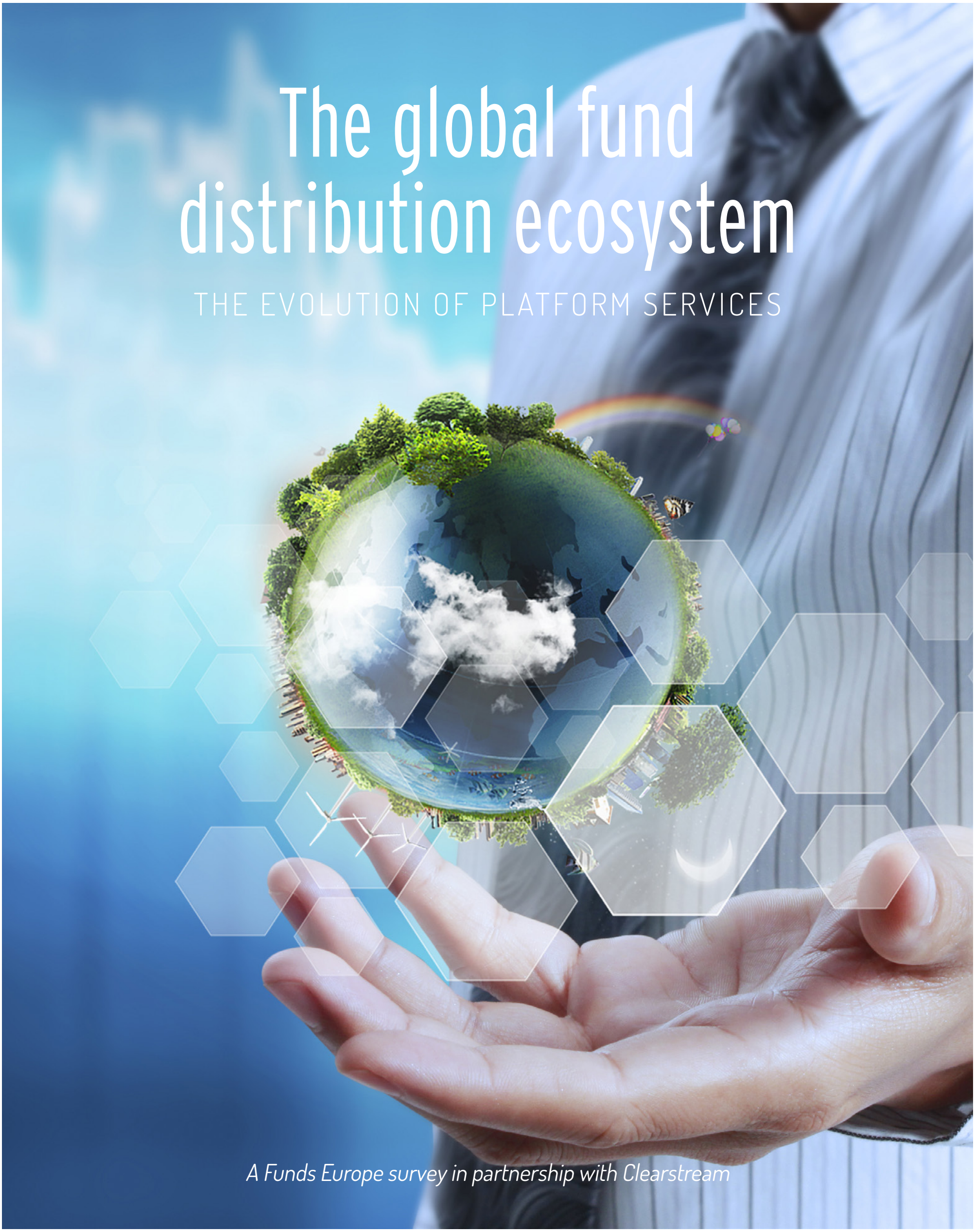
funds europe

The global fund distribution ecosystem

THE EVOLUTION OF PLATFORM SERVICES



A Funds Europe survey in partnership with Clearstream

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Foreword

Overall success in fund distribution is built on a strong reputation for asset safety, flexible sales mechanisms and high standards of investor protection and efficiency. With distribution contract and commission management being resource-intensive functions in an increasingly low-margin market, pressure on the cost element has placed a premium on transparency and cost efficiency.

In past years, we were seeing acquisitions and partnerships in the platform technology market across Europe and the UK and we expect this trend to continue in years to come. Platforms with sufficient scale, volume and expertise are able to move ahead with large investments in value-added services and competitive end-to-end solutions required to stay relevant in the distribution space.

Management companies and their distribution partners are therefore constantly refining their strategies to preserve competitive advantage and to ensure compliance with regulatory requirements.

In Europe, MiFID II has thrown a spotlight on transparency and cost efficiency and many distributors no longer wish to be managing commission flows through to downstream sales intermediaries with limited financial compensation for doing so. MiFID II is therefore driving greater cost transparency across the fund transaction lifecycle and is forcing the industry to review its charging structures and procedures for cost disclosure. To be successful in future, the majority of survey respondents expect fund platforms to improve compliance data flows across the distribution supply chain.

Clearstream's new Fund Desk distribution support services address this growing demand by helping asset managers to manage their compliance requirements, such as AML and KYC, including product governance requirements under MiFID II.

The survey has furthermore confirmed that distribution parties continue to push for greater choice of investment products and larger geographical coverage supported on fund platforms that they employ – and for these service enhancements to be delivered against more attractive cost structures.

Bernard Tancré, Executive Director, Head of Investment Fund Services, Clearstream

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Yes, platforms

WHAT OUR SURVEY REVEALS ABOUT FUND DISTRIBUTION

Highlights

Assets supported on fund distribution platforms have continued to grow in Europe, the Asia-Pacific region and the US. But what do industry participants understand by the term "fund platform"? Which services do these provide well? And where can these improve the services that they deliver to asset managers, distribution intermediaries and end investors? *Funds Europe*, in association with Clearstream, surveyed the industry to provide answers to these questions. Among its main findings:

- 52% of respondents say they understand a fund platform to be an online service offering fund order routing, settlement, asset servicing and distribution support.
- 85% say that assets supported on fund platforms will increase over the coming three years.
- 44% say that Europe (ex UK) will experience the largest increase in assets on fund platforms over this three-year timeframe, 28% say it will be in the Asia-Pacific.
- 48% say the number of platforms offering third-party distribution of investment fund products will increase over the next three years.
- 52% say fund platforms can deliver most service improvement to asset managers by enhancing support for compliance reporting (e.g. KYC, AML, MiFID II).
- 58% say fund platforms can deliver service improvement to B2B distribution partners by improving compliance data flows across the distribution supply chain.
- 74% say that the use of robo-advisory services by fund platforms will increase over the coming three years.
- 61% say that technology companies will be the primary disruptors of the fund platform market.

This report is the second in a series of collaborative research projects between *Funds Europe* and Clearstream conducted in 2019. A report on transparency and data communication across the distribution supply chain, entitled *Clear Enough: Finding the Best Level of Transparency*, was published in June 2019.

Stepping up to the plate

WILL FUND PLATFORMS BE WINNERS IN THE DECADE AHEAD?

THE TERM "FUND PLATFORM" is widely used in the asset management industry, but without common agreement about what it does. In simple terms, a platform is often assumed to be an avenue through which an investor can purchase investments, hold those investments, get information on their performance and sell them when required. For the investor, their route to market may be to purchase investments directly from a direct-to-customer (D2C) platform, or to purchase on an "advised" basis using a distribution intermediary that has a business-to-business (B2B) relationship with the platform operator.

In this sense, the investment platform provides a transactional service linking product manufacturer, distributor and investor. Investors are seeking access to a diversified, strongly performing product range with expectation of transparency, liquidity, simplicity ("ease of understanding") and affordability. The product manufacturer is typically seeking space on the focus list of wealth management platforms delivering efficient, low-cost access for their products to a wide community of distributor (via a B2B platform) or investor customers. And the distributor is seeking to provide a transactional bridge between manufacturer (e.g. an asset management firm) and the end investor.

But to make these relationships work, the services required of a fund platform may extend well beyond the sales function – the task of providing execution of subscription and redemption orders, access (in some markets) to tax-efficient wrappers and provision of basic safekeeping services.

Alongside this sales component, key parties to the fund transaction may require a wider range of services – including distribution support functions (e.g. managing distributor agreements, rebate calculation and processing), support with compliance reporting, communicating data on distributor sales, access to product information and fund documentation through a single point of access, and availability of a powerful, but easy-to-use, set of performance reporting and portfolio monitoring tools.

Our experience is that market participants have different expectations of what a fund platform must deliver, depending on their position in the distribution supply chain, where they are located, and how they like to structure their business. This survey looks more closely at the services offered by fund platforms, what they do well and how they can improve their delivery to different client types. It also evaluates respondents' views on how the distribution supply chain will evolve in times ahead.

"THE SERVICES REQUIRED OF A FUND PLATFORM MAY EXTEND WELL BEYOND SALES."

Platforms and their services

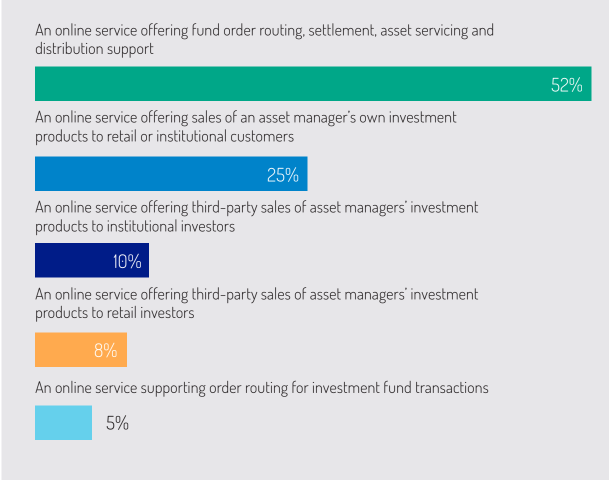
The survey sought to clarify what respondents understand by the term "fund platform" (fig 1). Some view a platform predominantly as a sales function for investment fund products, supporting either an asset manager's proprietary product suite (25%) or a broader range of third-party products from multiple manufacturers (10%).

However, the largest group of respondents (52%) said that a fund platform represents an "online service offering order routing, fund settlement and distribution support". The overarching message is that the majority of respondents across this global survey regard a fund platform to be more than a sales operation, embracing a broader suite of services that include order management and execution services, fund settlement and asset servicing, distribution support and communication of data relating to the customer base and distribution supply chain (for

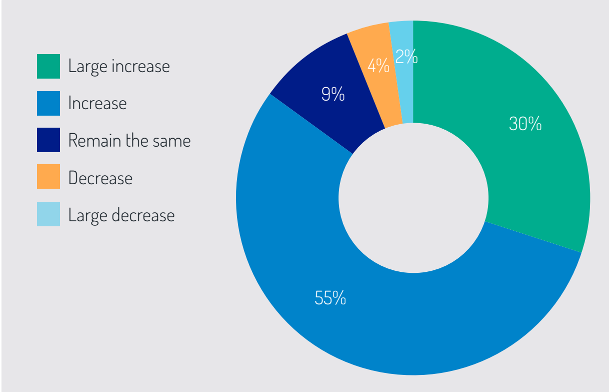
> **"MARKET PARTICIPANTS HAVE DIFFERENT EXPECTATIONS OF WHAT A FUND PLATFORM MUST DELIVER."**

example, to support compliance reporting requirements and/or to facilitate commercial analysis of distributor and sales team performance).

1. What do you understand by the term "fund platform"?



2. How will assets supported on fund platforms change over the coming 3 years in your country or region?



Growth of assets on fund platforms

Respondents anticipate that assets under administration on fund platforms are likely to rise over the coming three years in their country or region. More than four-fifths of survey constituents said that fund platforms will experience asset growth over this timeframe, with 30% indicating this is likely to be a strong increase (fig 2).

From a geographical

standpoint, this growth in assets supported on fund platforms is likely to be most pronounced in Europe (excluding the UK) over the coming three years (44%), with the Asia-Pacific region also expected to see significant rise in AUA on fund platforms (28%). Growth in these regions is expected to substantially outpace growth in platform assets for US- or UK-based platform operators over this time period (fig 3).

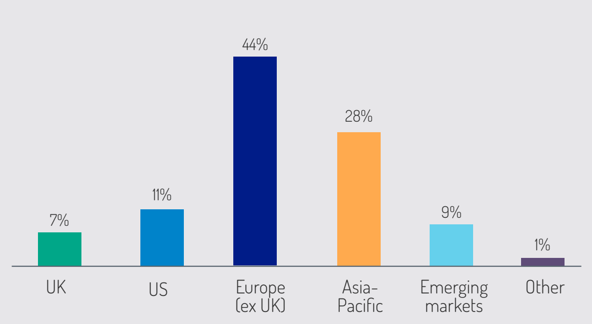
There is a division of opinion within the respondent community regarding whether the number of fund platforms offering distribution of third-party funds will increase or decrease during the coming three years (fig 4). Almost half of respondents indicate there will be an increase in fund platforms offering third-party distribution, with new entrants entering the market in response to sales and service opportunities that are not met currently. In contrast, 35% of respondents suggest that the number of fund platforms offering third-party distribution will decline.

This polarisation of opinion reflects the competitive dynamics prevailing in the fund platform marketplace. Some respondents identify the market reaching a transition point where consolidation is likely in certain locations. Scale is important in the fund distribution platform space, alongside the ability to offer a broad product choice and geographical coverage. There have been a number of recent examples in Europe of platform operators using consolidation opportunities to build economies of scale and to extend market and product coverage. In June 2019, for example, Credit Suisse and Allfunds announced a deal to merge the Credit Suisse Investlab, its open architecture B2B investment platform, with Allfunds to create a wealth platform with more than US$500 billion assets under administration. The combined entity aims to distribute more than 78,000 investment fund and ETF products to more than 700 distributors across 45 countries.

MFEX, which is majority owned by Nordic private equity firm Nordic Capital, completed acquisition of RBC I&TS's Global Fund Platform (GFS) in April 2019 in a deal through which it will supply fund distribution services to RBC as part of an ongoing partnership. During 2018, MFEX completed the purchase of two other European fund platforms, the French-based Axeltis platform, which it acquired from Natixis Investment Managers, and Ahorro Best Funds in the Spanish market.

Market infrastructure entities that offer fund platform services are also targeting acquisition opportunities as a means to

3. Which region will experience the largest increase in assets on fund platforms over the coming 3 years?



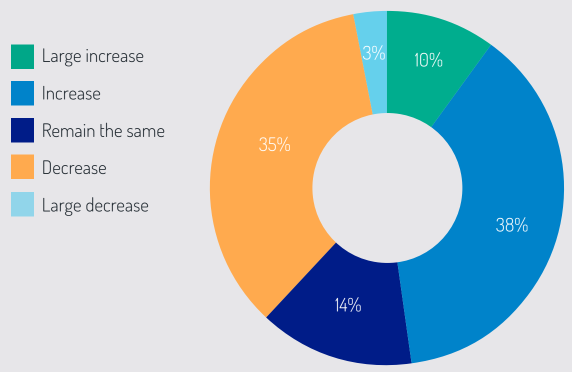
build scale and to widen service coverage. In January 2020, Clearstream and UBS agreed on a long-term partnership in the fund distribution segment in which Clearstream has acquired a majority stake in UBS' fund platform Fondcenter AG. The combination of Fondcenter with Clearstream's Fund Desk business, with more than US$230bn in assets under administration (AUA), will become a leading fund servicing provider with significant benefits for UBS and Clearstream clients as a result of greater scale, increased scope and global network coverage.

Over the past two years, Clearstream has already grown its service portfolio in the fund distribution business through the acquisition of Swisscanto Funds Centre Ltd and the subsequent creation of Clearstream Fund Desk, and it has broadened its international network by entering the domestic Australian fund market, as illustrated by the acquisition of Sydney-based managed funds custodian services division from National Australia Bank in July 2019. The future set-up of Ausmaq within Clearstream's Investment Fund Services business will directly serve Australian customers within the same region and time zone. Later this year, Clearstream will also connect international and Australian market participants via its fully automated fund processing platform Vestima. By integrating the Vestima offering and Ausmaq's services, Clearstream will be able to extend its established suite of cross-border services to Australian custodian banks, wrap platforms and wealth managers.

While scale is important to drive cost efficiency – and to maintain visibility before existing and prospective asset management, distributor or (for D2C) investor clients – there may also be opportunities for new platform operators to step into the market. In some jurisdictions, regulatory drivers may force existing distribution parties (e.g. banks, insurers, IFAs...) to rethink their business models, operating at lower margins and potentially triggering a review of existing commission arrangements.

Looking more closely at these drivers for change, the survey confirms respondents' expectations that there is likely to be consolidation in the third-party fund distribution platform market (fig 5). As

4. Will the number of fund platforms offering distribution of third-party funds increase or decrease over the next 3 years in your country or region?

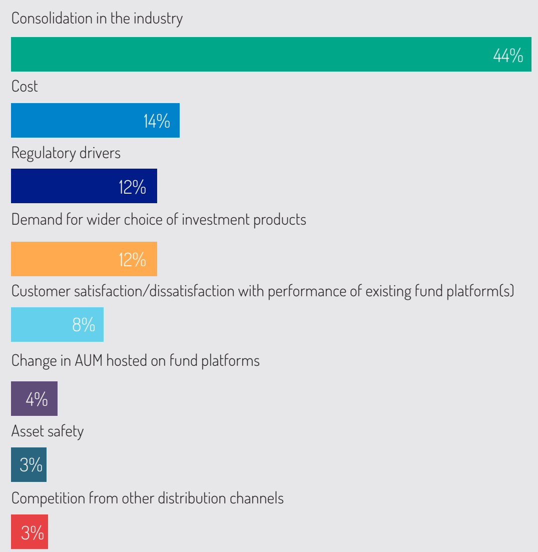


"THERE MAY BE OPPORTUNITIES FOR NEW OPERATORS TO BREAK INTO THE MARKET."

cost pressures increase on platform operators, this may force exit from those that cannot establish the scale and product/market coverage required to attract asset managers and distribution partners – and to operate on contractual terms that are attractive to each of these parties.

However, there may also be opportunities for new platform operators to break into the market. In Europe, MiFID II is driving greater cost transparency across the fund transaction lifecycle and is forcing the industry to review its charging structures and procedures for cost disclosure. In the UK, the Retail Distribution Review (RDR) has triggered movement to a fee-based advisory model where financial advisers are no longer permitted to benefit from commissions from fund companies in return for recommending or selling their investment products. Instead, investors now have to agree fees with the adviser upfront. This has prompted a tighter focus on the costs of investment and a review of how investment products and investment advice are provided to, and paid for, by retail customers – including an advance in the market for clean share classes.

5. Referring to your answer to 4, what will be the main driver for this change?



Looking explicitly at survey feedback from UK-based respondents, 47% said that the number of fund platforms operating in the UK market will increase over the coming three years (of which 13% said this will be a large increase), with 42% indicating the number will decrease.

For survey respondents based in mainland Europe (ex UK), platform consolidation is likely to be stronger trend, with 36% indicating that the number of fund platforms will increase over the coming three years and 45% saying this will decrease.

In other locations, regulatory changes and cost dynamics are creating space for platform operators to extend their penetration of the market. In Australia, The Australian Royal Commission on Misconduct in the Banking, Superannuation and Financial Services industry was launched in 2017 to investigate poor standards and misconduct in the banking, superannuation and financial services industry. Publishing its final report in February 2019, the Commission provided recommendations designed to address "cultural failures" in the banking and wealth management sectors.

One implication of this review is that a number of Australia's largest banks are reducing their involvement in Australia's wealth management sector, with several already taking the decision to sell off their wealth management arms. Australia's financial

"AUSTRALIA'S ROYAL COMMISSION ADDRESSED 'CULTURAL FAILURES' IN BANKING AND WEALTH MANAGEMENT."

regulators are also looking closely at costs and charges associated with sales of investment fund products. This, in turn, may extend opportunities for fund platforms and new distribution intermediaries to extend their presence in a distribution supply chain forced to operate at tighter margins, to bear higher regulatory and compliance costs (particularly in responding to the recommendations of the Royal Commission), and to operate with a higher level

of transparency around its commission structures and remuneration arrangements.

In the Asia-Pacific region, third-party fund distribution in the key Asian markets for UCITS products (i.e. Hong Kong, Singapore and Taiwan), is currently dominated by banks. With these large banks operating their own wealth management platforms – which provide access to UCITS and other investment products (mutual funds, ETFs) that are authorised for distribution in the local markets – consolidation is unlikely in the short-to-medium term. There is relatively low probability of these universal banking entities combining their wealth management platforms with their competitors (see the comment by Citi's Stewart Aldcroft on page 25 of this report). This conclusion is reflected in the survey results, where more than 80% of Asia-based respondents tell us that the number of fund platforms in the region will rise in the coming three years – and fewer than 10% said this will fall.

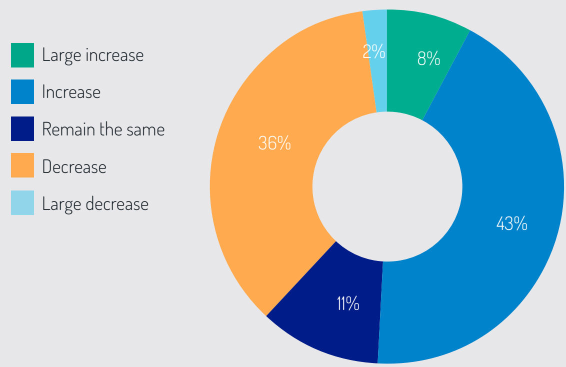
We have noted that, over a three-year timeframe, respondents have divided opinion regarding whether we are likely to see consolidation of fund platforms, or the entry of a wave of new platform operators to the market. Over a ten-year timeframe, survey respondents predict a broadly similar outlook for the fund platform marketplace (fig 6): 51% predict that the number of platforms offering third-party fund sales will increase (compared with 48% for the three-year timeframe). In contrast, 38% expect that this population of platform operators will contract as current providers exit the market (exactly replicating the 38% of respondents that predicted this for the three-year time horizon).

Meeting customer expectations

Which services do fund platform operators deliver well? And where can fund platform operators improve to meet the service expectations of their users? The survey asked respondents to assess platform operators' performance according to 11 service categories, classifying the service from 1 ("very good") to 5 ("very poor"). These service categories were then ranked in order of service quality on the basis of weighted-arithmetic mean (fig 7).

Ranking at the top of the list of services that fund distribution platforms perform well,

6. How will the number of fund platforms offering distribution of third-party funds change over the next 10 years in your country or region?



7. How do fund distribution platforms perform in the following areas?

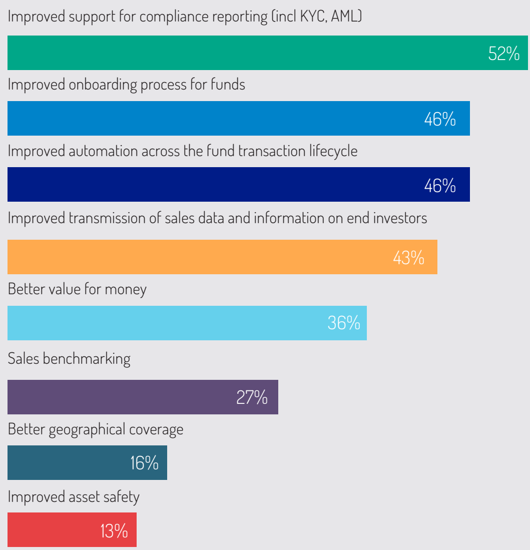
Service area ranked by quality of service – ranked from best, at top, to worst by weighted arithmetic mean	Ranking				
	1st	2nd	3rd	4th	5th
Distribution support (rebate calculation and collection, managing distributor agreements)	9%	35%	35%	16%	5%
Value for money	12%	27%	36%	22%	3%
Fund execution and custody	10%	30%	40%	13%	7%
Range of fund managers and products supported	12%	30%	36%	13%	9%
Support with compliance reporting (eg AML, KYC, MiFID II product governance)	12%	32%	29%	19%	8%
Performance reporting and portfolio tools	9%	23%	47%	16%	5%
Ease of onboarding funds	7%	31%	34%	22%	6%
Geographical coverage	8%	35%	35%	14%	8%
Fund information and investment research	6%	27%	39%	22%	6%
Fund marketing support	4%	20%	45%	25%	6%
Distribution/sales benchmarking	3%	15%	44%	29%	9%

respondents highlighted high quality of distribution support – for example in managing distributor agreements, managing rebate calculation and collection – and providing value for money. Platform operators also rated well in delivery of fund execution services and for standards of custody provision and asset safety.

Turning to areas where there is most room for improvement,

> “SOME PLATFORM OPERATORS ARE EXPLORING THE POTENTIAL TO APPLY DATA SCIENCE TO HELP SEARCHES.”

8. How can fund distribution platforms improve the service offered to asset managers?



respondents pointed to a need for improved information flows on distribution sales. Asset managers are seeking improved data flows across the distribution supply chain, for example to facilitate evaluation of sales team performance and to benchmark performance of distributors across an asset manager’s global distribution network.

Respondents also highlighted opportunities for platform operators to enhance the quality of fund research and product information that they offer through their online platforms. Distributors are seeking access to fund documentation and product sheets across a broad range of manufacturers and investment products, available through a single point of access. Some fund platform operators are exploring the potential to apply data science to assist searches and document access, applying algorithmic models to understand their customer base more effectively and to match customer investment preferences and wealth management goals with a suite of suitable products available on the platform.

Improving service to asset managers

The primary area where fund platform operators can deliver better value to asset management companies, according to survey respondents, is by improving access to the data that asset managers require to meet their compliance reporting obligations – particularly with regard to product governance obligations under MiFID II and anti-money laundering (AML) and countering the financing of terrorism (CFT) responsibilities outlined by the Financial Action Task Force.

Under the second Markets in Financial Instruments Directive (MiFID II), a management company must, under its product approval process, specify a "target market" of end clients for every financial instrument that it sells. It must then take reasonable measures to ensure that the financial product is distributed only to this identified target market and that all risks associated with these product sales are monitored on an ongoing basis.

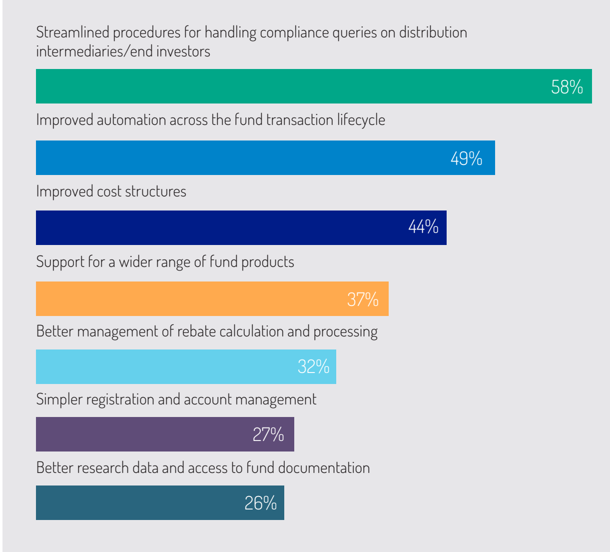
In addition to key data on end investors and lower-tier distribution intermediaries that asset managers require to meet their compliance reporting obligations (52%), asset managers are also seeking a detailed breakdown of sales data for commercial purposes – enabling them to evaluate the performance of their own sales teams and/or to benchmark distributor performance across their global transaction networks (fig 8). This requirement also features prominently in the list of areas where respondents tell us that fund platforms can improve service delivery to asset management companies (43%).

Beyond demand for improved sales data and investor information, asset management clients are seeking automated process flows across the transaction lifecycle, optimising STP rates, removing manual touch points and stripping out corresponding operational risk from their sales and distribution support requirements (46%). They also require an efficient onboarding process for fund products, moving beyond manual, document-centric onboarding procedures to an accelerated, streamlined, digital process (46%).

Improving service to distribution intermediaries

For fund platforms offering B2B services to wealth managers and other distribution intermediaries, survey respondents indicated that the most significant

9. How can fund distribution platforms improve the service offered to distribution intermediaries?



"ASSET MANAGERS ARE SEEKING A DETAILED BREAKDOWN OF SALES DATA."

improvements these can deliver to their distributor clients will again be through enhancing their management of compliance information across the distribution supply chain (fig 9).

European regulations do recommend that asset managers take appropriate measures to verify the identity of end investors purchasing their fund products through a lower-tier distribution intermediary (e.g. Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 relating to AML and CFT due diligence). However, this makes allowances, if the sale is "low-risk" and national law permits, that the asset manager may entrust this responsibility to the distribution intermediary to verify the investor's identity and to conduct required due diligence checks (see further in the *Funds Europe* and Clearstream joint report, *Clear Enough: Finding the Best Level of Transparency*, July 2019, op. cit.).

With this point in mind, the need for fund platform operators to offer efficient data transmission across the distribution supply chain is important for asset managers and for distribution partners that may use the platform. The survey identifies this requirement at the very top of respondents' current priorities (58%). The need for fund platform operators to extend automation across the fund transaction lifecycle also featured near the top of priorities when serving distributor clients (just as it did for asset management clients, see previous section).

Beyond this, distribution parties continue to push for greater choice of investment products supported on fund platforms that they employ – and for these service enhancements to be delivered against more attractive cost structures. The appetite of financial service companies to receive a wider and better range of investment services at a more competitive price is one that has changed little over many decades – and this drive is clearly illustrated in these survey responses.

Looking at areas of service strength, fund platforms received positive feedback for their ability to deliver streamlined registration and account management – and their ability to provide ease of access to fund documentation and product data.

For market infrastructure entities offering fund platform services, such as Clearstream, there is evidence of investment and partnership designed to strengthen their capability in a number of the above areas. Under its Fund Desk Distribution Support solution, Clearstream has extended access to an independent fund research provider, fundinfo, which offers a wide library of fund information to investors and financial intermediaries. Fund Desk also provides a data exchange that manages transfers of data from fund manufacturer to distributor, and vice versa, thereby supporting data flows for compliance reporting and commercial sales benchmarking.

Improving services to end investors

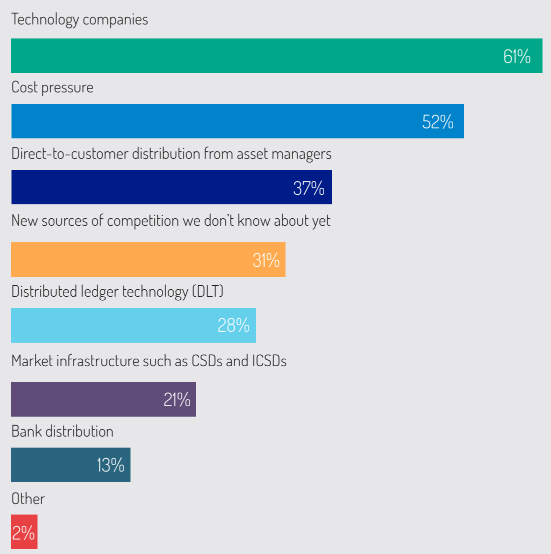
When it comes to improving the services that fund distribution platforms offer to the end investor, survey respondents returned to a familiar set of priorities – demand for a wider choice of investment fund products supported on platforms (particularly including the extension of alternative investment products and ETF ranges) and wider geographical coverage (fig 10).

Investors will also benefit from improvements to the range of fund documentation and research data supported on fund platforms – and through further investment in

10. In which areas can fund distribution platforms improve the service offered to end investors?

Service area ranked by quality of service – from best (at top) to worst (at bottom) by weighted arithmetic mean	Ranking				
	1st	2nd	3rd	4th	5th
Wider geographical coverage	10%	21%	36%	25%	8%
Wider range of products (AIFs, ETFs ...)	14%	25%	37%	19%	5%
Better research data and access to fund documentation	12%	36%	32%	17%	3%
Performance reporting and portfolio management tools	22%	27%	30%	20%	1%
Streamlined account opening and registration procedures	24%	24%	32%	14%	5%
Improved cost structures	24%	31%	31%	10%	4%

11. What will disrupt the market for third-party distribution via fund platforms?



performance measurement and portfolio management tools that these offer. With third-party performance analytics providers extending their tools through a wide range of delivery mechanisms (including API, and cloud-based software- or platform-as-a-service solutions), this is extending the options available to platform operators without requiring that these are hosted on an on-premises server.

Whereas the survey highlighted the need for fund platform operators to improve cost efficiencies in delivering a better service to B2B distribution intermediaries, this featured near the bottom of the priority list for enhancing service delivery to the end investor. Platform operators were also rated strongly for the quality of registration and account opening services offered to distributor clients and to end investors, with this service requirement appearing close to the bottom of both ranking tables (fig 9, fig 10) in terms of priorities for improvement.

Disrupting the platform market

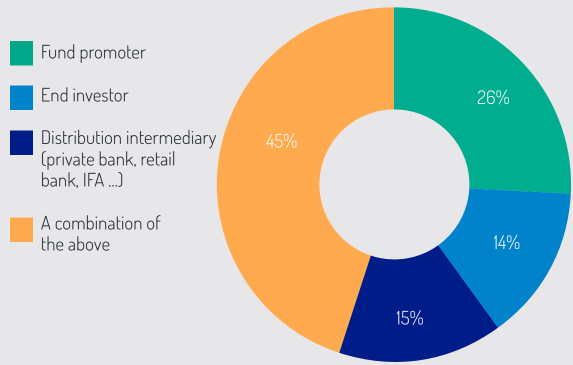
When asked to identify what the major sources of disruption will be to the fund platform marketplace (fig 11), respondents said that technology companies will be the primary challengers to the platform operators' current business models (61%). Cost pressures on platform operators will also be important (as noted from respondents' answers to earlier questions), prompting some operators to review their position in the market while providing opportunities to others to provide an efficient service in an environment where established distribution parties are being forced to review their current business strategies.

The survey suggests that this market is potentially ripe for disruption, with asset management companies expected to extend direct-to-consumer sales (37%) – thereby disintermediating some existing distribution partners. We are also likely to see new entrants stepping in to compete in this space (31%), along with market infrastructure entities (such as CSDs and ICSDs) playing an integral role in distribution support (21%).

A number of technology companies have established partnerships with service providers in the asset management sector, deepening their understanding of the market and refining their product set to meet the requirements of asset management and asset servicing companies. As financial services companies manage their data services in the cloud – and potentially make greater use of cloud-based delivery channels (e.g. software as a service, platform as a service, infrastructure as a service) to meet their service requirements – BigTech firms such as Amazon Web Services, Microsoft Azure and Google Cloud are being integrated more fully into the financial services architecture.

For large online retailers-cum-technology specialists such as Amazon and Alibaba, there may be opportunities to extend their supply chain management, retail distribution and technology expertise into the world of fund distribution. But we need to ask the question, will they want to? The world of mutual fund and ETF sales is heavily regulated and has specialised delivery channels that differ significantly from the service channels in which BigTech companies and large online retailers have operated since their inception. A large-scale entry of BigTech is far from inevitable, at least in the near term, and some of these firms may identify other industrial sectors where they find better opportunity for revenue generation before they commit themselves to the world of investment fund distribution.

12. Who, in your view, should pay for the services provided by fund platforms offering distribution of third-party funds?



Who should pay?

With regulatory interventions (RDR, MiFID II) prompting a review of distributor commission arrangements in a range of markets around the world, fund platform operators are reviewing their business strategies and the mechanisms they have in place to charge for their services. For B2B relationships, this may typically be via an *ad valorem* charge to asset management companies (based on assets under administration on the platform) and either a negotiated fee or a slice of the commission flow (if applicable) paid by the distributor.

In light of this review process, the survey asked respondents who should pay for the services offering by fund distribution platforms. The dominant opinion was that these should be shared between fund manufacturer, distributor and end investor (45%, fig 12).

A wider question for our industry is how commission arrangements and distribution contracts will be managed. Previously, many larger distributors were content to manage commission flows in-house – they made significant income from managing distribution fee payments on fund sales and had little interest in outsourcing this activity to an external provider who would demand a slice of this income stream.

In some locations, sales intermediaries are now reviewing this approach. With sales volumes gradually shifting from commission-paying to clean share classes, distributors are less willing to manage resource-intensive distribution commission and contract management arrangements and are becoming more open to sourcing this service from an external provider. This is providing opportunities for market infrastructure entities that provide fund platform services (such as Clearstream's Vestima, for example) to extend their activities in this segment of the distribution support arena. *Inter alia*, MiFID II has thrown a spotlight on transparency and cost efficiency and many distributors no longer wish to be managing commission flows through to downstream sales intermediaries with limited financial compensation for doing so.

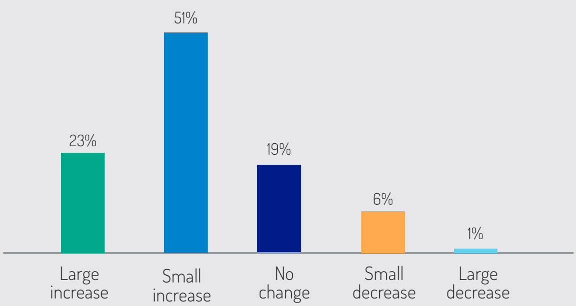
Robo-advisory and fund platforms

Provision of robo-advisory services on platforms is expected to rise substantially during the coming three years, with three-quarters of respondents predicting the growth of robo-advisory and 23% of these saying this will be a large increase (fig 13).

Robo-advisory platforms have typically targeted retail customers either through D2C marketing or via a B2B service that is intermediated by another distributor (often as a white-labelled service). Robo-advisory platforms may offer different levels of human involvement, ranging from a fully automated product (algorithmic matching of a diversified suite of investment products to a customer's investment preferences) to a hybrid service (investor engagement with a sales adviser, supported by algorithmic matching). To enable this process, asset management companies and distribution partners are applying client segmentation analysis to their investor base, attempting to identify clusters with similar investment preferences and wealth management goals. It is then a short step to apply a robo-advisory type service to match these investment preferences to a model portfolio or diversified basket of investment products.

The survey indicates that this component of the self-directed investment market will be an

13. How will the use of robo-advisory services by fund platform services change over the coming three years?



important growth option for some wealth management companies. However, this journey is taking time to gather momentum in some locations. *Funds Europe* has consulted with a number of service providers in Europe and the Asia-Pacific region during this survey that have already closed or sold off their robo-advisory services owing to limited demand at the current time.

Conclusion

The survey finds that the majority of respondents define a "fund platform" to be more than a sales function. Asset managers are seeking space on the product shelf of D2C and B2B wealth management platforms that provide efficient, automated, low-cost access to a strong base of end investors. Investors are seeking access to an attractive, diversified product range with the expectation of transparency, liquidity, accessibility (i.e. "ease of understanding") and affordability. To meet these combined objectives, the majority of survey respondents said that a fund platform must embrace online access to fund order routing, settlement, custody and asset servicing, along with effective communication of data across the distribution supply chain.

In charting direction of travel for the fund platform marketplace, the survey finds that assets supported on fund platforms are likely to increase over the coming three years, with almost one-third of respondents believing this will be a large increase. Fund platforms located in Europe (ex UK) will capture the largest share of asset growth, with those located in the Asia-Pacific region also witnessing significant expansion.

Opinion is divided regarding whether there will be a wave of consolidation in the fund platform arena or whether new entrants will enter the market. The survey tells us that both trends will co-exist, with the pace of new entry expected to slightly exceed the pace of consolidation on a global basis. However, this will be heavily contingent on location, the regulatory landscape and current cost dynamics in those markets.

When respondents were asked to evaluate the strengths and weaknesses of fund platforms they utilise, platform operators scored best for the quality of their distribution support – in managing distribution agreements, rebate calculation and collection – and for delivering value for money. Platform operators also ranked well for fund custody/asset servicing and for fund execution.

On the downside, respondents highlighted the need for better communication of data along the distribution supply chain required for sales analysis and distributor performance benchmarking. Some platform operators also need to improve the quality of investment research and portfolio analytics supported by their service.

When asked to define the most urgent priority in meeting the needs of asset management and distributor clients, respondents highlighted the same recommendation in each case – fund platforms must deliver better transmission of data across the distribution supply chain to support compliance reporting. Respondents also highlighted a need for higher levels of automation across the fund transaction lifecycle and for better onboarding procedures (for fund products, for new wealth management clients) when supporting both asset manager and distributor clients.

To deliver better service quality to the end investor, the survey presented few surprises – fund platform operators need to host a wider range of investment products (mutual funds, ETFs ...) and broader geographical coverage. Respondents also highlighted the need for better investment research and portfolio analytics tools on some fund platforms.

The survey has confirmed that regulation will be a key driver of opportunity for fund platform operators – and also a primary challenge. With the shift to fee-based advisory models (in the UK with RDR, in the EU for distribution relationships covered by MiFID II, in Australia this may be driven by the Royal Commission inquiry), distribution partners are reviewing their delivery models and fee structures. This may provide opportunities for new platform operators to break into previously captive markets dominated by banks, insurers or IFA firms.

With these market and regulatory changes, some fund platform operators are looking to rationalise their product lists and to work more closely with a smaller number of fund manufacturers. Wealth managers that operate fund platforms are typically seeking to standardise contract arrangements and due diligence procedures with product providers and this can be done most effectively with a targeted group of fund manufacturers. This enables the platform operator to build scale with specific manufacturers and to contain the administrative overhead associated with managing a large number of provider relationships. Adding a new relationship to the product list can present significant administrative costs – and may demand that another manufacturer is dropped from this list. Consequently, emergent asset managers may need to work hard, and offer something particularly attractive, to break on to the focus list of leading wealth management platforms.

In turn, with distribution and advisory relationships moving to fee-based models, this may push wealth management platform operators more towards a “product-agnostic” approach. With retrocession payments being taken out of the equation, this reinforces the value of a product mix that offers performance, diversification and simplicity to the end investor in a cost-efficient way, often through a diversified blend of ETFs, mutual funds and (for selected clients) alternative investment funds.

In supporting these relationships, the ability to support automated end-to-end transaction processing, high standards of asset safety, a strong library of product information and easy-to-use portfolio analysis tools are important to success. Alongside this, the ability to support efficient and transparent data transmission across the distribution supply chain will be key.

A panel of experts was asked to comment on key questions from the survey. How will the market for third-party fund distribution develop over the coming three years in your region? Do you anticipate consolidation of fund platforms? How are the demands of asset manager, distributor and investor changing in terms of what they demand from a fund platform?

NEIL WISE
GLOBAL HEAD OF SALES, INVESTMENT FUND SERVICES, CLEARSTREAM

We have seen more and more consolidation in the funds industry over the last ten years. Indeed, out of the top 500 asset managers in 2008, just over 250 are in existence as standalone operations today. Going forward to 2025, this is expected to decrease further by almost 20%. The driver for this consolidation is primarily economies of scale, as well as fee or margin pressure.

This pressure is likely to continue going forward, affecting all aspects of the industry – asset managers, asset servicers, distributors and infrastructure providers. The solution to this will be more automation and streamlining of processes, combined with the provision of value-added services and investment in more technology.

The industry expects technology to provide savings of 2% to 3% per annum over the next few years to compensate for margin compression.

The distribution platforms are increasingly under pressure to deliver full-service solutions, as well as to provide an extensive or global footprint allowing uniform services across all key markets. The efficiencies this will deliver across markets is one of the key demands of asset managers and asset servicers.

As part of the drive for more economies, we are seeing a push for end-to-end solutions reducing the friction in the marketplace. Investment in streamlining operations and technology is likely to be key to success going forward.

Large cross-border fund processing volumes, a broad product choice and wide geographical coverage of Vestima allows Clearstream to offer a very competitive pricing structure for an end-to-end solution in the fund distribution segment.

MARC-ANDRÉ BECHET
DEPUTY DIRECTOR GENERAL OF THE ASSOCIATION OF THE LUXEMBOURG FUND INDUSTRY (ALFI)

Third-party fund distribution is incredibly complex. It also differs substantially from jurisdiction to jurisdiction, including within the EU itself, so that there isn't a one-size-fits-all strategy for fund distributors. There are huge differences by category of investors, between fund products and geographies. MiFID II, and similar initiatives such as RDR in the UK, have definitely impacted third-party fund distribution, leading to a split between independent distributors and tied agents.

In reaction to these new regulatory requirements, distributors and asset managers have adopted a more targeted strategy, with a review of their existing fund range, a reduction in the number of funds on offer and ongoing monitoring of where products are placed and to whom, as required by MiFID II with the concept of "target" markets. In parallel, asset managers, as well as third-party

fund platforms, have responded to this challenge by designing solutions which facilitate direct fund distribution. This translates into the creation of B2B and B2C platforms, fund supermarkets, packaging fund distribution into investment advisory services or robo-advice solutions.

In terms of disruption, we expect the rise of fintech to continue to revolutionise the fund industry. That said, it is important not to be misled by the term "disruption"; while fintech will certainly shake up the status quo of fund distribution, all signs point to this being a wholly positive paradigm shift. Cloud-based solutions, machine learning, artificial intelligence, blockchain/ DLT, are all undergoing an exciting emergence and will no doubt bring efficiencies never before seen by the industry. A new generation of investors is also increasingly looking for digital solutions, with instant access to fund information. Fund distribution capabilities through smartphones, tablets and web-based solutions are a must when servicing these investors.

Fund platforms will invariably play a central role in the expansion of the industry's distribution strategy in the next few years. As it stands, there is a great deal of complexity within distribution channels; technical order routing platforms, country-specific direct and indirect agents, and differing investor identification processes all compound the incomprehensibility of the distribution process. Fund platforms are becoming increasingly popular with certain market segments, as the distribution platforms they offer allow a single account to invest into multiple investment funds (fund supermarkets). We do not exclude the possibility that new actors, such as online shopping platforms, will start distributing funds, similar to what has already happened in China, where Alipay is distributing money market funds. Some asset managers are considering setting up JVs with tech firms, with a view to rethinking their distribution technology tools.

Luxembourg service providers provide all types of solutions to these issues, supporting distribution channels and distributors globally. Market experts facilitate truly global distribution, targeting retail and institutional investors alike throughout the world. As a central hub for cross-border distribution to more than 70 countries, Luxembourg concentrates specialist knowledge of distributor due diligence, both initial and ongoing. All of this adds to our bullish outlook for the fund distribution industry over the next few years and will ensure third-party fund distribution will continue to thrive in the coming decade.

SÉBASTIEN CHAKER
EXECUTIVE DIRECTOR, UBS FONDCENTER, ASIA-PACIFIC

Third-party fund distribution has been embedded in most Asian countries for many years and accounts for over 75% of retail fund distribution in markets like Hong Kong, Singapore and Taiwan. Fund distribution will continue to grow in this region in the next few years, driven by regional wealth creation, the growth of private retirement plans and the advent of new digital distribution solutions. In addition, new countries previously closed to cross-border funds distribution, such as Thailand, are gradually opening up. This will further increase third-party funds distribution in the region.

The consolidation of wholesale fund platforms started several years ago. Today, there are less than a handful of global fund platforms operating alongside smaller local or regional platforms. We believe this consolidation will continue as fund distribution continues to grow in complexity. This, as a result, requires fund platforms to significantly increase IT and technology budget to deliver services that help customers automate, comply with regulations and remain competitive. In Asia, specifically, increasing regulatory requirements such as product due diligence, fund suitability and fee transparency have driven fund distribution costs up and forced distributors and fund providers to look for tech-based solutions to mitigate compliance risk and reduce operational costs. Only fund platforms with sufficient scale and expertise will be able to sustain these large investments to develop new value-added services required to stay relevant in this space.

Our mission is to make fund distribution more efficient, faster and cheaper and allow our customers to focus on their core activities (i.e. investments and advice). We provide fund distributors and fund providers with a marketplace which streamlines communication and interactions across the entire fund distribution spectrum – by integrating external service providers and developing digital solutions that help our customers reduce costs, scale their business and ease their regulatory burden.

MARGARET HARWOOD-JONES
MANAGING DIRECTOR, GLOBAL HEAD OF SECURITIES SERVICES, STANDARD CHARTERED BANK

Utilisation of fund platforms has grown in Asia over the past few years and we expect this trend to continue, with platforms remaining a priority as a distribution channel within the region. It is noteworthy that fund platforms have been adopted in different ways by investors, market players and market infrastructure entities in different jurisdictions.

In Indonesia, S-INVEST (launched by the local CSD) continues to grow as an end-to-end platform for the whole market, supporting fund orders, order settlement, client reporting and investor record-keeping. In Thailand, Fund Connect has slowly, but gradually, started acquiring space, with asset managers adopting this into their ecosystems. In September 2019, Standard Chartered and Clearstream announced a partnership, along with the Stock Exchange of Thailand (SET), to facilitate cross-border funds transactions, thereby encouraging international fund flows into the funds market in Thailand.

At the same time, we are also seeing growth in proprietary fund platforms. A wider range of third-party funds are being added to these proprietary platforms, thereby providing greater choice to existing clients. Such additions are mostly funds from premium and marquee asset managers.

Last year, Standard Chartered also partnered with a key strategic asset manager, supporting its initiative to establish an online fund platform offering both proprietary and third-party funds for its customers.

So how are the demands of asset manager, distributor and investor changing in terms of what they demand from a fund platform? The asset management industry is growing in Asia and both the product offering, and channels through which these products are offered, are becoming more sophisticated. Technology and platforms have started playing a huge part in this transformation. Use of new technologies, including distributed ledger technology, artificial intelligence and data analytics, is improving processes and enabling better data insight. As a result, we see consolidation of such platforms, starting with high-profile acquisitions of distribution platforms in the wider industry (e.g. Allfunds Bank, MFEX platform, Axeltis, Swisscanto Funds Centre, etc).

Asset managers are also ramping up their innovation efforts to distribute funds directly to investors. Some of these are assessing whether to get rid of their fund structures, enabling investors to customise their own portfolios and choose their own assets to invest in. In addition, venture funds are also creating their own platforms to distribute their investments, which are primarily channelled into technology start-ups.

With the growth of alternatives – including infrastructure, private equity and real estate – sophisticated investors expect fund platforms to make a wider variety of these fund types available from across a wide range of promoters and geographies.

STEWART ALDCROFT
MANAGING DIRECTOR, CITI MARKETS & SECURITIES SERVICES, SENIOR ADVISOR, ASIAN FUND MANAGEMENT INDUSTRY

Third-party fund distribution in the key Asian markets for UCITS products in Asia (i.e. Hong Kong, Singapore and Taiwan), is dominated by banks. These offer wealth management platforms for their customers that provide access to UCITS, as well as other mutual fund products that are authorised for distribution in the local markets by the regulators. Unless there is a change to the current basis of commissions being paid to distributors in Asia, both as front-end as well as trail commissions, I would not expect to see any significant change to the dominance of the banks as the primary outlet for mutual fund distribution.

So, can we anticipate consolidation of fund platforms? Banks operate their own fund platforms – and thus are unlikely to combine with their competitors.

That said, it is essential here to define what we mean by a fund platform. There are plans to enable the introduction of online fund distribution in Asia, but this could take some time to gain sufficient volume without there being external influence such as regulatory change.

Although online has been very successful in China, over 90% of funds sold online have been money market type and thus have not required much detailed explanation.

There are many new entrants looking to join the field. They may choose to combine with the new virtual banks setting up in Hong Kong and Singapore. But these will take a few years to become established and to grow. These do not yet represent a significant business opportunity. **f**e

Fig 14: Please rank the importance of these distribution channels for an asset manager in your country or region.

United Kingdom (N=39, ordered by weighted arithmetic mean)

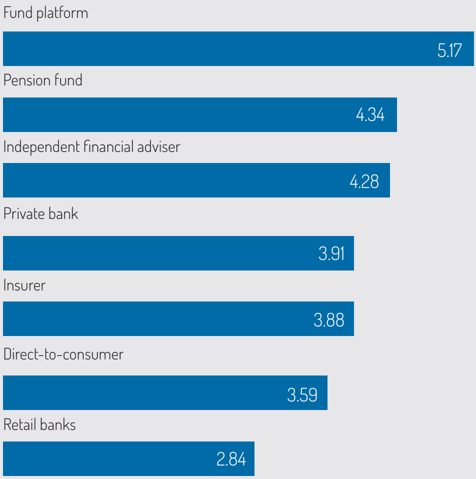
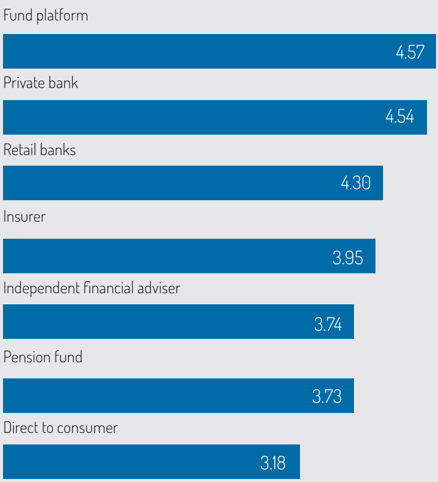


Fig 15: Please rank the importance of these distribution channels for an asset manager in your country or region.

Europe (ex UK) (N=64, ordered by weighted arithmetic mean)



Survey methodology

A sample of 139 participants drawn from the readership of *Funds Europe* and *Funds Global Asia* participated in the survey, conducted online during August and September 2019.

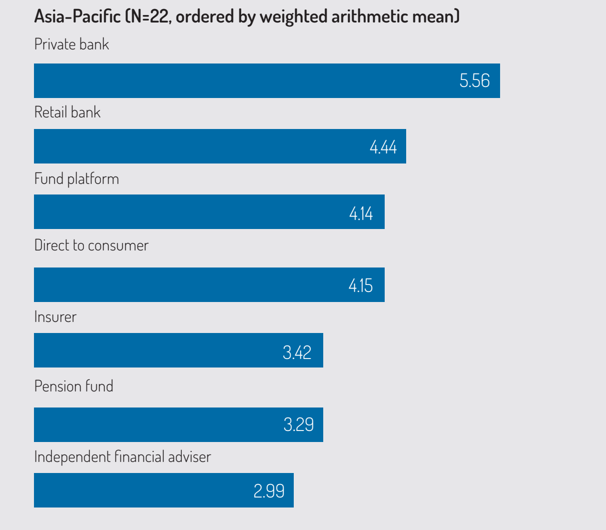
Respondents were asked to say which sector of the asset management industry that they worked in:

Fund manufacture: 28%
Fund distribution: 16%
Fund administration or custody: 9%
Market infrastructure: 5%
Fund platform: 13%
Technology, fund software: 11%
Other: 18%

The respondents worked in these countries or regions:

United Kingdom: 28%
Continental Europe: 46%
Asia-Pacific: 16%
Americas: 7%
Other: 3%

Fig 16: Please rank the importance of these distribution channels for an asset manager in your country or region.



As part of the survey, respondents were asked to rank which distribution channels are currently most important in their country or region (ranked from most important, scoring 7, to least important, scoring 1). To provide a visual summary of this data, distribution channels were ranked in order of importance on the basis of weighted arithmetic mean. The survey results for UK respondents (fig 14), Europe (ex UK) respondents (fig 15), and Asia Pacific respondents (fig 16) are represented here.

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