Lifting the lid on the mysterious world of third party marketing

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Executive summary
Lifting the lid on the mysterious world of third party marketing

In an ever competitive and stretched asset management landscape globally, finding a new and more efficient way to engage asset owners has become critical for the fund-raising efforts of many boutique investment firms

70% of TPM firms work with between three and nine asset management companies

69% of TPMs have been set up since the financial crisis in 2008

14% of TPM firms raise over **$500m** in investor capital in a typical year

Third party marketing (TPM) offers a potential solution. This relatively new phenomenon is based on a model where, in short, an independent representative matches the expertise of an asset manager to interested investors. The upshot is a two-pronged benefit: capital from target institutions plus brand building to help foster longer term relationships.

Indeed, against an already tough environment for fund houses, compounded by the COVID-led shake up in markets, TPM has started to make inroads.

This is clear from a landmark survey – across the UK, Europe, South Africa and the Middle East – which has also shown the general perception of these businesses to be misguided.

Previously considered as unregulated, transactionally-minded, single-person firms, the diversity of TPM companies means that prior biases need to be reconsidered.

Further, it has been widely believed that TPM firms mostly focus on alternatives assets. However, as they have become more numerous, their capabilities have broadened noticeably.

Survey Highlights

More specifically, based on responses from 54 market practitioners, there are several key takeaways about the role and approach of TPM firms in today's investment landscape:

- More than two-thirds (70%) work with between three and nine asset management companies – with 46% of them working with three to five firms.
- Equity managers represent by far the largest percentage of asset managers for respondents, followed by alternative firms and then fixed income managers.
- Half of TPM firms include some sort of retainer as part of their fee model.
- A TPM firm undergoes a careful selection process when they look to represent an asset management company – with almost one-third (31%) citing reputation as the most important criteria they need to ensure, followed by past performance.
- In line with this, the most important attribute of a TPM firm in the current environment is the depth and size of its network (38%), followed by its reputation (20%).
- Just over two-thirds (69%) are regulated in at least some of the markets where they promote the investment strategies of their clients.
- 69% have been set up since the financial crisis in 2008, with 15% launched since the start of the pandemic.
- 14% raise over USD500 million in investor capital in a typical year.
- Nearly a quarter (24%) have more than five employees working in their business.

◆ Objectives and Methodology

This is a first-of-its-kind research project to capture and analyse key trends within the TPM sector across the key markets of the UK, Continental Europe, South Africa and the Middle East.

Based on responses from 54 market practitioners, the survey aims to provide invaluable actionable market intelligence based on the dynamics of the TPM landscape.

These insights have also been derived from other sources of information, including desk research and interviews with TPM firms across the target geographies.

It is interesting to note that as part of the research conducted into this segment as part of the report, we found 172 TPM companies.

A rapidly developing model for a new reality

An important starting point in understanding the role and potential of TPM companies is to clarify what they are not

In particular, they shouldn't be confused with placement agents – which typically represent alternative managers such as hedge funds, private equity houses and property firms in raising capital for closed-ended investments.

Rather than a one-off capital raising exercise where fees get paid on the basis of assets raised, TPM is based on a more sustainable model: the goal of building a fund house's brand while at the same time developing long-term relationships.

Amid today's challenging and uncertain macro and market environment, TPM firms can therefore be a cost-effective entry solution for either an established or a boutique fund manager.

The most effective TPMs look to interpret an investment manager's unique story via a powerful marketing plan and sales materials that are relevant to the target prospects. The TPM effort then also includes managing the sales cycle from start to finish.

TPM targets

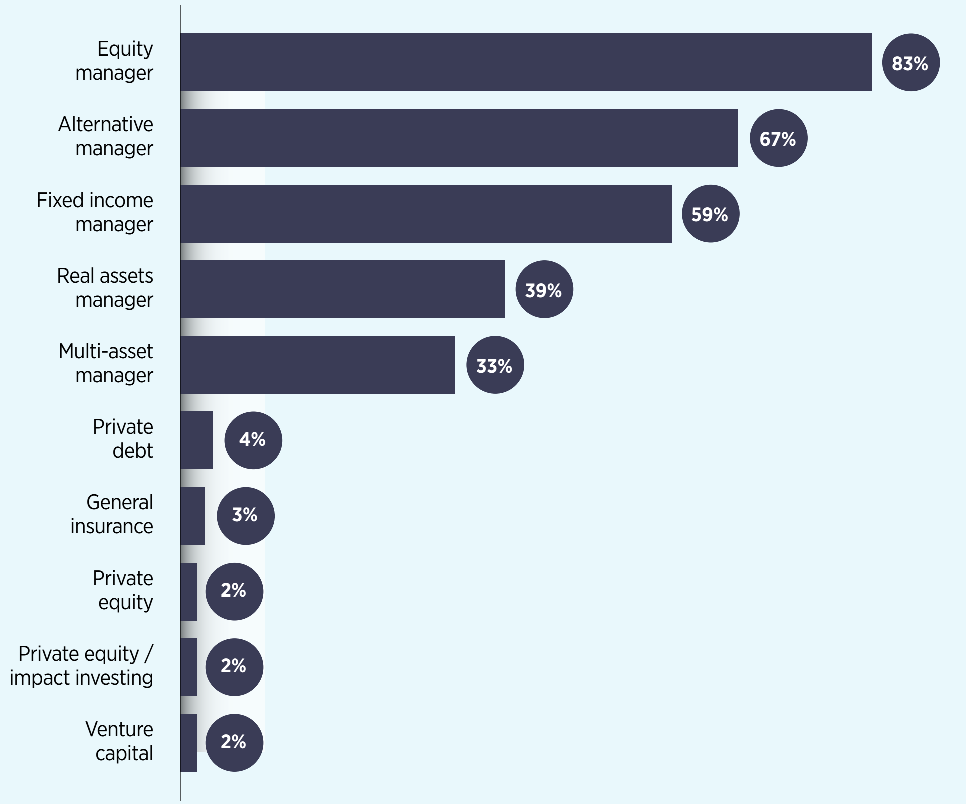
As the business model has developed in recent years across the UK, Continental Europe, South Africa and the Middle East, it is notable that TPM companies represent investment managers across a variety of asset classes.

Equities is the most dominant, according to survey respondents, although alternatives and fixed income are also important areas of focus.

Real estate and multi-asset managers also feature as important, while more specialist assets such as private debt, private equity and venture capital are insignificant for TPM companies in the survey.

Amid today's challenging and uncertain macro and market environment, TPM firms can therefore be a cost-effective entry solution for either an established or a boutique fund manager

Which type of asset management companies do you represent?



Who are the TPMs in EMEA?
To find out click on the link below:
[TPMs in the UK, Europe, Middle East and South Africa]

Q&A
LGBR Capital (UK)

Luke Reeves
Partner
LGBR Captial

Describe your business and main activities

We are one of the largest distributors in the UK market in terms of resources, breadth of product, AUM and geographies covered. Our process is to create a bespoke distribution strategy, which leverages our proprietary CRM so our team can target the relevant audience across the various client categories. This increases the probability of raising assets. We then monitor, refine, evaluate and report to the client on a monthly basis.

Is your firm locally regulated? If yes, what are the main benefits?

Yes, we are FCA regulated. It is not currently a requirement for a distributor to be regulated, but we believe this is important. We follow the regulator's principles of conduct, professionalism and client classification – which is particularly important when executing a distribution strategy.

Which channels are most dominant in your market (e.g. pension funds, IFAs, private banks, etc.)? Which channels does your business focus on?

From a distribution perspective, we do not believe that any one channel within our client categorisation is consistently more dominant. Each client categorisation has different clientele, requirements and rational for investing their clients' portfolios. For this reason we cover all segments within the UK, including the wholesale retail market (IFAS, networks, wealth managers, stockbrokers, discretionary fund managers, long-only fund of funds, private banks and family offices). We market to our universe which is around 9,000 firms in the UK alone, of which roughly 4,600 are currently investors in funds we promote.

What differentiates your firm from other TPMs?

- Our outsourced sales approach is more akin to an in-house distribution team than that of a traditional TPM, but without the associated costs and break-even risks of a large distribution team
- Our process: a bespoke distribution strategy, leveraging our proprietary CRM and the fund managers' brand
- We are one of the largest distributors in the UK market in terms of resources, AUM and clients covered
- We have over 4,600 investor firms

What are the biggest opportunities and challenges facing TPMs?

- TPMs are experiencing increasing demand for their services as fund managers grapple with the break-even analysis for internal sales teams. The TPM's primary function remains to raise AUM for clients from investors, however, as regulation increases for fund managers, so does the responsibility for TPMs.
- Reporting and planning will become essential and so will the regulation of TPMs. Regulation often is not limited to the future, but also demonstration of historic practices, meaning Know Your Client, internal and external reporting functions, and clear roles and responsibilities.
- As with other segments of the financial-services sector, this leads to a strategic business review which means inevitable investment in resource, systems and infrastructure.
- AUM security, existing robust processes combined with a diversified client base will be requirements for TPMs.

Facts about LGBR Capital:

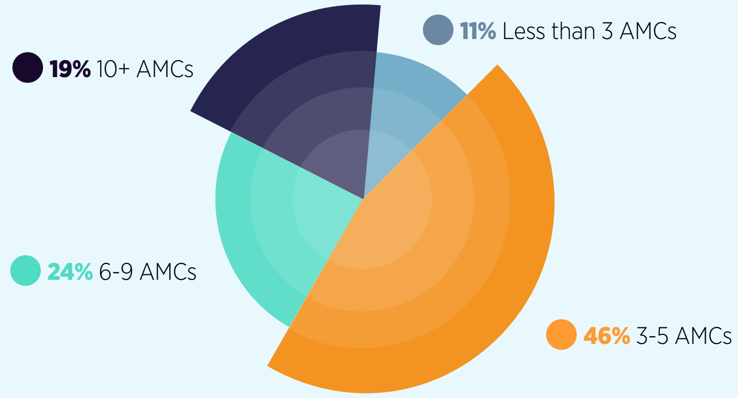
Year of establishment: 2012
Number of employees: 45
Business model: Tailored to the client
Target countries: Focus on the UK and Channel Islands plus additionally some European markets

It is also interesting to see that TPM firms tend to represent multiple asset managers, rather than restricting their revenue to a single client. In fact, only 11% of survey respondents work with less than three fund houses. Nearly half (46%) work with between three and five asset management companies, and roughly a quarter represent between six and nine clients.

Notably, the survey showed 19% to work with more than 10 such clients. The TPM model is also relatively new in the UK, Continental Europe, South Africa and the Middle East. Based on the survey respondents, 48% were launched in the last decade, with just over half of these emerging since 2016.

TPM firms tend to represent multiple asset managers, rather than restricting their revenue to a single client. In fact, only 11% of survey respondents work with less than three fund houses

How many asset management companies does your firm represent?

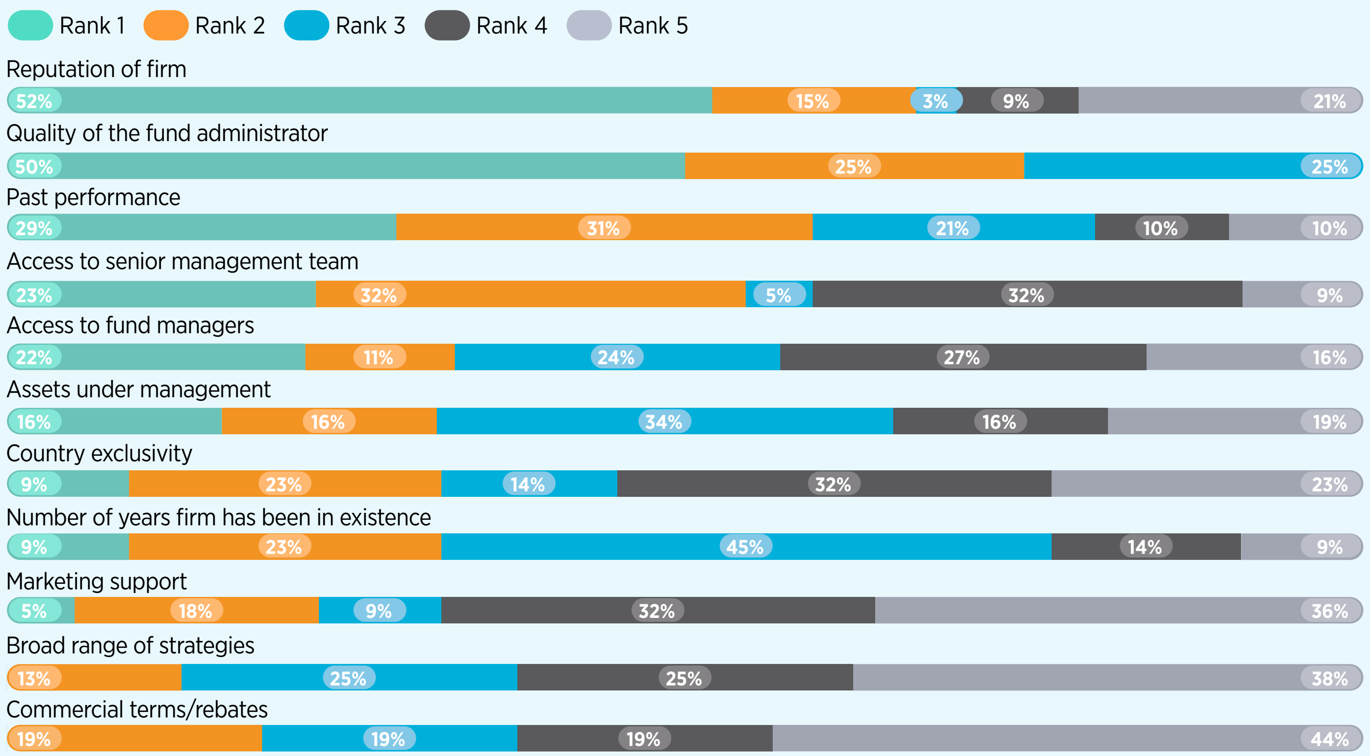


Finding the Right Match

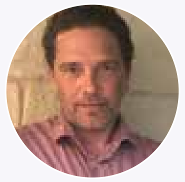
There are clear trends among TPM firms in terms of how they decide which asset managers to approach to represent. Reputation of the firm and quality of the fund administrator are priorities, indicating how TPM companies want to be able to position the firms they represent.

Past performance is next on the list – again reinforcing the desire of a TPM firm to be able to strike a chord with end-investors. To carry out their role as a TPM, meanwhile, survey respondents placed some importance on access to a fund house's portfolio managers and also to its senior management.

When you look to represent an asset management company, which of the following criteria are most important? (Rank top 3)



Q&A
Active Fund Placement (Germany)



Andreas Kümmert
Managing Director
Active Fund Placement

Describe your business and main activities

Active Fund Placement (AFP) is a leading TPM in Europe, currently with an office in Frankfurt, Germany. We help our product partners to develop their business in the German-speaking markets through significant market access and a transparent and professional sales approach. This includes increasing brand name recognition, coordinating the due diligence and ultimately minimising the time to market for our product partners. Clients can plug into an existing and established sales team and network.

Is your firm locally regulated? If yes, what are the main benefits?

We are often asked by international managers if and how we are regulated. Being regulated is essential for us. It gives our clients more comfort even though it is not clear if it is compulsory. You can have no licence, you can have a license under §34f Gewerbeordnung (which we have), you can have a license under §32 Kreditwesengesetz or you can operate out of other EU cross-border jurisdictions.

Which channels are most dominant in your market (e.g. pension funds, IFAs, private banks, etc.)? Which channels does your business focus on?

The German market is quite diverse and large; there is not one dominant channel. There are independent asset managers, large fund of funds structures, family offices, pension funds, insurance companies with their own asset management units and banks – all these institutions are a focus for us. We cover both institutional and wholesale sales in its broadest definition. Taking care of the onboarding to the platforms that are an important part of marketing in Germany. We see ourselves as a one-stop shop for all our product partners, making sure that their data is with the right data providers, and that everything works so there are not obstacles to do business in Germany.

What differentiates your firm from other TPMs?

We are a team of 5 salespeople with a long track record and not regionally focussed. Covering institutional and wholesale sales in all regions in Germany as well as the Austrian market. We are more than just an introducer – developing a customised sales approach internally and in cooperation with our product partners. We also offer the administration of platform services and organisation of retrocession payments to our clients.

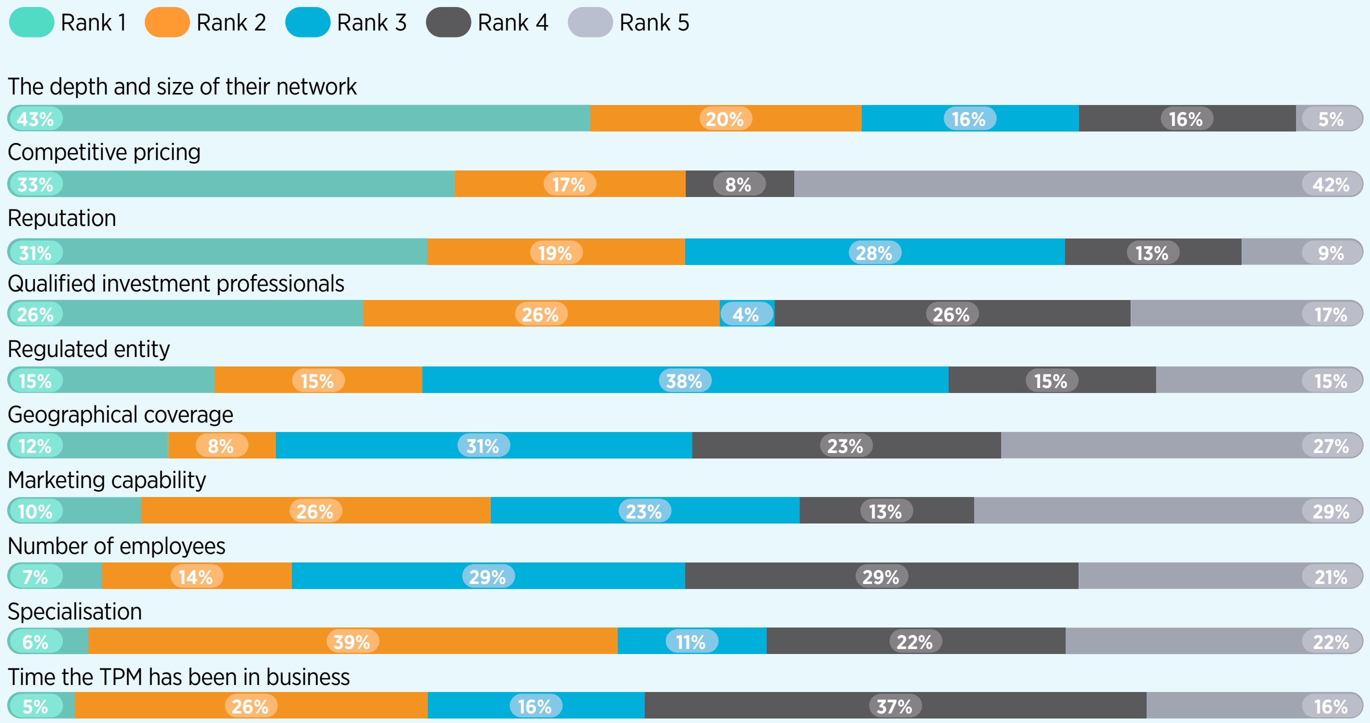
What are the biggest opportunities and challenges facing TPMs?

As setting up a fund has become a commodity, the success of a fund depends more than ever on whether you can raise the assets needed to break even on a reasonable total cost level, even without an existing brand name or significant assets. Especially now that competition is increasing with more players entering the market. Also, the increasing levels of regulation are a challenge for TPMs and asset managers. Finally, there is increasing demand for TPM services. When I started in the TPM business in 2000 it was virtually unknown as a business model. At the start of Active Fund Placement in 2008 there were only 2 players in the market. Now the number of TPMs in Germany is in the double digits and continues to grow. I think that's a good thing as it shows there is demand and there is a market.

Facts about Active Fund Placement:

Year of establishment: 2008
Number of employees: 6
Business model: Retainer & success fee
Target countries: Germany and Austria

What makes a TPM successful in this current environment? (rank top 3)



A Viable Asset-Raising Alternative

Especially in today's market environment, the depth and size of a TPM network represent a critical success factor in appealing to an asset manager.

Yet survey respondents also pointed to three other key attributes of a TPM firm that stand out today: competitive pricing; reputation; and qualified investment professionals.

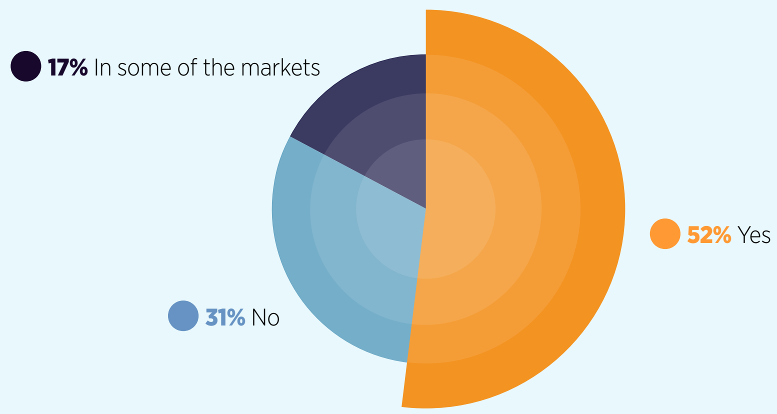
At the same time, however, some market practitioners believe specialisation has increasing value.

Further, contrary to some industry perceptions, being a regulated entity is placed as reasonably important among survey respondents in the current market landscape.

To reflect this, over half (52%) of them said they are regulated in the countries where they market the investment products of their clients – with a further 17% regulated in some of those markets.

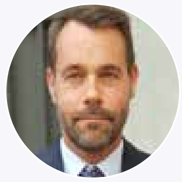
> Contrary to some industry perceptions, being a regulated entity is placed as reasonably important among survey respondents in the current market landscape

Is your firm regulated in the countries where you market the investment strategies and/ or funds of your clients?



Garnell

Q&A
Garnell Capital Partners (Italy)



Cor Dücker
Managing Director
Garnell Capital Partners

Describe your business and main activities

Garnell Capital Partners helps foreign asset management companies in Italy find clients for their strategies and investments for their private assets' funds. We pride ourselves in representing high quality firms with a solid focus on sustainable investments.

Is your firm locally regulated? If yes, what are the main benefits?

No, in Italy no regulation applies to our activities as they involve only professional investors.

Which channels are most dominant in your market (e.g. pension funds, IFAs, private banks, etc.)? Which channels does your business focus on?

The private banking channel is most dominant in Italy, where the use of external managers can be divided into retail distribution and fund use in solutions. The next most important segment is pension funds and endowments. We focus on the professional part of the market, which covers fund users in banking groups, pension funds, insurance companies for unit linked policies, endowments and family offices.

What differentiates your firm from other TPMs?

We work as an integral part of the sales team of the asset manager, with dedicated time allocated and a regular reporting on the activity and a sharing of contacts. We aim to be a part-time outsourced sales unit in Italy, providing all the benefits of having a local team (with a significant seniority and an extended network) on the ground but at a significantly lower associated cost base. We also offer a full coverage of all legal, regulatory and tax issues.

What are the biggest opportunities and challenges facing TPMs?

The biggest opportunities are the increased awareness that having an in-house local team can be quite costly and at times challenging to manage, especially with changing local regulation and market conditions. TPMs can provide a more cost efficient and flexible model to either develop the market or maintain it whilst retaining control over the activities.

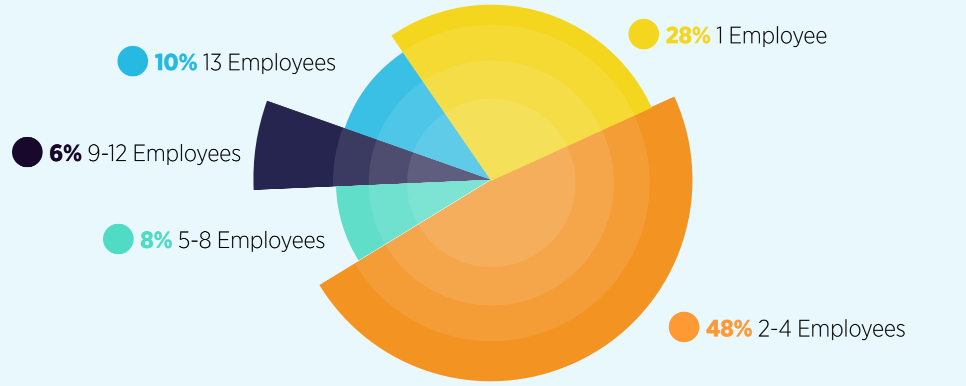
The biggest challenges are margin pressure arising from market consolidation on the distribution side and the rise of platforms imposing additional cost layers for asset managers. Whilst it poses a challenge, it may also represent an opportunity though, as more asset managers decide to outsource their activities in certain markets.

Facts about Garnell Capital Partners:
Year of establishment: 2020
Number of employees: 5
Business model: Mix
Target countries: Italy

The fee model in the TPM sector is another important driver of success, based on increasing costs of distribution and ever acute fee pressure for asset managers. For 44% of TPM firms in the survey, their revenue is based on a combination of retainer and success fee

Making it realistic for many of the survey respondents to adhere to the required compliance obligations – and therefore offer a robust, regulated structure – is the fact that around a quarter (24%) of the TPM firms have between five and 13 employees working in their business. Just under half (48%) of them have between two and four employees, while only 28% are one-person businesses.

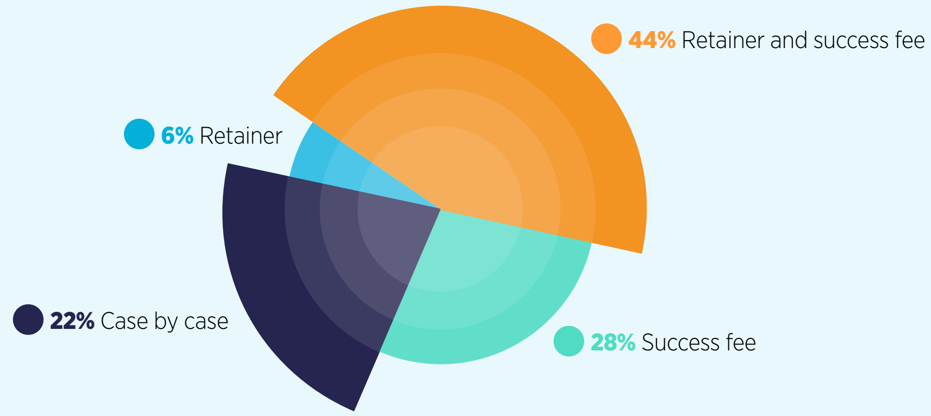
How many full-time employees are within the business?



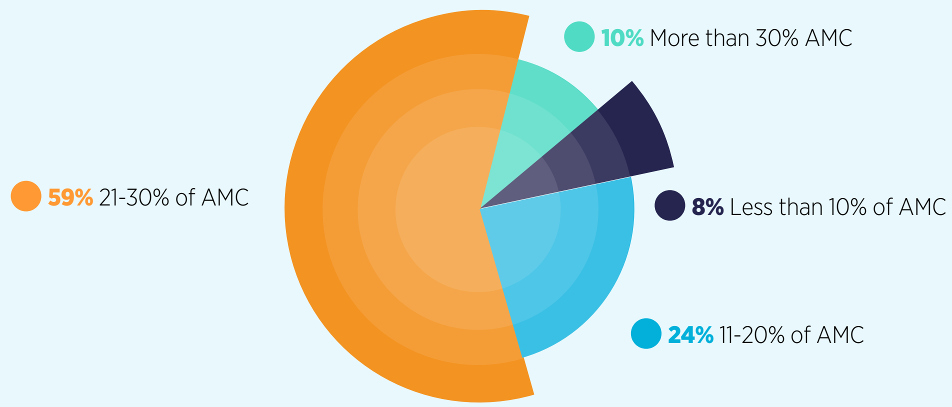
The fee model in the TPM sector is another important driver of success, based on increasing costs of distribution and ever acute fee pressure for asset managers. For 44% of TPM firms in the survey, their revenue is based on a combination of retainer and success fee, with 6% working only on a retained basis. Less than 30% of firms say they only take a success fee.

There are also clear trends in how much TPM businesses charge for success fees, with 59% asking for between 21% and 30% of the annual management charge. Around one-third (24%) charge either between 11% and 20% or – in the case of 8% of respondents – less than 10%.

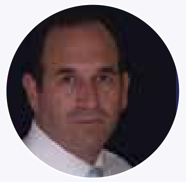
What's your fee model?



How much do you charge for success fee?



Q&A
More Global Markets (Israel)



Avihai David
CEO
More Global Markets

Describe your business and main activities
More Global Markets (MGM) represents global investment managers across mutual funds, ETFs and illiquid funds such as private equity, real estate and private debt vis-a-vis the local Israeli institutional and qualified clients. Our business vision and plan includes offering clients direct projects, too. Our reputation and ability to shorten time to market allow us to maximise the AUM we can raise for our global partners.

Is your firm locally regulated? If yes, what are the main benefits?
Y.D More Investment Group's business activities are regulated by the Ministry of Finance, Israel's Securities Authority and the Tel Aviv Stock Exchange – each based on the respective regulator. We employ 180 people and have a market cap of US$320 million. This stability gives our global partners and local clients additional comfort, as it dictates a level of accountability and discipline that MGM must uphold.

Which channels are most dominant in your market (e.g. pension funds, IFAs, private banks, etc.)? Which channels does your business focus on?
We focus on all channels, but the most effective for raising AUM is the institutional market (pension funds and insurance companies) which manages over US$600 billion. We know the Israeli institutional market thoroughly, from the owners to CIOs to gatekeepers. Our clients also include the largest family offices, portfolio and investment managers, and banks, where we have known the senior executives for many years. We prefer to focus on a smaller group of large clients rather than spread too thin by covering a large group of clients without providing much added value and service

What differentiates your firm from other TPMs?
Four things make us an intuitive choice:
1. MGM is a part of a traded investment house
2. MGM's CEO & founder was one of the first to establish a TPM model in Israel 10 years ago
3. For this activity, MGM relies on a team of 17 experts with many years of capital market experience
4. The justification for MGM existence comes down to two concepts:
   a. Service
   b. Added value

What are the biggest opportunities and challenges facing TPMs?
Asset managers come to understand that Israel is not large enough to justify covering it on a fly-in/fly-out basis, or to dedicating an employee to cover it. However, with US$600 billion managed by locally-based institutions, there is great potential for substantial AUM gathering. Therefore, "boots on the ground" via partnerships is often the route global managers successfully take. The service TPMs provide is risk free because most TPMs only charge a success fee and no upfront fees. Global managers should spend time getting to know their TPMs to mitigate association risk and to ensure the TPM fits their DNA. The biggest challenge for TPMs is to find leading products that will maintain their leadership status. The opportunity in Israel is large since savings are growing and institutions are constantly on the lookout for interesting capabilities.

Facts about More Global Markets:
Year of establishment: 2020
Number of employees: 17
Business model: Success
Target countries: Israel

Exploring the TPM evolution in Europe

To highlight the traction of the TPM model across Western Europe, just under half of the 54 respondents to the survey were from a mix of Germany, the UK and France

50%
of respondents in Germany said they represent between six and nine clients

Analysing the findings in these countries reflects different attitudes and approaches to key aspects of the TPM offering that might have an influence on how the sector develops going forward.

Key take-aways include:

- TPM firms in Germany tend to represent more asset managers than their counterparts in the UK and France – with 50% of respondents in Germany saying they represent between six and nine clients. The equivalent findings were 30% in the UK and just 13% in France.
- A mix of retainer and success fees dominate the TPM landscape in Germany (83% of respondents), whereas this model accounts for 50% in France and only 20% in the UK.
- TPM companies in the UK and Germany value an asset manager's past performance as especially important when looking to represent them, whereas in France, the focus is mostly on access to the senior management.
- TPM firms in France seem to believe it is less important to be regulated in the countries where they market their clients' products, with only 38% of respondents being regulated. By comparison, many more TPM firms in Germany and the UK are regulated, at 83% and 60%, respectively.
- TPM companies tend to be larger in Germany and the UK than in France. For example, half of the respondents in France said their firm only had one employee, with the other 50% saying the firm had between two and four employees. In the UK, 33% of firms have between nine and 13 employees, with 44% at between two and four employees. In Germany, meanwhile, two-thirds of players have between two and four employees, with 17% at between five and eight employees.

Conclusion
Taking the TPM model to the next level

Based on the evolution in the TPM segment in recent years, coupled with market dynamics impacting asset management companies, there is a bright outlook for further growth and development of TPM within the industry

From a demand perspective, there are three all-pervasive drivers:

- Outsourcing is becoming increasingly appealing for small to mid-sized investment management companies as a result of fee pressure and ever-rising costs of doing business. This is especially the case in Europe.
- For asset managers all types and sizes, it is increasingly expensive to set up on-the-ground operations in new markets – especially if these new locations are being targeted on a more opportunist basis.
- Specifically for European asset managers, a post-Brexit landscape means UK firms can no longer directly export their products and services to the EU, since they no longer benefit from passporting rights under regulatory frameworks such as UCITS, AIFM and MiFID. Appointing a TPM to represent them is one of a limited set of options. Vice versa, EU-based asset managers (and EU funds) have also lost passporting rights into the UK, offering TPM firms another route.

In general, demand for TPM services, therefore, is expected to grow. And many existing players in this space also seem well-positioned to facilitate and encourage this.

In general, demand for TPM services is expected to grow. And many existing players in this space also seem well-positioned to facilitate and encourage this.

For example, they possess the on-the-ground knowledge required to tap into local trends and adapt to investor preferences.

Further, a growing number of TPM firms are regulated (based on insights from the survey respondents). As a result, they will not only be able to provide a more diversified offering, but also an increasing level of professionalism and attention to service that is needed.

It is also notable that – as per the survey responses – TPMs are less transactional than many market participants perceive. In addition, they are also more focused on relationships and brand building.

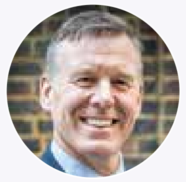
Coupled with the continued challenging macro and market backdrop, these attributes bode favourably for the TPM model in key markets globally going forward.

◆ Dispelling TPM myths

- The focus is across a wide range of asset classes, not just alternatives
- Unlike placement agents, the goal is not one-off, transactional business
- Most firms have several employees rather than being one-person entities
- The proportion of firms regulated when they offer their clients' products is relatively high

GemCap

Thought Leadership Article
Getting the distribution strategy right



Stuart Alexander
CEO
GemCap

Gemini Capital Management (Ireland) Limited, (GemCap), our Dublin UCITS ManCo, emerged as a result of the expanding regulatory and risk burden conceived by CP86, the Central Bank of Ireland's guidelines on Fund Management Company Effectiveness but its origins lie as a Third Party Marketing business back in 2009 and so we understand the sales marketplace very well. You could say it's in our DNA.

It was whilst working with various managers in 2009-2011 that we kept on coming across managers we really liked but their structure was just not conducive to marketing in a post financial crisis market.

Liquidity and transparency was still a huge requirement by investors and so UCITS were the structure of choice so we decided to create our own funds platform and over time we developed a management company to support the platform. With over 20 funds from fund managers in the UK, Asia and the US, we now represent a diverse range of funds covering most, if not all, asset classes.

When we meet with investment managers, they are often surprised when our first questions are not about back office administration support or other aspects of actually running the fund but instead, we focus on the distribution strategy and how they are going to raise assets, where they are going to do this and what they need in order to achieve their goals as afar as assets. We ensure we get the plumbing in place as we work with all the major fund platforms and transactional partners from Allfunds to Zurich to make sure the fund is available and visible to investors.

As we say, it's no good being in the shop window if shoppers can't get into the shop! We have the contracts with the company and not at fund level so the transition to the platforms is pretty seamless although demand is still required by many and that is why TPMs play such an important part in the process. They have the contacts, the relationships but most importantly the knowledge of which firms are potential supporters of a fund.

It is critical that the fund is of scale at launch to ensure that a) the fund can keep its TER to a reasonable level and b) other investors don't feel that they "own" the fund with their % weighting. So we advise investment managers as to how to build up those assets, we help them with agreements for distributors and most importantly advise on some of the subtleties in dealing with some of the key players in the market so as to avoid the not so obvious pitfalls when launching a fund.

We work very closely with a huge number of TPMs across all markets and we support them in their activities as they are at the coal face when it comes to feedback on pricing, platforms and other aspects which are vital to the success of the asset growth of the fund. We advise investment managers which TPMs work in which marketplace and how they get rewarded and we provide the oversight to ensure that they have all the right tools, agreements and regulatory aspects covered to ensure they don't fall foul of any regulator.

After all, it is in all our interests to grow a fund in a strong regulatory environment and with strong marketing support along the way. Clearly the investment managers have to play their part by producing strong returns and quality information on a timely and regular basis but with a fair wind and some luck along the way the funds can grow as we have seen with a large number of our managers.

One area that often needs advice and steerage is dealing with marketing material and content. In the highly competitive space of fund marketing you need to ensure that you stand out from the crowd. You need to differentiate very clearly why investors should consider your fund.

Wealth managers and other institutional style investors only spend about 10% of their time reviewing new ideas; the rest of the time they are monitoring their current portfolios so it is vital to ensure you grab their attention. In order to do so your message must be clear and of interest.

Target your message to the right contact. There's no point pitching to the equity person if you run fixed income! So we love helping fund managers understand the pitch as well as working in a PR capacity to make sure their stories resonate with the journalists who are looking for fresh ideas to write about.

Ultimately the ManCo is there to ensure the fund is fit for purpose and is managed according to the rules and expectations of investors It works with all aspects of the fund management including distribution but its primary role is to undertake the six core managerial functions on behalf of the funds platform, GemCap Investment Funds Plc (GIF), through the provision of Designated Persons to oversee these functions, namely:

- Investment Management
- Fund Risk Management
- Operational Risk Management
- Regulatory Compliance
- Distribution
- Capital and Financial Management

It always gives us great pleasure watching funds grow and the manager's business grow with it. Their success is our success and we relish overcoming the challenges to create the results the fund managers and investors seek.

Pinsent Masons

Thought Leadership Article
New EU regulations to enhance and speed up cross-border distribution

Gayle Bowen
Partner and Head of Dublin Office

Pinsent Masons

Helena Dalton
Head of Global Fund Registrations

Pinsent Masons

New EU regulations as of August 2021 aim to make it easier, faster and less expensive for managers to sell funds across the EU. While the new rules do not apply until August, any managers that intend to engage in new fund raising over the next few months will need to prepare now for compliance with it.

The new rules form part of a wider initiative under the Capital Market Union action plan which aims to facilitate the cross-border marketing and distribution of both UCITS and AIFs within the EU by increasing transparency and harmonisation in the process and between Member States, by reducing the remaining regulatory barriers and improving costs efficiencies.

We set out below some of the key changes:

Harmonised new definition of "pre-marketing"

Up until now, there has been a lack of clarity and a huge variance in member states in relation to what constitutes "marketing" and "pre-marketing", particularly in the context of AIFs, which is problematic for managers, especially where they want to just test investor appetite for an investment strategy. Some jurisdictions permit this and do not consider these initial activities to be "marketing" activities, whereas in other jurisdictions, marketing is deemed to occur at a much earlier stage in the process, making it nearly impossible to approach investors to assess demand.

To address these issues, the new rules provide for a harmonised definition of "pre-marketing" and define the concept quite broadly. They will permit the provision of information to, and communications with, EEA investors in relation to funds that are not yet registered in that jurisdiction and clarify that this does not amount to an offer or placement of units in that country. The new rules also prescribe who can engage in pre-marketing activities and how they should be reported to the local regulatory authority, including a two-week notification requirement.

Changes to regulatory fees and charges

Managers will already have benefitted from the new rules requiring regulatory fees or charges to be consistent with the overall costs in the performance of the functions, which are already in effect since August 2019. All regulatory authorities must publish a list of all fees and charges on their websites. ESMA maintains a centralised collection of hyperlinks to all the relevant pages, making it a lot easier and more transparent to ascertain the regulatory costs.

Marketing communications with investors

The new rules require all managers of both UCITS and AIFs to ensure that all marketing communications to investors are identifiable as such and describe the risks and rewards of purchasing units in an equally prominent manner and set out other requirements in respect of marketing communications.

On the whole, the new rules do seek to address a number of issues facing managers when looking to market their funds across the EU and are generally welcomed.

However, managers do need to familiarise themselves with the new requirements and exercise care to ensure that even when pre-marketing, they do not offer potential investors the opportunity to subscribe into a fund that is being pre-marketed inadvertently or otherwise. Managers should also note that the pre-marketing concept does not apply to non-EU AIFs that they market/manage, and they will still be subject to local discrepancies and interpretations. In addition, the new rules aim to restrict reverse solicitation and any subscription received within 18 months following the start of pre-marketing will trigger an application of the AIFMD marketing rules and local registration, etc will be required.

Pinsent Masons Global Gateway is a dedicated and specialised fund registration service within Pinsent Masons (a global law firm with 27 international offices) and provides support and assistance to asset managers in connection with the global registration, passporting, private placement and distribution of investment funds in both EEA and non-EEA countries. The Global Gateway team is comprised of a dedicated group of experienced fund registration executive staff who specialise in advising managers on the distribution of their funds globally. The Global Gateway team also has the advantage of being supported, when required, by the global network of Pinsent Masons' offices. The Global Gateway service also provides clients with access to our Global Gateway Portal and Knowledge Hub, which is an interactive portal system which allows clients to export registration matrices and to access current fund documentation and country reports.

RBC Investor & Treasury Services

Thought Leadership Article
Rethinking cross-border distribution

Ronan Doyle
Head of Transfer Agency

RBC Investor & Treasury Services

Fundraising conditions are challenging at this time, particularly for active managers running equity and fixed income strategies that may have struggled to beat their passive benchmarks due to market volatility. Morningstar reported that only 43.8% of active large cap UK equity funds outperformed their passive equivalents, while the same is true for 20% of active funds trading euro-denominated corporate bonds and global bonds.[1]

Ronan Doyle, Global Head Product Management at RBC Investor & Treasury Services, recently moderated a panel on new approaches to cross-border distribution exploring the evolution of industry attitudes towards fund distribution.[2]

Rationalising cross-border distribution

One significant barrier impeding cross-border fund distribution is the lack of a consistent customer onboarding process across markets. In many countries, the know-your-client (KYC) and anti-money laundering (AML) regulations are complex and document-heavy making it time-consuming to open new accounts.

There are ways to improve the current situation. The first is for regulators to adopt equivalency arrangements on KYC and AML standards making the on-boarding process for investors purchasing funds on a cross-border basis materially more efficient. This would allow providers to improve digital experiences for investors, while working with asset managers to grow their distribution footprint.

"Service providers would prefer to compete on the services we can provide to asset managers and, critically for Transfer Agents, the digital experiences we can offer to their investors. The appropriate AML/KYC controls absolutely have to be in place but there is an opportunity for regulators to collaborate to a greater degree on what is adopted as an equivalency standard," said Doyle.

Others advocate for the establishment of industry utilities for KYC and AML processing, although some intermediaries express reservations about where the liability might fall should issues arise with that utility. There have been attempts to get such utilities started but they have not yet taken off. Such initiatives tend to focus on specific markets, which does not solve the broader onboarding challenges.

Retailisation of illiquid assets – a source of new capital?

Due to market challenges in 2020, retail investors have found it increasingly challenging to generate satisfactory returns from traditional asset classes. Some experts argue that retail investors should be given access to illiquid asset classes, principally private equity, private debt, venture capital, real estate and infrastructure.

Additionally, traditional fund managers could strengthen AUM by developing a range of illiquid products for retail investors. Allocations into illiquid assets have been healthy over the last few years. In 2019, private equity attracted record institutional inflows, bringing its overall AUM to USD4.11 trillion.[3]

Illiquid assets aimed at retail buyers would require additional safeguards and protections. They could, for example, be distributed using traditional and familiar asset management fund structures. Investors would also need to be fully educated about the nature of the illiquid assets they are exposed to, which can be facilitated through transparent and easy-to-understand reporting.

Retailisation of private capital faces an uphill journey

Illiquid assets may offer lucrative returns but they could struggle to attract meaningful buy-in from a retail audience. The absence of liquidity is a major obstacle to success, according to one panelist. Retail customers value the generous liquidity terms provided to them by daily-dealing funds, and may be reticent about investing in private capital structures which have multi-year long lock-up periods.

There are also potential legal issues precluding the retailisation of illiquid assets, at least in the US. Law firms have repeatedly urged the Securities and Exchange Commission (SEC) to give 401(k) pension plans access to private equity but simultaneously concede there have been a number of litigations against those very same 401(k) plans about their investment selections, most notably around the inclusion of funds with high fees.[4]

Chasing new markets for investment

With asset managers looking to boost AUM, many are now targeting investors in emerging markets. One panelist said that growth in wealth is not being generated in Europe but in emerging markets, namely Asia Pacific and Latin America, both of which have seen significant inter-generational transfers of capital. Doyle acknowledged that fund clients have been active in these regions for some years and are continuing to seek expanding their footprint in emerging markets.

For the funds industry to recover, it is imperative to consider implementing changes to its business model.

[1] Financial Times (September 1, 2020) Active funds fail to outperform passive funds despite COVID-19 opportunity
[2] IM|Power Fund Forum (October 9, 2020) Panel: Cross-border distribution - new approaches
[3] Preqin (February 4, 2020) 2020 Preqin Global Private Equity & Venture Capital Report
[4] Ropes & Gray (May 8, 2020) Ropes & Gray partners discuss retailisation in a Private Equity International Special Report on the Future of Private Equity
[5] Calastone (April 8, 2020) Digitalising distribution: If you don't, someone else just might

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Art direction: Pascal Don Design Ltd **email:** pascal.don@mac.com

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