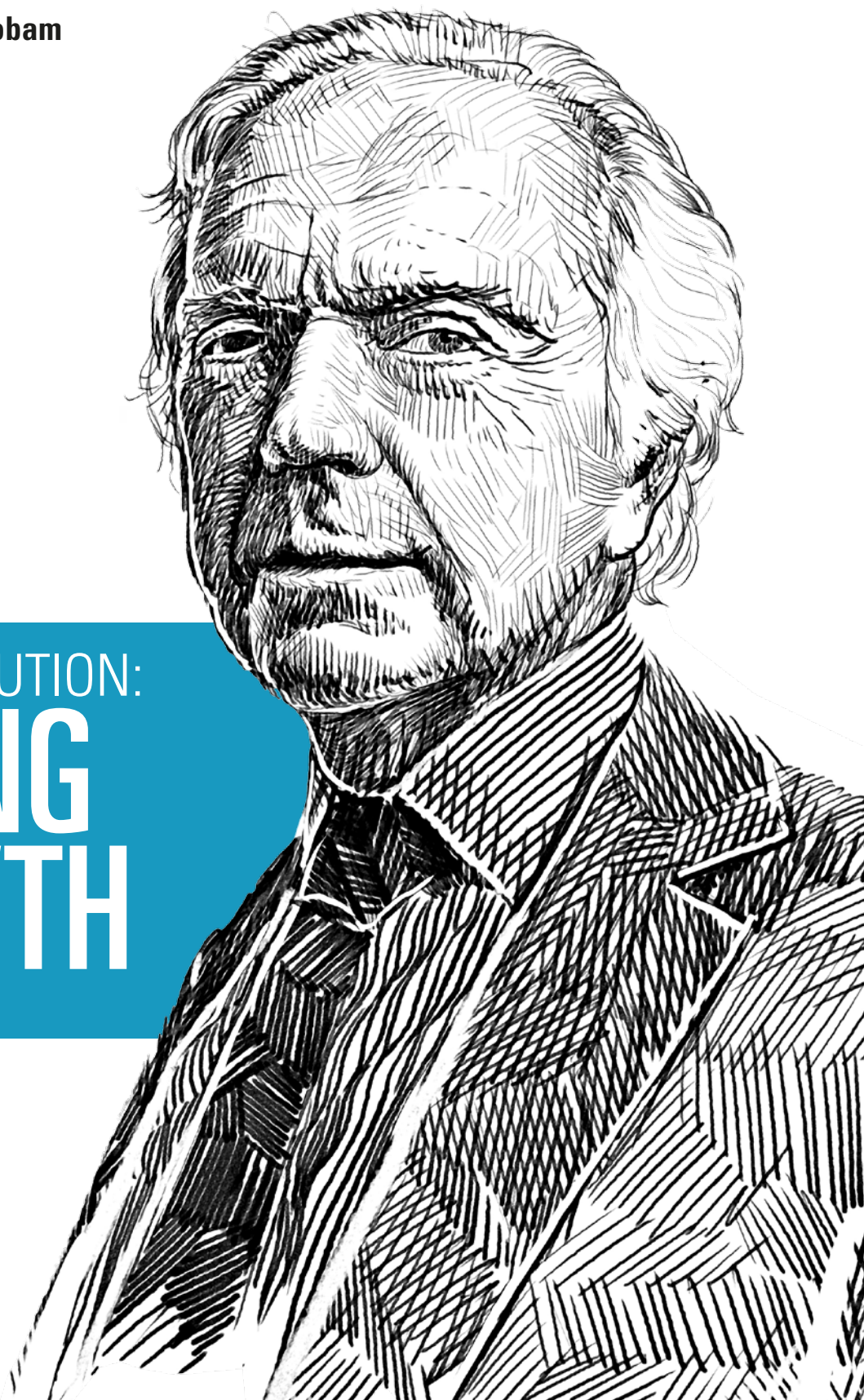
Reaching **INVESTORS**

#1

The magazine of FundGlobam

FUND DISTRIBUTION:
**DRIVING
GROWTH**

EDOUARD CARMIGNAC



CONTENT

5. **EDITO**
6. **ANALYSIS**
Yves Tambour (FundGlobam):
2016 – The year to master
fund distribution
8. **CROSS-BORDER**
Yann Power (FundGlobam):
Distribution: much more
than just registration
10. **FUND
DISTRIBUTION**
Driving growth
12. **FOCUS SWISS
MARKET**
The Swiss market in figures
14. **GOVERNANCE**
Eric Chinchon (MEBS):
Effective governance
of distribution
16. **REGULATION**
Pierre-Thibault Aveline
de Rossignol (FundGlobam):
The PRIIPs KID – It's now
18. **OUR PARTNER**
ACOLIN: Opening the door to
Europe's funds market

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Cover photo: 360Crossmedia/T.M.
Print run: 500 copies



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EDITO

Welcome to Reaching investors, the magazine focusing on the investor side of the investment fund business.

Reaching investors is a media whose objective is to share points of view on the business opportunities in fund distribution, and the management of the inherent risks.

The magazine aims to be the voice of asset managers, distributors and service providers who are focused on the many aspects of fund distribution, and, of course, the investors themselves.

In this edition, the sponsor, FundGlobam, launches the debate.

We hope you enjoy this edition. In the next edition, we look forward to reading your views.

Kind regards,

YVES TAMBOUR

Managing Director and Partner, FundGlobam

ANALYSIS

YVES TAMBOUR

Managing Director and Partner, FundGlobam

2016 — THE YEAR TO MASTER FUND DISTRIBUTION

DISTRIBUTION IS PERCEIVED AS BEING AT THE END OF THE INVESTMENT FUND VALUE CHAIN. IN REALITY, DISTRIBUTION IS THE FIRST LINK, AND THE MOST CRITICAL ONE.

DISTRIBUTION DRIVES GROWTH

The savings and investment industries, such as asset management, are different from most industries. In most industries, the manufacturer purchases the raw materials, transforms them into the product and sells them to the intermediary or to the client. In asset management, the manufacturer obtains the main raw material, generally cash, from the client himself. The client's objective is to meet a performance target; he bears the risk of entrusting the assets to the manufacturer. If the asset manager is to continue to grow during a difficult economic environment, less impressive performance must be compensated by increases in the volume of the assets collected. This means having the right products and an excellent distribution strategy focusing on the key opportunities, for example in emerging markets and Asia.

CRITICAL SIZE

Too many European investment funds are below the critical profitability threshold of €50 million – currently 39% of publicly distributed funds.

In Europe, cross-border distribution costs are a significant portion of the expenses borne by most funds.

Each fund bears fixed and variable operational and compliance costs for each distribution market.

Looking at publicly distributed funds on a distribution market by market basis, 75% raise less than €50 million per distribution market¹.

European asset managers should be collecting much more in each market to deliver better performance and remain profitable; clearly, many are failing to master their cross-border distribution business model, costs and risks.



CHALLENGES TO THE INDUSTRY

I see three key emerging trends:

1. The inexorable evolution of investor behaviour, for example as generation Y forces asset managers into the digital age
2. Evolution of the product towards lower cost higher volume products and, in the professional investor space, out of private placement to AIFMD passported products
3. Simplification of the currently complex, risky and expensive distribution model both at the sales and operational levels. Today, it is possible to choose a share and buy it in a couple of clicks; there is no reason why the same should not be possible for investment funds

Technology will be behind all of these developments, delivering, for example, the FinTech, integrated distribution and settlement platforms, etc.

1. Source: FundGlobam analysis of Broadridge data

75%
OF FUNDS RAISE AN
AVERAGE OF LESS
THAN €50 MILLION PER
DISTRIBUTION MARKET

MORE INFORMATION

www.FundGlobam.com
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CROSS-BORDER

YANN POWER

General manager, Head of Market Insight, FundGlobam

DISTRIBUTION: MUCH MORE THAN JUST REGISTRATION

MANY ASSET MANAGERS VIEW CROSS-BORDER FUND REGISTRATION AS A FORMALITY. FOR THOSE WHO ARE GETTING CROSS-BORDER FUND REGISTRATION RIGHT, GOING INTO A FOREIGN MARKET IS BUSINESS DECISION AND REGISTRATION IS ONE SMALL STEP IN A COMPLEX DISTRIBUTION PROCESS. TRUE ADDED-VALUE DISTRIBUTION SERVICE TAKES YOU WELL BEYOND JUST REGISTRATION.

ELIGIBLE? FOR WHAT SORT OF DISTRIBUTION?

There are generally two or three possible models to target investors in most target distribution markets:

- Public distribution – marketing to all types of investors subject to a fully regulated regime
- Public offer – listing on a securities market subject, inter alia, to relevant listing requirements for securities
- Private placement – placement with a limited circle of investors, such as qualified investors, subject to less onerous regulatory requirements than public distribution

The asset manager should understand the distribution models in the target jurisdiction, the regulatory requirements and limitations, and verify whether the fund is eligible for registration under one or more of these models.

A PROFITABLE VENTURE?

The asset manager should aim to raise sufficient capital in the target market to be profitable, taking into account all the costs related to the marketing and registration of the fund.

Registration should be a business decision based on:

- Access to sales forces to market the fund locally – generally local distribution channels
- An analysis of the market potential of its fund in the target market, covering, inter alia, potential investors, appetite for the type of product, competition from local and foreign funds, distribution models and existing local relationships

“TO SUCCESSFULLY PREPARE FOR A CROSS-BORDER FUND DISTRIBUTION, A MANAGEMENT COMPANY SHOULD INVEST TO UNDERSTAND THE LOCAL REGULATORY REQUIREMENTS.”

Yann Power

CHECKLIST

What does an asset manager need to master before registering a fund?

- Distribution channels ☐
- Local agents in the target jurisdiction ☐
- Fund documentation and information:
 - Content ☐
 - Disclosure ☐
- Website ☐
- Marketing materials ☐

WEBSITE

Key questions:

- Own website or third party?
- Customised to jurisdiction?
- Customised to investor?
- Approval?
- Local content requirements?
- Disclaimer?
- Legal information?
- Distribution channel requirements?
- Archive?

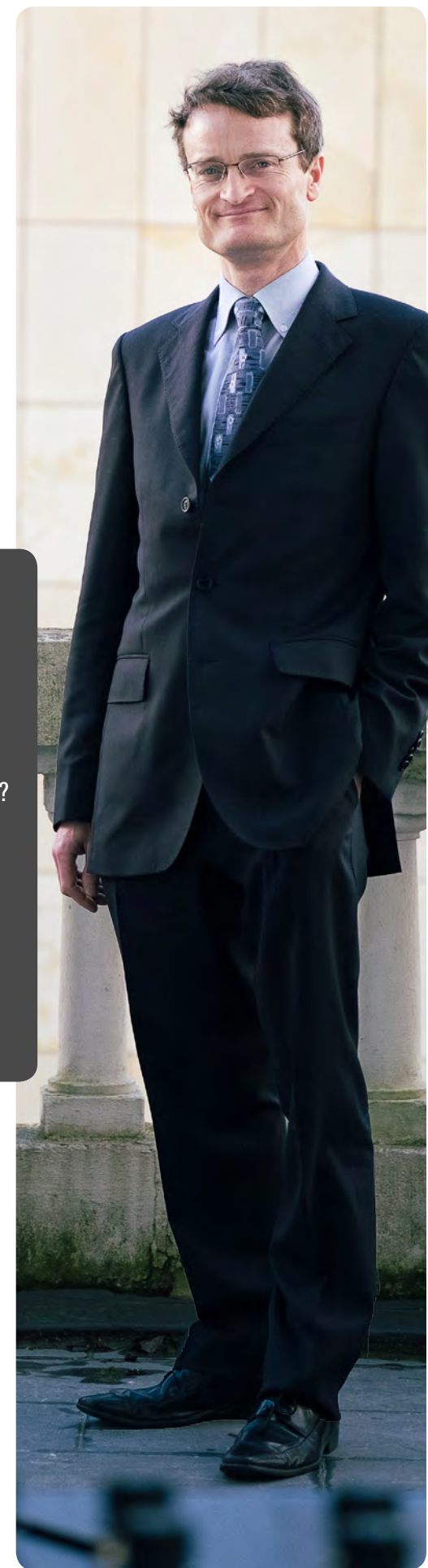
WELL PREPARED?

To successfully prepare for a cross-border fund distribution, a management company should invest to understand the local regulatory requirements with a view to complying from day one and on an ongoing basis.

In the short term, well-prepared fund distribution is much more efficient and substantially increases the probability of successful registration or approval.

In the medium to long term, well-prepared fund distribution mitigates the risks inherent in cross-border distribution in a target jurisdiction, such as the regulatory risk.

Failure to meet regulatory requirements increasingly entails costs (such as those related to rectification of the failure) and, with supervisory authorities becoming increasingly vigilant, sanctions (such as publication of breaches, withdrawal of authorisation, prohibition, fines, and bans from holding office).



FUND DISTRIBUTION

DRIVING GROWTH

FOUNDED IN 1989, FRENCH ASSET MANAGER CARMIGNAC GESTION HAS SUCCEEDED IN POSITIONING ITSELF AS A EUROPEAN LEADER IN ASSET MANAGEMENT WITH ENTREPRENEURIAL VISION. CARMIGNAC GESTION ACHIEVED IMPRESSIVE GROWTH, GRADUALLY EXPANDING ITS CROSS-BORDER DISTRIBUTION BEYOND ITS FRENCH HOME MARKET. THE STORY OF CARMIGNAC GESTION ILLUSTRATES SUCCESSFUL FUND DISTRIBUTION.

IMPRESSIVE GROWTH

At the beginning, global fund distribution was not one of Carmignac priorities. The focus was on developing the knowhow – managing the assets.

10 years later, Carmignac Gestion started expanding its footprint beyond France. Realising the need for a global distribution hub, Carmignac set up its flagship investment fund in Luxembourg in 1999.

A few years sufficed to realize that global fund distribution could generate real added value in terms of asset under management and expertise.

With assets under management (AuM) of €0.7 bn, Carmignac Gestion began cross-border distribution into Belgium and Italy in 2002. Switzerland followed in 2003 and Germany in 2004 and Spain in 2005 – at which time AuM had already reached €5.8 bn.

YEAR	AUM (€ BN)	NUMBER OF COUNTRIES OF DISTRIBUTION
2002	0.7	4
2005	5.8	7
2008	12.6	8
2011	45.8	12
2014	50.0	12
2015*	52.0	12

*end September

Carmignac Gestion continued adding an average one jurisdiction per year until its arrival in the United Kingdom in 2011. AuM peaked at €55 bn in 2010. The average annual growth of AuM was average 70% per annum over the period 2002 – 2011.



“MANAGE ONLY A FEW FUNDS BUT DO IT WELL.”

Edouard Carmignac,
Chairman and CIO of Carmignac Gestion

chosen to limit its activities further afield. While its funds are offered to professional clients in Singapore, Carmignac has yet to establish a strong presence in Asia or any other region of the world. Carmignac Gestion grew its cross-border distribution in a controlled manner and continues to limit the number of markets in which it distributes its products.



THE TAKE AWAYS FOR GLOBAL DISTRIBUTION

We identify three key take aways for global distribution:

1. Know your target market

Successful distribution is firstly about mastering the business case – identifying the opportunity in the target market and access to target investors through the distribution network.

2. Master your global distribution

Cross-border distribution is complex. Getting cross-border distribution right in each target market requires significant investment in knowledge, compliance and registration.

3. Grow sustainably

With a step-by-step approach to expanding cross-border distribution an asset manager acquires knowledge, limits the costs and mitigates risks and focuses on achieving sustainable growth.

Source: The data presented in this article is based on information available on the Carmignac Gestion website: www.carmignac.com

FOCUS

SWISS MARKET

13,101
TOTAL FUNDS
DISTRIBUTED
(FEBRUARY 2016)

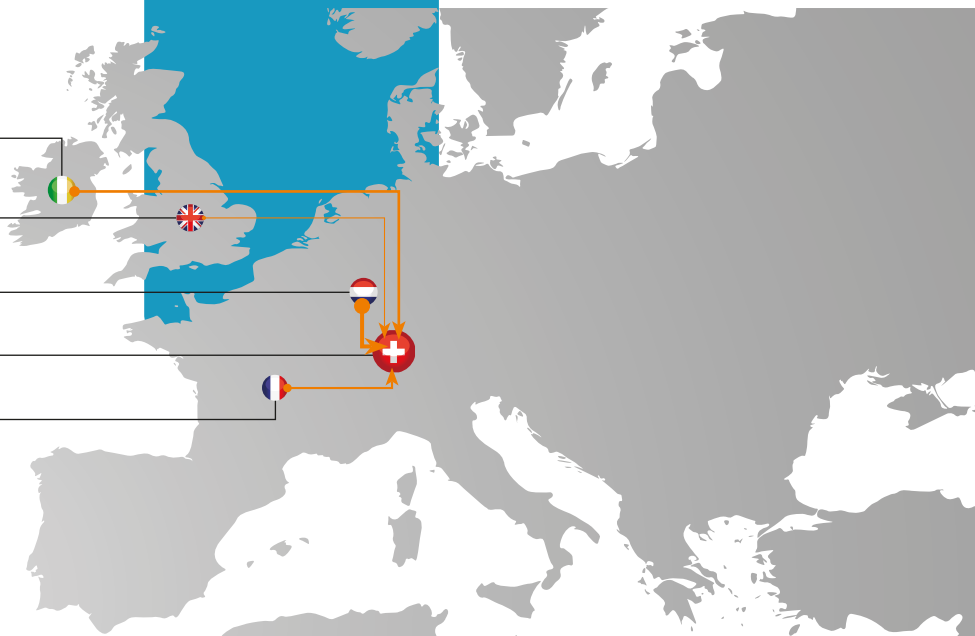
2,213
SWISS FUNDS
DISTRIBUTED
(FEBRUARY 2016)

10,888
FOREIGN FUNDS
DISTRIBUTED
(FEBRUARY 2016)

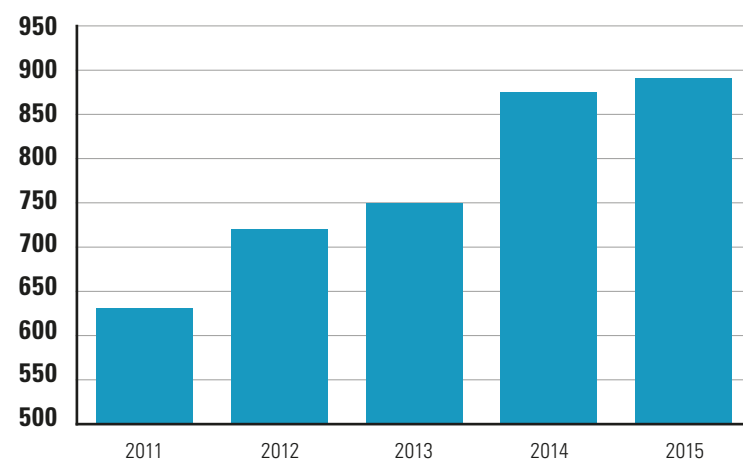
40.4 CHF billion
COLLECTED IN FUNDS
(JANUARY TO DECEMBER 2015)

FUNDS DISTRIBUTED IN SWITZERLAND

16% IRLANDE
2% ROYAUME-UNI
58% LUXEMBOURG
16% SUISSE
5% FRANCE



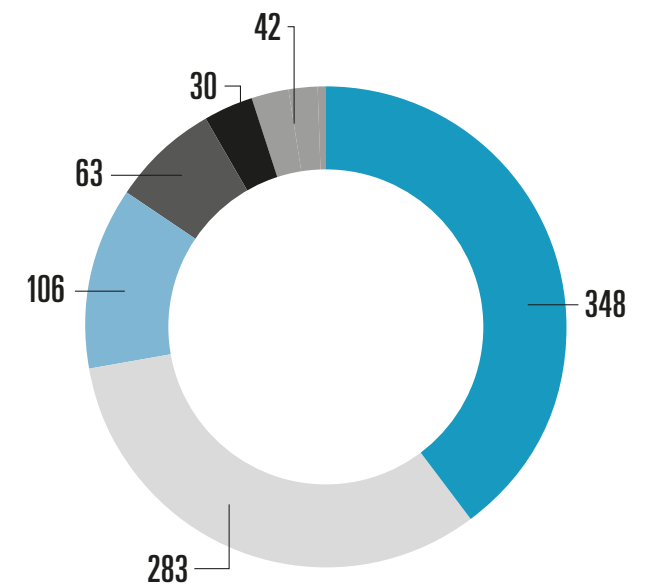
SIZE OF SWISS FUND MARKET (CHF BILLION)



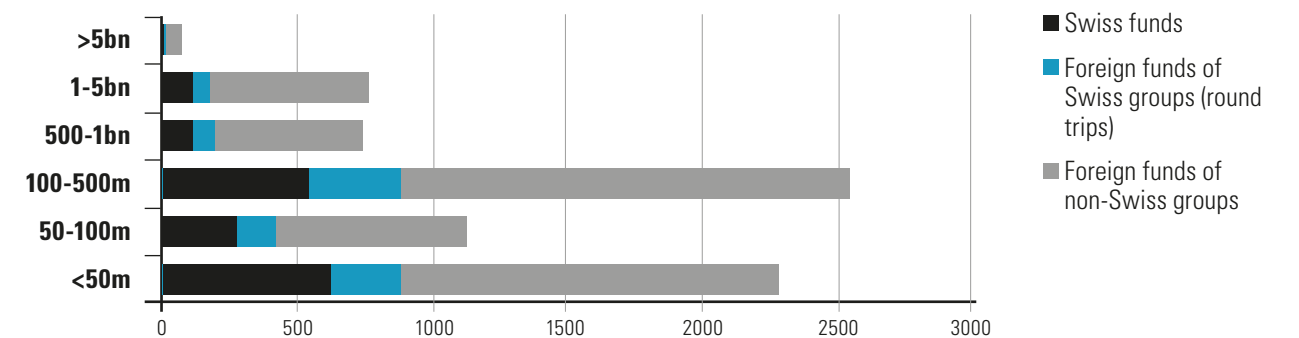
ASSET ALLOCATION IN THE SWISS MARKET PER CATEGORY OF FUND

Assets in bn. CHF

Equity
Bond
Mixed Assets
Money Market
Real Estate
Other (Alternatives,
Commodity...)



ASSETS OF FUNDS DISTRIBUTED IN SWITZERLAND



GENERAL

Capital	Bern
Economic center(s)	Basel, Bern, Geneva, Zurich
Area	41.285 km ²
Population (x 1,000)	8,190 (2014)
Official language(s)	French, German and Italian
Other language(s)	Romansh
Currency	CHF, Swiss Franc
International dialing code	+41

MACRO-ECONOMY

GDP ¹	\$701.0 billion (2014)
GDP growth ¹	1.9% (2014)
Inflation ¹	0.0% (2014)
GNI per capita PPP ¹	\$57,960 (2013)
Education index ²	15,8 expected years of schooling
Human Development Index ²	0.93, ranking 3 rd out of 187
Life expectancy ¹	82.7 years
Retirement age (M/F) ²	65/64 years

➔ **MORE INFORMATION**
info@fundglobam.com

GOVERNANCE

ERIC CHINCHON

CEO, Market Expertise Business Solutions (MEBS)

EFFECTIVE GOVERNANCE OF DISTRIBUTION



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ERIC CHINCHON, CEO OF MEBS DESCRIBES THE ROLE WHICH INDEPENDENT DIRECTORS SHOULD BE PLAYING IN RELATION TO DISTRIBUTION.

WHAT ARE THE CURRENT CHALLENGES FOR DIRECTORS IN RELATION TO DISTRIBUTION?

The first challenge is strategic. Raising capital in a market is a business decision from the beginning and on an ongoing basis. Secondly, investors are increasingly well informed and distribution channels are evolving, the distribution strategy needs to be smart and robust due diligence must be performed on the distribution network initially and on an ongoing basis.

Thirdly, the fund must comply with the local marketing rules of each jurisdiction in which it is distributed. These requirements are constantly evolving. In addition, new generic regulations, such as MiFID 2, PRIIPs and IMD 2 will have a substantial impact on distribution. Asset managers which fail to comply face the risk of action by dissatisfied investor and sanctions. Given the

complexity of the analysis of market opportunities and monitoring the fund distribution, many asset managers are turning to specialised service providers for support.

WHAT CAN AN INDEPENDENT DIRECTOR BRING TO THE BOARD?

In order to govern the company effectively, the Board of Directors should be composed of experienced people with complementary skills and approaches. An independent director brings his personal knowledge and experience gained outside the business environment of the company. He can offer the company an unbiased, objective view of the business and brings a fresh perspective. An independent director's role is primarily to protect shareholders and ensure the long-term viability of the company by providing vision, business and personal ethics, fairness and commitment.

HOW CAN DIRECTORS HELP TO MANAGE THE RISKS INVOLVED IN DISTRIBUTION?

Distribution is an area where independent directors can add significant value. The Board of Directors must as a minimum be comfortable with distribution strategy. But today, that is not enough. Boards are increasingly playing an active role, for example in the structuring of the distribution network and the review and the business plan before entering into each new target market. There may be legacy issues from the past which need to be identified and solved. Independent directors should play an active role in challenging the distribution strategy on an ongoing basis, ensuring that the distribution activity is monitored and help identify potential issues.

“BOARDS ARE PLAYING AN INCREASINGLY ACTIVE ROLE IN RELATION TO A FUND'S DISTRIBUTION STRATEGY AND THE MANAGEMENT OF THE INHERENT RISKS.”

Eric Chinchon

www.mebs.lu

REGULATION

PIERRE-THIBAUT AVELINE de ROSSIGNOL
Senior Regulatory Adviser, FundGlobam

THE PRIIPs KID — IT'S NOW

AT FIRST SIGHT, THE OBLIGATIONS CONCERNING THE ENTRY INTO FORCE OF THE PRIIPs (PACKAGED RETAIL AND INSURANCE-BASED INVESTMENT PRODUCTS) REGULATION MAY APPEAR TO BE A MERE FORMALITY. THE REALITY IS QUITE DIFFERENT.

“THE MAIN SOURCES
OF RISKS FOR ASSET
MANAGERS WILL
BE THE QUALITY
OF THE DOCUMENT AND
THE DISTRIBUTION.”

Pierre-Thibault Aveline de Rossignol

PRIIPs IN A FEW WORDS

Transparency toward investors is at the heart of the PRIIPs regulation.

Scope: All packaged investment products intended to be sold to retail investors (consumers) are concerned: UCITS, alternative investment funds, insurance-based investment products and structured products.

Principle: The KID (Key Information Document) must be provided for each product. The KID is a standardised and pre-contractual document; it is comparable to the UCITS KIID (Key Investor Information Document). The KID must be provided to each investor in good time before they invest.

Key elements: The primary aim of the KID is to inform investors about the costs, performance scenarios and risks associated with investment in a product. It also enables the comparison of similar products, or even different types of products.

Style: The information is disclosed in a form of questions and answers, in a language which is understandable to a retail investor with no prior experience in the financial industry – plain language. In terms of distribution, investors must be provided with the KIDs in an

official language prior to any investment.

Sanctions: In case of breach of the PRIIPs regulations, the competent authorities will be empowered to impose administrative measures and sanctions, such as the suspension of or the banning of the marketing a product, issuance of a public notice including the name of the person responsible, and fines.

LESS THAN A YEAR TO BE COMPIANT!

Deadline: The first KIDs must be published on 1st January 2017, which leaves a very short period of time to implementation. The work-load should not be underestimated.

Challenges: The first challenge relates to the data management, for example being able to establish the transaction costs. The second is implementing a production process which includes the translation, the publication, the communication and the management of updates for each significant change.

Implementation: In order to avoid any delays, as it happened in the past with the implementation of the UCITS KIIDs, the manufacturer of a PRIIP should already be analysing the requirements, the constraints and the specificities related to each product.

IMPACT ON DISTRIBUTION

Responsibility: The manufacturer is responsible for producing the PRIIPs KID and the distributor is responsible for providing it to the investor. However, in practice, in the event of a problem, the reputational risk would be borne by both entities.

Cooperation: The implementation of the PRIIPs Regulation, combined with the forthcoming MiFID II requirements, will necessitate a stronger cooperation between product manufacturers and distributors – for example, in the identification of the target market of the product and the cost transparency.

First impacts:

- The manufacturers of retail AIFs will be required to produce and make available the KID in all the European Union Member States where they are distributed, and also in certain third countries
- The management companies which distribute UCITS to insurance companies will have to provide information so that each insurance company can prepare their own KIDs

DOCUMENT	SCOPE	DEADLINE
KIID, Key Investor Information Document	UCITS	2011/2012
KID, Key Information Document	All PRIIPs – retail AIFs, UCITS, unit-linked products, etc.	1st January 2017; 1st January 2020 for UCITS

ACOLIN OPENING THE DOOR TO EUROPE'S FUNDS MARKET

IN AN INDUSTRY WHERE ACCESS TO CROSS-BORDER MARKETS IS EVER MORE CRITICAL, ACOLIN ASSISTS FUND MANAGERS IN REGISTERING AND DISTRIBUTING THEIR FUND PRODUCTS IN SWITZERLAND AND THROUGHOUT THE EU.

INDEPENDENT SERVICE PROVIDER

Based in Switzerland but with offices around all of Europe, ACOLIN is the only independent international cross-border fund distribution service provider and with its experience in regulatory and legal fields, fund distribution and marketing, supports fund managers in offering their products throughout markets across the continent. ACOLIN, headquartered in Zurich, with subsidiaries in London, Dublin, Luxembourg, Madrid and Konstanz, offers legal representation services in Switzerland to firms targeting the country's institutional or retail markets, helping to manage relationships with the authorities, distribution partners and investors. The company's clients include specialist fund managers and financial services groups from Europe and beyond, with products ranging from classical retail equity and fixed-income vehicles to hedge fund managers, infrastructure and real estate specialists as well as the asset management arms of private banks.

ACCESS TO DISTRIBUTION IN SWITZERLAND

Critical areas include the fund authorisation process, preparing the documents for submission to the financial authority FINMA, maintaining authorisation on an ongoing basis and handling distribution arrangements. Establishing and managing distribution channels can be a costly and time-consuming burden, even for fund firms that are part of major international financial services

groups, and the access certain distribution platforms offer to investors can be limited or expensive, or both. ACOLIN offers an established distribution network that offers fund managers rapid availability of their products and lowers entry barriers for new markets. Included in ACOLIN's Distribution-Network Management (DNM) is the data-, document- and commission management, preventing double payments of commission payments, taking on the distribution of the required regulatory documents and reducing the data management down to only one single interface.

GLOBAL REGISTRATION AND INVESTOR COMMUNICATION

As a complement to the distribution support, ACOLIN facilitates the registration of clients' UCITS and AIF funds in various international markets, not only throughout the EU but also in Liechtenstein, Norway, Chile, Peru Singapore, Hong Kong, Israel and Turkey to name a few.

ACOLIN also runs and manages ACOLIN connect, a B2B information and communications platform offering its clients, fund managers, a place to communicate directly with professional investors by giving its clients a space to post news, multimedia content and detailed fund information.

In order to optimally adjust its corporate structure to the rapidly changing regulatory environment for cross-border fund distribution in Europe, ACOLIN founded ACOLIN Europe GmbH in 2014 and thus relocated its EU headquarters from Luxembourg to Germany. The benefits for fund managers in need of assistance for distributing their products throughout the continent are greater than ever.

[MORE INFORMATION](#)
www.acolin.com



The communication agency for creative minds

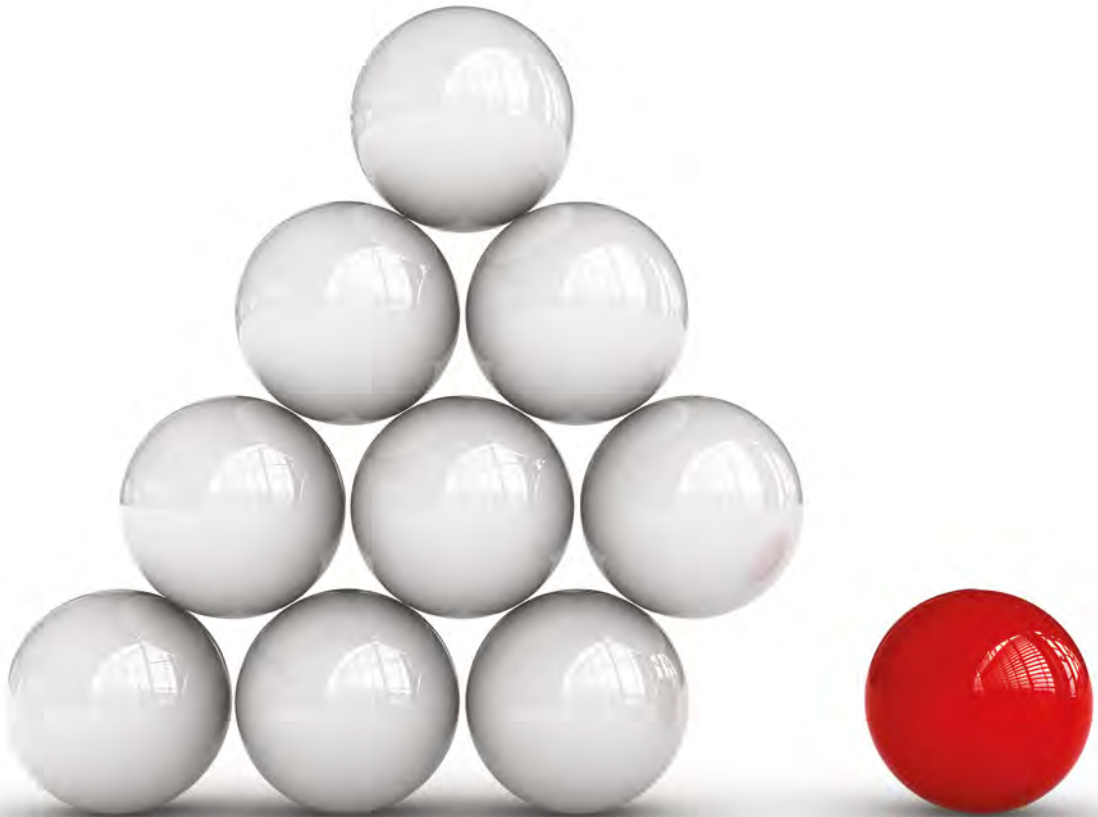
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BRANDING SYSTEM



Watch the video
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governance



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