



Distribution state-of-the-nation 2017

George Mitton, International Editor, Funds Global Asia

How distribution is developing



funds global **ASIA** in association with Calastone

The survey

322 respondents drawn from the readership of Funds Global Asia and Funds Europe participated in the online survey carried out between March and September 2017. A total of 64 respondents answered the Australia-specific part of the survey

By region:

- Europe 63%
- Australia 20%
- Asia 13%
- US 3%
- Rest of world 2%

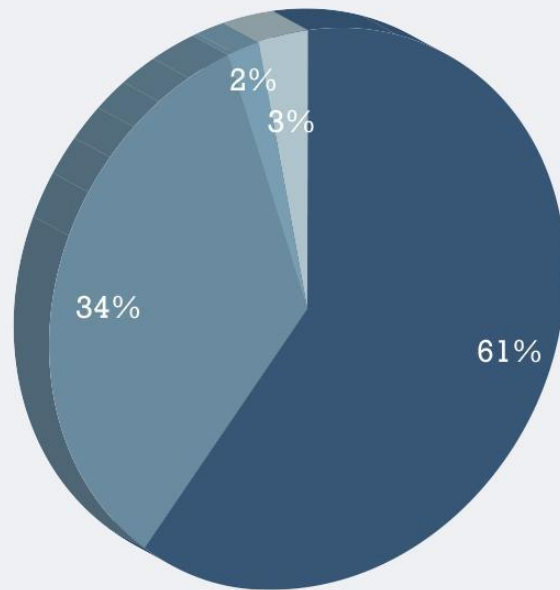
The panel

- **Jon 'JB' Beckett**, UK director and lead, Association of Professional Fund Investors
- **Bella Caridade-Ferreira**, chief executive, Fundscape
- **Richard Garland**, managing director, global advisor, Investec Asset Management
- **Karine Hirn**, partner, East Capital
- **Diana Mackay**, chief executive, Mackay Williams

Global exposure – it matters

1. It is important for Australian investors to diversify their exposure to managed funds that invest abroad

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree



A knowledge gap

2. What single factor is most significant in preventing Australian investors from increasing their allocations to managed funds that invest abroad?

Lack of education

53%

Lack of investor demand

6%

Tax or regulatory issues

22%

Not enough products on offer

3%

Problems with Asia regional passporting

3%

None of the above

13%

Big deal in Luxembourg (but not here)

3. A licensing change in November 2016 made Ucits funds more accessible to Australian investors. Are investors in Australia aware of this?

I have not heard of this

44%

I know about it but not all the detail

23%

I know about the principle

17%

I am fully aware of this

16%

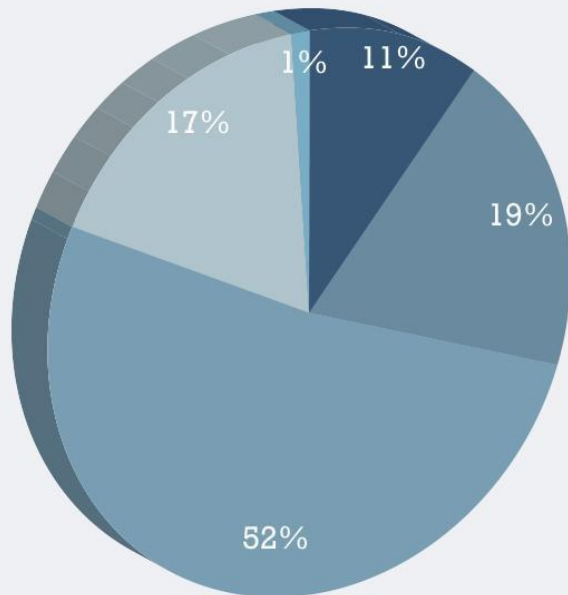
This has no impact on me

0%

Would you use Ucits?

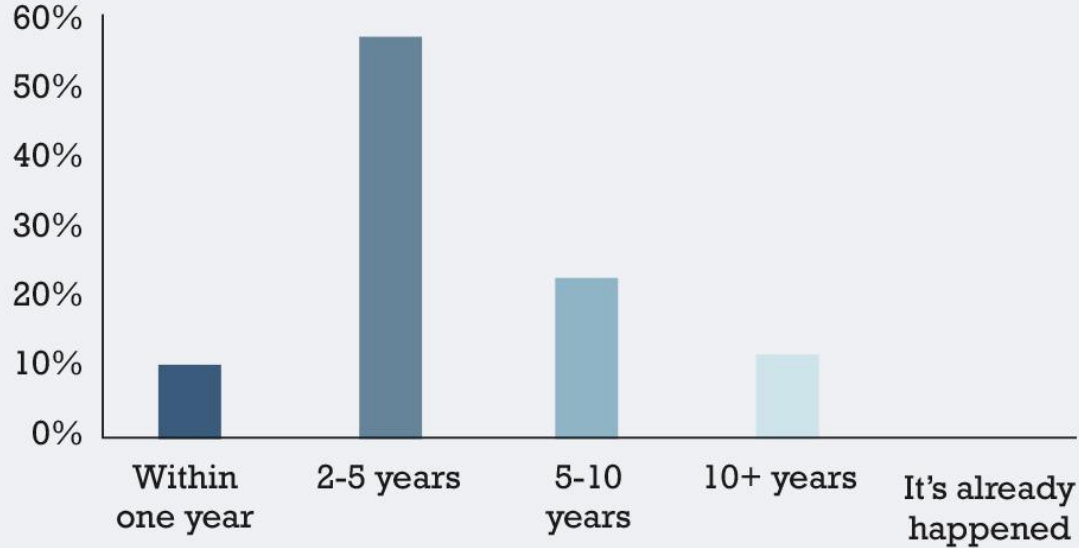
4. Do you believe Ucits funds will become an important part of the product mix in Australia?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree



Not overnight

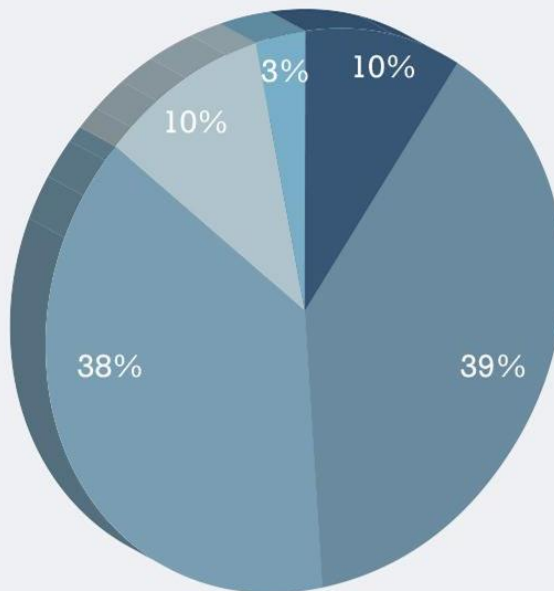
4.1 How soon do you think Uciits will become an important part of the product mix in Australia?



Sceptical about passporting

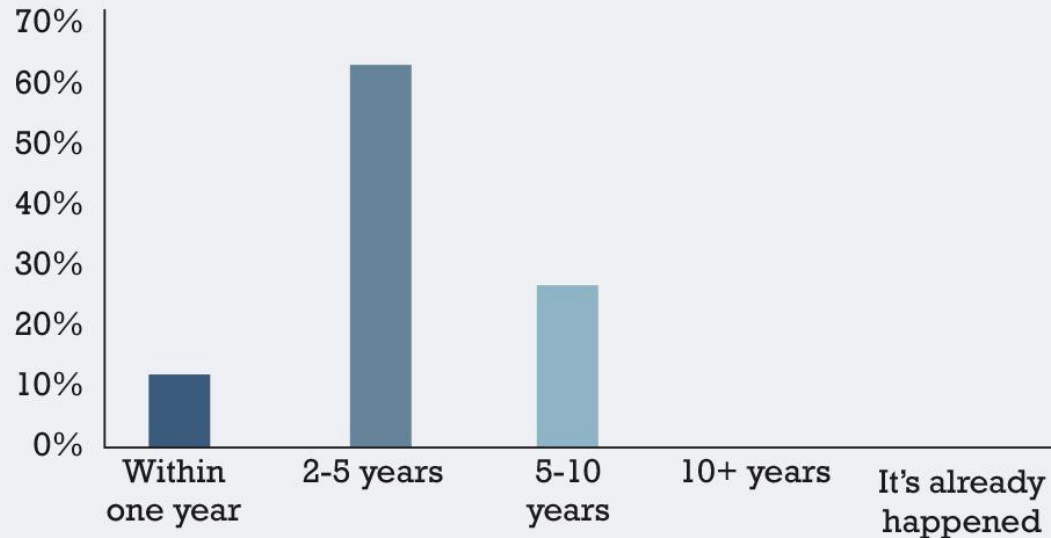
5. Do you believe initiatives such as the Asia Region Funds Passport will be significant in increasing Australian investors' international exposure?

Strongly agree
Agree
Neutral
Disagree
Strongly disagree



Not in a hurry

5.1 How soon do you think initiatives such as the Asia Region Funds Passport will significantly increase Australian investors' international exposure?



A cautionary tale

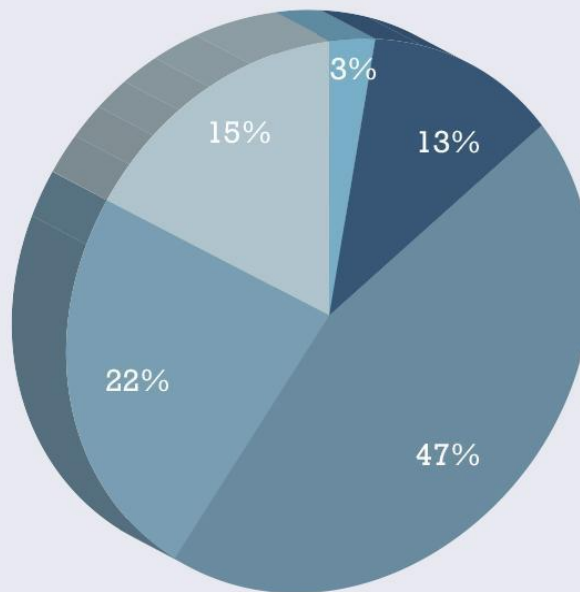


Since 1999, global revenues from record music sales fell 40% due, in part, to disruptive technology such as Napster

Source: International Federation of the Phonographic Industry

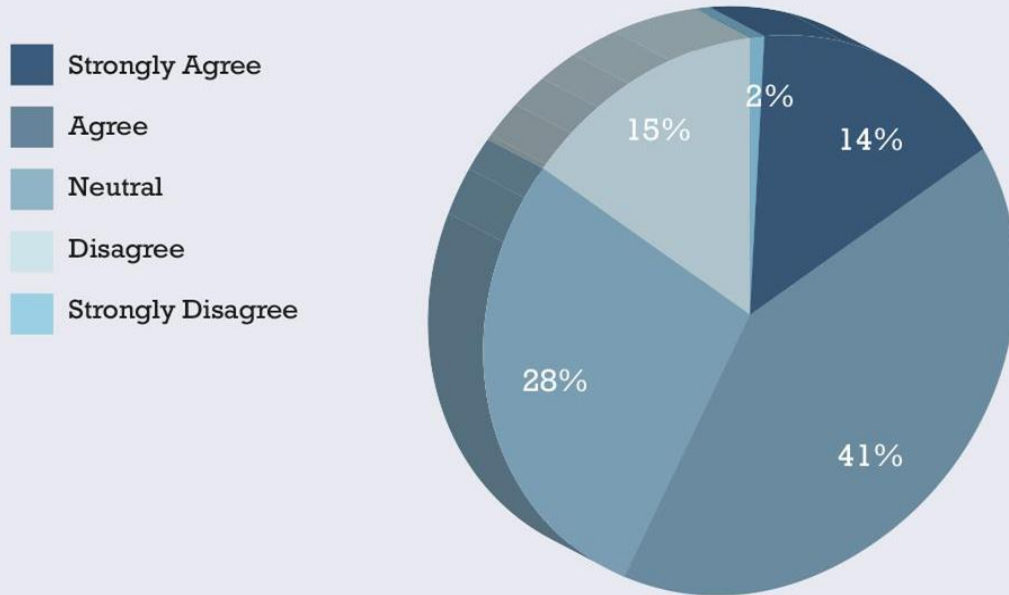
A world in flux

1. Online, direct-to-consumer distribution channels such as fund platforms will take over from traditional channels (banks, IFAs) as the main way asset managers raise assets under management



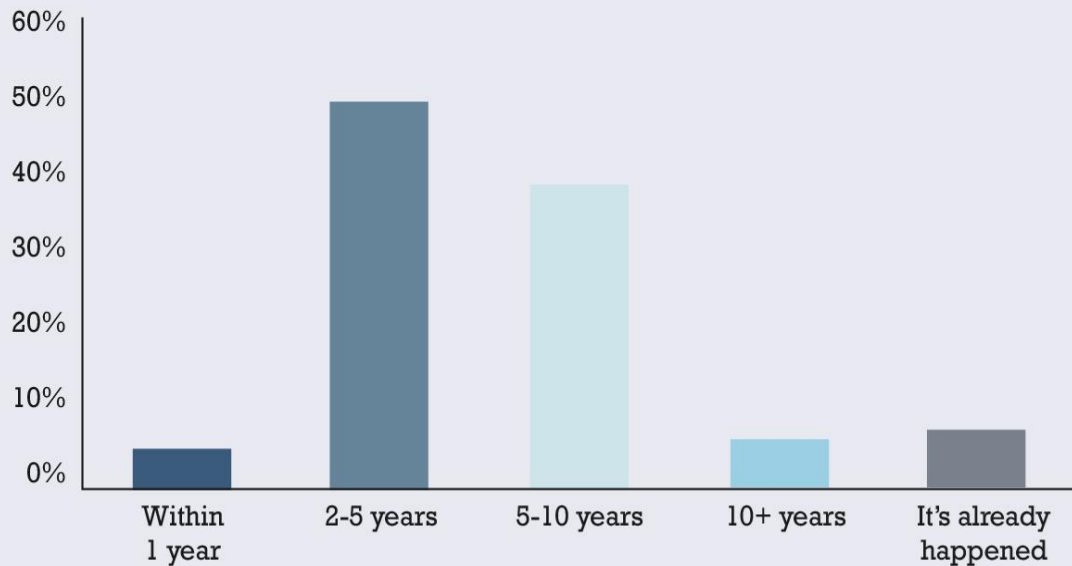
Passive aggression

2. Passive funds, such as index funds and exchange-traded funds (ETFs), will take over from actively managed funds as the core investment product for mass retail customers



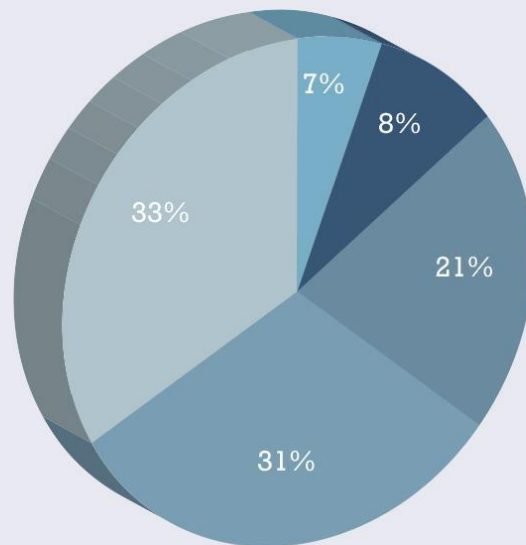
How soon?

2.1 How soon do you think passive funds will take over from actively managed funds as the core investment product for mass retail customers?



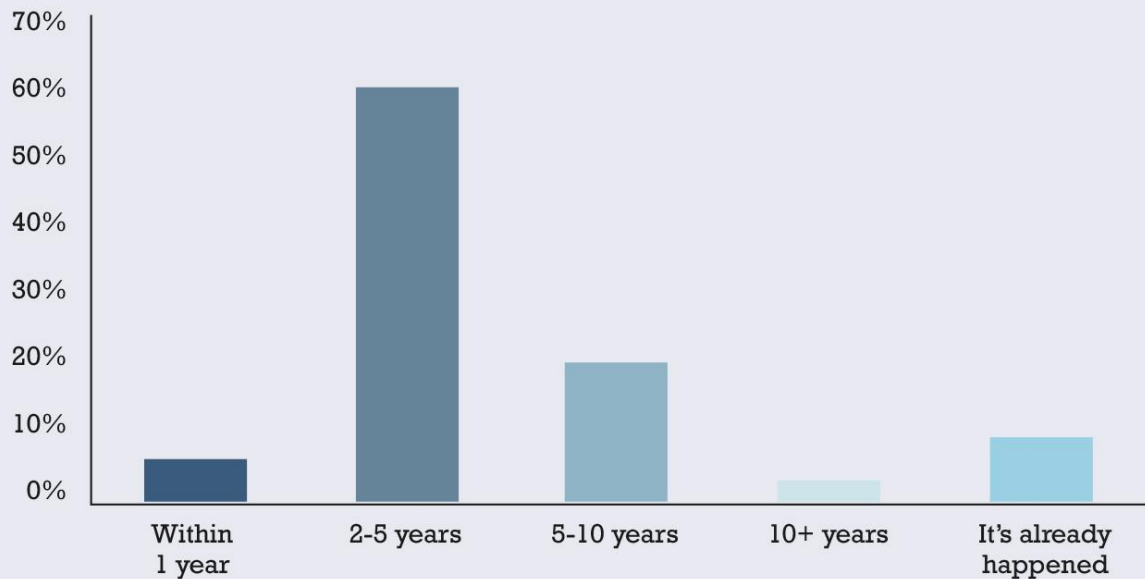
It's different if you're rich

3. Passive funds, such as index funds and exchange-traded funds (ETFs), will take over from actively managed funds as the core investment product for sophisticated investors (institutions, wealth managers, high-net-worth individuals)



Soonish

3.1 How soon do you think passive funds will take over from actively managed funds as the core investment product for sophisticated investors (institutions, wealth managers, high-net-worth individuals)?



Fear of ETFs

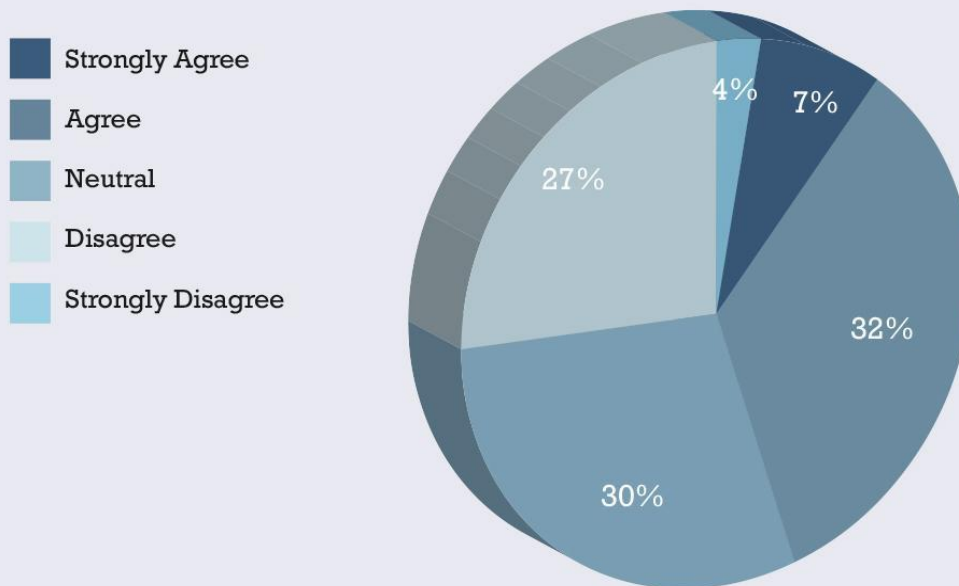
*“The whole ETF debate unfortunately gets focused on passive investing, but this is the wrong way to think about it. **We should instead think of ETFs as the next technological innovation in funds***

[...] ETFs will effectively take over the market but that's not to say that every one has to be passive.”

Jon 'JB' Beckett, UK director and lead,
Association of Professional Fund Investors

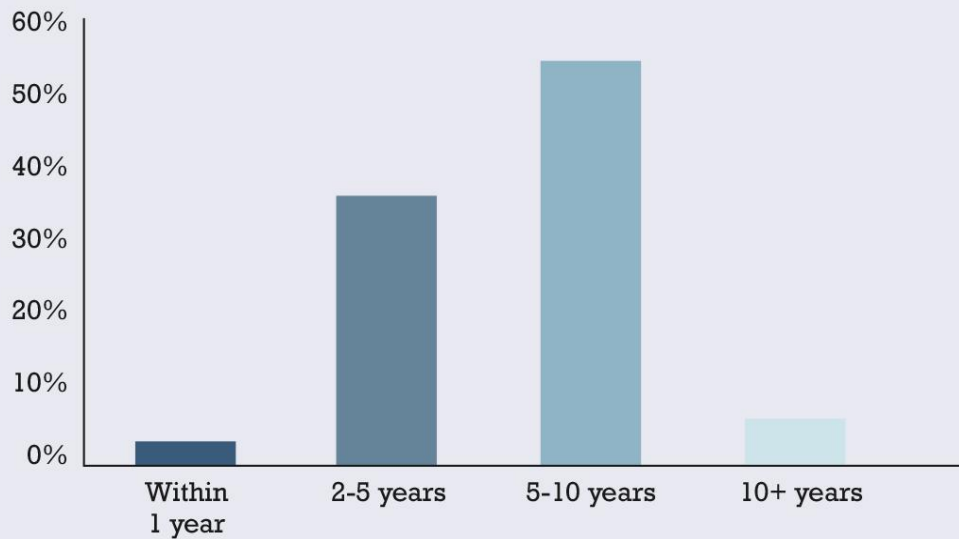
Robo, who knows?

4. Robo-advisers will become the main distribution channel for raising assets from the mass retail market



A long-term thing

4.1 How soon do you think robo-advisors will become the main distribution channel for raising assets from the mass retail market?



Robots for the poor

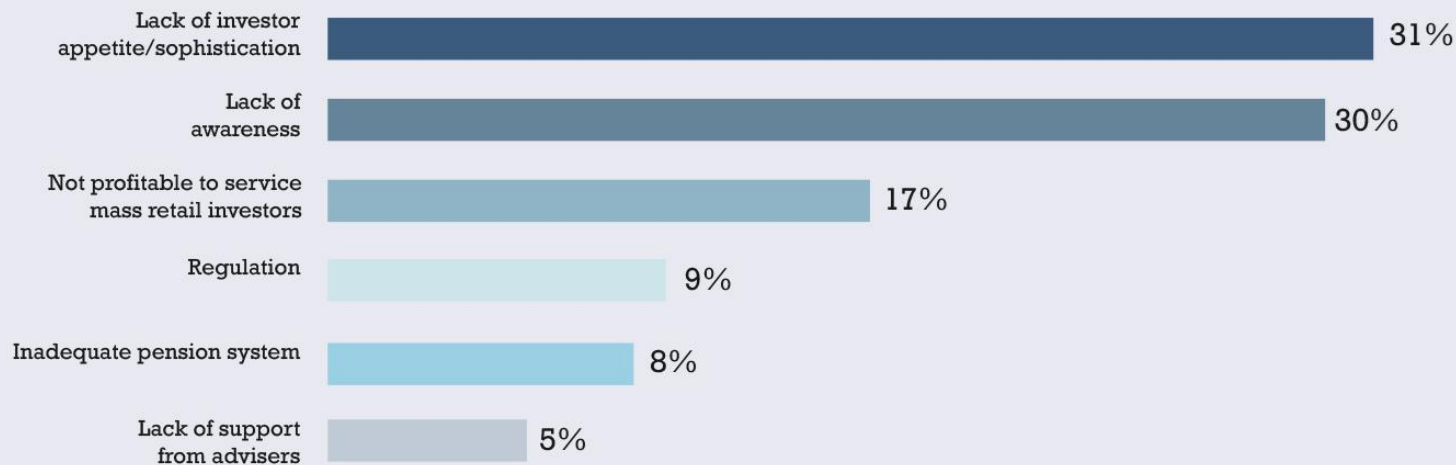
*“The problem is that people who use robo-advice don't have any money. Millennials, for instance. With robo-advisers you can create a portfolio very quickly, but it's the same old story: **once you get a lot of money, you tend to want personalised advice.**”*

[...] I don't think robo is itself a distribution channel. It's a means to an end – a tool for wealth managers to handle less affluent clients.”

Richard Garland, managing director, global advisor,
Investec Asset Management

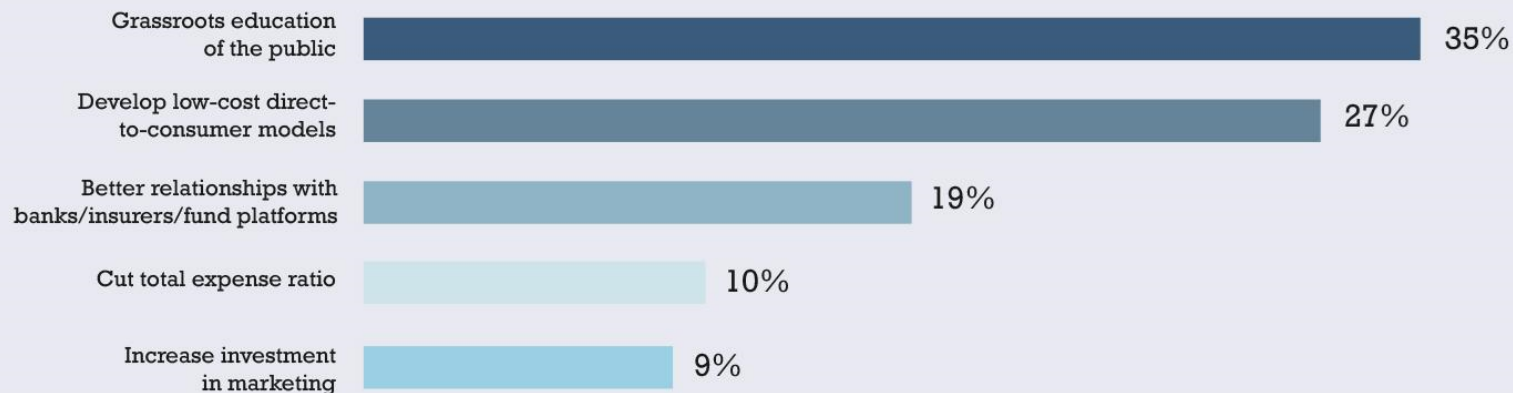
Holding us back

5. What is the main factor limiting fund penetration (the proportion of people who own funds) in your country or region?



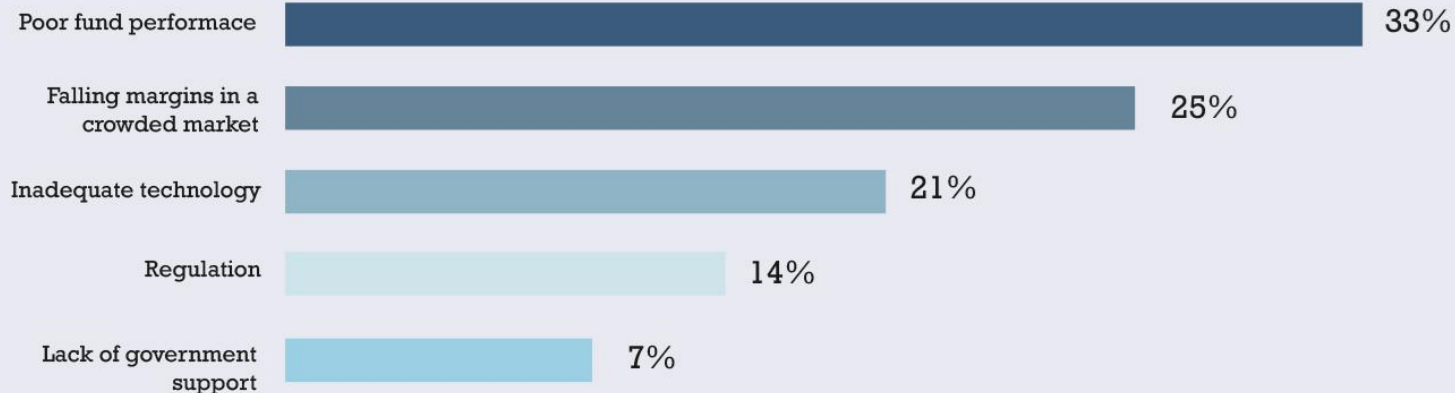
Education, education, education

6. What is the main thing asset managers should do to increase fund penetration (the proportion of people who own funds) in your country or region?



It's performance, stupid

7. What do you believe is the key factor holding back the success of asset management businesses?



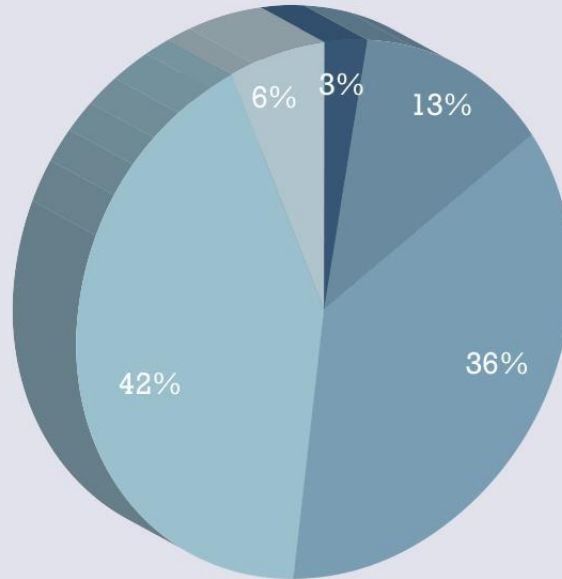
Existential crisis

*“There's no doubt that fund performance has been a major issue since the global financial crisis. The problem, for a big part of the industry, a regular US equity fund, say, is that **if you can't prove to your clients you're doing something they wouldn't be able to do themselves, and the results are quite poor, then you have a crisis in your raison d'etre.**”*

Karine Hirn, partner, East Capital

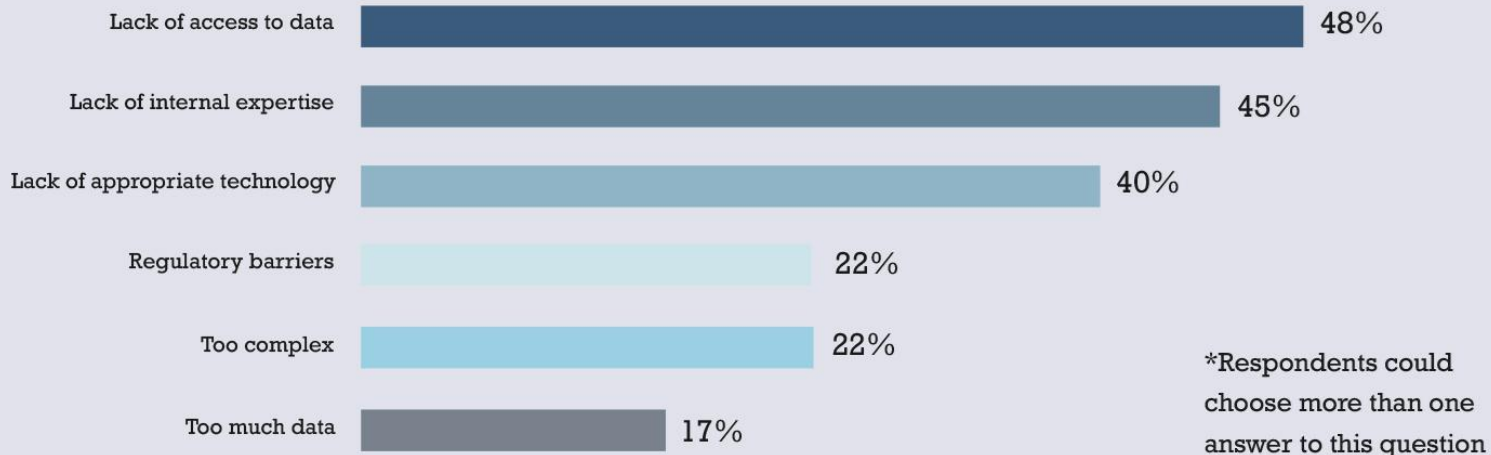
Data dummies

8. Do you think asset managers are good at making use of data about their distribution supply chain?



Access denied

9. Understanding end investors' needs is paramount for asset managers – what are the main issues that they face in understanding end investor data*?



It's (partly) their fault

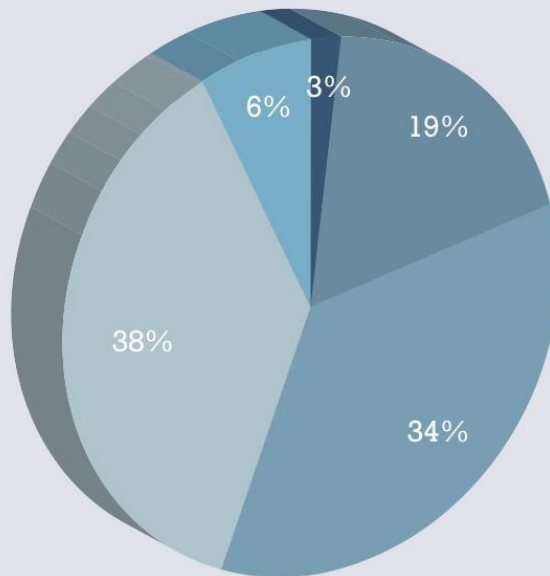
*“A big problem for asset managers is lack of information from distributors [...] The thing is, **asset managers have been complicit in this development**. In the first half of the 2000s, before the financial crisis, asset managers were migrating a lot of their transactional business to aggregated platforms of one kind or another. They saw a huge cost benefit of getting a single netted off order as long as their sales people were able to maintain good relationships with the people funnelling business through these platforms.”*

Diana Mackay, chief executive, Mackay Williams

Technically challenged

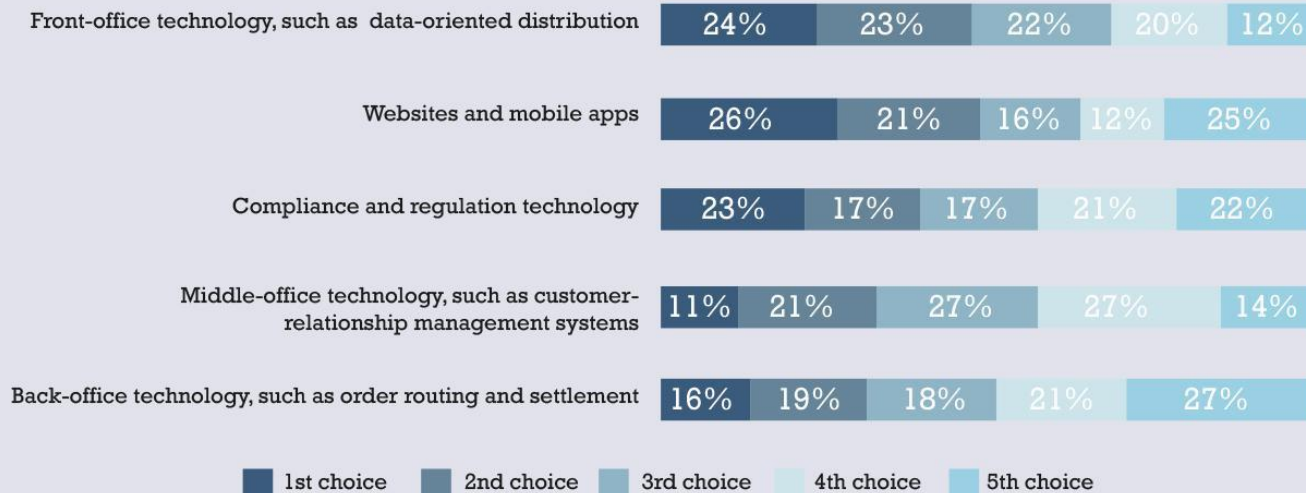
10. Based on asset managers' track record for technology implementation, do you think asset managers are good at adopting new technology?

Strongly Agree
Agree
Neutral
Disagree
Strongly Disagree



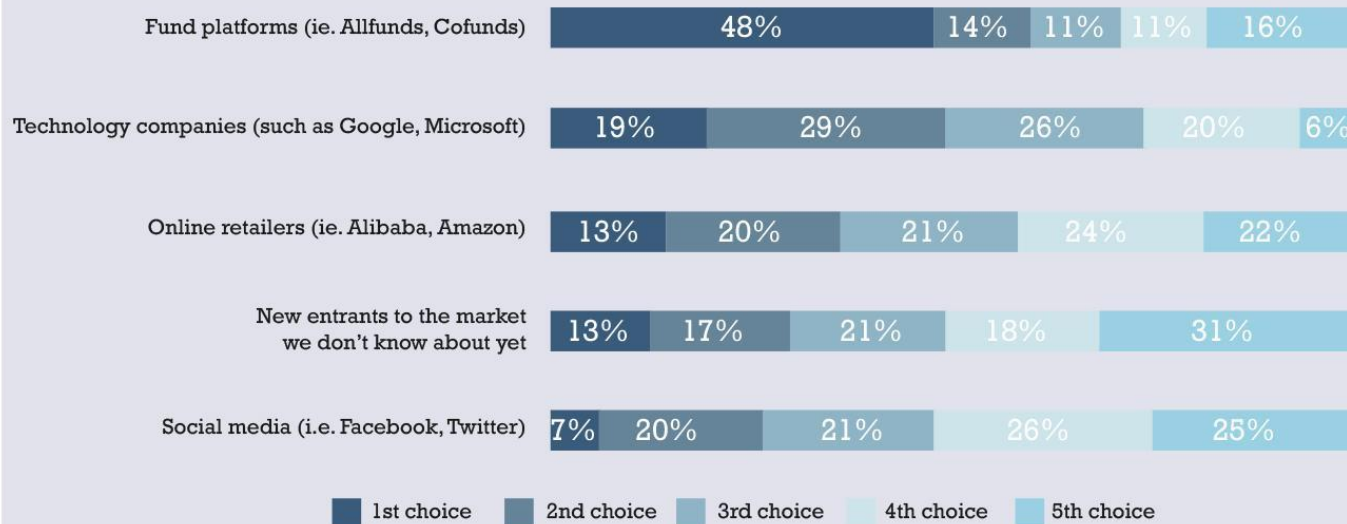
Looking to the front

11. Types of technology in terms of priority for asset management investment



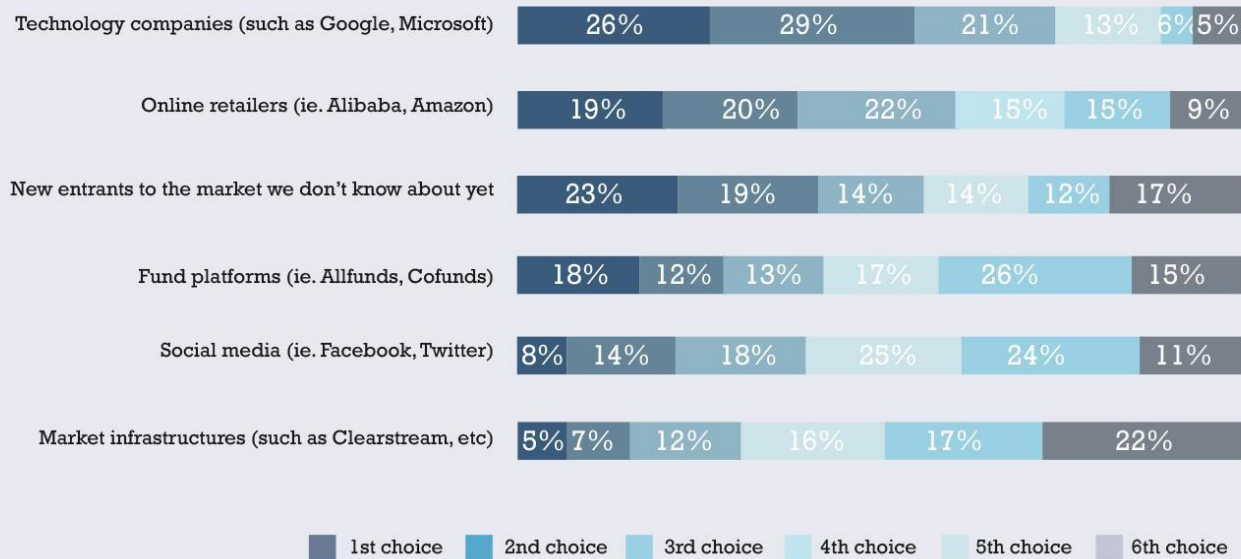
Hooray for platforms

12. Potential to be useful partners of asset managers



Beware of Google

13. Potential to disrupt asset managers' business models



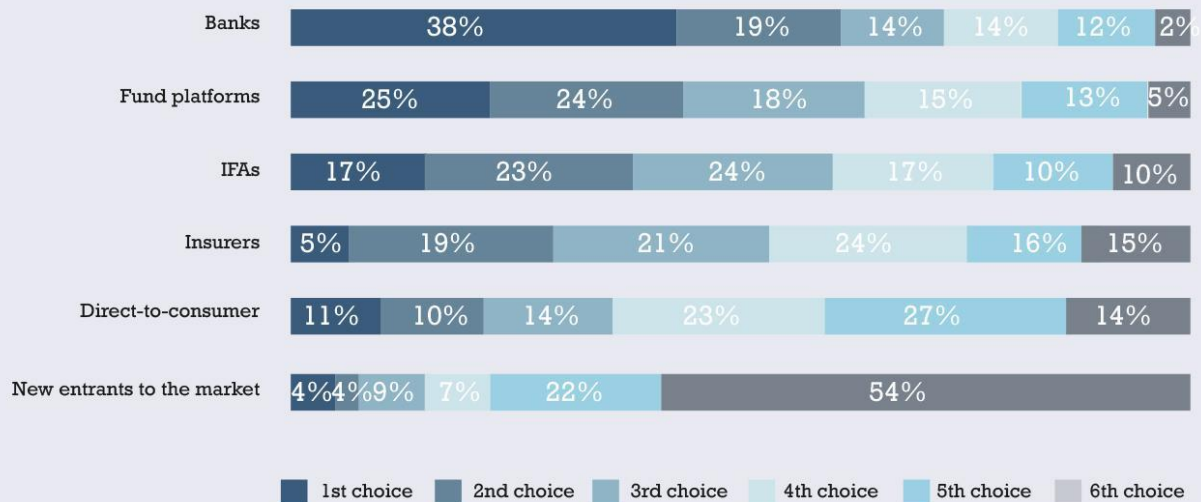
Closer to home?

*“Technology companies are constantly producing new things that can be used to underpin distribution. Whether they themselves will act as disruptors is a different matter. **I would argue the ones more likely to act as disruptors are not only Amazon and eBay but traditional bricks and mortar retailers.** In the UK, supermarkets such as Tesco and Waitrose have provided financial services; if they ramped it up and put investment products at the centre of their strategies, they could disrupt the market because they know so much about their clients.”*

Bella Caridade-Ferreira, chief executive, Fundscape

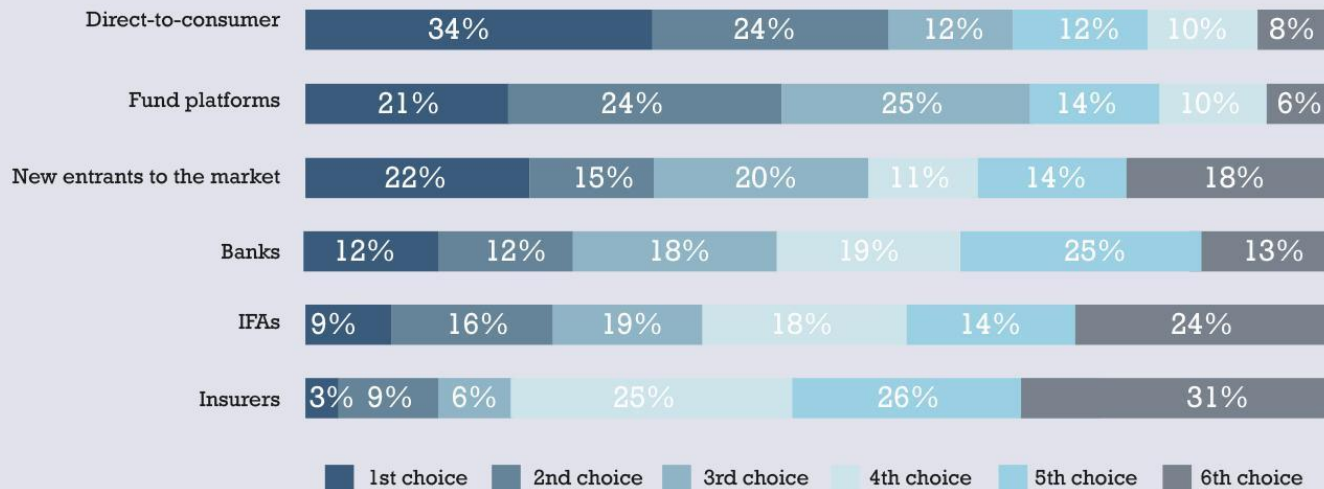
Banks reign supreme

14. Importance of these distribution channels in your country or region



The future is direct – or is it?

15. Most important channels in ten years' time



Size matters

“It's possible you might see a little more direct-to-consumer in future. But I'd be utterly astonished if direct-to-consumer channels accounted for more than 5% of the overall pie.”

Diana Mackay, chief executive, Mackay Williams

“There aren't many firms who can do direct-to-consumer. BlackRock can, they're big enough.”

Richard Garland, managing director, global advisor
Investec Asset Management

What's next...

- Consolidation?
- Extra regulation?
- A squeeze on small and mid-sized firms?

George Mitton, editor **funds** global **ASIA**