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funds europe

QUEL TRIOMPHE !

DISCUSSING GLOBAL AND DOMESTIC BUSINESS WITH FOUR OF THE MOST SENIOR EXECUTIVES AT GLOBAL ASSET MANAGERS BASED IN FRANCE

PRIVATE DEMOCRACY

INTERVIEW: RENAUD DUTREIL, THE FORMER FRENCH MINISTER TURNED PRIVATE EQUITY PROFESSIONAL.

FUNDS EUROPE AWARDS 2022

BACK AT THE TOWER OF LONDON, FUNDS EUROPE CELEBRATED INDUSTRY SUCCESS AT OUR ANNUAL AWARDS.

ALSO THIS MONTH...

GLOBAL EQUITIES, EMERGING MARKETS, CHINA ROUNDTABLE, PRIVATE FUND ADMINISTRATION AND DE&I.

A perfect marriage

TWO EVENTS IN RECENT WEEKS speak directly to the funds industry. COP 27 obviously connects with the industry's net-zero mission, and the birth of the world's 8 billionth baby (at least in my head) connects with pensions.

Net zero has a deadline: 2050. Quite when the deadline for the 'pensions timebomb' is – when this demographic countdown finally ends (or has ended?) – is perhaps less certain.

Crises in the past three years seem to have pushed the pensions problem a little further from thought. Sandro Pierri, the CEO of BNP Paribas AM, reminds us this month that demographics is one of the major "disruptions" for asset managers in the next ten years (see page 27 onwards).

As a kind of addendum to our Paris CEO content, we've an interview with a former French minister, Renaud Dutreil (see page 38), who championed private equity 'democratisation' while in government. Private capital could be a perfect marriage between 'real' people's money on one side, and the small and medium-sized companies that many people work for on the other.

This broadening of PE's audience is a compelling idea – and perhaps when he or she is older, the world's 8 billionth person will be fully invested.

Nick Fitzpatrick
Group Editor, Funds Europe

FUNDS EUROPE

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HEDGIES IN FRONT
IMPROVEMENTS IN DE&I

The UK asset management industry is lagging hedge funds and the insurance sector when it comes to diversity, equity and inclusion (DE&I) scores.

According to the latest Race to Equality Index published by Reboot, the average DE&I score for financial services firms improved, from 65 out of an optimal 100, to 67 in the past 12 months.

Hedge funds and insurance companies saw the greatest improvements by subsector, climbing from 65 to 68, and 66 to 68 year-on-year, respectively. However, asset management is the only subsector to have regressed over the period, having dropped from 66 to 64 this year.

Subsectors such as pensions and wealth management saw their DE&I scores improve.

MARKET DATA

EFAMA DISMAYED AT REAL-TIME DATA IMPASSE

THE AVAILABILITY OF a real-time consolidated tape in Europe is critical for the success of the Capital Markets Union (CMU), the European Fund and Asset Management Association (Efama) said, after discussions on real-time tape for equities investors reached an impasse in the European Parliament and Council.

Efama said a "broad majority of market participants", including the sell-side and alternative trading venues, have consistently made the case for a real-time tape for equities with the inclusion of pre and post-trade data.

It added that the design of the tape includes "fair compensation" for data contributors, namely stock exchanges, and there is absolutely no reason for tapes to be "delayed, slow or containing anything less than live streams of data".

Tanguy van de Werve, director general of Efama, said the European financial services industry has been working over the past two years to help design a viable framework for the consolidated tape.

"If the use-cases for market participants on real-time data (as opposed to one-minute or 15-minute delayed data) are not compelling enough, you would think that policymakers would be fearful of the longer-term risks of failing to produce a viable tape and the missed policy objectives," he said.

"For me, it is clear that the democratisation of data, the global competitiveness of our Capital Markets Union, and the increased transparency for all investor groups, including retail, hang in the balance. I hope that these negotiations will ultimately yield a commercially viable tape that users will want to purchase."

The push for real-time data follows a 2019 European Securities and Markets Authority review into MiFID II, stating it has "not delivered on its objective to reduce the cost of market data charged by trading venues and others".

RECESSION

ASSET MANAGERS' OUTLOOK FOR RECESSION

THE GLOBAL ECONOMY is on "an inevitable march towards recession" as central banks maintain high interest rates "for longer than markets currently expect", according to separate outlooks from BNP Paribas Asset Management (BNPP AM) and DWS.

Much of Europe is already in recession, according to Daniel Morris, chief market strategist and co-head of the Investment Insight Centre at BNPP AM. He added: "We expect one to begin in the US in the third quarter of 2023, and while China's growth will likely not turn negative, it will be below historic levels."

Morris said the causes are well known, including central banks "aggressively" raising policy rates to reduce inflation, and an energy shock in Europe.

He predicted that Europe's headline inflation has peaked and will return to the European Central Bank's 2% target in 2024.

Speaking at the DWS Market Outlook 2023 event on November 28, DWS global CIO Björn Jesch predicted central banks will hike interest rates further next year, to between 5% and 5.25% in the US, while in the Eurozone the key rate is likely to rise to 3%.

"We do not currently see a rate cut next year," Jesch said.

STRONGER TIES

Close ties between the UK and Ireland were reasserted when Irish Funds rolled into London in November. The importance of maintaining alignment between the UK and EU's regulatory frameworks was a core theme at the Irish Funds Annual UK Symposium.

Jonathan Lipkin, of UK trade body The Investment Association, said: "Relations between the UK-Ireland industries [are] stronger than ever."

See Association Column, page 78.

SUSTAINABLE FINANCE

GREEN BONDS MARKET HIT $2 TRILLION

THE GREEN BONDS MARKET has hit new heights with news that $2 trillion worth have been issued since the first one of its kind came out 15 years ago.

The milestone was revealed by research from the Climate Bonds Initiative (CBI), a not-for-profit that promotes low-carbon economy investment and advises governments and regulators.

The First Abu Dhabi Bank-backed study analysed data of self-labelled bonds aligned with the Paris Agreement issued between the mechanism's launch in 2007 and the third quarter of 2022.

CBI chief executive Sean Kidney warned that investment in sustainable finance needs to reach at least $5 trillion over the next three years to avert a "climate catastrophe".

He acknowledged it is an "ambitious target", but said the key to success would be a greater focus on channelling capital into emerging markets, including those in the Middle East and Africa (MEA).

The CBI's analysis also focused specifically on the MEA's green, social and sustainability (GSS+) debt market and recorded $33.2 billion of thematic debt originating from the region.

REAL ESTATE

LOW-CARBON CONSTRUCTION DEMAND SOARS

GREEN CONSTRUCTION TECH investments registered a record $2.2 billion in 2022 as demand for low-carbon buildings surged.

According to research titled 'The Future of Building in a Low Carbon World' published by A/O PropTech, total low-carbon green construction tech investments tallied $4.5 billion over the past five years, executing an annual growth rate of 84%.

The report found that half of the top-ten cities were in Europe, where London stood at the top of the list to invest in green construction tech.

According to the research, embodied carbon is anticipated to account for half of the total carbon emissions from the built environment by 2035.

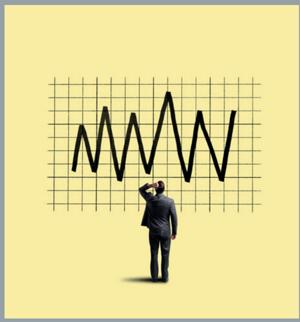
Despite rising retrofit, a surging global population and urbanisation are set to increase the real estate footprint by 76-230 billion square metres worldwide by 2050.

Gregory Dewerpe, founder and chief investment officer at A/O Proptech, said: "The built environment is one of the biggest contributors to carbon emissions, and there is a growing recognition that we need to tackle this problem urgently."

Environment-efficient technologies to lower emissions during the construction process range from "design software, to more sustainable building materials to technologies that speed up and accelerate construction", and are essential to limit emissions, Dewerpe said.

The report implied that green building practices are gaining popularity, and European regulations for reducing embodied carbon are set to "tighten" over time. However, the regulatory framework in Europe varies significantly, with France, the Netherlands, Denmark and Finland at a more advanced stage than the UK.

France requires half of its public buildings' construction to be bio-based by 2030. To achieve this target, 25% of France's building materials must be bio-based by 2025.



PUBLIC MARKETS VIEWED POSITIVELY

800 FUND BUYERS SURVEYED

International wholesale investors do not expect to increase their allocation to private markets significantly from current levels, and remain optimistic about public markets despite global economic headwinds, RBC BlueBay Asset Management has reported.

The survey of 800 European and US fund buyers, consultants and wealth managers revealed they are currently allocating 22% of their portfolios to private markets, with just over half expecting the public market to outperform private markets over the next five to ten years.

Market volatility hasn't changed the case for investing in public markets, argued 46% of intermediary investors, with the remaining respondents split equally between supporters and detractors.

Leading the asset class category, equities and fixed income remain the primary allocation choices for 31% and 26% of wholesale investors respectively, with active management being the most preferred approach.

The survey results showed an appetite for value stocks.

EARLY DEPARTURE
KREUZKAMP LEAVING DWS

DWS's longstanding investment division chief, Stefan Kreuzkamp, is leaving the German giant after agreeing to an early termination of his contract.

Kreuzkamp has worked for the firm for 24 years, initially as portfolio manager for money market funds and later as head of the fixed income and money market fund business and CIO for Europe.

He took on the role of global CIO and head of the investment division in 2018 and had a contract until 2024, but the company has now announced he will depart at the end of 2022.

The department's operations will continue under new chief investment officer Björn Jesch and asset class officers who will report to CEO Stefan Hoops.

INVESTMENT

WOMEN 'MORE PATIENT INVESTORS THAN MEN'

WOMEN ARE MORE likely to withstand periods of market volatility, despite being less likely to invest in the first place, according to research from Alliance Trust.

Its survey found that women endured financial storms better than men. As a result, they were less likely to sell an investment at a loss during a market downturn.

Over the past year, 12% of men sold out of an investment at a loss, compared to 6% of women.

However, men were found to be more confident in their ability to hold their nerve amid market volatility. Survey participants were asked what they would do if the value of their portfolio fell by 5%. The majority (69%) of men said they would stay invested, while 61% of women said they would do the same.

Mark Atkinson, head of marketing and investor relations at Alliance Trust, said: "Holding your nerve is key; the best investment is one which is left alone for as long as possible. Patience will pay off; trust the market to outperform cash in the long run, as it always has."

The research revealed men were more likely to own a stocks and shares ISA, for instance, with 30% of men compared to 16% of women owning one.

The research also found 17% of men and 10% of women had a general investment account, compared to 19% and 9%, respectively, for SIPP accounts.

As well as being more likely to invest, the research concluded men tended to invest more than women. However, Alliance Trust recognised this could be due to gendered disparity in pay.

More than half of women who invest have less than £20,000 invested, whereas only 37% of men have less than £20,000 invested.

Alliance Trust suggested that this so-called 'impatience tax' could have cost UK investors £1.3 billion (€1.5 billion) in 12 months.

REGULATION

FUNDS SECTOR 'TOO BIG TO IGNORE'

IRELAND'S CENTRAL BANK governor has called for stricter regulation of the country's €5.6 trillion funds sector to safeguard financial stability.

Gabriel Makhlouf, governor of the Central Bank of Ireland (CBI), said more regulation was required of the non-bank sector – including investment funds, money market funds and special purpose entities – and that global coordination was "urgently" needed.

The governor was speaking at the CBI's first financial system conference in Dublin.

"The lessons of the global financial crisis, the Covid-induced market shock

of March 2020, and the UK's recent LDI issue are clear. The sector is too big to ignore," he said.

Ireland is home to the third-largest funds sector in the world.

UCITS EQUITY BONDS SUFFER OUTFLOWS

The European investment fund industry faced substantial net outflows from Ucits and AIFs in September, decreasing by 4.7% amid recession fears prompted by ongoing economic turmoil.

In its monthly fact sheet, the European Fund and Asset Management Association (Efama) showed that net sales of Ucits and AIFs registered net outflows of €103 billion in one month.

Long-term Ucits, excluding MMFs, registered net outflows of €79 billion.

A whole new world

BY LIZ PFEUTI

WITH SO MUCH going on in the world – wars, climate disasters, daily political dramas – it's hard to focus on what truly matters.

It's easy to blame the pace of disruption on the 24-hour news cycle and social media, but it seems like once-in-100-year events happen even more often now than when investment banks were collapsing during the global financial crisis (GFC).

A few years ago, I listened to a radio programme in which economics students were refusing to pay their tuition fees after the GFC, arguing their university lecturers were teaching theories that were at best out of date and at worst disproved.

Indeed, if economic practices were running as per any recognised model, inflation would have been at target for the past ten years, not spun into double digits (in the UK at least), and interest rates would be the lever we need to ensure stability.

If these models were either interpretable or workable, we also may not have overseen the largest uptick in food bank use in generations alongside the ballooning in numbers of billionaires.

As an arts graduate, I proffer that economics fits better in my sector than that of science – yet it does have real world impacts as it is used as the main theory with which we create portfolios and forecast both investment objectives and returns.

At a conference for large institutional investors in November, I was hosting a fireside chat with the treasurer of the World Bank. Whatever your thoughts about intranational institutions, they are free of many of the constraints holding back national and regional organisations. The treasurer explained how the bank was creating new types of bonds and funding instruments to help finance solutions for countries facing climate catastrophe, along with socioeconomic devastation. He also outlined how innovation was going to be crucial for our sector to even attempt to reach investment objectives in line with fiduciary duties.

Later that day, I hosted a prep-call for an event discussing the potential of digital assets within capital raising. This was a technical debate on how market infrastructure desperately needs to evolve from the stock and bond markets created centuries ago. The fund manager on the call voiced his frustration at the pace of change within capital markets, and how his part of the sector was looking to fintechs to make the strides the larger institutions were unable (or unwilling) to. He said that despite having access to some of the most forward-looking technology and brightest minds, finance remains stuck in the past, armed with yesterday's tools to face tomorrow's challenges. Back at the conference, an investor asked a panel of asset owners a question on the same theme. "How can you even think about constructing a portfolio to make long-term returns when the data you're using is from a time that is over and our future looks entirely different?" he asked.

Throughout the week, we'd heard about the huge uncertainty being brought by our changing environment, society, wealth distribution and a whole range of other factors. We'd also heard from the world's largest and most sophisticated investors about how they were looking internally to meet these challenges and asking their partners in asset management and other investor services the same question … with varying degrees of success.

We urgently need to think about our soon-to-be reality and how we can invest in it. From demographics to consumer demand, life expectancy to living in the metaverse – whatever we thought the future would be like, it won't be. **f**e

High-hanging fruit

FUNDS EUROPE TALKS TO CALASTONE'S VARUN ATRE ABOUT THE ROLE OF NEW TECHNOLOGY IN HELPING TO AUTOMATE THE MORE COMPLEX PARTS OF THE FUNDS PROCESSING CHAIN.

EARLIER THIS YEAR, *Funds Europe* and Calastone partnered for a global survey on automation rates in the funds industry. The findings have been well covered in the magazine but chief among them are:

• Despite the progress made in the last 20-plus years, there are still several areas where more work needs to be done; and

• The drivers for automation have changed from cost reduction to client service and enabling growth.

For Varun Atre, chief product officer at Calastone, the findings suggest that there are still several opportunities to promote automation in the finds industry.

"The drive to promote automation has been underway for quite some time now and the low-hanging fruit has been largely picked," says Atre. For example, order routing and subscriptions have high levels of automation, especially in the more mature European markets.

However, other processes such as trade settlement and fund transfers still have low rates of automation. "That is where there is lots of opportunity because many firms are still using point-to-point networks instead of networks like Calastone," says Atre.

The network effect has been central to Calastone's success. The company connects the world's largest community of funds with more than 3,500 clients, in excess of 33,000 trading links and funds across 54 countries.

"THE DRIVE TO PROMOTE AUTOMATION HAS BEEN UNDERWAY FOR QUITE SOME TIME NOW AND THE LOW-HANGING FRUIT HAS BEEN LARGELY PICKED."

However, the opportunities are not without challenges. After the low-hanging fruit, the remaining processes and geographies where manual processes still persist are more specific,

"THE VALUE CHAIN IN THE FUNDS INDUSTRY HAS REMAINED LARGELY THE SAME OVER SEVERAL YEARS. NOW WE HAVE AN OPPORTUNITY TO 'LIFT AND SHIFT' THAT TO AN ENTIRELY DIGITAL ENVIRONMENT."

Varun Atra

less standardised, with less scale and greater complexity.

But macro-economic conditions and the advancement of new technology mean there is both the economic and business case to adopt automation, plus the tools to make this adoption easier.

Atre points to two such examples where automation is needed. "In Sweden, the transfers process is heavily manual and the cost of that inefficiency has been shifted to the transfer agents. However, in the current operating environment and macro-economic conditions, one wonders how long the TAs will continue to bear this burden," he says.

In Taiwan, there are processes such as fees and charges calculations that are heavily manual because of all the specific rules around exit policies. In the past, the scale has not been there to justify the investment in automation.

The lack of automation has also infringed on fund managers' ability to enter new markets or offer new assets classes to investors. For example, in Taiwan, the 'B-Shares' equity market is not covered in many fund managers' offerings to investors.

"The technology stacks of the asset managers are too old, with outdated systems built on top of each other. And transfer agents have been forced to turn to manual processes to deal with these assets," says Atre.

"That has always been the case – new products cannot always be automated because you need either scale or standardisation or both. At Calastone, we believe that tech should be able to solve these issues," says Atre.

Legacy systems and cost

The obstacles to technology adoption have always been legacy systems and cost. As the market grapples with challenging macro-economic conditions, the cost issue is to the fore. But no company ever cut its way to greatness and many firms are prepared to invest in technology if it will enable them to enter lucrative new markets or develop new products demanded by investors.

This means moving away from monolithic tech stacks and adopting a modular and digital operating platform with event-driven microservices and application programming interfaces (APIs). "Achieving more automation and efficiency will always be a challenge until firms adopt a modular approach to their tech stack and underlying architecture," says Atre.

One technology that will be pivotal in this change will be distributed ledger technology (DLT). Up to now, the technology has been termed as a solution looking for a problem. However, the problem of the need to dramatically reduce the cost and inefficiency of the funds processing chain, is front and centre right now.

The last time that cost-cutting and operational efficiency was so to the fore was in the wake of the 2008 financial crisis. The difference now though is the available technology, such as DLT and the cloud. "Technology is a lot more scalable now and it means firms are not committing to fixed technology costs," says Atre. "The cloud and those properties underpin a lot of our products and services."

In December 2021, Calastone signed a partnership agreement with Microsoft which saw the two firms collaborate on the use of cloud and distributed ledger technology (DLT) to bring more market efficiency to the global funds industry.

"It is about developing an operating model where you don't have to trigger manual processes every time a new product or instrument or asset class is involved," says Atre.

But where will technology like DLT make its impact now and in the future? Tokenisation is viewed as the so-called 'killer app' for the blockchain and its most coherent use case. It also has the potential benefit of providing liquidity to illiquid assets and making them accessible to a wider range of investors.

And the use of a digital ledger creates the opportunity to address things like settlement and reconciliation and to collapse all of the various back-office processes into one trusted source of truth.

"The value chain in the funds industry has remained largely the same over several years. Now we have an opportunity to 'lift and shift' that to an entirely digital environment," says Atre.

"It can be done now but it will require more adoption of DLT," says Atre. "Otherwise, it would be like owning the world's first telephone."

47m

The number of Americans who willingly quit their jobs in 2021.
Source: US Bureau of Labor Statistics

Global equities face supply chain challenges

LARAIB SHAHID ASKS TO WHAT EXTENT THE 'GREAT RESIGNATION' THEORY EXPLAINS ISSUES WITH SUPPLY CHAINS AND CONSIDERS THE PROSPECTS FOR 2023.

THE PRESSURE FROM WORLDWIDE supply chain shortages looks set to continue as global equity managers enter 2023.

Take the example of Liontrust Asset Management, which saw €586 million in net outflows in the second quarter of 2022. In response, it overhauled the management of €732 million of its funds in July, citing supply chain issues as one of the principal challenges for its business.

Part of the problem of supply chain shortages is the 'Great Resignation' phenomenon, a term coined by Dr Anthony Klotz, professor of management at University College London's School of Management. This goes some way to explaining why, according to US Bureau of Labor Statistics, more than 47 million Americans willingly quit their jobs in 2021.

Klotz's view is that pandemic-related "epiphanies" about "family time, remote work, commuting, passion projects, life and death" have changed how employees think about work. Indeed, the wave that started during the Covid-19 pandemic has yet to end. People are still abandoning jobs in search of flexibility or, more conventionally, higher pay.

The problem today with supply chain shortages may be less specifically about unemployment and more about workers' unwillingness to fill vacant jobs. This is an area of concern for many businesses, where staff shortages can hinder the process of assembling or delivering goods and services, causing a disruptive knock-on effect further down the supply chain.

Richard Saldanha, global equity fund manager at Aviva Investors, says: "The global supply chain shortage continues to be an issue that is affecting companies across multiple geographies and industries. The more global nature of supply chains has in many ways exacerbated these pressures."

> "THE GLOBAL SUPPLY CHAIN SHORTAGE CONTINUES TO BE AN ISSUE ACROSS MULTIPLE GEOGRAPHIES AND INDUSTRIES. THE MORE GLOBAL NATURE OF SUPPLY CHAINS HAS IN MANY WAYS EXACERBATED THESE PRESSURES."
>
> *Richard Saldanha*

Not at full capacity

Even though jobs disrupted during the pandemic have returned, employers face difficulties hiring staff at full capacity. According to the professional services company Accenture, 75% of companies have felt negative or strongly negative impacts on their business due to supply chain disruptions.

In September, the unemployment rate fell to 3.5% in the US. Payrolls are on an upward trajectory and, in the words of Schroders' chief economist and strategist, Keith Wade, "although job openings have fallen slightly, there are still nearly two vacancies for every unemployed person" in the US. There are almost 11 million job vacancies there, but only 6.5 million workers were listed as unemployed in 2022.

Covid-19 did spark a wave of job resignations and supply chain disruptions, but geopolitical crises and demographic changes made the situation more alarming. Nonetheless, the reasons for labour shortages may differ according to each country's circumstances.

For example, the rise in job vacancies in the UK has been highest in jobs that leaned heavily on EU citizens, such as warehouse workers. However, other reasonable explanations exist, such as increased job turnover following the pandemic and more significant numbers of people becoming economically inactive or seeking early retirement.

Job adverts in the UK reached

EPIPHANY - Some job-quitters have assessed what they really want out of life.

"KEY TO A SUSTAINED FALL IN CORE INFLATION IS A WEAKENING OF THE LABOUR MARKET, WHICH SO FAR HAS REMAINED RESILIENT IN THE FACE OF THIS YEAR'S SLOWDOWN IN GROWTH."

Keith Wade

a record high in 2022, despite the fact that economic challenges are expected to cause a slowdown in recruitment activity. The Recruitment and Employment Confederation's latest Labour Market Tracker revealed that in the week of July 25-31, the number of active job adverts across the UK hit 1.85 million.

The UK's Office of National Statistics reported that half of more than 400,000 employees who quit the workforce between February 2020 and November 2021 did so due to long-term health issues. In the US, a recent survey revealed that two-thirds of millennials who did so in 2021 cite mental health as the primary reason.

Professor Chris Forde, part of the Renewing Work Advisory Group of Experts – a national, independent advisory group run by Warwick and Leeds universities – notes that although the reasons for the UK's current labour shortages are complicated, its recruiting difficulties are not unique. Several other countries have experienced high vacancy rates post-pandemic, he says.

The Migration Observatory reported that in May 2022, unemployment reached 2.8% in Germany, 3.3% in the Netherlands and 3.6% in the US, with job vacancy rates in the EU rising sharply in 2021 and 2022, respectively transcending pre-pandemic levels.

Meanwhile, employers in Australia were toiling to fill nearly 400,000 vacant positions as of early 2022.

A report by management consultancy Korn Ferry, called 'Future of Work: The Global Talent Crunch', estimates there will be a worldwide shortage of 85 million workers by 2030 – that's roughly the population of Germany.

At the same time, Russia and China could be short of 6 million and 12 million workers, respectively.

The US could face a deficit of more than 6 million, but that's small in relation to Japan, Indonesia and Brazil – each of which could have shortfalls of up to 18 million skilled workers.

Reduced revenues

If the labour shortage persists and worsens, business revenues are likely to suffer. The US technology sector, for example, could see revenues drop by $162 billion a year. Werner Penk, president of Korn Ferry's Global Technology Market practice, says: "As with many economies, the onus falls on the companies to train workers, and also to encourage governments to rethink education programmes to generate the talent pipelines the industry will require."

Limited migration during the pandemic also took its toll. The effects of reopening after long periods of Covid-related restrictions contributed to labour shortages in many territories, including the EU and the US.

Migrant workers make up 5% of the global workforce. Countries such as the US, Saudi Arabia, the United Arab Emirates, Canada, Germany and the UK depend heavily on these workers to meet production demands. The pandemic came as a significant hindrance, as countries set stricter immigration policies. In the UK, a combination of Covid-19 and Brexit caused immigration rates to fall by 90% in 2020.

Data shows that the UK was worst hit by labour shortages and subsequent supply chain issues, indicating that post-Brexit rules on immigration may have exacerbated the problems.

According to the Office of National Statistics' latest findings, 16% of businesses that did not close down permanently during Covid-19 experienced global supply chain disruption in January 2022. These disruptions have been most acute in the manufacturing, wholesale, and retail trade industries (30%).

Until workers choose to come back and fill vacant positions and the demand for employees is reduced, wages will keep rising, adding to cost pressures. This will cause knock-on effects in the wider economy. As Schroders' Wade puts it: "Key to a sustained fall in core inflation is a weakening of the labour market, which so far has remained resilient in the face of this year's slowdown in growth."

To change this trend and get workers back to work, "we need to see a pivot in the behaviour of firms", he adds. In his view, the only way firms have been able to tolerate weak productivity and the ensuing surge in unit wage costs is through being able to pass them on in higher prices, "otherwise margin would have been crushed as labour costs surged".

Instead, says Wade, "firms have been beneficiaries of high inflation. As a result, whilst household cash flows are under pressure, the corporate sector is yet to see the sort of squeeze which would trigger a retrenchment."

Accounting data shows the corporate sector is still running a financial surplus – in other words, internal cash flows exceed investment. Amid low unemployment, weakening productivity

> INFLATION BROUGHT ABOUT BY SUPPLY CHAIN ISSUES ... AND EXCESS DEBT LEVELS, ARE "LIKELY TO REMAIN MORE PERSISTENT THAN FIRST FEARED".
>
> *Nick Clay*

and rising unit wage costs, "companies do not look set to embark on a major retrenchment", Wade suggests.

If companies keep passing on costs, then inflation will remain high.

Are there any signs of easing?

Some industries have been more affected than others. Semiconductor makers, for example, saw demand for chips surge because of greater demand for electric vehicles and increased automation of industrial processes. However, there are some signs of supply chain pressures within the sector easing. Aviva's Saldanha notes that companies such as Volkswagen have seen semiconductor bottlenecks reduce somewhat, but it is still "clear these will take time to normalise. Indeed, we do not expect any significant normalisation of supply chains until well into 2023."

Reasons to be optimistic include the easing of Covid restrictions in China and factories ramping up production. "Some industrial companies with a significant manufacturing footprint in China, such as Schneider Electric, have seen some benefit from a pick-up in capacity at factories in cities such as Shanghai," adds Saldanha.

The supply chain crunch may have broader implications, such as industries looking to re-shore manufacturing facilities to meet local demands. The recently announced CHIPS (Creating Helpful Incentives to Produce Semiconductors) and Science Act in the US has been a critical driver for its semiconductor industry. However, says Saldanha, it will take a long time to make industries "better insulated in the future against what in many ways has felt like the perfect storm of events that have contributed to these bottlenecks".

"For investors, whilst we do not expect these pressures to go away any time soon, there are finally some reasons for light at the end of the tunnel," he adds.

That said, the problems generated by labour shortages and supply chain disruptions are not temporary and tend to have a long-lasting impact. Nick Clay, head of global equity income at Redwheel, says that the inflation brought about by supply chain issues, the desire to re-shore production, and excess debt levels, are likely "to remain more persistent than first feared". **f**e

India: The safest haven of the Brics?

SINCE THE ACRONYM WAS COINED, MUCH HAS CHANGED IN SOME OF THE COUNTRIES THAT MAKE UP THE 'BRICS'. **PIYASI MITRA** CONSIDERS WHY INDIA MAY BE THE STANDOUT.

FLASHBACK TO 2013. 'Fragile five' was the moniker Morgan Stanley attributed to the emerging market economies of Brazil, India, Indonesia, South Africa and Turkey. Reliant on funds from developed markets, these countries once struggled to keep up with global economic trends due to insufficient current accounts.

One decade, a few setbacks and a couple of giant leaps later, these countries – along with other emerging markets – are now busy scripting one of the biggest growth stories in the history of global economics. Giving tough competition to traditionally developed economies, emerging markets today own the lion's share in the global consumption pie.

Go back to 2001 and it was the BRIC countries (Brazil, Russia, India and China) that started a trend for emerging market acronyms. At the time it was Goldman Sachs economist Jim O'Neill who coined the term. But how are these countries faring now, with sanctions against Russia, Covid's devastation in China, and Brazil having had a populist president of Trumpian proportions until recently? Let's delve deeper, particularly into India.

With restricted access to finances and global supply chains making investment less lucrative in Russia, the country is witnessing a mass exodus of foreign institutional investors. Businesses are taking steps towards divesting their operations in Russia following the invasion of Ukraine and restrictions imposed by the Russian government on capital inflows and outflows. With no visible light at the end of the tunnel, such deterrents have seemingly set in motion a long-term downward investment trend in the country.

However, Brazil is applauded, since the Brazilian Central Bank raised

> “THERE IS NO ENERGY SHORTAGE [IN BRAZIL], GROWTH IS HIGHER THAN EXPECTED AND WE’VE JUST CONCLUDED A NATIONAL ELECTION WITHOUT SURPRISES.”
>
> *Eduardo Bernardes*

interest rates as a successful anti-inflationary measure.

Eduardo Bernardes, head of international distribution at fund manager Bradesco Asset Management, says he observes positive interest in Brazilian assets from global investors.

“There is no energy shortage, growth is higher than expected, and we’ve just concluded a national election without surprises. On top of that, asset prices remain attractive compared to historical averages,” he says.

The global scenario – replete with war, energy prices, inflation, rising interest rates and a zero-Covid policy in China – continues to pose challenges. Yet 2021 witnessed outstanding performances across Asia-Pacific markets, thanks to factors such as South Korea lifting the embargo on short selling, and high lending demand in Taiwan. S&P Global Market Intelligence forecasts that the Apac region will dominate global economic growth in 2023.

One question, therefore, is about whether an impending recession in developed markets could spell good news for the investment environment in Asia’s leading emerging markets of China and India.

India v China

India’s presence is more conspicuous on the radar of foreign institutional investors today than ever. Political stability, lower debt, stabilisation of the Indian rupee against the dollar, skilled workers and better immunity from regulatory risks are some reasons that explain this newfound status. When investability in China is ringing the alarm bells for many overseas investors, could shifting geopolitical dynamics make India the greener pasture? Possibly. At a time when the start-up ecosystem in China is losing steam, Indian start-up venture capital funding was up by 4.5% year-on-year in the first half of 2022, according to GlobalData.

The investor’s pathway in China is dotted with red flags. While the economy’s prominence in the foreign investment picture is undeniable, questions loom large. What cost does its adherence to a zero-Covid policy entail? Could regulations imposed by the Chinese government be challenging for investors? And what are the odds of MSCI removing more Chinese companies from its global index?

Of late, there has been an uptick in US companies moving their operations out of China, so another question is about whether it’s just a matter of time before more countries follow suit.

If a Morgan Stanley report is anything to go by, there is no stopping India from becoming the world’s third-largest economy and stock market by 2030. With the 4Ds in India’s favour – demographics, digitalisation, decarbonisation and deglobalisation – transitioning to the big league comes across as a natural progression. An economic boom fuelled by investments in manufacturing, the energy transition and advanced digital infrastructure drives this prodigious growth, Morgan Stanley says.

The ‘new India’ that global economies are waking up to has disruptive fiscal repairs and relaxed foreign direct investment (FDI) norms at its core. Reforms implemented in the past eight years under the leadership of Narendra Modi, the Indian prime minister, have been key to India’s improved investment friendliness. Passing the post-Covid recovery test with flying colours, India attracted its highest-ever annual FDI inflow, worth $83.57 billion, in 2021-22, clocking in a twentyfold increase in FDI inflows since 2000.

Overseas investors recently turned aggressive buyers of Indian stocks in hopes of high earnings. Foreign funds poured in amidst expectations of major central banks slowing down their hiking cycles as price pressures ease, reports Reuters. The equity buying spree continued in November as foreign portfolio investors are keen to leverage the market’s high return potential. India’s progress as a rapidly growing economy despite difficult times was lauded by the International Monetary Fund as a “bright spot in a dark horizon”, hopeful that it will “leave a mark on the world for years to come”.

Another ‘gift’ has given non-resident Indians (NRIs) and foreign investors

> “INDIA’S GROWTH IS UNDERPINNED BY ITS ECONOMIC STABILITY, UNLIKE MANY OF ITS PEERS. FROM AN INTERNATIONAL PERSPECTIVE, THOUGH, IT REMAINS AN UNDERINVESTED MARKET. COMPARED TO CHINA, THERE IS NOT MUCH FOREIGN INVESTMENT IN LISTED EQUITIES.”
>
> *David Cornell*

› FOREIGN INFLUX - Like Delhi’s backpacker district of Paharganj, the Indian economy presents a tempting prospect to Westerners.

> "THE ART OF STORYTELLING, COUPLED WITH IMPECCABLE RESEARCH AND RELATIONSHIP-BUILDING, IS KEY TO ATTRACTING INTERNATIONAL INVESTORS."
>
> *Elisabeth Scott*

extra reasons to cheer. The Gujarat International Finance Tec-City (GIFT) – an international financial services centre – allows them to invest in businesses within its area without complying with India's foreign exchange regime. Legally, the centre is a non-Indian jurisdiction, providing financial services in foreign currency. Tax benefits, coupled with regulatory relaxation at par with global norms, are helping draw foreign inflows at GIFT via alternative investment funds. Regulatory challenges await resolution, but the promising signs are hard to ignore. Top global institutions such as Citibank, Barclays Bank, Deutsche Bank, JPMorgan Chase Bank National Association, Standard Chartered Bank and Japan's MUFG Bank have already set up banking units there.

Realty roars

Interestingly, foreign funds continue to eclipse India-dedicated funds in the total investment pie of India's real estate market. According to a Federation of Indian Chambers of Commerce & Industry report, private equity firms based in the US and Singapore accounted for most of the investment between 2018 and so far in 2022.

The Indian real estate market is forecast to reach $1 trillion by 2030, according to India Brand Equity Foundation.

Sunny Chowdhry, CEO and co-founder of Substantia Real Estate, an industrial real estate agency, says: "The RERA (Real Estate Regulatory Authority) Act safeguards investor interests as they explore opportunities to capitalise on the booming US$180 billion market diversified across all asset classes."

State-of-the-art commercial spaces and energy-efficient architecture are in high demand among the environment-aware urban population, and relatively new real estate investment trusts attempt to provide uncomplicated participation in the market for foreign investors with easy statutory debt funding requirements. Not only do overseas investors get to lend their expertise in taking the trusts' yield graph to the next level, but enjoy better shareholder returns from the growing Indian realty ecosystem.

India has dealt with inflation-induced turbulence better in comparison to developed markets. In contrast to the West, inflation isn't driven by wage pressure or monetary policies, but primarily due to imported costs.

David Cornell, MD and CIO, India Capital Growth Fund, says: "India's growth is underpinned by its economic stability, unlike many of its peers. From an international perspective, though, it remains an underinvested market. Compared to China, there is not much foreign investment in listed equities." But he says the situation is changing in front of his eyes. Citing how domestic investor participation has driven the equities market to new strengths, he suggests there could be a greater upside if international investors were to become involved.

With the US tightening interest rates and the dollar strengthening, foreign money might exit India and return to the US. But fret not, for funds are likely to return when interest rates change again.

A new blue-eyed boy

Grabbing the attention of international investors is not easy. Elisabeth Scott, chair of the India Capital Growth Fund, says: "The art of storytelling, coupled with impeccable research and relationship-building, is key to attracting international investors. ESG [environmental, social, and governance] is a matter of global importance, so reporting parameters like CO_2, water usage, supply chain management, staff welfare and diversity in the annual report increases your chances of being picked up by an agency."

It is also imperative that stakeholders in the local market work with regulators to modify the regulatory language for facilitating foreign investor participation. For instance, in the Philippines, there is a pending regulatory change to allow offshore collateral to be accepted and to recognise the industry standard Global Master Securities Lending Agreement (GMSLA).

But invested companies in the Asia-Pacific region sometimes turn out to be capital-wasters. "If you've made a profit, pay the dividends to your shareholders instead of acquiring companies that hardly add value. Besides, it helps your company gain price-to-earnings ratios similar to peers in the US," Scott says.

The world's third-largest start-up ecosystem, rising per capita income of the domestic market, a talented labour pool, and a tech industry spearheading global innovation. Foreign finance gurus seem to have found their newest blue-eyed boy of emerging markets in India. Would it manage to come out of the ongoing global crisis unscathed? How does it plan to resolve regulatory compliance challenges? Can it build the infrastructure required to bring home the funds exiting China? Sanguinity prevails, as multinational investors are in no mood to miss their part in the making of an economic superpower. **f**e

China's positive economic surprise

THE WAY THAT SHARES SANK ON THE RECENT RE-ELECTION OF CHINA'S PRESIDENT WAS A MARKET OVERREACTION, AN EXPERT PANEL OF CHINA INVESTORS ARGUES.

PANEL

KARINE HIRN
Chief sustainability officer, East Capital Group

XIAOLIN CHEN
Head of international, KraneShares

CHRIS CHAN
Equity portfolio manager, New Capital

FRANK TSUI
Head of ESG investment, Value Partners Group

Moderator *Andy Fleming*

***Funds Europe* – In October, the 20th National Congress of the Chinese Communist Party was held. Xi Jinping, the country's president, was seen to consolidate his power through a number of political appointments made at the event. If President Xi is tightening his grip on power, what does this mean for the economy?**

Karine Hirn, East Capital – I was surprised by the market reaction to the 20th National Congress. For anybody who follows China and understands the country, it was hardly surprising that Xi Jinping would be re-elected and is moving to tighten his grip, and that there would not be any economic reforms announced.

The Chinese government sees various challenges ahead: slowing economic growth, domestic headwinds notably in the real estate sector, and tensions with the US.

Long term, having power in the hands of the few is not a good thing. But those close to Xi Jinping are not only extremely loyal but also very competent. Some come from regions that have experienced successful reforms. In the short term, that will be a positive thing – having such a strong, tight-knit group to make well-needed decisions.

What is clear is that China is at a crossroads and decisions related to Covid policy and economic stimulus are needed. We do expect them to be made during the Central Economic Work Conference in December and during the "two sessions" (or Lianghui) annual meetings in March 2023.

Frank Tsui, Value Partners – To an extent, the market reaction was surprising. The market was initially disappointed because people were expecting measures like Zero Covid to be loosened. There has been a lack of clarity over the direction we're heading in. But 'development' and 'security' were front and centre of Xi's Work Report, so we're unlikely to see reverses or changes to policy in the very near term.

That said, the market will be looking at expansion of the China equity risk premium. Policy-loosening is still looking uncertain. That is one of the reasons why markets could overreact amid official news today that there could be some relaxations on policy.

From a valuation point of view, it's very cheap when we're looking at the whole MSCI China A-share index. It's cheaper than in 2008. Prices have been reflecting nervous views about overall direction. Any pick-up on loosening will trigger a very positive effect on valuations, but I think right now it's very unclear where we're heading.

Chris Chan, New Capital – Obviously, the mainland A-share market was down the day after the elections, but not as much as the Hang Seng, which speaks to the fact that foreign investors viewed events more negatively. There is the top-down issue, in terms of concentration of power, and the concern that the new leadership will not prioritise the economy as much as it was.

When you look at who was appointed, you've essentially got the chief of Shanghai there. Again, foreign investors associated him with the Shanghai lockdown, and so extrapolated that severe approach to future national Covid policy. Clearly that has been proved incorrect in November, with Covid policy evidently becoming less restrictive regarding mass testing and involving more targeted lockdowns.

The devil is in the detail. When you look at lockdowns in Shanghai, they started out trying to be quite progressive in their Covid approach, but then of course the outbreak just swarmed them.

Shanghai, along with Shenzhen, can be held up as a success of the last 20 years, in terms of innovation on the industrial side. So, having someone with that track record is a positive.

Xiaolin Chen, KraneShares – Yes, and I would echo Karine: the day after Xi Jinping announced his seven committee members, the market corrected 6% in Hong Kong and 2% in the mainland, particularly in the tech sector. On the same day, GDP released at 3.9%, while the market was expecting 3% or 3.5%.

The positive economic surprise didn't matter to the market. The short-selling ratios were also highly speculative, if you ask me, the market is highly speculative, and completely disconnected with fundamentals.

If I can briefly share our read on CCP – I read Xi Jinping's entire Work Report in Chinese. It has over 14,000 words and covered various topics that matter to investors. Xi delivered the report for over two hours and covered 15 sections, of which 11 touched based on economic policies, domestic policies,

"WHEN YOU LOOK AT WHO WAS APPOINTED, YOU'VE ESSENTIALLY GOT THE CHIEF OF SHANGHAI THERE. AGAIN, FOREIGN INVESTORS ASSOCIATED HIM WITH THE SHANGHAI LOCKDOWN, AND SO EXTRAPOLATED THAT SEVERE APPROACH TO FUTURE NATIONAL COVID POLICY. CLEARLY THAT HAS BEEN PROVED INCORRECT."

Chris Chan, New Capital

and international policies.

Similar to all investors, I was searching for key words that could impact capital markets. My reading was that this is a comprehensive, balanced and reassuring report.

For investors who are looking for Covid policy guidance in Xi's report, we'd say this is the wrong place to look. We do believe more clarity and policy to be announced post-CCP.

I remain positive on China's capital market and believe the new leadership could be positive to overall delivery of market-friendly policies. China's Economic Working Group is to meet in December, where they will set the economic outlook and policies before they announce concrete policies in NPC in March 2023. The potential for pro-growth policies is promising.

***Funds Europe* – If the China investment case over the last two or three years has been damaged, what was the cause?**

Chan – There's no question there has been significant damage to the China investment case. I would caveat that with the still huge long-term opportunity, and potentially short-term opportunity, based on Zero Covid.

Foreign investors are asking the question about whether this leadership is going to have in its heart the best interests of stocks they are investing in, or if societal goals and common policies are the priority.

That's an overhanging long-term discount, whether you reflect that in valuations, and that wasn't the case over the last ten years.

We've also had geopolitical tensions, starting with Trump and the US-China trade war. That has accelerated, to some degree, under Biden, and is certainly no better now. There's the Taiwan issue and that is much more at the forefront than it was.

These are significant geopolitical and political, top-down concerns which are not going to go away any time soon. It's going to always be at the back, if not the front, of foreign investors' minds. To me that is an issue.

When I spoke to clients two to five years ago, there was a very compelling investment case for China. In the A-share market there were huge opportunities and there still are. We talk about the Shanghai success story – it was very easy to find these fantastically high-quality, structural growth, innovative companies, such as electric vehicles and renewable energy firms. China has really shown that it hasn't just caught up, but has actually led the world in many of these new areas, and that's very compelling.

China is still innovating. When you look at geopolitics over the last three to four months under Biden, a lot of US bills are specifically targeting these new high-tech areas. Whether they'll be successful is clearly a different matter, but if you look at electric vehicles, I'm sure we're all aware of the implications of trying to de-emphasise or essentially cut China out of that supply chain.

That shows you the trajectory the US is on, and potentially its allies in Europe. Bottom-up opportunities will not be as strong as perhaps they were in these areas, but opportunities still remain.

Three to five years ago, Chinese consumer brands were also growing overseas. Chinese handset brands had great success in huge emerging consumer markets such as India. In the last two or three years, there's been a drastic change about how overseas consumers view Chinese brands, which means the ex-China growth opportunity has been curtailed over the long term for many of these consumer companies. That's something we've taken into account when we look at some of the structural growth areas.

Hirn – We have always had a policy-driven market. Looking at different emerging markets around the world, China is by far the most policy-driven in the sense that when policymakers make decisions, it does move markets, short-term but also mid-term. There are many places in the world where policymakers' actions don't really make a difference.

The difference now is twofold: while it used to be "bad news for macro, good news for markets", because governments would intervene, relax monetary policy, and support industries, now we don't have that.

This circle is broken because they are stuck in their Zero Covid policies. They do not show that they want to compromise between saving lives and making sure the economy is growing. In the short term, this 'bad news is good

"THE DAY AFTER XI JINPING ANNOUNCED HIS SEVEN COMMITTEE MEMBERS, THE MARKET CORRECTED 6% IN HONG KONG AND 2% IN THE MAINLAND, PARTICULARLY IN THE TECH SECTOR."

Xiaolin Chen, KraneShares

news' trend is broken. That's quite a major shift.

I feel that economic policymaking has also become somewhat ideology-driven, while it was more pragmatical before, focusing on growth. We also have the geopolitical dimension and a focus on national security and sovereignty principles.

The third aspect for the investment case has been China opening up its domestic equity markets, with the A-shares being included in major international indices and expected to gain a very significant weight from today's still minimal weight. This is in line with the size of the market, now the second-largest in the world in terms of market capitalisation.

While the MSCI won't be retreating on integration, there is less talk in the investor community about the roadmap, more uncertainty fed from the US, and China itself is more inward-looking, at least currently.

We still think the A-shares market represents a phenomenal investment case for active stock-pickers. Fifty per cent of all the A-share companies have no sell-side coverage, and domestic investors do not apply the same rigorous fundamental analysis, so it is really a great space for stock-picking.

Chen – A lot has happened domestically and externally in the past two to three years. The most common thing we hear from clients is that they are evaluating China, but want more clarity. It's always about the uncertainty, which started with China's intensive regulatory announcements lasting over 12 months. None of those regulations are new to our investors in Europe or in the US.

All these regulations introduced – like anti-trust and data security – are not new to all of us in developed markets. However, the intensity is a surprise as these regulations would usually take three to five years to get introduced in developed markets while China did all of them in just 12 months. That created surprises, and what Chinese regulators can learn from this experience is to be more transparent and more upfront and proactive in communicating to the market what they are trying to achieve.

That is why [premier] Li Keqiang, [vice premier] Liu He and Xi Jinping made separate public speeches to reassure the market earlier this year that the regulation introduced was completed and the impacted companies have moved forward to implementation and progress. The regulator has kept their promise over the last eight months to not introduce any new regulations and we see companies are consolidating their business and expanding their line of revenue gradually.

It's a global economy, we should work together to resolve the differences. It is particularly important that China and the US have got to work together. The market is pleased to see the progress made by the US and Chinese regulators in terms of resolving the ADR delisting discussion [ADRs being US-listed Chinese stocks, known as American depositary receipts]. The Chinese regulator had to change domestic law to allow US auditors to perform onsite auditing, which they did. In August, US auditors arrived in Hong Kong, completed onsite auditing, and returned to the US.

Today the semiconductors sector is truly a global ecosystem. A semiconductor chip could be designed in the US, manufactured in Taiwan using the equipment from the Netherlands and Germany, and then some components may come from Japan and are assembled and tested in China. Targeting one country impacts the entire ecosystem. For instance, the Nvidia [a US tech company] SEC filing revealed it was expecting a loss of $400 million in revenue in the third quarter alone this year because of export control. Both sides should work together to conclude this, as opposed to making the investment case challenging.

Tsui – What everyone has said so far

"CHINA IS BY FAR THE MOST POLICY-DRIVEN IN THE SENSE THAT WHEN POLICYMAKERS MAKE DECISIONS, IT DOES MOVE MARKETS, SHORT-TERM BUT ALSO MID-TERM. THERE ARE MANY PLACES IN THE WORLD WHERE POLICYMAKERS' ACTIONS DON'T REALLY MAKE A DIFFERENCE."

Karine Hirn, East Capital Group

is true. I remember an inflection point starting when Trump came into office in 2018. When he imposed tariffs, we had to look at what was on the sanction list, what were on the tariffs, and how it was affecting our financial models.

One has really got to change the perception of growth patterns in China. Prior to 2018, or maybe a decade ago, the US was the biggest economy, outsourcing and exporting the majority of supply chain processes to countries like China. It was a 'globalised nation.' But now we are looking at deglobalisation.

A lot of sanctions are impacting China, including the restriction of advanced technology equipment, which is delaying a lot of advanced developments in the country. Things are going in the opposite direction, and I would consider it a very disruptive impact.

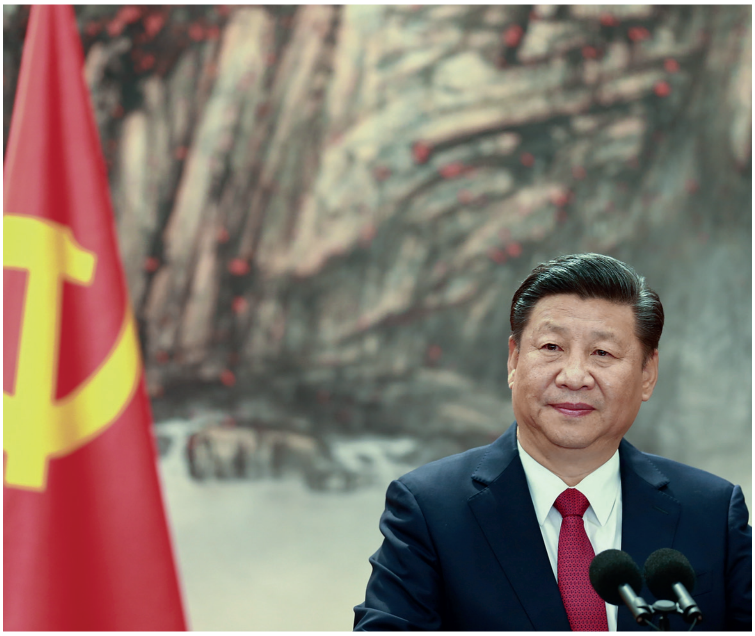
China is now looking for long-term quality growth and that will mean sacrificing some of the sector growth outlook as they try not to bet on explosive growth in one or two particular sectors. The internet sector had a positive growth outlook, as did healthcare and property. Now we aren't expecting huge growth for property.

China doesn't want to follow Western policy directions, such as massive printing of money, and there hasn't been much balance-sheet expansion in China over the last few years, compared to the West.

***Funds Europe* – How is the Chinese state responding? Are we seeing any positive market signals yet?**

Hirn – We've seen a shift. China, like every country, wants to prioritise its domestic agenda, but for many years growth in China was related to globalisation.

Now we have a more inward-looking country. The signals are that their priority is to become less dependent on the world in terms of technological developments – and to be fair, the US does not leave them a lot of options.



This is a really big issue and trend as China is striving to prioritise domestic development and growth paths.

What is also very interesting is the exact opposite outcome is happening for the rest of the world compared to China in some markets related to the energy transition and cleantech. In recent years, China has become critically important to the value chain for cleantech and renewables. Early on, it wasn't so much about the energy transition, climate change mitigation or adaptation; it was about pollution and the fact that they had to do something about their air, water and soil. It has given China a huge edge in terms of productivity, product quality and market share.

They developed great companies. If you look at the value chain for solar, anything from the polysilicon to the cells, to the model, at a minimum Chinese companies have 90% market share globally.

This is interesting because it is exactly what the whole world needs and requires. China has played its cards very well by supporting or even subsidising these companies and making sure their scale was enormous so that China became hard to compete against.

This is just an illustration of how, as an investor, you would want to be aligned with government priorities. There are many very interesting companies in the value chain which we are exposed to in our sustainable emerging market fund.

Tsui – I agree. There are still plenty of growth opportunities because of China's unique opportunity set. Going back to localisation, it's more a policy to withstand or offset the geopolitical tensions they have been facing, but there is still a big domestic consumption story, as well as some value-chain dominance, such as

"A LOT OF SANCTIONS ARE IMPACTING CHINA, INCLUDING THE RESTRICTION OF ADVANCED TECHNOLOGY EQUIPMENT, WHICH IS DELAYING A LOT OF ADVANCED DEVELOPMENTS IN THE COUNTRY. THINGS ARE GOING IN THE OPPOSITE DIRECTION, AND I WOULD CONSIDER IT A VERY DISRUPTIVE IMPACT."

Frank Tsui, Value Partners Group

with renewable energy.

One key thing about positive signals is that markets are still hugely overreacting on expectations now. A lot of share prices have come down to a very low valuation. In the near-term, any reversal of policy could trigger some meaningful return or rebound in the market, but in the long term, China is still unique in terms of dominance over several sectors, and that will be supported by the innovation agenda that the president has mentioned quite frequently.

That being said, further down the road, higher value chain manufactured parts and the upstream supply chain will continue to see robust growth, not to mention some of the ESG-related developments such as carbon neutrality, which will also drive some innovation sectors.

Chan – It probably won't be property. Clearly that was the priority over the last year in terms of policy initiatives. If you look at the last decade in terms of fiscal and monetary policy, China has been relatively successful and you've really seen that breakdown this year, none more so than in the property cycle.

They were cutting interest rates and reserve requirements, and trying to stimulate the demand side. But whether mortgage rates were 2% or 50 basis points, the biggest concern for homebuyers was whether they would receive their house on time.

That's one of the reasons why you've seen inelasticity on the demand side. On the policy side, they really shifted to supply, to the financing side.

Certain property developers are taking advantage of these 'state-backed' bonds and funding support, but it hasn't been enough relative to what they need on the liquidity side. That's why some developers were still defaulting in offshore bonds in October.

Ultimately, further action had to come from the financing side, because the demand side probably isn't going to be fixed until confidence is regained, which will come from increased liquidity accelerating property completions.

In terms of fiscal policy, this is improving. There's no question that in the past few months we've seen infrastructure spending tick upwards. Clearly, that's very different to the so-called 'old days'. It's not the same extent in terms of magnitude or the areas they're targeting; it is also new economy areas, like renewable energy.

In the first six months of the year, there was a huge financial issuance for infrastructure, but then Covid kept on hitting, so the execution didn't really come through in terms of the infrastructure start.

Finally, one area that has had some marginal success is the auto consumption side. After the Shanghai lockdown there were auto incentives and auto sales picked up. Clearly, they always go back to the auto sector because they say, 'OK, if we're struggling to stimulate the property sector, what's one of the other biggest industries in China, both from a consumer-demand, but also production and jobs perspective?'

Covid did hit demand, though auto sales have come back a bit. But for those two or three months, there was some success.

Chen – I agree that the property sector is not out of the woods yet. However, the Chinese government is managing to avoid systemic risk by providing funding to developers for pre-sold but not finished projects. This protects Chinese households and provides social stability.

Although consumer sentiment and confidence are at their lowest levels, Chinese policymakers have a crucial role in supporting the economy. If China chooses to, it has the liquidity to stimulate the economy.

DECEMBER 2022

funds europe

PARIS CEO SPECIAL

QUEL TRIOMPHE !

DISCUSSING GLOBAL AND DOMESTIC BUSINESS WITH FOUR OF THE MOST SENIOR EXECUTIVES AT GLOBAL ASSET MANAGERS BASED IN FRANCE

"The next decade will be unprecedented for asset management"

SANDRO PIERRI AND JOSEPH PINTO ARE TWO OF THE MOST SENIOR EXECUTIVES IN EUROPEAN ASSET MANAGEMENT. BOTH ARE BASED IN PARIS. IN OUR SPECIAL HEAD-TO-HEAD FEATURE, THEY DISCUSS THE ASSET MANAGEMENT INDUSTRY AS IT ENTERS 2023.

THE AVERAGE PROFITABILITY of the asset management industry is today similar to where it was a decade ago, which for Joseph Pinto is a sign of how firms have used a mix of greater product ranges and adjustable costs to adapt to the business landscape following the 2008 financial crisis.

Pinto – who is chief executive officer of Natixis Investment Managers International – took part in the *Funds Europe* Paris CEO roundtable that was last held in 2012. At that time, Europe was struggling to recover from the shock of a collapsing banking system and dealing with a eurozoe crisis.

Recently, Pinto sat down in discussion with Sandro Pierri, who in July 2021 became chief executive of BNP Paribas Asset Management. *Funds Europe* hosted the discussion to partially

PARIS MATCH - The French capital hosted *Funds Europe*'s head-to-head.

recreate our 2012 roundtable.

Natixis IM has $1.4 trillion of assets under management and headquarters in Paris and Boston, and BNP Paribas AM - part of the French bank BNP Paribas - manages €488 billion. Both firms are two of the largest asset managers in Europe.

According to Pierri, the next ten years in asset management will be unprecedented owing to four major disruptive factors including sustainability and demographics.

In this special 'head to head' feature, the two senior executives discuss the industry of the last decade, and the decade now unfolding.

How would you describe the business landscape at present for asset managers and their clients?

Pierri – The next five to ten years are going to be unprecedented in our industry. Four major disruptions are happening: sustainability, technology, demographics, and geopolitics. They are happening simultaneously, and they are self-reinforcing. In some cases, they are self-conflicting. For example, the demographic discussion clearly has an impact on the speed of the sustainability transformation. How do we engineer a just transition when most emerging economies are growing from the fossil fuel economy?

The first implication this has is that active management will be back in favour over the next few years. With disruptions, there are winners and losers – countries, industries, companies – and this is the best environment for active managers. On the sustainability side, where the availability and quality of data are questionable, there is an alpha advantage if players invest time, money, and resources building a solid data framework.

Passives will still have an important role to play but they will be redesigned, and the lines between active and passive blurred. As many as 82% of investors consider thematic ETFs to be active strategies, according to one of our recent surveys.

This is a good example of how the lines will be blurred between active and passive, particularly amid disruption and increased volatility. This is the end of the financial repression we have seen. There is clearly an important role for asset allocation products and services.

Next, sustainability will become a core process in our industry. We're moving from a stage in which the most important element of sustainability was mainly about new products, to an environment in which sustainability is going to be a core process. It's about data, it's about regulation, and it's about control.

Then technology will redesign distribution. It won't be as impactful as some think, but we're going to support the evolution of the digital client journey and it will have quite a big impact on us. There are also the usual cost pressures coming from regulation and technology.

Lastly, human capital needs will evolve in our industry. The importance of selecting the right portfolio managers will always be there, but it's changing. As an industry, we need to be more present in the tech space and hire people from different backgrounds. It's a challenge because we are not a natural employer for tech-savvy people. That will be part of the challenge ahead.

Pinto – There have been some structural changes over the last five to seven years. The current macroeconomic environment will impact our industry and clients' return expectations.

"THE AVERAGE PROFITABILITY OF THE INDUSTRY IS NOT FAR OFF WHERE IT WAS TEN TO 15 YEARS AGO, MEANING THE INDUSTRY HAS BEEN ABLE TO ADAPT BECAUSE OF A GREATER PRODUCT MIX AND AN ADJUSTABLE COST BASE."

Joseph Pinto

From a client standpoint, the industry as a whole has to be careful about the risk of greenwashing. Regulation will continue to strengthen and we need to keep improving the way we provide information to clients to ensure they make the right investment choice.

From an asset class standpoint, thematic investing has been popular among clients, and it will probably stay for a while.

The third area is private assets. We have seen a rise of expected higher returns for institutional clients and the early stages of democratisation of private assets towards private clients.

Regulation has helped, with the Eltif

"AS AN INDUSTRY, I DON'T THINK WE HAVE EVER SAID ESG WOULD ALWAYS OUTPERFORM ON EACH AND EVERY TIME HORIZON, AND THIS IS EXACTLY THE MOMENT WHERE WE NEED TO STICK TO OUR LONG-TERM CONVICTION.."

Sandro Pierri

[European Long-Term Investment Fund] in the EU and the LTAF [Long-Term Asset Fund] in the UK representing an evolution of private-assets vehicles.

The quality of products and services offered to clients is also very important – there's growing demand from clients for digital, to receive the appropriate data and information in the right format as quickly as possible.

A further point is around consolidation of the industry. Ten years ago, at the *Funds Europe* France CEO panel, we talked about the reinforcement of the regulation and about greater price pressure. The average profitability of the industry is not far off where it was ten to 15 years ago, meaning the industry has been able to adapt because of a greater product mix and an adjustable cost base.

We are now in a world where rates are increasing and there's an inflationary environment. We see an increased demand for fixed income products. We know that in the short term, there is demand for private assets and we also see some demand in the longer term, but probably not as much as we had expected. We may live in a world where for the next two-three years, for clients, expected returns will be lower than they were pre-crisis. We have to keep close to clients and explain to them what to expect when the cost of borrowing is much higher.

Has the industry's development been impeded over the last decade, and is that likely to continue?

Pierri – Our industry is about how much we gather from clients in terms of assets and how much assets are going up or down because of market movements.

Growth from asset-gathering – net new cash, or new cash as a percentage of assets – has grown at about 3-4% per year over the last decade, a bit lower than the previous decade but still pretty decent. That has to do with the fact that there has been growth in wealth across the world.

Market performance has added another 3-4%, but margin pressure has reduced growth somewhat. But we have been able to offset that through a decent re-look at the way we organise and implement digitalisation. Going forward, growth from performance is probably going to be lower than we have experienced in the past.

That doesn't mean growth from client demand won't be there. Some of the fundamental trends are still in place. The need for managed savings is now going to be even more significant. There are going to be significant opportunities to keep growing – but with higher volatility.

Pinto – Very importantly, the need for savings and investment is there, and the move from DB [defined benefit] to DC [defined contribution] pension funds over the last 15 years in the UK is a very telling example of this trend.

Within that asset pool, our industry has improved because it has created more trust with clients by managing assets more professionally.

After the Lehman Brothers collapse, the percentage of assets managed by third-party asset managers declined versus the amount of money that was not delegated and was instead managed internally by investors. That illustrated a lack of trust in the industry.

That's when more regulations were implemented – MiFID, Priips, and more recently in the ESG space with SFDR. Those regulations helped us recreate trust, and we have seen the percentage of delegated assets increase massively over the past ten to 15 years, which has fuelled growth.

There are fundamental reasons why people need to save money and it's the responsibility of the industry to remain a reliable, trusted partner to savers and investors.

French asset managers are among the leaders of ESG. Do you feel war in Ukraine and the energy crisis is impacting the industry's ability to aid in the net-zero transition?

Pinto – In the short term, yes. There's a return to traditional energy sources because we have to heat European households. If you examine the fundamental and structural evolution of this, Europe has clearly understood the need for energy independence, and investments in that respect are accelerating.

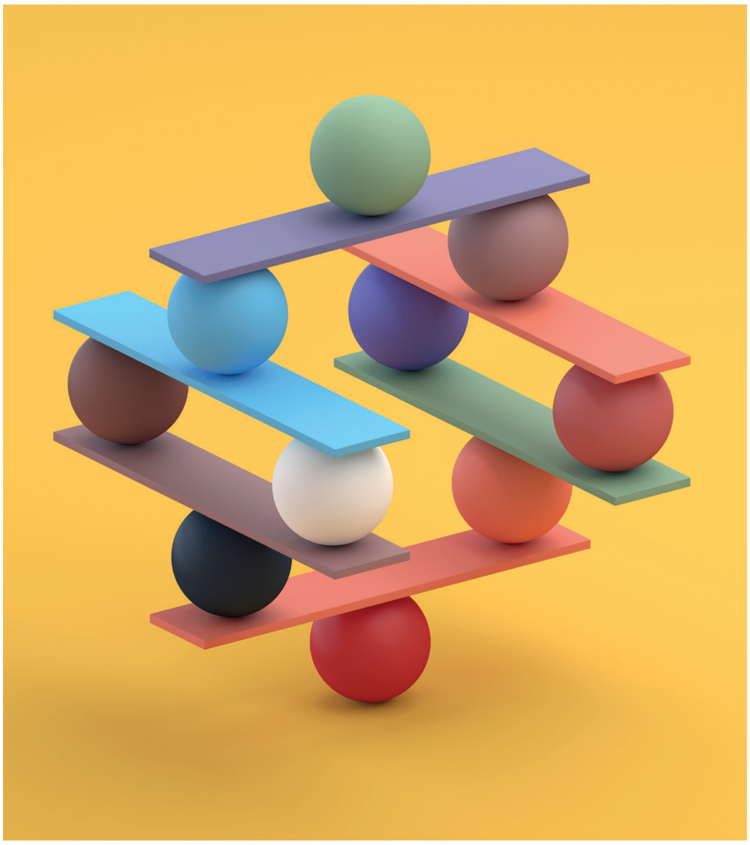
Europe is quite advanced on its journey. If you look at four sectors – electricity, buildings, industry and transport – in all but transport, half the energy supply comes from clean energy sources. It's more than 60% for electricity, over 50% for buildings and industry, but unfortunately we are below 10% on transport. It's a good indication of where the effort needs to be intensified.

There has been a shock: Russia was providing between 20% and 30% of energy to those sectors and when you cut that source, it has an impact on prices.

There are early indicators of how Germany is investing. Clients are still expecting us to help them in their net-zero transition, and dialogue with clients in Europe and Asia is very much happening. The US is slightly different, but in Europe and Asia they are certainly interested in how to reach net zero and they expect asset managers to help them in this journey.

Pierri – It's very clear that we got into this crisis with a huge dependency on traditional energy sources. The growth model for Europe has been cheap energy, particularly for Germany. This is a fantastic opportunity and Europe will play a role in – for instance – green hydrogen. But over the last decade, this topic has become paramount for Asian investors.

Over the last year, the ESG factor lens has not helped investment performance because of the rise in energy prices and everything that comes along with that. Interest rate rises have also put pressure on long-duration growth stocks supporting the transition. Everyone is now debating how we reconcile the duty to generate returns for clients in an environment where the ESG factor has been challenged.



"PASSIVES WILL STILL HAVE AN IMPORTANT ROLE TO PLAY BUT THEY WILL BE REDESIGNED, AND THE LINES BETWEEN ACTIVE AND PASSIVE BLURRED. AS MANY AS 82% OF INVESTORS CONSIDER THEMATIC ETFS TO BE ACTIVE STRATEGIES, ACCORDING TO ONE OF OUR RECENT SURVEYS."

Sandro Pierri

No one ever said this would be a linear journey. There are moments where ESG underperforms – but that's just the nature of financial markets. Risk-adjusted returns that will incorporate all investment processes, including ESG factors, will outperform the rest. As an industry, I don't think we have ever said ESG would always outperform on each and every time horizon, and this is exactly the moment where we need to stick to our long-term conviction.

There is now a consensus that there should be $3.5 trillion additional investment every year to support the net-zero roadmap and this will need to support the transition of a number of companies from 'brown' to 'green'.

Regulation also supports the transition. Even if you take a pure capital allocation view, you will see capital flowing out of industries and companies not supporting the transition, to companies that are either providing solutions for the transition or supporting it.

We all know that capital will move asset prices, so that's a long-term reason why we are sticking to our conviction on the fact that ESG will play an important role in driving risk-adjusted returns for clients in the long term.

Pinto – In the US, it has been interesting to see how the ESG debate has turned into political considerations.

In Asia there is a willingness from investors to further address ESG considerations, but there are also concerns about the impact on financial performance.

Pierri – Indeed, it's different depending on where you go. Some also have a different interpretation of what ESG means. Regulatory frameworks differ as well.

How do you feel French asset management has done, as a brand, internationally, within Europe and also further afield?

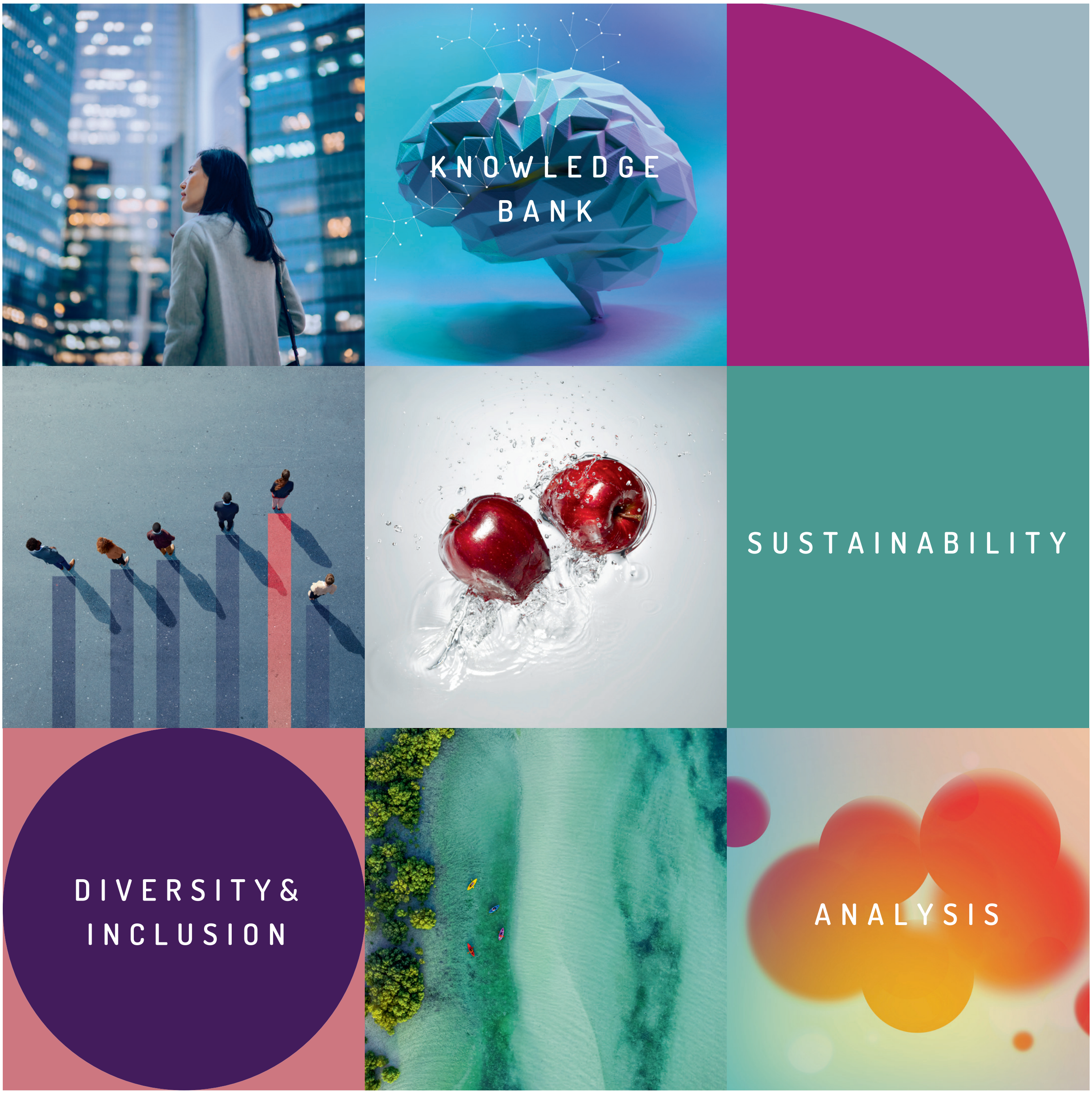
Pierri – Slightly less than 30% of our business comes from France, so we are a French asset manager, but we are very global in nature. France is one of the largest markets in terms of invested assets and this cultural aspect of saving is an important one. The overall ecosystem has created a condition for French asset managers to be much more global than some in other countries.

"THERE WERE A FEW MORE THAN 600 TO 650 ASSET MANAGERS IN FRANCE BEFORE THE COVID CRISIS. IN 2022 THE LATEST COUNT WAS ABOVE 700 ASSET MANAGERS. GIVEN THERE ARE STILL COMPANIES BEING CREATED, THIS IS A POSITIVE SIGN FOR THE FRENCH ASSET MANAGEMENT INDUSTRY."

Joseph Pinto

Pinto – France is an undeniable major European centre with a strong global footprint. The French asset management industry it can play a bigger role outside France and export more products. Today, as an asset management player, we generate more revenues out of the US than out of Europe.

We are in a country where the industry is extremely dynamic. There were a few more than 600 to 650 asset managers in France before the Covid crisis. In 2022, the latest count was above 700 asset managers. Given there are still companies being created, this is a positive sign for the French asset management industry. **f**e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ANALYSIS

What's changing for asset managers?

FOLLOWING OUR HEAD-TO-HEAD PARIS DISCUSSION (SEE PREVIOUS ARTICLE) *FUNDS EUROPE* SPOKE TO TWO MORE MAJOR FRENCH INDUSTRY LEADERS AT AMUNDI AND AXA IM. TOPICS FOR DISCUSSION INCLUDED THE 'NEW ABNORMAL' BUSINESS ENVIRONMENT, ESG AND THE SUCCESS OF FRENCH FUNDS.

WHEN *FUNDS EUROPE* last hosted the 'France CEO roundtable' in 2012, it was in a period frequently referred to as the 'new normal', as Europe relied on quantitative easing to try and recover from the financial meltdown of 2008.

There was at least some semblance of normality: the UK was still part of the EU, the investment case for China appeared solid, and inflation was in single digits. This has since completely changed.

Funds Europe spoke with Valérie Baudson, chief executive of Amundi, and Marco Morelli, executive chairman of Axa Investment Managers. We started by asking if the new normal of a decade ago has become the 'new abnormal', and where this left asset management.

"Previously, the 'new normal' was characterised by low nominal growth, loose monetary policy and a final phase of globalisation," said Amundi's Baudson.

But this regime is now challenged, she says, by inflation and central

BON VIVANTS - The French are keen investors in retail funds.

bank monetary tightening; and by 'regionalisation' – or the reshoring of production that affects linkages in trade between countries.

"What we see today is that while the seeds of the regime change were previously sown, three main drivers are exacerbating it: climate change, Covid and the war in Ukraine. We are transitioning to a new regime which still needs to be defined in macroeconomics, policy mix and geopolitical terms."

The "new abnormal", Baudson says, could be characterised by "a new policy mix, higher volatility in markets, increased geopolitical risks and social and political uncertainties coupled with the energy transition, which requires significant investments over a long period".

This will be the new landscape that asset managers must navigate, says the CEO.

Along with higher volatility in financial markets as central banks tighten rates, asset managers also face positive correlations between returns linked to high levels of inflation. A major change in the asset management market, says Baudson, is the level of long and short-term interest rates. Money market funds are now generating positive returns and bond yields are back to attractive levels, despite negative real yields over the shorter term.

She says to achieve diversification, there is a greater role for real asset and investment strategies built around uncorrelated or lowly correlated returns.

"What I would add, though, is that while the current environment is fraught with geopolitical risks and macroeconomic headwinds, significant supportive long-term trends will continue to drive growth in the asset management industry going forward: the retirement savings gap of an ageing population, the large pool of retail savings in cash, continued energy transition financing needs and the rise of the middle class in Asia. Asset managers will need to keep pace with these changes to remain relevant and thrive."

Morelli says that how investors invest in a high inflation context across the major Western economies is an ongoing focus with no consensus around how quickly inflation will come down.

Also in focus is how companies, particularly consumer-facing businesses, seek to behave towards their customers wrestling with rising living costs.

"Alternative asset classes offer a good hedge to inflation due to revenues indexation, especially in sectors supported by positive megatrends and a large part of the private debt and alternative credit universe is on a floating rate basis," Morelli says.

UK economic activity contracted at its fastest pace in almost two years in October 2022, suggesting it is already in recession. Meanwhile, Europe faces a potentially severe recession and questions remain over whether there will be a hard landing in the US, says Morelli.

In this environment, a key question for him is about whether growth equities can stage a sustained comeback at a time when value investing and commodities are doing well.

Consolidation to continue

Against this backdrop, the pressure on asset managers for consolidation remains high, says Morelli. In recent years, the pursuit of efficiencies to contend with fee pressure, and the acquisition of higher-yielding investment capability, were main drivers for consolidation.

"While the global market environment might seem less supportive to M&A transactions in the short term,

"WHAT WE SEE TODAY IS THAT WHILE THE SEEDS OF THE REGIME CHANGE WERE PREVIOUSLY SOWN, THREE MAIN DRIVERS ARE EXACERBATING IT: CLIMATE CHANGE, COVID AND THE WAR IN UKRAINE."
Valérie Baudson

those broad trends have been confirmed by recent market volatility and the pressure on managers to follow through with consolidation remains high."

Therefore, there will likely be no reduction in the appetite for alternatives – which Morelli says firms have purchased "even at high multiples" in the past. But how firms enter the alternatives space and who they hire are key questions at a time of "talent wars" and wage inflation.

He adds: "At the other end of the scale, private equity is increasingly seeking to enter the retail market. Will their customers, as some in the media are suggesting, end up with a lesser version of what is available to institutional investors?"

“WHILE THE GLOBAL MARKET ENVIRONMENT MIGHT SEEM LESS SUPPORTIVE TO M&A TRANSACTIONS IN THE SHORT TERM, THOSE BROAD TRENDS HAVE BEEN CONFIRMED BY RECENT MARKET VOLATILITY AND THE PRESSURE ON MANAGERS TO FOLLOW THROUGH WITH CONSOLIDATION REMAINS HIGH.”

Marco Morelli

In more traditional assets, Morelli highlights that active ETFs will grow because firms want to offer investors “optionality in terms of fund structure and flexibility”.

He adds: “The transparency they offer could become something of a dividing line, as those embracing full portfolio disclosure could steal a march on those unwilling to be as open, particularly in the ESG space.”

Similarly, ESG is a factor in the rise of thematic funds. “Where only a few years ago many wealth managers were sceptical about the place of thematics in portfolios, now they have become more mainstream, with fewer questions around how they are deployed in portfolios based on traditional regional and asset class allocations.”

“Positive” growth crisis

French asset managers are among the leaders in the move towards ESG, with Paris being almost synonymous with ‘net zero’. Is the current energy crisis a fundamentally negative factor in global asset management’s ability to aid in net zero and in other aligned climate initiatives?

Baudson – who says the “very strong performance of socially responsible and green funds as a whole in 2020 and 2021” is a factor in ESG’s emergence from being a niche part of the industry – says: “The view that the current energy crisis is a challenge for net zero is a reflection of the fact that we are probably facing a ‘growth crisis’, involving very different, sometimes opposing, expectations that are heard when they are not met.

“This growth crisis is positive because it shows that beyond words and intentions, real changes are at work, which provoke resistance and tough questions. We are in the midst of concrete change.

“Some find that we are going too far, others not far enough. The energy crisis today is shining a light on these contrasting expectations.”

Morelli says recent events have strengthened resolve to realise the net-zero ambition. “It is all too evident that the broader road to net zero has been hit with setbacks. Conflict, the resulting energy crisis, and squeezed supply chains have challenged the global economy and negatively impacted the energy mix, but have made our resolve stronger. Transitioning takes time but the end goal remains unchanged.

“AT THE OTHER END OF THE SCALE, PRIVATE EQUITY IS INCREASINGLY SEEKING TO ENTER THE RETAIL MARKET. WILL THEIR CUSTOMERS, AS SOME IN THE MEDIA ARE SUGGESTING, END UP WITH A LESSER VERSION OF WHAT IS AVAILABLE TO INSTITUTIONAL INVESTORS?”

Marco Morelli

He adds: “We are more convinced than ever that net zero requires collective action; tackling it has to be a collective effort. By pooling our efforts, as a responsible asset manager, with others in the net-zero ecosystem, it is possible to effect tangible change.”

A lack of standardisation around sustainable-investment definitions has been unhelpful, says Morelli, but steps are being taken here. He says that, given the scale of the problems that “genuine” ESG and impact strategies are trying to solve, the industry “cannot allow the fear of greenwashing to impede the progress we urgently need to make”.

Morelli says investors are seeking more evidence that the social aspect of ESG is factored into investment processes.

“How asset managers engage on social issues – a complex area – is likely to become a bigger focus over time. Ultimately, the 'Just Transition' will gain more traction with companies and investors."

He also says that activism more broadly has become a prominent topic as the traditional asset management community "gradually warms" to activists seeking to unlock shareholder value. At the same time, asset managers' votes will gain more attention.

"Proximity" to overseas clients

Funds Europe asked Baudson about the international success of French asset managers. At the end of 2021 there were €830 billion in funds domiciled abroad and promoted by French national providers.

Baudson says French success is partly based on firms offering "proximity" and tailored advice to large distributors and retail networks overseas, particularly through discretionary portfolio management and advisory services using "innovative platforms".

Expertise in thematic investment and ESG is also a boon, as the profile of these products increases abroad. Baudson points out that retail investors' interest in thematic investing has grown since the start of the coronavirus pandemic. In France, she says the total assets of the ten bestselling themes increased significantly, while thematic assets globally have more than tripled in the past three years to reach nearly $620 billion at the end of June 2022, with Europe accounting for roughly half.

"French asset managers also share a demanding vision of ESG and have a high-value proposition in that field, in response to the growing sophistication of ESG demand from investors," Baudson adds.

Axa IM, like Amundi, is a global company. It has more than 20 legal entities across the world and French-domiciled funds represent a small part of its business.

Nevertheless, *Funds Europe* asked Morelli about the industry in France, where firms had Europe's third-largest fund flows in 2021 (after the cross-border markets of Luxembourg and Ireland) with €26 billion in sales.

Are the drivers for this plainly structural and visible?

"THIS GROWTH CRISIS IS POSITIVE BECAUSE IT SHOWS THAT BEYOND WORDS AND INTENTIONS, REAL CHANGES ARE AT WORK, WHICH PROVOKE RESISTANCE AND TOUGH QUESTIONS. WE ARE IN THE MIDST OF CONCRETE CHANGE.

Valérie Baudson

Morelli says French retail and non-retail clients have made use of investment funds to optimise their investments.

"Don't forget that the acronym 'Ucits' is the translation of the French 'OPCVM'," he says.

Over past decades, the fund offering in France diversified from initial money market and fixed income funds to a more comprehensive range, more recently encompassing real assets, Morelli says. He highlights the success of mass retail infrastructure funds FCPRs, as well as private debt, private equity and other alternative strategies.

Diversification was a key driver during this expansion, says Morelli, but he also indicates there is a high level of trust in France for the funds industry.

"During the last decade, there was no massive mis-selling in the French fund market as compared to some other countries. In particular, we think that the French regulator – the AMF - struck the right balance between the development of the market and legitimate investor protection – benefiting also from a French funds industry highly aware of its professional reputation."

Morelli predicts that the French fund offering will in the next few years grow further, driven by the sub-advisory business.

Baudson points out that during lockdown and with the help of government support, French retail savings accumulated to an estimated €175 billion.

This in turn led to record contributions to the "favorite wrapper of the French": life insurance unit-linked products.

"Close to half of French households own a life insurance product, and around one-third have diversified with unit-linked products, mostly investment funds. Recent reforms regarding retirement savings, such as the Pacte Law, also contributed to strong inflows," she says.

Baudson adds: "Overall, I would say that the French asset management industry is dynamic, with a growing number of asset management companies and a large range of players ranging from boutique players to large asset managers, generally subsidiaries of credit institutions and insurance and mutual companies.

"The asset management companies [that are] subsidiaries of banks, together account for nearly two-thirds of the total market share in France." **f**e

The former French minister championing retail private equity in France

RENAUD DUTREIL THINKS PRIVATE EQUITY IS THE BEST SOLUTION FOR BOOSTING REGIONAL ECONOMIES AND INNOVATION – AND ILLIQUIDITY IS GOOD FOR LONG-TERM FINANCE. THE POLITICIAN TURNED FUND PROFESSIONAL SPEAKS TO **NICK FITZPATRICK**.

THE DEMOCRATISATION OF PRIVATE equity is *saveur du jour* in the industry at present, perhaps nowhere more so than in France, where Mirova – part of French-American Natixis Investment Managers – opened a fund to retail investors earlier this year, and where BPI France – a sovereign fund – created a private equity vehicle for non-professional investors in 2021.

An original champion of the movement is Renaud Dutreil, a former French Secretary of State for small businesses, and now a private equity professional.

Funds Europe spoke to Dutreil at the private markets conference IPEM, held in Cannes during September, where he talked about his mission while in high office to bridge private equity with public savings.

From 2002-04, Dutreil served as Secretary of State for Small and Medium-Sized Businesses, Commerce, Crafts and Liberal Professions. In total he spent 15 years in politics.

He tells how he began a campaign to bring private equity investing to a wider audience.

"When I was a minister in the French cabinet, I started with the simple idea that individuals should be able to invest in small French companies through local investment funds. I travelled a lot and was impressed by what I saw in Canada, the UK and the US, and I came back with the idea that it was possible to democratise private equity."

A result of this was the creation of 'Local Investment Funds' (FIP, or Fonds d'Investissement de Proximité). These are funds open to individual and institutional investors and the aim is to mobilise savings and investments in France so that they reach regional economies and create jobs.

In a sense, the funds are a forerunner of the much-touted European Long-Term Investment Fund, or 'ELTIF', a fund structure intended to operate across borders in the EU and boost

"MY DREAM WOULD BE TO CREATE FUNDS DEDICATED TO PUBLIC MARKETS – BUT WITH LOCK-UP PERIODS OF FIVE YEARS, AS IN PRIVATE EQUITY. AND I KNOW SOME INSTITUTIONAL INVESTORS WHO UNDERSTAND THIS LOGIC."

“TAX INCENTIVES SHOULD NOT BE A REASON TO INVEST IN PRIVATE EQUITY.”
Renaud Dutreil

Europe’s economy. The ‘LTAF’ is a UK version.

The FIP had problems

Dutreil’s view is that private equity is more impactful on the real economy than many other investments.

But the FIP had problems, acknowledges the former parliamentarian. The tax incentive offered to people (FIPs reduce income tax bills) was so strong, and led to such a high velocity of inflows, that “the teams who were investing those funds were working less on achieving performance and more on the necessity to just allocate money somewhere”.

He adds: “Performance should be the motivation for investing in private equity, in order to create value … Tax incentives should not be a reason to invest in private equity.”

According to Dutreil, since the removal of tax incentives, FIPs’ appetite for risk has declined – which is not a good thing, given that a main driver of his vision for democratising the asset class was to spur on motivation at regional levels.

“They select less risky assets like hospitality or retirement homes and are not so much today funding French innovation.”

Famous French rooster

Dutreil is now the Paris-based head of private equity at Mirabaud Asset Management, which is owned by the Swiss private bank Mirabaud.

He joined the firm in 2017 and manages the Mirabaud Patrimoine Vivant fund, which invests in ‘heritage’ companies in France, Switzerland and further afield. The investment angle is on firms – predominantly family-run – with many years of specialism in creating artisan or luxury goods, says Dutreil, who is a former chairman of LVMH, the luxury goods maker.

As an example, he offers the French sportswear manufacturer Le Coq Sportif, founded in 1882. French athletes wore Le Coq Sportif – with the famous rooster logo – at the 1924 Olympic Games hosted by France, “and they will do so again a century later” he says, alluding to the 2024 Olympics that are due to be held in France once more.

Marshalling private equity money into family businesses can be difficult, acknowledges Dutreil, as families – particularly of firms with long heritages – can be understandably reluctant to share ownership.

But investment from the Patrimoine Vivant fund, he says, helps firms to grow internationally, achieve digitalisation, and to implement ESG practices.

“Some of these manufacturers need to know where their cotton comes from, or how diamonds have been mined,” he says.

Institutions and wealthy individuals are Mirabaud’s target market. But for the Patrimoine Vivant fund, Dutreil is also marketing further afield, to smaller pension funds in France. Democratising private assets is as much about offering smaller pension schemes the ability to diversify their investments as it is about offering private assets to retail investors.

“Private equity is still not so well known among smaller pension funds in France, which we are targeting. We already have a scheme for doctors and a scheme for notaries as clients,” says Dutreil, who adds that digitalisation of access to private assets – along with greater levels of transparency – are key to increasing the industry’s reach.

Dutreil’s dream

He maintains that private equity has a special role in France, where he says investment in the asset class is second after Denmark.

“Our economy is based partly on the idea that private equity is a good solution for providing long-term funds to the real economy, where money is instantaneously changing hands. Long-term investment is so important.

“I feel that very liquid investment products have not been creating value through the long period of low interest rates. Public equity should be a very good investment, but I think that the levels of volatility in the market mean that public equity has lost a large part of its rationale.

“In fact, my dream would be to create funds dedicated to public markets – but with lock-up periods of five years, as in private equity. And I know some institutional investors who understand this logic.” **f**e

DECEMBER 2022

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THE FUNDS EUROPE AWARDS CEREMONY RETURNED TO THE TOWER OF LONDON THIS YEAR. OUR SPECIAL REPORT LISTS THE WINNERS AND SHORTLISTS IN CATEGORIES SPANNING FRONT, MIDDLE AND BACK-OFFICE ACTIVITIES, ALONG WITH WINNERS IN THOUGHT LEADERSHIP AND ESG.

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1 – RBC quarterly results as of April 30, 2022
2 – Standard & Poor's (AA-) and Moody's (Aa2) legacy senior long-term debt ratings of Royal Bank of Canada as of May 25, 2022

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*Figures at end June 2022

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Calastone is the largest global funds network, connecting the world's leading financial organisations.

Our mission is to help the funds industry transform by creating innovative new ways to automate and digitalise the global investment funds marketplace, reducing frictional costs and lowering operational risk to the benefit of all. Through this, we make investing more accessible, generating the opportunity for the industry to deliver greater value for the investor.

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CAMRADATA

CAMRADATA, established in 2003, provides institutional investors, including pension funds, insurers and consultants, with data and analysis to research and report on their investments. We enable these investors to conduct rigorous, evidence-based assessments of more than 5,000 investment products offered by over 750 asset managers.

In December 2017, CAMRADATA acquired specialist publishing business *Funds Europe*, boosting CAMRADATA's research arm, publishing capabilities and events business and extending its database reach into Europe. This has allowed CAMRADATA to enhance its publications, events and research to a level far beyond the competition, while adding value for our clients, who now have even greater insight into investment data.

funds europe awards 2022

JUDGES' PANEL

Trevor Castledine – Managing director, bfinance

Elizabeth Carey – Independent investment adviser, Bedfordshire & Torfaen pension schemes

Rosie Guest – Chief marketing and communications officer, Apex Group

Sean Thompson – Managing director, CAMRADATA

Natasha Silva – Managing director, client relations, CAMRADATA

Edward Glyn – Head of global markets, Calastone

Robin Creswell – Managing director, Payden & Rygel

Dan Sharp – Partner, Sionic

Tanguy van de Werve – Director general, Efama

David Butcher – Managing director, Communications and Content

Matt Newnham – Co-head product, MFEX by Euroclear

Margaret Delman – Associate partner, Avida International

Richard Clarkson – Head of solutions, funds, Oracle FSGBU

Alessandro Cavallari – Head of international sales, Societe Generale Securities Services

Alright on the night

ANYONE WHO'S EVER organised an event knows the fear of no one turning up. Apparently, even U2 still worry about ticket sales. Fingernails were bitten short, then, on the day of the Funds Europe Awards 2022. It was the first time in three years that we'd hosted the awards in person at our traditional venue, the Tower of London.

We strove to make our 'comeback' awards the best yet. Afternoon tea was provided, a free tour of the Crown Jewels was offered and, for the first time, we had a professional host – Samira Ahmed, the BBC TV and radio presenter.

In the end, attendance was affected – but only slightly. It was thanks to a strike at London Underground that our at-capacity event was slightly under capacity.

Another concern when it comes to events is whether those who do turn up will stick around afterwards. Leaving at the first, reasonably polite opportunity... well, it's not a great sign, is it? With much pleasure, then, I looked about the room some 30 minutes after our ceremony had finished and saw a full house of funds people enjoying themselves.

So, our first in-person Funds Europe Awards for three years... It went alright on the night.

Nick Fitzpatrick
Group Editor, Funds Europe

FUNDS EUROPE

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European Personality of the Year

WINNER – THOMAS RICHTER, CHIEF EXECUTIVE OFFICER, BVI

THE WINNER OF THIS YEAR'S European Personality of the Year has highlighted the critical role that trade bodies play in the funds industry, helping to shape UK and EU policy.

These bodies have to walk a fine line between representing the interests of the industry itself and the interests of their underlying clients, which are often the end investors and the public at large.

As chairman of the BVI, the German Investment Funds Association, Thomas Richter is simply one of the best representatives the industry has to offer; a true leader who has repeatedly embraced difficult and thorny issues that affect the funds industry and its clients.

In the view of the Funds Europe panel, Richter is acknowledged for consistently "raising his head above the parapet" on issues ranging from the integrity of investor information, to the high costs of market data that the funds industry has to contend with while being under relentless pressure to control fees.

Richter has been with the BVI since July 2011. He originally trained as a lawyer in France and worked for a Canadian law firm before becoming a certified equities trader and investment analyst in Germany.

He joined Deutsche Börse in 1995 and then joined German asset manager DWS three years later, where he held various executive positions before becoming an executive board member in 2007.

In addition to his role at the BVI, Richter is a member of the Administrative Council of BaFin and a member of the Advisory Council for Finance of the Federation of German Consumer Organisations. He is a board member of the European Fund and Asset Management Association as well as a board member of the International Investment Funds Association.

When asked for this hopes for the future, Richter told *Funds Europe* that he hopes to see more equilibrium in regulation. "Right now, the interests of consumers and resilience play a predominant role but the interests of our industry do not have the same prominence.

"We are in a global market and for the sake of competitiveness, it is really important to have a better balance between all of these interests."

"I feel honoured to have been appointed European Personality of the Year, even more so as a representative of a fund association from the continent. Funds Europe recognises that regulation is pivotal for asset management, as its whole value chain is indeed regulated – the funds, their managers, and their distribution."

Thomas Richter, CEO, BVI

TRUE LEADER – The judges praised Thomas Richter for "raising his head above the parapet".

European CIO of the Year

WINNER – COLIN PURDIE, CHIEF INVESTMENT OFFICER, LIQUID MARKETS, AVIVA INVESTORS

THE WINNER OF THE CIO of the Year award, Colin Purdie, began his career on the regulatory side, joining the UK's Financial Services Authority back in 2002.

In 2005 he worked as a fixed income broker at Charles Stanley before entering the funds industry in 2006 as an investment manager for Aegon Asset Management.

Purdie then joined Aviva Investors in 2010, initially as a credit fund manager and then as CIO for the credit team. He was subsequently promoted to his current role as CIO for Liquid Markets in 2021.

In addition to his responsibilities leading the equity, multi-asset and macro, credit and ESG teams as well as a dedicated trading division, Purdie is also a member of Aviva Investors' executive team.

Good leaders will always acknowledge the teams they work with. To that extent, then, this award represents a second win for the firm. One panellist for the CIO award remarked that this is a firm "we are continuously impressed by and which holds great respect in the industry".

Of particular note is Aviva Investors' progress on ESG issues. In his prior role as CIO for the firm's credit team, Purdie spoke about the critical role of the debt and credit markets as a potentially powerful but largely untapped force that could exert its influence on the behaviour of corporates through the billions of dollars they provide in debt financing.

The focus on ESG, stewardship and engagement has continued in his role as CIO for the Liquid Markets unit.

In his acceptance speech, Purdie said: "The judges specially commended Aviva Investors for the ESG integration measures we have taken over the years, which I believe are particularly worth celebrating."

He also thanked his team. "Achievements that would have not been possible without the collaboration and lead of my fellow colleagues."

Aviva Investors has been especially vocal this year on climate concerns and the need for the financial system to play its part. Earlier this month, the firm called for a "Bretton Woods-scale overhaul" to tackle climate change and for private capital to play a leading role in this change.

The firm also launched a climate-ready index to measure how G7 nations are progressing on climate mitigation, resilience and adaptation.

Purdie and his liquid markets team will doubtless play an integral role in continuing to promote the importance of climate finance, while also providing investment products that support causes such as net-zero and which also seek to provide robust financial returns for investors.

"I am honoured to be presented with this award, especially after such a challenging and volatile year for investment markets. I am especially proud that Aviva Investors received recognition for our approach and successes in ESG, which is a great credit to the collaboration and efforts of my colleagues across the business."

Colin Purdie, CIO Liquid Markets, Aviva Investors

STRONG TEAMWORK - Aviva Investors' Colin Purdie acknowledged his colleagues' contribution to his win.

European Asset Management Firm of the Year (greater than 100 billion)

WINNER – JP MORGAN ASSET MANAGEMENT

THE JUDGES TOOK into account the firm's global reach when awarding JP Morgan Asset Management (JPMAM) the €100 billion-plus European Asset Manager of the Year prize.

This reach applies both in terms of the markets it can access for European investors and also its coverage of clients beyond Europe.

The firm was able to demonstrate good performance within its 219-strong European fund range, with a good percentage in the top quartile and over half ranking above 'median' in the 12 months up to May 31, 2022. Assets under management for European clients increased significantly.

JPMAM has also been a continual contributor to thought leadership and recently published and updated research on large and complex topics such as climate and the environment.

These themes have been at the centre of the firm's product development over the past 12 months. This includes the launch of the JPM Climate Change Solutions fund, which aims to give investors a way to participate directly in the climate industry and its innovations.

"The firm was able to demonstrate good performance within its 219-strong European fund range, with a good percentage in the top quartile and over half ranking above median in the 12 months to May 31, 2022."

SHORTLISTED

Eurizon Capital – The Italian asset manager has made a firm commitment to ESG and sustainable investment in the past 12 months. In 2021, Eurizon participated in 160 shareholders' meetings and conducted around 958 engagements, of which 30% had ESG as the main topic. The firm also has 172 products classified as Article 8 or 9 funds under the SFDR, which amounts to 46% of funds' assets under management.

Robeco – The Dutch firm surpassed the €200 billion milestone in terms of assets under management for the first time in its history. The fact that €154 billion of these assets are part of its sustainability range demonstrates Robeco's longstanding commitment to sustainable investing. It also underlines how such an approach can generate impressive returns. Two funds, Smart Energy Equities and Sustainable Water Equities, reached AuM of more than €3 billion each, while Smart Materials Equities passed the €2 billion in assets threshold.

GLOBAL REACH - JP Morgan Asset Management's chief marketing officer, Jean Guido Servais.

European Asset Management Firm of the Year (between 20 billion and 100 billion)

WINNER – MIROVA

FUNDS EUROPE RECOGNISES Mirova for its innovative approach to sustainable investing and for an initiative to make a private equity 'impact' fund available to retail investors. Based in Paris with Natixis Investment Managers as its parent company, Mirova has €25.5 billion in assets under management, 162 employees and a longstanding commitment to sustainable investing.

There has been significant investment in companies involved in sustainability and climate change. In June 2022, Mirova acquired SunFunder, a specialist in emerging market and clean energy and climate investment.

In late September, the firm launched two bond funds categorised as Article 9 under the SFDR. As Hervé Guez, the CIO of equity and fixed income and social impact at Mirova, said: "Today, more than ever, we must give priority to financing that contributes to environmental and social development."

"All our teams are very honoured to receive this award. This recognition proves yet again Mirova's ability to combine the search for financial performance with positive environmental and social impact."

Guillaume Abel, deputy CEO, Mirova

SHORTLISTED

AGF Investments – Founded in 1957 and headquartered in Canada, AGF is a diversified global asset management firm with retail, institutional, alternative and high-net-worth businesses. It has approximately $40 billion in global assets under management and fee-earning assets, serving more than 800,000 investors.

GQG Partners – The US-based investment boutique manages global and emerging market equities for institutions, advisers and individuals. In the last 12 months, the firm has looked to grow its European presence, especially in the UK, where it has appointed a director of UK wholesale in recent weeks.

Polar Capital – Founded in 2001, the specialist, active fund manager added a sustainable thematic equity team in 2021 following on from its acquisition of UK-based boutique asset manager Dalton Capital.

StepStone Capital – This global private markets firm has offices in Dublin, Frankfurt, London, Luxembourg, Rome and Zurich. StepStone's approach is based on expanding access to private markets for high-net-worth investors.

IMPACTFUL - Chris Garner, managing director of Mirova UK.

European Asset Management Firm of the Year (less than 20 billion)

WINNER – MARSHAM INVESTMENT MANAGEMENT

WHAT IMPRESSED JUDGES about this company was its investment approach that centres around the sustainability transition and on gaining upside from the increasing valuations of companies as they progress with that transition in their own business.

Founded in 2016, London-based Marsham's investment philosophy is based on unconstrained active management using proprietary fundamental analysis.

The firm is focused on sustainability. More specifically, it targets traditional companies that have chosen to participate in the "green super-cycle by funding changes from within and becoming future-proof".

Its flagship transitional issuers fixed income strategy is designed to capture overlooked opportunities as companies transition to net zero. According to Marsham, identifying such companies is only possible via in-depth fundamental analysis as there is no quick screening method.

The judges also noted Marsham's innovative use of AI in helping this firm's analysis of names that it holds, sifting though sometimes complex and non-uniform ESG-related data.

The company has also taken a firm stance on the issue of divestment versus engagement, believing that "careful selection, rather than exclusion, is the way to help companies get on the right path to sustainability".

"I am delighted that Marsham IM has won the Funds Europe Award for European Asset Management Firm of the Year <€20bn. This reflects the expertise and efforts of the whole team at Marsham, and I am proud that our investment strategy has helped us excel in this highly competitive category."

Maria Lozovik, founding partner, Marsham Investment Management

SHORTLISTED

TOBAM – The active manager has continued to promote its patented 'maximum diversification' approach. And in the last year, it has also developed a new range of products. This includes an equity hedged strategy to help build option-based overlays catering for clients' constraints, as well as a mandate of decentralised finance tokens and the first white-labelled fund with direct multi-crypto exposure.

THE RIGHT PATH TO SUSTAINABILITY - Marsham Investment Management's Maria Lozovik.

European ETF Provider of the Year

WINNER – GLOBAL X ETFS

THE JUDGES REWARDED Global X ETFs for its growth in assets and for the level of diversification offered through the firm's product range.

The ETF issuer saw AuM grow globally by 38% across its 90 different ETF strategies, from €27 billion to €38 billion. However, it was in Europe where the firm was most successful. Having launched its European business in December 2020, Global X has since seen rapid growth, with a 511% jump in assets under management from €49 million to €3 billion

Global X also launched a number of ETFs specifically for the European market, including the first Uranium Ucits ETF, as well as funds focused on infrastructure development in the US, global wind energy providers and global e-commerce.

In addition, Global X launched physically backed crypto ETFs on Deutsche Boerse, adding to its suite of income and commodities products and meeting its stated aim to be a standard-bearer for the ETF industry's "passively managed roots" and its "disruptive and thematic future".

"We would like to thank Funds Europe for selecting Global X ETFs as the winner of the 2022 Funds Europe 'European ETF Provider of the Year' award. This achievement would not have been possible without the hard work and dedication of the entire Global X team."

Rob Oliver, head of business development (Europe), Global X ETFs

SHORTLISTED

WisdomTree – The US ETF provider may have seen its assets under management fall slightly in a challenging market environment, but it has continued to launch innovative passive products. Between June 2021 and May 2022, it unveiled 15 funds, including its Carbon fund, which tracks the price of the ICE carbon allowances EUA futures and pulled in $275 million of net inflows as of March 2022. Other sectors covered in its new ETFDs include the crypto market, commodities, and biotech.

Northern Trust Asset Management FlexShares – Northern Trust Asset Management's FlexShares entered Europe with five climate-focused ETFs, which generated inflows of $174.72 million by end of August 2022. With ten years' experience in the US market, FlexShares is looking to use its market knowledge to bring new and useful products to European investors. Four of its five ETFs are climate-focused, while the fifth offers exposure to the listed private equity market.

A STANDARD-BEARER FOR THE INDUSTRY – Global X ETFs' Rob Oliver (pictured).

European ESG Manager of the Year

WINNER – NORDEA ASSET MANAGEMENT

TO WIN THIS AWARD, a firm must convince the judges that it has set itself robust ESG targets and can demonstrate transparency in terms of how these are being met. This may be across one or all of the three ESG components.

In winning this award, Nordea AM prepared a great presentation that demonstrated a lot of experience in the field of ESG, and a strong focus on engagement. The firm now has 230 funds classified as either Article 8 or 9 under the EU's Sustainable Finance Disclosure Regulation.

The firm's approach to ESG is driven at the highest level with a responsible investing (RI) committee chaired by Nordea AM's chief executive. Meanwhile the RI team of 29 analysts and various portfolio managers ensures the committee's principles are implemented in the various ESG strategies offered to investors.

In addition, the transparency of Nordea's sustainable investing approach and its commitment to education and awareness campaigns, as seen by the creation of the ESG Learning Centre, both played well with the judges.

"We are proud to be receiving the 2022 ESG Manager of the Year award. We'd like to thank Funds Europe for the honour, and Nordea Asset Management's ESG specialists and investment teams, whose expertise, perseverance and dedication to sustainability made it possible."

Eric Pedersen, head of responsible investments, Nordea Asset Management

SHORTLISTED

BNP Paribas Asset Management – The French asset manager launched its global sustainability strategy in 2019, becoming one of the first large asset managers to commit to integrating sustainable investment across its full range of strategies. Since then, the firm has committed to the Net Zero Asset Manager initiative and later this year will publish its net-zero roadmap. Ahead of the 2022 AGM season, BNPP AM also conducted a global study of the number of women on boards.

Robeco – The Dutch firm has a long history of sustainable investment, having launched its first sustainable strategy back in 1995. In 2021, Robeco launched a number of sustainability funds, including those developed with specific clients. And in December 2021, the firm launched its sustainable index family. Robeco has also been proactive in its implementation of the SFDR, to the point where almost all of its funds are aligned to Article 8 or 9 of the EU's regulations.

ROBUST TARGETS - Jamie Hayes, Nordea's director of UK wholesale distribution (pictured).

European Thought Leadership of the Year

WINNER – AVIVA INVESTORS

IN WHAT WAS once again a fiercely competitive category, this entry stood out in the eyes of the judges for its jargon-free entry as well of the urgency of the issues that it raised.

Aviva Investors' *Against Our Nature: A hitchhiker's guide to the climate crisis* was designed to "firmly but playfully" remind people of their part in the climate crisis and help them navigate the behavioural traps that lie in wait.

The book tackled the premise that climate communication is broken and the cacophony of information around climate change is having the unwanted effect of making people confused, angry, potentially apathetic and driven to denial, instead of optimistic and hopeful.

Insights are taken from behavioural economics, psychology, philosophy and even comedy in order to make its content both "beautiful and relatable".

It features a foreword from writer and director Richard Curtis, co-founder of the Make My Money Matter initiative, and glowing testimonials from head of financial institutions, the Bank of England and relevant environmental groups such as the World Wildlife Fund UK and TEDxLowCarbonLeaders.

"Tackling the climate crisis requires every individual to play their part. Trying to win those hearts and minds was the motivation behind 'Against Our Nature'. So, we are thrilled the book has been recognised in the Funds Europe Awards, especially given the quality of the other shortlisted firms."

Steve Waygood, chief responsible investment officer, Aviva Investors

SHORTLISTED

Caceis – The French asset servicer's *Climate Change Briefing* podcast was designed to bring some clarity to an area that is multi-faceted and still contains much confusion among pension funds and asset managers as to what they should be doing. Experts from academia, industry and financial services were invited to shed light on this important issue.

RBS International – The bank's research focused on how funds are adapting their operations to align with global climate commitments, specifically the introduction of science-based targets (SBTs). It found that while there is widespread recognition of SBTs and their importance, adoption is only at 42%, in part because of a lack of in-house skills.

JP Morgan Asset Management – The firm has an extensive and well-run thought leadership programme. At its heart is its flagship annual publication *Long-Term Capital Market Assumptions*, which reaches more than 100,000 investment professionals around the world.

JARGON-FREE - Aviva Investors' head of design, Martin Cassidy (right) and James Whiteman, former head of client communications and content.

European Marketing Campaign of the Year

WINNER – JP MORGAN ASSET MANAGEMENT

THE JUDGES AWARDED Marketing Campaign of the Year to JP Morgan Asset Management (JPMAM) for the comprehensive campaign that accompanied the launch of its JPM Climate Change Solutions Fund.

The thematic sustainable fund invests in companies developing products to address climate change.

The aim of JPMAM's marketing campaign was to cut through the crowded and noisy marketplace for thematic and sustainable funds and to introduce the fund as both a standalone fund and part of a broader sustainable investing campaign.

JPMAM's marketing team worked with agency partners to develop a "strong and flexible" visual identity that could be adapted for use across media and an advertising strategy that went beyond the usual channels, including the firm's first use of podcasts.

The campaign's ads have been viewed several millions of times and generated thousands of lower funnel engagements, in turn generating a high number of marketing leads and successful conversions.

"I'm so pleased that the passion and creativity that brought this awesome campaign to life has been recognised by Funds Europe. It's a real honour to receive such a prestigious award and I'm very proud of our team for their achievement."

Jean Guido Servais, chief marketing officer, JP Morgan Asset Management, EMEA

SHORTLISTED

iShares by Blackrock – The campaign concerned the challenge of promoting a market leader. As iShares' entry stated, the challenge is to ensure that choosing iShares is "not a 'passive' choice but an active brand choice" chosen for both rational and emotional reasons. The effectiveness of the "expect more with iShares" campaign has been proven via the increase in both brand health metrics and market share.

IQ-EQ – The fund administrator's campaign centred on its Launchpad initiative, a service designed to support women launching their first fund. The campaign focused on visual identity, press releases, client win announcements, social media marketing and industry insight. Twelve clients have been onboarded, with ten signed up within the first six months of launch.

CUTTING THROUGH - JPMAM CMO Jean Guido Servais, flanked by executive directors Danielle Simmonds-Dance and Oliver Stracey.

European Fund Launch of the Year

WINNER – WISDOMTREE

THIS YEAR MARKED a treble of victories for the ETF specialist in the fund launch category. WisdomTree has developed a reputation for launching innovative funds and this year was no different.

The WisdomTree Carbon ETP was launched to give investors exposure to the EU's emissions trading scheme, which has become the world's biggest market for trading carbon emission allowances and serves as the cornerstone of the EU's strategy for mitigating climate change and achieving carbon neutrality. It also provides exposure to a corner of the ESG market that investors have traditionally found difficult to access.

The fund was listed on the London Stock Exchange in August 2021 and captured $200 million of net inflows in its first three months.

The success of the launch was in part due to an effective marketing campaign that used digital marketing, social media, advertising and PR to promote the fact that the WisdomTree Carbon ETP is Europe's only fully collateralised carbon ETP.

"We place great emphasis on launching differentiated and innovative strategies, providing investors with hard to access exposures through exchange-traded products. Winning this award for the third consecutive year is a testament to our vision and approach to product development."

Alexis Marinof, head of Europe, WisdomTree

SHORTLISTED

JP Morgan Asset Management – The JPM Climate Change Solutions fund launched with the objective of standing out in a crowded marketplace. The launch has been successful according to a number of metrics. Firstly, it has enjoyed a growth in assets, with a 100% increase in assets under management and virtually no outflows in the past 12 months.

Osmosis Investment Management – The UK fund manager's fund focused on an incredibly important and timely topic – resource efficiency. The Osmosis Resource Efficient (ex-fossil fuels) fund launched in February 2021 and had raised $550 million as of the end of June 2022. The judges were especially impressed by the firm's approach to developing the fund, which was done in partnership with the Ikea Foundation, one of the fund's main investors.

FUND INNOVATION – Ravinder Azad, WisdomTree's head of UK and Nordic sales (pictured).


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European Custodian of the Year

WINNER – BNP PARIBAS SECURITIES SERVICES

THE JUDGES WERE IMPRESSED by BNP Paribas Securities Services' coverage of international markets and numerous mandate wins – but its progress on digital assets and ESG are what separated it from competitors.

International coverage has been increased by the extension of the Broker-to-Custody service from solely the US and Asia-Pacific to include Europe. This move was led by the acquisition of Deutsche Bank's electronic equities business. The service allows clients to outsource their trading execution and settlement to BNPP SS and reduce operational complexity.

The French asset servicer has partnered with fintechs Fireblocks and Metaco to develop its cryptocustody offering. The latter's platform will underpin BNPP SS's institutional custody offering, so that clients can store, issue and settle their digital securities alongside traditional assets.

The custodian has also been working to solve another challenge facing asset managers at present – access to reliable ESG data. BNPP SS has expanded its Manaos offering, a data marketplace that gives clients access to ESG data and analytics through one platform.

"We are delighted to see BNP Paribas's Securities Services business recognised by Funds Europe as a leading custodian. This award bears witness to the unique value of our integrated banking model, which enables us to offer clients an enhanced experience supported by flexible and comprehensive offerings."

Patrick Colle, head of securities services at BNP Paribas

SHORTLISTED

Caceis – The French asset servicer looked to develop its relationships with start-ups and tech specialists this year. It launched the Caceis Connect Store, which grants clients access to third-party services offered by fintechs. Caceis has also sought to broaden its presence in the digital assets market. It partnered with blockchain specialist Taurus to develop its own cryptocustody offering and also set up a Digital Assets Factory to bring together cross-functional business lines with a focus on digital assets.

Northern Trust – The asset servicer saw its European assets under custody grow by 4% year-on-year and surpassed $1 trillion in defined contribution assets under custody and administration. The firm also secured some new mandates and collaborations. The relationship with Australia-based Pendal Group was extended to cover its European business, and regulatory approval was secured to offer local custody and ancillary services in the Swiss market.

DIGITAL PROGRESS - Mark Downing, head of UK client services and relationship management, BNP Paribas Securities Services (pictured).

European Specialist Administrator of the Year

WINNER – IQ-EQ

THE WINNER WAS SELECTED for a strong entry that demonstrated growth, extensive coverage among top private equity firms, and for being able to demonstrate not just ambitions, but how those ambitions are being implemented.

Many firms in this area have evolved their fund services out of offshore corporate trust services. What has become generally known as the 'specialist fund administration' sector has seen a rampant level of activity in recent years, as institutional investors and mainstream asset managers continue to diversify into 'alternative' asset classes.

These firms are often small in comparison to the larger fund administrators that congregate around Ucits fund managers. A key challenge for specialist fund administrators is to bring the same level of automation to the private assets sector that fund managers and clients in the Ucits sector are accustomed to.

In the 12 months to May 31, the firm enjoyed significant organic growth in the funds and asset managers segment, following a previous strong year. There were also some innovations on the service side, including the unveiling of IQ-EQ Launchpad, an initiative designed to address the prevailing gender imbalance in the industry.

In addition, IQ-EQ launched its Hybrid Funds Desk to cater for the growing demand for single integrated administration platforms for servicing liquid and illiquid assets end-to-end.

"It's been an exciting year for IQ-EQ, having seen success with our new service offerings, IQ-EQ Launchpad and IQ-EQ Compass. I'd like to extend a warm appreciation to our teams, clients and business partners across the globe who make our success possible. Thank you!"

Justin Partington, group head of funds & asset managers, IQ-EQ

SHORTLISTED

Alter Domus – The Luxembourg-based administrator invested heavily in technology in 2021 and increased this commitment into 2022 as it seeks to help clients with their biggest administrative challenge: data. Alter Domus has also launched the client-facing technology platform CorPro, designed to digitise client workflows to improve access to data.

Apex Group – The highly acquisitive Apex Group has continued to buy up regional specialists in a bid to grow its global capabilities. This includes the purchase of Maitland, which added $200 billion of assets under administration, and Mainstream Group.

INITIATIVES IN ABUNDANCE - IQ-EQ executive director Andrew Frost (pictured).

European Administrator of the Year

WINNER – NORTHERN TRUST

THE NORTH AMERICAN-BASED administrator made it three wins in a row in what has traditionally been a popular and competitive category.

The judges were impressed by Northern Trust's continuing work to digitise the fund administration process and to generate more operational efficiency both internally and for clients. This work included the rollout of Fund Utility, which it calls "a foundational deliverable" in the digitisation of its UK transfer agency operations.

Northern Trust also partnered with a number of fintechs. This includes an agreement struck with Fenergo to accelerate private capital managers' speed to market, as well as an alliance formed with Finscape to support fund distribution and address the data transparency challenge.

Northern Trust has also developed its crypto fund administration capability by implementing an operating model that can support digital currency assets for an exchange-traded product. The model was first used to support a large manager's exchange-traded note product in November 2021.

"We are delighted to again be named European Administrator of the Year. This award recognises our teams' ideas and collaborative expertise in helping create efficiencies and opportunity for clients, while supporting their speed-to-market, investor communications and fund distribution through another period of disruptive market conditions."

Clive Bellows, head of global fund services, Emea, Northern Trust

HIGHLY COMMENDED

Citi – The US asset servicer was commended for its focus on enabling greater operational efficiency for clients and its work on automation. This included the development of Client Metrics (a service that provides an on-demand breakdown of asset servicing fees and queries through a dashboard) plus custody oversight and unified reporting, all provided via a dashboard.

SHORTLISTED

Apex Group – The company has continued to grow organically and via acquisitions to match its "hyper-growth" trajectory of recent years. In the past year the firm's European client list has grown, with over 2,000 fund entities under administration.

Societe Generale Securities Services – Like many of its peers, SGSS has developed its digital assets capability. Its Funds Alert service offers real-time data on subscriptions and redemptions to enable more accurate cash forecasting.

THREE WINS IN A ROW - Katharine Morris, senior vice president at Northern Trust (pictured).

European Transfer Agent of the Year

WINNER – NORTHERN TRUST

TRANSFER AGENCY (TA) is a function at the forefront of an asset manager's client experience. The onboarding of investors is a crucial 'first contact' between the investor and the asset manager. But more often than not, that first contact is with the TA, not the asset manager – a fact that probably few asset manager clients appreciate.

In winning this year's award, Northern Trust demonstrated investment, innovation and service. Achievements included the rollout of its Fund Utility service to UK clients, a digital initiative designed to improve straight-through processing and information delivery.

There were some significant mandate wins too, including a Ucits ESG fund. The firm also secured regulatory approval to offer TA services in the Swiss market.

Finally, Northern Trust has contributed to industry thinking with a focus on technology and subjects such as evolving away from legacy systems and developing direct-to-customer distribution.

"It is a privilege to act for our clients as their transfer agent and we are absolutely delighted to win this award. It reflects the importance we place on transfer agency as an integral, uniquely client-focused function and the technology solutions we have delivered to help drive positive experiences for clients and their investors."

Clive Bellows, head of global fund services, Emea, Northern Trust

SHORTLISTED

BNP Paribas Securities Services – The French asset servicer has continued to invest in its TA service over the past year. This work included the development of an online platform (NeoLink) for data processing and reporting and the enhancement of TA services for European-domiciled funds distributed in Apac markets.

RBC Investor & Treasury Services – The Canadian firm has seen significant growth in its TA service for private equity funds, where assets under administration increased significantly in the 12months to August 2022. RBC I&TS has also invested in its RBC One digital front-end and data infrastructure to allow for more self-service capability.

SS&C Global Investor & Distribution Solutions – The world's largest dedicated TA provider has seen its global assets under service grow to $19.3 trillion. SS&C has also seen its market share in Europe grow, making it the TA with the largest AuM in the major cross-border markets of Luxembourg and Ireland as well as the UK. The firm has also developed its digital strategy with APIs and its cloud-based Global Servicing Platform.

SIGNIFICANT ACHIEVEMENTS - Laurence Everitt, Northern Trust's head of global fund services in the UK.

Outstanding Community Contribution of the Year

WINNER – THE RIVERSIDE COMPANY

FOR THIS COMMUNITY AWARD, private equity firm The Riverside Company has provided support to a refugee project in Belgium, one of the countries in which this firm has a presence.

The 'Shelter for Ukraine' initiative was launched by Alter Pharma, one of The Riverside Company's portfolio companies.

The shelter is located in an empty office building in Anderlecht, Brussels, next to Alter Pharma's headquarters. With a capacity of 60 individuals, it is currently home to 18 families – a total of 53 people, of whom 25 are young children.

The initiative was launched in March 2022 as a result of Alter Pharma's desire to support Ukrainian people forced to leave their home country because of the military invasion, and Riverside's immediate support for this humanitarian cause as part of its ESG commitments.

The empty office space in Anderlecht was turned into a fully equipped shelter within a couple of weeks, thanks to the contribution of more than 100 volunteers, over €50,000 of donations, collections of furniture and clothes, strong partnerships with the commune of Anderlecht, the Ukrainian Embassy and many other public stakeholders, and the generosity of more than 20 shelter business partners, including The Riverside Company.

"We are delighted to have won this award which recognises the heartfelt humanitarian work of our portfolio company, Alter Pharma. The plight of the families and children displaced by the war in Ukraine has touched every one of us at Riverside. Thank you, Funds Europe, for honouring this important endeavour."

Karsten Langer, managing partner, The Riverside Company

SHORTLISTED

Societe Generale Security Services – The French asset servicer was recognised for the work it has done to promote sustainable investment throughout the industry. At the heart of this effort is the annual European Investor Summit organised by Societe Generale Securities Services (SGSS). The event aims to bring together the leading specialists to address the major issues around sustainability. The company has also launched an ESGLab to allow managers to discuss their difficulties and share best practice in this important yet still developing field of investment. In addition, SGSS employees have started a mentoring programme for start-ups to help speed up this development. One example is the Catapult programme launched in Luxembourg, which focuses on the development of African start-ups.

SHELTER FOR UKRAINE – The Riverside Company's principal, Tommy Seddon (pictured).

Diversity and Inclusion Leader of the Year

WINNER – RBC BLUEBAY ASSET MANAGEMENT

IN AN INDUSTRY sometimes criticised for lagging on D&I, the winner of the 2022 Diversity & Inclusion Leader of the Year presented strong evidence that this firm genuinely considers diversity, equality and inclusion (DE&I) a core value.

RBC BlueBay Asset Management's entry included clear use of data to back up a comprehensive DE&I strategy and judges were impressed by holistic thinking around the issue, which included work not only internally but also externally – for example, through shareholder engagement or through working in the community.

It is also worth noting that RBC and BlueBay have only been operating under a single brand since June 2022, so many of its initiatives were launched separately by either RBC Global Asset Management (RBC GAM) or BlueBay.

Among notable advances was the creation by RBC GAM of a global DE&I group to elevate existing regional groups and to provide a direct line of communication with senior leadership. The firm also promoted voluntary pronoun use to support ethnically diverse and LGBT staff. Meanwhile, BlueBay's CIO started an investment inclusion initiative.

"We are honoured to have won this award. Awards like this give our team the recognition they deserve and highlights the hard work that goes on behind the scenes to push the DEI agenda forward. Thank you, Funds Europe, for acknowledging our efforts, and congratulations to the team on this well-deserved win."

Erich Gerth, CEO, RBC BlueBay Asset Management

SHORTLISTED

BNP Paribas Asset Management – The French asset manager signed its first agreement on professional equality back in 2004. Since then, BNP Paribas AM has shown a firm commitment to equality causes, encompassing not just gender equality but also disability, multiculturalism, LGBTQIA+ and age and intergenerational relations.

Marsham Investment Management – In addition to the firm's win in the European Asset Management Company of the Year (less than €20 billion) category, the judges also recognised UK-based Marsham's work on diversity. Established in 2016, it was one of the few firms to be founded by women. One of the co-founders, Maria Lozovik, remains a portfolio manager in charge of Marsham's fixed income funds and is joined by another three women on the firm's fund management team of six.

CORE VALUE - Elena Koycheva, head of ESG client experience at RBC BlueBay Asset Management (pictured)

"Democratising investment: an opportunity but also challenges to face"

BY **YVAN MIROCHNIKOFF**, HEAD OF DIGITAL SOLUTIONS – SOCIETE GENERALE SECURITIES SERVICES.

FOR SEVERAL YEARS NOW, asset management companies have sought to diversify their investor targets by looking to new and more open markets than just the clientele of businesses and asset owners.

"WE ARE OBSERVING A GREATER DESIRE FOR DIVERSIFICATION FROM TRADITIONAL INVESTORS, WHO ARE SEEKING BOTH PERFORMANCE AND ACCESS TO MARKETS THUS FAR SEEN AS NICHE OR RESERVED FOR A FEW EXPERTS."

It is no coincidence that this issue was at the heart of the French financial industry's discussions in early October in the Palais Brogniart[1]. In this location that is a symbol of the opening up of markets to the general public in the late 20th century, we delved into this issue with the same gusto.

On the one hand, we are all aware that easier access to new and effective financial products is likely to attract another class of investor, young and liable to strengthen the existing client base.

However, on the other hand, we are also observing a greater desire for diversification from traditional investors, who are seeking both performance and access to markets thus far seen as niche or reserved for a few experts. Amongst these new market segments are Private Management clients, family offices and other wealthy individuals and entrepreneurs. These clients are also looking to access new types of products (based on Blockchain, non-listed assets or index funds).

We're talking about private equity funds, infrastructures, real-estate funds and even crypto products. In terms of operations, we're talking about a 55% increase in transactions

"ALL THESE ISSUES REQUIRE A NEW TECHNOLOGICAL ENVIRONMENT, WHICH ASSET MANAGEMENT FIRMS WILL HAVE TO PROVIDE, AS WILL SERVICE PROVIDERS... WE ARE THUS SEEING THE TRANSFORMATION OF WHAT WAS A B2B MODEL INTO A B2B2B OR B2B2C DISTRIBUTION MODEL."

Yvan Mirochnikoff

in private equity for 4.8 billion in assets invested in France. And Schroders confirms the arrival of new investors, a third of whom are estimated to be in the 25-35 age bracket.

This is a real opportunity that asset management firms need to seize, at a time when inflation is causing investors to review their savings and financial placement strategies.

However, this market development comes with constraints that represent conditions for success, discussed at length within the industry:

• These new clients want to **"give meaning to their assets"**; they therefore need to be offered investments that are environmentally sound and incorporate socially responsible criteria when choosing assets to invest in. To do this, we can now rely on numerous initiatives adopted since 2008 (Principles for Responsible Investment, Principles for Positive Impact Finance, Net-Zero Banking Alliance) to which the Societe Generale group has signed up and for which the Group has often played a founding role.

• Beyond ESG[2] criteria, asset managers will need to further educate people about new types of investment and make sure they provide them within a secure framework for the investor. We knew this in the past with leveraged and structured products; we're seeing it again today with cryptocurrencies and new offers based on Blockchain technology. New investors need to understand these products, assess the level of risk to which they are exposed, and of course there will be a need to comply with MiFID regulations aimed at ensuring that investments match investors' understanding of risk. There are currently means of improving management reports' quality of production, or offering crypto-asset solutions in a perfectly regulated environment (from the point of view of both the players concerned, with regulations such as that pertaining to Digital Asset Service Providers in France (called PSAN in France) and more importantly MiCA regulations or the future pilot regime that will enable European rules to be harmonised, thus making them easier to understand for investors in the European Union).

• All these issues require a new technological environment, which asset management firms will have to provide, as will the service providers to whom they outsource a substantial portion of day-to-day activities. It will notably mean managing a larger number of unitholders and ensuring the distribution of these new financial products in networks (physical or online) that support them, including the information that has to be provided to investors. We are thus seeing the transformation of what was previously a B2B model into a B2B2B or B2B2C distribution model. It is based as much on new client platforms offering "investor portals" or more generally "white label" solutions on which asset managers can rely. As an illustration, this is what Societe Generale Securities Services offers with its ETF fund distribution portal or the help provided to launch UCITS funds with multiple compartments.

• Lastly, and this remains a major challenge enabling ESG solutions to be ramped up, you need to have enriched data assets made available in new (Cloud-type) solutions.

This will make it possible both to strengthen production capacity and then make more detailed reporting available at a greater frequency, but more importantly to facilitate the fund manager's transformation into an **asset manager 2.0** capable of understanding and controlling data and models that could be based on Artificial Intelligence technologies, and especially being able to distribute their products to a new and more tech-savvy clientele.

These issues were widely debated in early October. You can access the highlights of these discussions at http://bit.ly/3Fd0Btc

1 – AM Tech Day, L'Agefi, October 4, 2022

2 – ESG : Environment, Social and Governance

Tech's role in democratising private markets

THE DRIVE TO INCREASE ACCESS TO PRIVATE CAPITAL WILL BE DEPENDENT ON TECHNOLOGY, DISCOVERS **NICHOLAS PRATT**. BUT WHAT TECHNOLOGY AND WHO WILL PROVIDE IT?

IN EARLY NOVEMBER, private markets firm Partners Group announced that it was setting up a private wealth unit. The move was designed to capitalise on the growth of the private wealth management space.

According to Partners Group, its private wealth business accounts for nearly a third of the firm's US$131 billion of assets under management. In order to increase this amount, the firm intends to carve out private wealth from its institutional activities, emphasising "these clients' differentiated needs".

The move follows in the footsteps of other private markets firms. In February, KKR announced its 2021 results and its intention to boost capital inflows from its private wealth channel. "Historically, private wealth has contributed about 10% to 20% of the money that we raise annually," said CFO Robert Lewin.

"With the investments we're making in people, technology and new product innovation, alongside the strength of our brand and our track record, we believe over time that it should be 30% to 50% of the money that we raise."

The objectives are twofold: to make private capital more accessible in terms of both liquidity and minimum investment levels; and to create offerings that are more in keeping with traditional wealth management platforms and services.

63%

Members of the Independent Investment Management Initiative who said they had no interest in tokenising their funds even if it does make them more attractive to retail investors.

"BY THEIR OWN ADMISSION, MOST PRIVATE CAPITAL GPs HAVE BEEN SLOW TO FULLY EMBRACE AND INVEST IN NEW TECHNOLOGIES TO IMPROVE THEIR OPERATING MODELS."

Chitra Baskar

Track record

Both Partners Group and KKR stated that technology would play a prominent part in their private wealth management efforts – investing in their own platforms as well as striking partnerships with fintechs and their service providers.

However, the private capital market does not have a great track record when it comes to technology.

According to research commissioned by specialist fund administrator Intertrust, private capital funds are guilty of an "ad hoc" approach to adopting new technology that is now causing them a range of operational problems.

The study, 'Introducing the Halo Framework', interviewed 150 "senior decision-makers" at private capital firms and found that just 6% of the participants said they had developed what they consider to be a "mature tech platform incorporating next-generation technology across the firm".

It is unlikely private capital firms will look to build or adopt any tech in-house. Instead, we are likely to see greater outsourcing to third parties and vendors, as stated by 58% of respondents.

"By their own admission, most private capital GPs have been slow to fully embrace and invest in new technologies to improve their operating models," said Chitra Baskar, president, fund solutions, Intertrust Group.

"As private capital firms progressively look to upgrade, update or modernise their operating model, they are increasingly looking for trusted third-party vendors and partners that can provide established platforms and solutions to support their technology needs."

While the likes of Intertrust and other specialist fund administrators will doubtless look to capitalise on this sales opportunity, fintechs are also looking to supplant themselves in the fledgling private wealth management space.

Private Markets Alpha launched in October 2021 with the objective of improving access to private markets for wealth and asset managers via its online digital platform.

"We aim to revolutionise private markets investments because we firmly believe that broad access to these markets is crucial for providing a wider range of asset classes to better serve the long-term needs of individual investors," says Tom Douie, founder and CEO of PM Alpha.

"Developments in fintech over the last five years have improved access to private markets, and some distribution platforms have successfully grown a direct 'professional' client base, but no one is really thinking about it from a wealth-management market perspective in our opinion," says Douie.

"It is our method to provide all the tools, including curated thematic investments backed by macro research, and all the sales support that has made the largest private banks so good at selling private markets product to their clients.

"Any service of this type has to solve for all potential hurdles, no matter how seemingly banal, because the issue you don't overcome becomes the barrier to adoption. We aim to fully enable the wealth manager to offer access to private markets," he adds.

Liquidity: the elephant in the room

Whenever there is talk of widening access to private markets to attract more individual investors, digital assets, tokenisation and distributed ledger technology inevitably come up as a way to make illiquid real assets more liquid and accessible. On paper it seems like a perfect marriage. However the reality is more complex than that.

Digital assets are very much part of PM Alpha's masterplan, says Douie. The elephant in the room is liquidity. "There are ways to meet this challenge," he says. "We have seen regulatory vehicles like Eltifs [European Long-Term Investment Funds] and LTAFs [Long-Term Asset Funds], and a growing class of so-called "semi-liquid" funds, but my firm belief is that the digitisation of assets is the only way to get access to wider liquidity pools."

Douie points to the example of Hamilton Lane announcing the offering of tokens on private market funds through the ADDX platform, while KKR has announced a similar initiative. But there is some confusion that needs to be resolved, he says.

"Just making something digital doesn't make it liquid. Some things can be done simply, such as creating a digital token that is transferable into the wider marketplace. But

THE DEMOCRATIC IDEAL – There's talk of widening access to private markets.

"THE HEADLINES AROUND THE COLLAPSE OF FTX ARE NOT SUPPORTIVE OF THE NEAR-TERM DEVELOPMENT OF DIGITISING ASSETS."

Tom Dovie

there is a long way to go and there are some significant headwinds. The headlines around the collapse of FTX are not supportive of the near-term development of digitising assets."

Nevertheless, the underlying technology is here to stay, says Dovie.

The other question is whether any demand exists. Another study, this time from boutique asset management think-tank Independent Investment Management Initiative, found that 96% of its members do not currently trade cryptocurrencies or digital assets and 83% have no plans to do so moving forward, citing a lack of pricing and valuation fundamentals, regulatory oversight and credible service providers, as well as excessive volatility.

The scepticism extended to tokenisation. While 33% said they think tokenisation will take off, only 4% said they intend to tokenise their own funds and 63% said they had no interest in tokenising their funds even if it does make them more attractive to retail investors.

Despite this apparent apathy, Dovie believes private markets will prove to be fertile ground for tokenisation. "Everybody wants more liquidity and the ability to buy and sell products, and that can only be done through tokenisation and the use of DLT/blockchain. There may not be a demand for tokenisation *per se*, amongst the older generations at least, but there is a demand for liquidity," he says.

"The infrastructure is there and we have seen tremendous innovation but the big issue is regulation. You need confidence that the asset you're holding is under full purview of regulators and that it is tangible with an audited NAV [net asset value]. It has to be in a fully regulated space – that is how you get full confidence," says Dovie.

Automation is the priority

For some service providers in the space, tokenisation and digital assets are still solutions in search of a problem when it comes to private markets. Goji is a tech company that is looking to widen access to private markets and works with both fund administrators and asset managers, offering a combination of tech platforms and investment solutions.

For its CEO, David Genn, the priority should be bringing more STP and automation to private markets administration and operating models rather than too much focus on tokenisation, fractional assets and distributed ledger technology.

"There are three things to be considered when it comes to widening access to private markets – regulation, operating models and the products themselves," says Genn.

In terms of regulation, Genn praises the introduction of the Eltif and LTAF fund structures in the EU and UK, respectively. And in terms of product development, the likes of Partners Group are bringing products to market designed to attract more individual investors. But when it comes to operating models, the focus should be on straight-through processing and the automation of manual processes. "You have to ask what problem tokenisation is trying to solve and whether it actually adds more complexity, at least in the short term," says Genn.

It will also put more of an onus on investors to understand the 'new' assets they are adding to their portfolios. "If a real asset is tokenised, regulators have said they will treat it the same way as a conventional asset but investors need to understand how the asset is being held and its level of liquidity," says Genn.

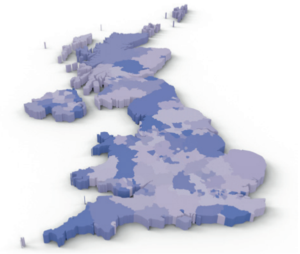
"YOU HAVE TO ASK WHAT PROBLEM TOKENISATION IS TRYING TO SOLVE AND WHETHER IT ACTUALLY ADDS MORE COMPLEXITY, AT LEAST IN THE SHORT TERM."

David Genn

And while DLT and tokenisation can both help reduce settlement time, the private markets do not have the same time constraints as other markets.

For tokenisation to really work, it needs liquidity and a powerful secondary market with buyers and sellers – properties that are currently missing from the sector.

But while much of the talk around tokenisation, digital assets and DLT is premature, Genn does at least appreciate that the topic has helped administrators and managers to think more broadly about how the market should operate now and in the future. **f**e



UK/Ireland "stronger than ever"

IRISH FUNDS VISITED THE UK IN NOVEMBER, AND REGULATORY TIES WERE STRENGTHENED, REPORTS **PIYASI MITRA**.

CLOSE TIES BETWEEN the UK and Ireland were reasserted when Irish Funds rolled into London in November.

The importance of maintaining alignment between the UK and EU's regulatory frameworks was a core theme at the Irish Funds Annual UK Symposium, Irish Funds said.

Jonathan Lipkin, director of policy, strategy and innovation at UK trade body The Investment Association, said: "Relations between the UK-Ireland industries have been an integral part of the delivery chain and are stronger than ever."

One of the topics covered at the conference was the delegation of fund management activities. This was raised during the Update on Regulation panel, which Lipkin took part in. The UK's regulatory decision-making apparatus is treating delegation with "importance", he said.

Delegation refers to certain fund management activities, such as fund administration, being carried out in countries other than where a fund is domiciled and sometimes to third parties. The topic in recent years has centred on portfolio management amid concerns that the EU would require the activity to be carried out in major fund domiciles such as Ireland and Luxembourg and away from financial centres such as London and Frankfurt.

The UK's departure from the EU intensified the topic, particularly for UK-based asset managers.

Regulatory change in general is imminent, the symposium heard, because the UK is no longer a part of a single market, and Lipkin highlighted a rise in the potential for cross-border friction.

"There is deepening of some consumer-focused manufacturing and distribution requirements initially reflected in the assessment of value (AoV), and eventually in Consumer Duty expected to come into force next year," said Lipkin.

AoV refers to a requirement in the UK for funds to produce proof of their value to investors. But Lipkin urged stakeholders to "take a close look" at the Financial Conduct Authority (FCA) Consumer Duty, which is expected to set higher and clearer standards of consumer protection across financial services, and requires firms to put their customers' needs first. Lipkin said this would entail a series of responsibilities to be undertaken by the entire funds ecosystem – distributors, platforms, advisers, wealth managers – with respect to price and value.

"Regardless of where you get to with the overseas fund regime and make decisions about assessment of value for manufacturers, there will be a set of requirements in place for distributors that is likely to impact domestic and overseas fund managers," said Lipkin.

Divergence is never far from discussions on regulation. Tara Newbery, head of legal, Emea, at Northern Trust Asset Management, said that for firms such as Northern Trust – which have UK-based operations, but also Irish Ucits-regulated funds – to look at both frameworks in parallel is a challenging task.

All of the panellists – among them Federico Cupelli, deputy director of regulatory policy at the European Fund and Asset Management Association (Efama) – agreed that regardless of differences, delegation should be an intrinsic aspect between jurisdictions.

In an address to the conference, Derville Rowland, deputy governor, consumer and investor protection at the Central Bank of Ireland, said it was important for the EU and UK to continue working closely together on regulation to ensure as much as possible the "consistent and stable application of our frameworks".

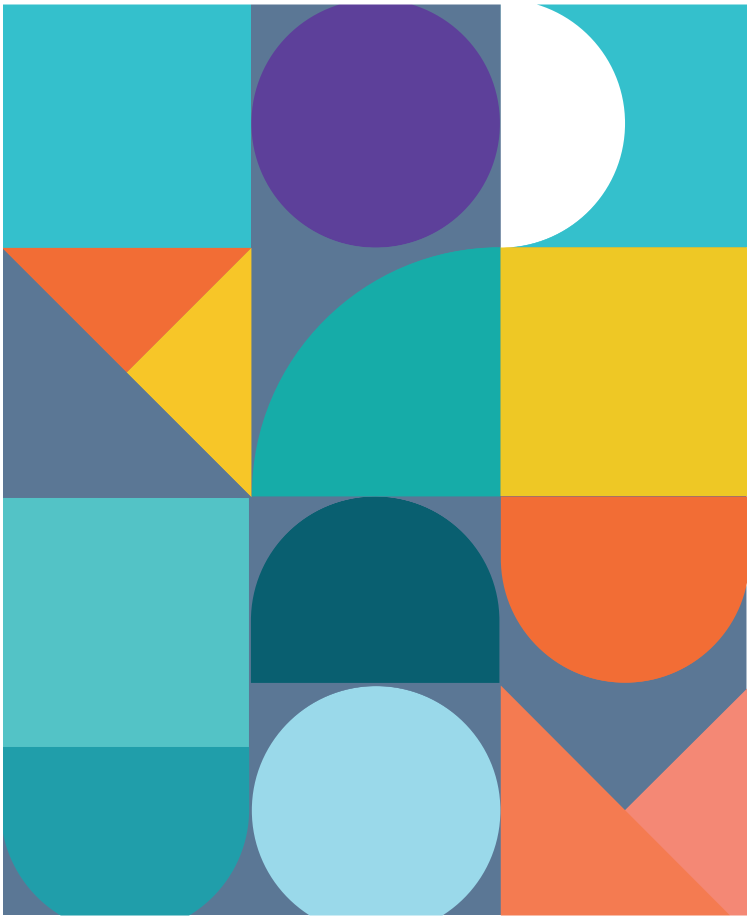
"As the challenges of the past few years have shown, strengthening our alliances with like-minded partners is more important than ever," she said.

" We don't just welcome your continued engagement – we see it as essential to our mission of serving the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers, investors and the wider economy." **f**e

DIVERSITY AND INCLUSION

Forgetting the lessons of lockdown

CAMRADATA PRESENTS INSIGHT ABOUT ITS WHITEPAPER ON DIVERSITY, EQUITY AND INCLUSION FOLLOWING A PANEL DISCUSSION RECENTLY.



REQUIRING EMPLOYEES TO RETURN to the office nearly full-time shows that some of the larger asset managers have forgotten "lessons" learned during lockdown working conditions that were supportive of diversity, equity and inclusion (DE&I), a CAMRADATA roundtable recently heard.

Rima Sen, director at investment consultancy WTW, noted that some firms now requested employees to go back to the office four days a week, which could impact on parents.

"A lot of employees now get one day working from home and that's great, but it doesn't allow mums to do the school run anymore, for instance," she said. "It does feel like lessons are being forgotten quite quickly at some of the larger organisations."

Jenny Fenton, member relationship manager at the Diversity Project, said flexibility in the workplace is key to inclusion. "I used to think it was about age and that young people wanted to be in the office and older people didn't. Now I believe it is down to people's individual neuro make-up and what suits them best," she said.

But Julie Dickson, equity investment director at Capital Group, said it was important for some individuals to return to the office because the workplace provides a sense of community.

"That sense of community, belonging and inclusion is really important, especially for new people starting their careers and joining new organisations who are worried about how they might relate to their colleagues."

CAMRADATA hosted the DE&I roundtable and participants – which included asset owners, managers, and consultants – discussed what DE&I means to them in their role, and for the firms they work for.

Steve Butler, chief executive at consultancy Punter Southall Aspire, said it is important to him that his firm operates from a range of locations and that this lends itself to creating an inclusive culture. But he also highlighted that this can be more challenging at larger firms.

Lindsay Hudson, global head of inclusion and diversity at Aegon Asset Management, asked whether Butler thought the Covid-19 pandemic accelerated this "geographic democratisation".

"Absolutely," said Butler. "The adoption of video-calling technology enabled us to create project groups with no geographical boundaries or any other kind of boundary."

He explained that video calls also aided the firm in engaging with neurodiverse or introverted individuals during the pandemic.

Investor expectations

The panel discussed the rise of DE&I and how to measure it. Dickson said ESG was a key driver for why investors place importance on DE&I. However, the panel acknowledged difficulties with measurement, with Dickson highlighting the problem of data.

"Investors want to be assured that the companies they are investing in are socially responsible and that is hard to measure. We have metrics like gender diversity, racial diversity, and age diversity and then the data kind of falls off a cliff," she said.

Dickson added. "The industry has a responsibility to push more metrics on to companies, whether that is listing requirements or investment requirements, to fill out the 'S' part of ESG, because it is still woefully under-measured."

Data's usage would enable companies to show a progression path – including for asset managers themselves when held up to scrutiny for their own practices.

"The key thing is: what is the path of progress? At this point in time, it might not look that great. But what did it look like two or five years ago?"

She added: "[Investors] want to see we're doing something meaningful. It's about what you can demonstrate [to] show your commitment to particular aspects of DE&I or ESG."

Capital Group runs a biannual demographic survey to track internal progress qualitatively and quantitively.

WTW's Sen said that often, multiple timeframes are needed for clients, and for some it is important to highlight that change is generational and doesn't happen overnight across portfolios.

"That is sadly not the starting point in the industry," she said. "While year on year, huge swings in the data do not occur, that is to be expected with a genuinely meritocratic approach to things like decision-making and appointments."

Sen added that she would be "concerned" if there were massive pendulum swings on some of the metrics overnight as there is real risk of rushed box-ticking rather than long-lasting change. "What I want to see is the industry making sure we've got the right steps and policies in place."

Butler said that fundamentally, qualitative data is what's important, not the hard data. "The worry with hard numbers is that they won't be used appropriately."

Penny Cochrane, senior investment research consultant at Hymans Robertson, agreed, adding that with demographic surveys, for instance, it comes down to culture and whether employees feel comfortable disclosing details of socioeconomic background, neurodiversity or sexual orientation.

"It is a bit of a double-edged sword. If they don't feel comfortable in that environment, those metrics and data will look worse."

Reluctant disclosure

The role of communication is crucial here, argued Sophie Hulm, interim chief executive officer at financial services membership body Progress Together Historically, employees have been reluctant to disclose information about themselves and their background. "It is important to build trust with employees and assure them the information will be used in their best interest," she said.

Sarah Miller, vice president, manager research at consultancy Redington, flagged that as little as 21% of asset managers currently report or internally examine socioeconomic factors.

"INVESTORS WANT TO BE ASSURED THAT THE COMPANIES THEY ARE INVESTING IN ARE SOCIALLY RESPONSIBLE AND THAT IS HARD TO MEASURE. WE HAVE METRICS LIKE GENDER DIVERSITY, RACIAL DIVERSITY, AND AGE DIVERSITY AND THEN THE DATA KIND OF FALLS OFF A CLIFF."

Julie Dickson

"I don't know if discussing whether data is important is productive when we're so far away as an industry from being genuinely inclusive or diverse," she pointed out.

Investors have certainly become less tolerant of firms taking too long to make changes, noted Capital Group's Dickson: "People don't really care how far you've come. They want to see how fast you're moving. There's a real conflict between wanting to address the problem quickly, but wanting to do it right, which takes more time.

"A lot of companies haven't got their heads around measuring socioeconomic background or even measuring, for instance, how accessible their offices are.

"These things need to be thought through but take more time, even though they shouldn't." **f**e

To learn more, read the full version of the roundtable whitepaper at www.funds-europe.com/white-papers-library.