

Performance Magazine

Issue 32

May 2020

Advancing environmental, social, and governance investing

A holistic approach for investment management firms

Page 12

ART & WEALTH MANAGEMENT

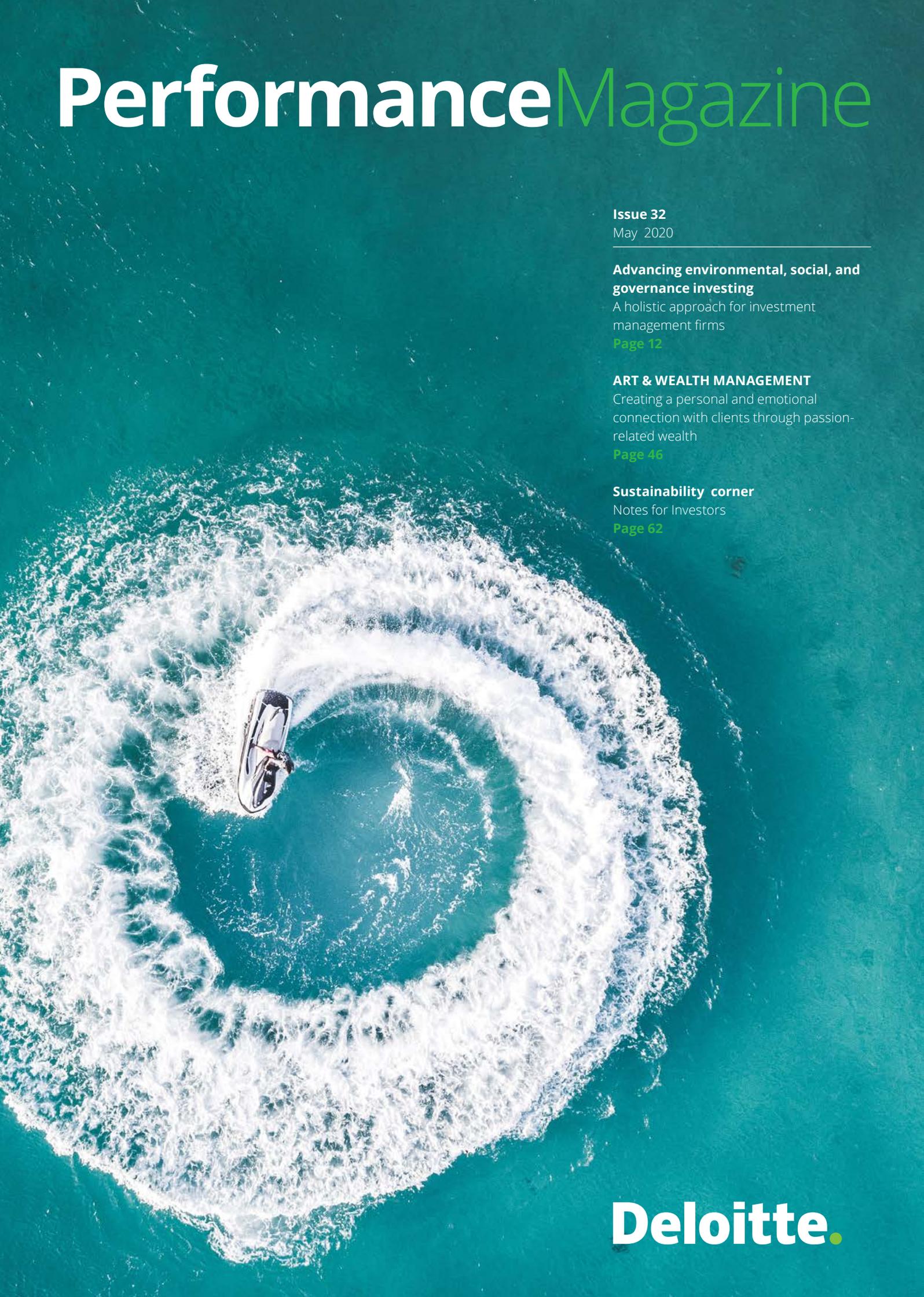
Creating a personal and emotional connection with clients through passion-related wealth

Page 46

Sustainability corner

Notes for Investors

Page 62



Deloitte.



WELCOME TO ISSUE No.32

The 2020 investment management industry concussion	08	Lessons learnt from the COVID-19 crisis for the investment management industry
Advancing environmental, social, and governance investing	12	A holistic approach for investment management firms
New horizons for ETFs	18	Regulatory change opens doors for all exchange-traded funds including active nontransparent ETFs
Righting the ship	24	Transforming active equity in a competitive world
Managing investment costs and aligning interests	34	An article written by Kim Bowater, Director of Consulting <i>Frontier Advisors</i>
Global Investment Performance Standards (GIPS®) 2020	40	A new impetus for GIPS standards
Art & Wealth Management	46	Creating a personal and emotional connection with clients through passion-related wealth
53 pages for 45 Questions	56	Deloitte Luxembourg's 2020 Cross-Border Fund Distribution Conference explored the future of the asset management industry and what opportunities the next decade will hold
Sustainability corner	62	Notes for Investors

FOREWORD



**VINCENT GOUVERNEUR**

EMEA INVESTMENT MANAGEMENT CO-LEADER

**TONY GAUGHAN**

EMEA INVESTMENT MANAGEMENT CO-LEADER

Since we started work on this edition of Performance, the world has been plunged into a health and economic crisis, of which the growing scale and cost very few people have ever witnessed or could realistically have imagined. Overnight, industries had to rethink their *modus operandi* in its most granular set-up, not only from a technological but also a human perspective.

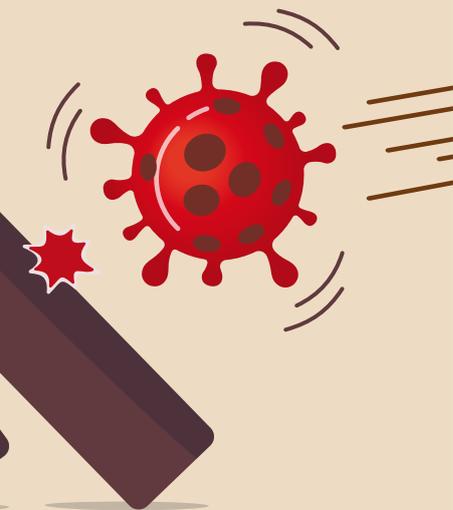
Our asset management industry, whilst already fairly agile, has had its business contingency plans put to the test in the most dramatic way—but with no major consequences to note.

Today, more than ever, in this new normal of digitalization and innovation, Charles Darwin's quote still rings true: "It is not the strongest of the species that survives, but rather that which is adaptable to change." The new decade began with a daunting challenge but one that we will embrace and build on in the years to come. It is exactly in this spirit that we have devoted this edition to not just reflect on the last few months but to also look forward. In true Performance style, we will take you on a journey of exploration using buzzwords as our guide—environmental, social and governance principles, exchange-traded funds, the quest for alpha, global investment performance standards, cross-border distribution, sustainability and green bonds.

We also take an in-depth look into how art and finance, normally two contrasting domains, are converging in the world of wealth management. In our recent survey, 68% of wealth managers felt there were convincing arguments to include art in their service offering.

As ever, no edition is complete without readers' contributions. A decade ago, Frontier Advisors released a set of fee principles that proposed alternative investment fee structures to better align the interests of asset managers and investors. Kim Bowater revisits these principles to see if they have stood the test of time.

In conclusion, during these unprecedented times, all that remains for us to say is: keep safe and look after yourselves, your loved ones and your colleagues in these challenging times. We will definitely meet again soon.





PAUL KRAFT
US MUTUAL FUND
& INVESTMENT Adviser
Practice Leader



SIMON RAMOS
EDITORIALIST

EDITORIAL

As the beginning of 2020 and a new decade dawned, both the United States and the global economy looked strong. The industry faced continued fee-pressure compression, but the trend towards the passive was only mildly slowing down, while the war to create an exceptional client experience was requiring resources and technology investment. What happened next will fill the pages of the history books for years, as we still wait anxiously for the story's end.

The silent enemy, COVID-19, arrived in China in December and subsequently spread throughout Europe and the United States. In the latter, the depth and breadth of the pandemic really began to mature in early March. Investment managers started to work remotely, leaving empty offices across the country. The markets experienced unprecedented volatility and disruption as the DOW fell by 10,000 points. The government and regulators took proactive steps to freeze the economy, while scientists and health experts searched for answers to treat an ever-increasingly infected population.

Despite working remotely, the sector's results were positive, even in the face of unrelenting volumes of activity,

transactions, and investors clamoring for attention. Investment managers led the way—years of business continuity planning and advances in technology made for a relatively successful transition. Supported by strong teams that had worked together for years, the industry exited March, as the markets rebounded slightly, with high marks and a renewed resilience to challenge the norm when the pandemic is better managed. The same applies to the many service providers that support the industry: custodians, administrators, record-keepers, pricing services, etc.

Meanwhile, the industry keeps its focus on the strategy and levers that were already in play before March. Three of the most common topics on the strategic agenda were active versus passive; growth opportunities through exchange-traded funds (ETFs); and environmental, social and governance (ESG) investing.

Our focus on active management here has never been timelier. Long regarded as an endangered species by many in the industry as the long bull market led to impressive index returns, fewer and fewer active managers showed the ability to generate alpha beyond

these strong market returns. Pile on higher fees and the prospects and value proposition looked gloomy for active managers. However, in our piece "**Righting the ship**", we present tangible transformations that active equity managers can execute to become more relevant in a competitive world.

Are the winds changing direction? With continued fee pressure and compression that has certainly lowered industry profit margins, the search for growth is a strategic imperative. Long regarded as a great investment management innovation, ETFs had barriers to entry for many, as large mature sponsors dominate the ETF market and the pricing is extremely aggressive. But along comes ETF 2.0., and with the Securities and Exchange Commission (SEC) approving several applications for sponsors to launch active nontransparent ETFs, the industry has a new spring in its step. Many players now feel they can enter **the active nontransparent ETF space** and be competitive.

Very few topics attract more press attention than ESG investing, gathering different points of view, regulatory interest and data points. With a heightened sense of corporate

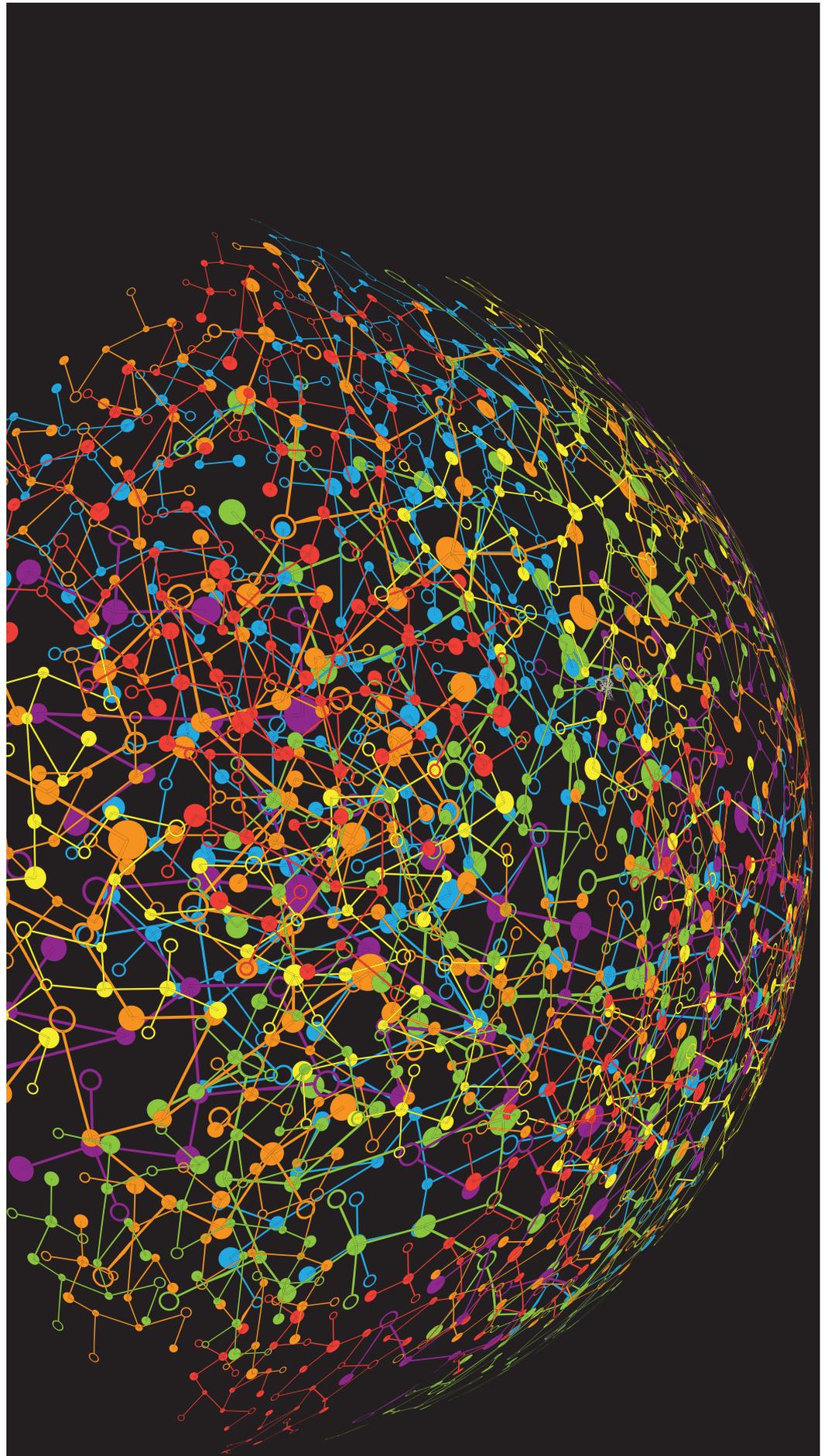
PLEASE CONTACT

Simon Ramos
Partner
Advisory & Consulting
Deloitte Luxembourg
20 Boulevard de
Kockelscheuer
L-1821 Luxembourg
Grand Duchy of
Luxembourg

Tel: +352 451 452 702
Mobile: +352 621 240 616
siramos@deloitte.lu
www.deloitte.lu

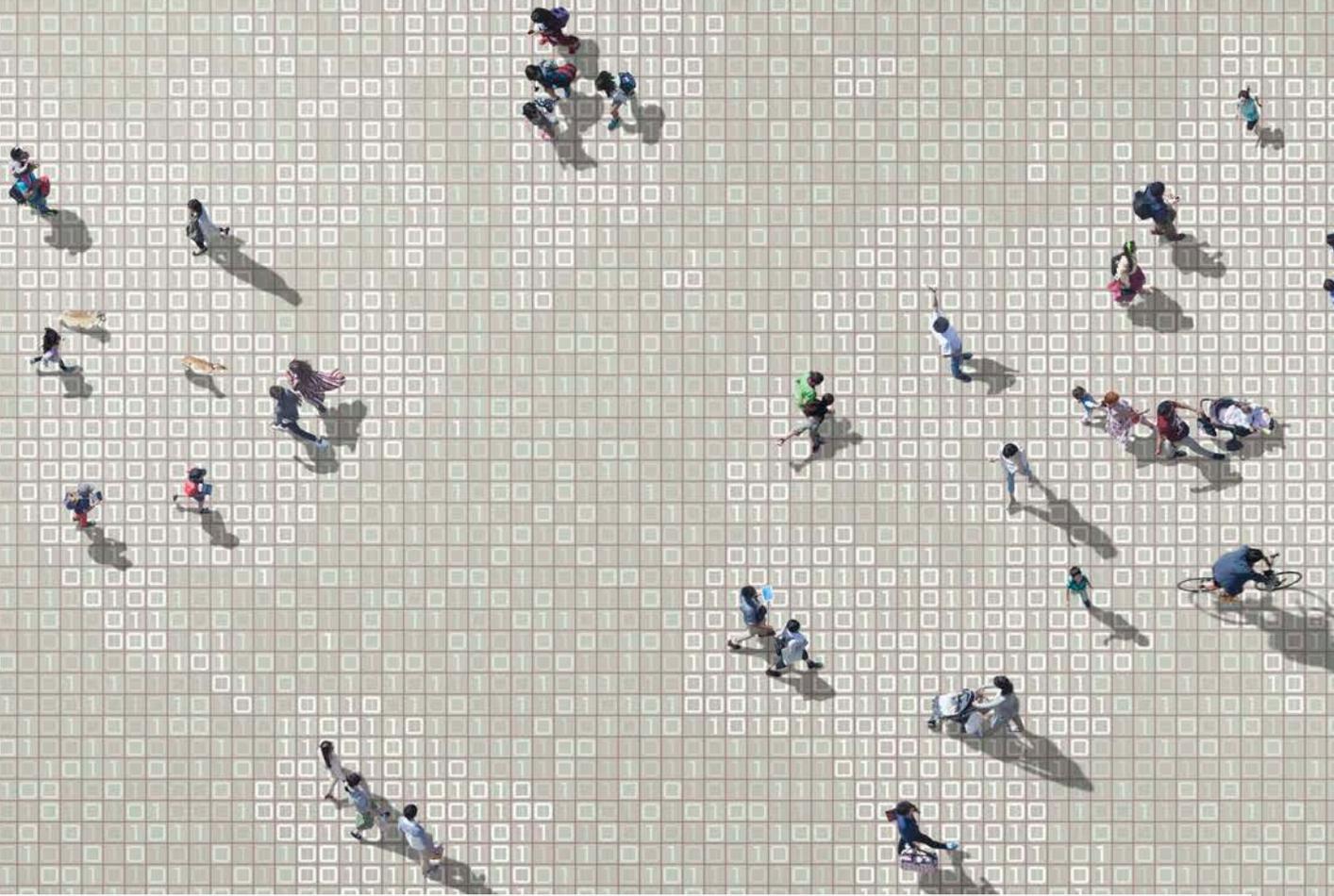
and social responsibility led by COVID-19, ESG investing will only become a more important part of the investment management industry's future. In our article **"Advancing ESG investing"**, we present a holistic approach for firms to begin and enhance their ESG platforms and journeys. The stakes are high—not only for the sector but also for the world.

As the world navigates and better manages the new normal, with health and economic challenges either lingering or gradually lessening over time, the investment management industry has once more demonstrated its resilience in the face of major forces of change. We have learned that the industry was prepared, as it continued to serve its millions of investors with distinct service. Thus, as challenging as the next year may be, investment managers must stay focused on strengthening their long position when it comes to active investing, ETF innovation and ESG. In this edition, we have focused on these key topics that will go a long way in deciding who will win in the future.



THE 2020 INVESTMENT MANAGEMENT INDUSTRY CONCUSSION

**Lessons learnt from the COVID-19 crisis for the investment
management industry.**



On the 13 January 2020, the World Health Organization announced the first identified case outside of China of the novel coronavirus. Four months later, the coronavirus has been baptized COVID-19 and the unprecedented crisis it has engendered has no pity for the World economy. The investment management industry is no exception. External market dynamics and inherent day-to-day operations lead the way for reduced profitability in the industry.



VINCENT GOUVERNEUR
PARTNER, FINANCIAL INDUSTRY SOLUTIONS
DELOITTE



SIMON RAMOS
PARTNER, STRATEGY & REGULATORY CONSULTING
DELOITTE



ELODIE VAN DE WOESTYNE
MANAGER, STRATEGY & REGULATORY CONSULTING
DELOITTE

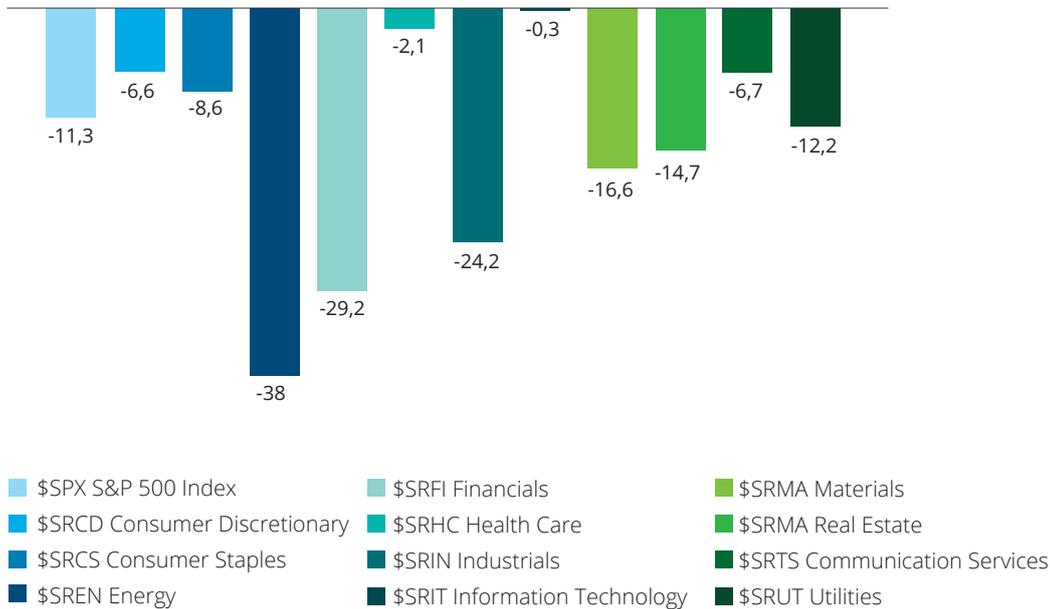


CAMILLA GEORGEON
CONSULTANT, STRATEGY & REGULATORY CONSULTING
DELOITTE



The COVID-19 crisis has led to a collapse of financial markets, leading to major sell-offs within investment funds, particularly open-ended funds. Those significant **funds outflows** have also led to an increased pressure on fund liquidity and difficulty for managers to pay redemptions to their investors. As a consequence, **asset prices have dropped** down and this **volatility** put even more challenges on the fair value of assets. Criticality and complexity of assessing the assets fair value depends however on the nature of the fund (e.g. open-ended vs. close-ended) and of the asset (e.g. liquid vs. illiquid). These dynamics are creating a vicious circle.

S&P 500 performance per industry during the period of 01/01/2020 to 05/05/2020



Source: <https://www.barchart.com/stocks/market-performance>

Investment targets

It is difficult for asset managers to find new targets. In terms of industries, some sectors have been hardly hit by the crisis. Nevertheless, some industries such as food, e-commerce and sustainable development are thriving. The recent announcement that Morningstar is to take over Sustainalytics is evidence of the current momentum behind sustainable finance and that the COVID-19 crisis has only underpinned its importance. Furthermore, in terms of geographies, some markets seem to be more resistant to present shocks (Asian markets), however the trend is still not clear. In Africa, fintech, digital health and digital education are sectors that can help investors build recession-resilient portfolios during this pandemic.

Regulatory supervision and reporting

In this time of crisis, the regulators are well aware of the challenges the industry actors are facing. As such, EU regulators softened market abuse, transaction and regulatory reporting requirements and short selling rules (e.g. more flexibility regarding deadlines). Nevertheless, EU regulators expect financial participants to be flexible and fair towards customers, while maintaining best execution and AML duties. Finally, regulators across Europe are requiring asset managers of open-ended funds to provide them with weekly or even daily information about their ability to meet investor redemptions in a context of high market volatility and mass withdrawal.

IMPACTS DUE TO INHERENT DAY-TO-DAY OPERATIONS

Product mix

The success of passive strategies over recent years is being altered by the COVID-19 crisis. Indeed, funds outperforming the market today are the ones with exposures to lower Beta and systematic risks. Active strategies which prone better hedge risks are more resilient than passive strategies, which have been strongly penalized. For instance, funds with ESG integration strategies are performing better than the benchmarks.

Operational contingency

Operations had to readapt to put in place smart working while maintaining compliance with regulatory standards and facing limited workforce availability (sick leave, no remote working facilities, etc.). Moreover, on one hand reliance on outsourcing of middle and back-office activities favors variable costs instead of fixed costs, on the other outsourcing to countries with limited digitally enabled workforce (e.g. workforce in India) may be challenging.

Digitalization level

Remote working is pushing institutions' digitalization, automation and traditional security monitoring to their limits. Indeed the industry has witnessed a fast adoption of technologies allowing working remotely. However, the actors should pay attention to increasing cyber security threats, as work – from – home employees create vulnerabilities that can be exploited. Alternative assets, middle and back-offices activities are put at risk due to the lack of technology-driven processes, relying on a large number of manual processes. Finally, there is a need for asset servicers to ramp up their digital capabilities as scrutiny from asset managers on providers' capacities to efficiently adapt to working remotely, fight cyber-security threats and maintain activities will increase after the crisis.

CONCLUSION

Key "TO DO's" for the investment management industry

- 01** Maintain business continuity in virtual close and home working, including across offshoring/outsourcing locations/vendors
- 02** Generate revenue in declining AuM and remaining capital markets uncertainty
- 03** Regulatory controls and reporting frameworks to be adapted to COVID-19 priorities and in light of regulators 'softening of certain requirements while maintain client best interest'
- 04** Maintain sound valuation and liquidity on investment products
- 05** Make sure regulatory priorities are maintained
- 06** Start planning post-COVID-19 operating model change requirements (e.g. technology enabled solutions (e.g. remote working, automation), SRI and ESG products and corporate culture, responsiveness to government initiatives to benefit from incentives, apply lessons learnt during the crisis and do not return to pre-COVID-19 habits, increase collaborations and data sharing)

TO THE POINT

Like many other industries, the investment management industry has been strongly hit by COVID-19 crisis, leaving industry's players with several challenges to overcome.

Challenges are coming from external forces:

- High fund outflows
- Falling asset prices
- Increased volatility
- Investment targets scarcity
- Challenging regulatory supervision & reporting

Those forces have impacted investment firms differently depending on their internal

models in terms of product mix, operational set up and digitalization level.

Today, the investment management industry must:

- Maintain business continuity
- Renew with growth
- Comply with regulatory controls and reporting frameworks
- Maintain sound Valuation and Liquidity on investment products
- Make sure regulatory priorities are maintained
- Start planning post-COVID-19 operating model change requirements

ADVANCING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INVESTING

A HOLISTIC APPROACH FOR INVESTMENT MANAGEMENT FIRMS

KRISTEN SULLIVAN
DELOITTE

SEAN COLLINS
DELOITTE

Social consciousness has spread throughout many facets of life, and many companies are making a concerted effort to align with these principles. This effort has likely contributed to the steady rise in the media coverage afforded to “sustainable” brands over the past two years¹. Evidence suggests a similar growth in a desire for what are characterized as “sustainable” or “socially responsible” investments. Globally, the percentage of both retail and institutional investors that apply environmental, social, and governance (ESG) principles to at least a quarter of their portfolios jumped from 48 percent in 2017 to 75 percent in 2019². While directing investments based on one’s values has been around for decades, discussions between advisors and their clients about ESG investing have become commonplace.

Despite greater adoption within the investment community, the varying approaches to ESG incorporation by investment management firms, regulators, and investors suggest the full potential has yet to be realized. This will likely happen if investment managers routinely consider ESG metrics in all investment decisions³. While this scenario seems unlikely in the short term, the Deloitte Center for Financial Services (DCFS) expects client demand to drive ESG-mandated assets to make up half of all professionally managed investments in the United States by 2025. According to the DCFS, investment managers are likely to respond to this demand by potentially launching a record 200 new ESG funds by 2023, more than double the previous three years. Investment management firms may benefit from this rise because ESG funds tend toward active management,

with 92 percent delivered through actively managed portfolios⁴.

Firms may capture a greater share of this growing allocation to ESG by utilizing emerging technologies for incorporating quality ESG data into the investment decision process, developing products with clear ESG objectives, and embracing an ESG-driven culture across the organization to gain credibility with investors. As emerging technologies, such as AI, enable better quality ESG data and the regulatory landscape becomes clearer, institutional and retail investors are expected to increasingly demand that ESG factors be applied to a greater percentage of their portfolios. In this scenario, ESG assets should continue to grow at a 16 percent compound annual growth rate (CAGR), totaling almost US\$35trillion by 2025 (figure 1).

ESG assets should continue to grow at a 16 percent compound annual growth rate (CAGR), totaling almost US\$35trillion by 2025.

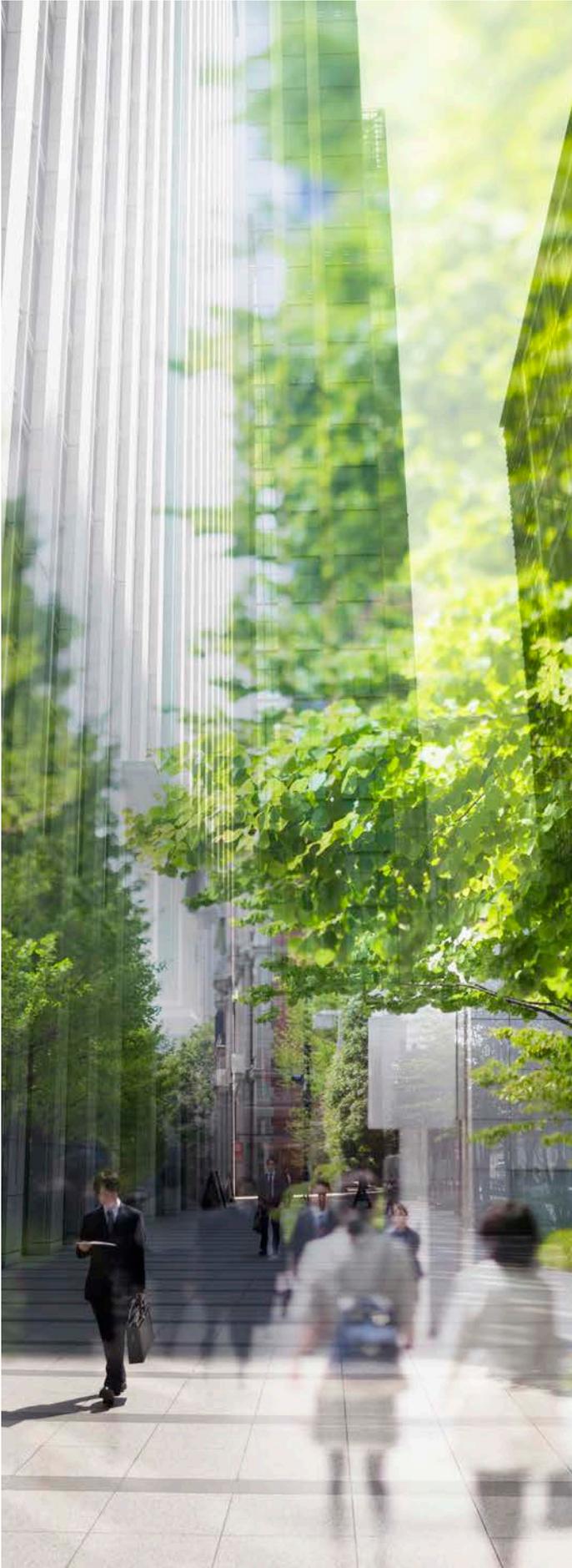


Fig 1. ESG-mandated assets could make up half of all managed assets in the US by 2025

Professionally-managed assets in the United States (US\$ trillion)



Source: US SIF Foundation data through 2018; Deloitte Center for Financial Services analysis through 2025



The largest amount of sustainable investment assets is in Europe, totaling US\$14.1trillion, followed by the United States with US\$12trillion⁵. While Europeans may hold the highest amount of ESG-aligned assets, much of the world's recent growth in this space may be attributed to investors' increased interest in the United States. From 2014 to the beginning of 2018, assets under management with an ESG mandate held by retail and institutional investors grew at a four-year CAGR of 16 percent in the United States, compared with 6 percent in Europe⁶.

Some investment professionals have expressed concern that alignment with ESG principles may hinder performance. However, a recent research study demonstrates that ESG metrics may in fact aid the quest for alpha. The study back-tested ESG metrics for materiality and found that a strategy that solely based its investment decisions on these metrics outperformed a global composite of stocks, strengthening the case for an active ESG investment strategy⁷. As a result, ESG may provide an opportunity to meet both client demand and improve returns.

While back-testing supports the case for finding alpha with ESG data, the challenge remains for investment managers to apply current ESG data to their investment process and client reporting. Much ESG data, such as carbon emissions, is provided inconsistently across companies and industries. Almost 80 percent of investment managers agree that they could improve client service by providing performance related to an investment's ESG impact in addition to financial performance⁸. However, only

44 percent of managers share ESG data with institutional clients and even less (30 percent) do so with retail clients⁹.

This conundrum of wanting to build material ESG data into the investment process and report ESG performance to clients yet finding it difficult to do so is largely due to the inconsistent availability and quality concerns of data. Global investment managers describe inconsistent data across assets as the biggest barrier to integrating ESG into investment processes¹⁰. ESG disclosures tend to be produced by larger companies with more resources. Skewed disclosure may cause ESG investments to flow toward the largest companies even though smaller firms may have a similar or better impact regarding ESG issues¹¹. Investment management firms have recognized this disconnect, and as a result, spending on ESG content and indices is expected to rise by 48 percent from 2018 levels, to US\$745million in 2020¹². Larger investment management firms have accelerated their spending on ESG data and intend to supplement it with proprietary metrics¹³.

With greater standardization of ESG measures progressing slowly, advanced data analytics have become an essential component of ESG analysis. Investment management firms can leverage AI, such as machine learning, as well as alternative data to develop ESG metrics for analyzing investments, making decisions, and informing investors. By aligning advanced analytics tools with sustainability metrics, investment managers may be able to move beyond simple screening methods to actively make the case for alpha.

AI allows investment managers to uncover additional material data that may not have been disclosed by a company. One investment management firm uses an AI engine to scan unstructured data to identify material ESG data and then prioritize investments with low valuations for the highest expected return¹⁴. This approach may help gain insight into, say, a company's carbon emissions regardless of whether the company chooses to report them. The AI engine also searches unstructured data such as patent filings to identify companies that may be close to deploying cutting-edge low-carbon technologies. Identifying these types of investments before the companies tout their achievements may be the basis for higher future returns.

As ESG gains greater acceptance with portfolio managers, differentiation often becomes critical. Going beyond transparency into product customization may be the future of ESG product innovation. About 68 percent of investment managers believe that much of the growth in ESG investments will be fueled by product customization¹⁵.

Yet, as mentioned previously, while ESG is a priority for institutional investors, only 23 percent have integrated ESG principles throughout their organizations and 30 percent have separate ESG and investment teams¹⁶. This presents a significant opportunity for investment managers to deliver customized solutions for clients who want ESG to play a larger role in their portfolios but lack an implementation road map.

Emerging technologies may provide investment managers the tools to both improve client

experience and aid in the quest for alpha. With the forecasted rise in ESG data spending this year, the number of investment management firms that provide their clients ESG performance data is also likely to increase. The amount of ESG data is expanding as companies increase disclosures and ESG rating firms incorporate new data points into their metrics. It has become more important for investment management firms to develop their own capabilities for gathering and managing quality data.

There are likely to be winners and losers in the competition for ESG asset allocations. It could be crucial for investment management firms to recognize the importance of ESG and devote more resources to ESG product development to not fall behind peers. The overwhelming majority (89 percent) of investment managers believe sustainable investing will not dissipate, while the same number indicate their firms will devote more resources to this area in the next two years¹⁷.

Differentiation becomes much more difficult with many firms now preparing to expand ESG investment options.

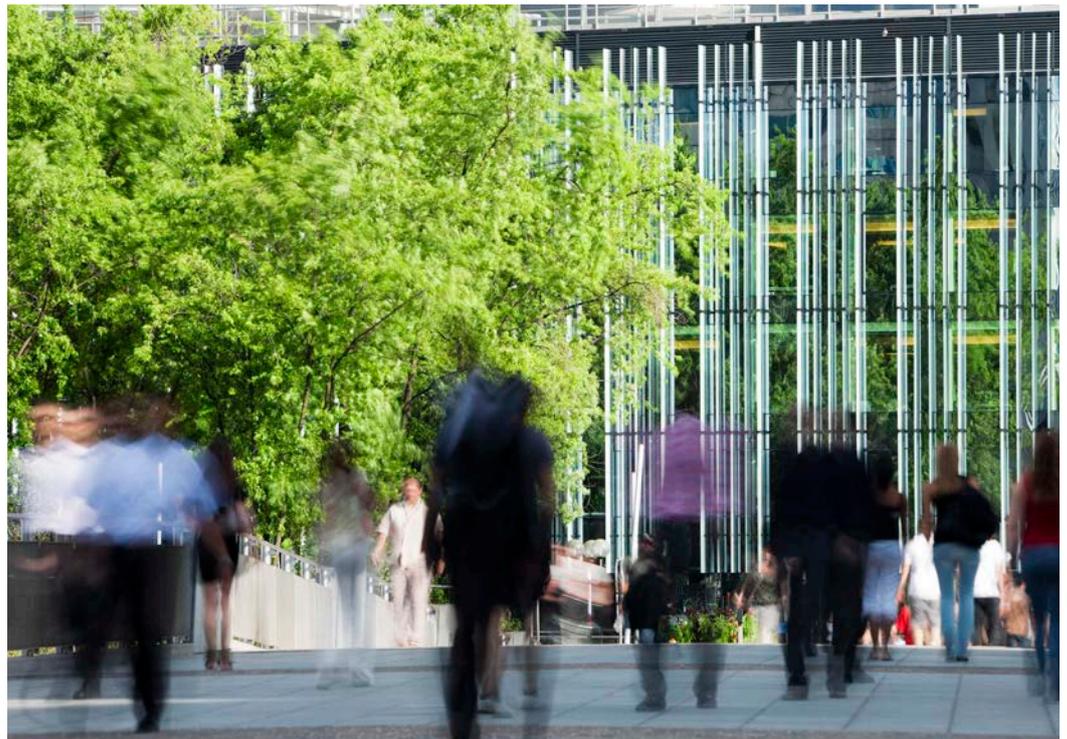
Success could flow to the investment management firms that can align their brand with ESG principles. The most effective method to gain traction may reside in the level of credibility the investment management firm has achieved from investors as opposed to its menu of ESG products. Today, consumers often reward companies that appropriately match their brand to their actions. An investment management firm may earn credibility with ESG-minded investors by fully embracing

the influence of ESG issues across its organization and demonstrating its commitment by detailing actions taken to align with these principles. Investment managers may find it difficult to effectively compete for capital allocations without a client-centric ESG strategy that encompasses credible ESG disclosure practices.

“ESG is a lens into effective risk management and an avenue to optimize performance. It has to be credibly embedded into the investment management business model, all the way through to attracting talent,”

Kristen Sullivan,

Americas region Sustainability Services Leader
Deloitte & Touche LLP.



CONCLUSION

The recent uptick in investor demand for ESG suggests investment management firms should take action today to maximize the ESG opportunity. The future wave of growth in ESG investing will likely not be driven by screening out “sin” stocks, but could instead be fueled by managers using high-quality ESG data to increase the opportunity for alpha. A burgeoning ecosystem of customized ESG products and platforms presents investment managers with opportunities to further their value proposition to clients. Investors are still going to consider performance when selecting an investment manager. However, investment management firms may find that ESG metrics improve the

opportunity to find alpha as well as attract new clients.

Having sustainable products on the shelf might be a necessary first step, but long-term success will likely reside in the ability to demonstrate to investors that the firm has holistically adopted sustainable practices. The ever-expanding expectations of investors and regulators will likely require a proactive approach. Investment management firms should identify any gaps by reexamining their processes through an ESG-principled lens, with an eye on what matters most to today’s investors. By 2025, half of all professionally managed assets could fall under an ESG mandate. For an investment manager to capture a greater share of growth in assets under

management, credibility with investors will likely be critical.

INVESTMENT MANAGEMENT FIRMS CAN TAKE ACTION TODAY TO ENHANCE THEIR LIKELIHOOD OF LAUNCHING A SUCCESSFUL ESG PROGRAM:

- Understand the intermediary and end-investor expectations for ESG mandates
- Develop a product portfolio that meets clients’ expectations
- Communicate and educate investors about the social benefits of the ESG program
- Adapt ESG principles throughout their firms to gain credibility as an ESG product provider

Endnotes

1. Quid, “Which brands are successfully positioning themselves as ecofriendly?”, May 23, 2019.
2. BNP Paribas, “The ESG Global Survey 2019”, 2019.
3. Crystal Kim, “Could ESG become the wrapper for all investing?”, Barron’s, June 23, 2018.
4. US SIF Foundation, 2018 Report on US sustainable, responsible and impact investing trends, October 31, 2018.
5. Global Sustainable Investment Alliance (GSIA), 2018 Global sustainable investment review, April 1, 2019.
6. Ibid.
7. Mozaffar Khan, “Corporate governance, ESG, and stock returns around the world”, Financial Analysts Journal (2019): pp. 103–23, <https://doi.org/10.1080/0015198X.2019.1654299>.
8. Morgan Stanley and Bloomberg, “Sustainable investing goes mainstream”, February 21, 2019.
9. Ibid.
10. BNP Paribas, “The ESG Global Survey 2019”.
11. Deutsche Bank, “Big data shakes up ESG investing”, October 4, 2018.
12. Axel Pierron, “ESG Data: Mainstream consumption, bigger spending”, Opimas, January 2019.
13. Ibid.
14. Billy Nauman, “Artificial intelligence promises to enhance sustainable investing”, Financial Times, August 20, 2019.
15. Morgan Stanley and Bloomberg, “Sustainable investing goes mainstream”.
16. BNP Paribas, “The ESG Global Survey 2019”.
17. Morgan Stanley and Bloomberg, “Sustainable investing goes mainstream”.





TO THE POINT

- In the United States, ESG-mandated assets could grow almost three times as fast as non-ESG-mandated assets to make up half of all professionally managed investments by 2025
- An estimated 200 new funds with an ESG investment mandate are expected to launch in the United States over the next three years, more than doubling the activity from the previous three years
- The use of artificial intelligence (AI) and alternative data is giving investment managers greater capabilities to uncover material ESG data and possibly achieve alpha
- Investment management firms that act today to transition from siloed ESG product offerings toward enterprise-level implementation will likely capture a greater percentage of future ESG asset flows

NEW HORIZONS FOR ETFs

REGULATORY CHANGE OPENS DOORS FOR ALL EXCHANGE-TRADED FUNDS INCLUDING ACTIVE NONTRANSPARENT ETFs.

CONTRIBUTORS



BARUCH COHEN
PARTNER
DELOITTE TAX LLP



AMY HUBER
PARTNER
DELOITTE & TOUCHE LLP



RYAN J. MOORE
PARTNER
DELOITTE & TOUCHE LLP



SAM MULLINER
PARTNER
DELOITTE & TOUCHE LLP

AUTHORS



PAUL KRAFT
PARTNER
US MUTUAL FUND & INVESTMENT
ADVISER PRACTICE LEADER
DELOITTE & TOUCHE LLP



LAUREN JACKSON
SENIOR MANAGER
DELOITTE & TOUCHE LLP



DOUG DANNEMILLER
SENIOR MANAGER
RESEARCH LEADER, INVESTMENT
MANAGEMENT
DELOITTE SERVICES LP

With a sudden shift in the regulatory exchange-traded fund (ETF) landscape, investment managers now have the opportunity to more easily launch ETFs against a backdrop of industry pressures. First, a long-awaited change and opportunity for the ETF industry is finally here with the approval of Rule 6c-11 (the ETF Rule) by the Securities and Exchange Commission (SEC). The ETF Rule allows asset managers to bring certain ETFs to market without the cost and delay of obtaining exemptive relief, as those ETFs will now be able to operate within the scope of the Investment Company Act of 1940 (1940 Act). Since 1992, the SEC has issued more than 300 exemptive orders for ETFs to operate under the 1940 Act, according to data from the SEC¹. This new rule creates a more level operational playing field for the majority of ETFs. ETF sponsors will be able to get their products to market quicker and more efficiently, and as ETFs tend to be more transparent and have lower costs than traditional mutual funds, this rule is likely to have a significant impact on product creation in the investment management industry.

¹ SEC, "SEC Adopts New Rule to Modernize Regulation of Exchange-Traded Funds," <https://www.sec.gov/news/press-release/2019-190>, September 26, 2019.

² <https://www.sec.gov/news/press-release/2019-242>

With the passing of the ETF Rule by the SEC and approval of several firms' active shares licenses over the past year, the SEC has signaled their focus on the growing interest in active nontransparent ETFs. The tax efficiency of ETFs, combined with the active management strategies of mutual funds, make this new product offering an attractive one to investors. For these reasons, active nontransparent ETFs will likely be a source for growth for several asset managers in 2020 through market expansion and product development. In this article, we will cover key takeaways of the final rule, opportunities for active nontransparent ETFs, and next steps for the industry.

KEY TAKEAWAYS FROM THE ETF RULE

Most importantly, in order to create a consistent ETF regulatory framework, the SEC will rescind exemptive relief from those ETFs that fall under the scope of Rule 6c-11, but will be available to those organized as open-end funds. Those organized as unit investment trusts, leveraged, or inverse ETFs, those structured as a share class of a multiclass fund, and nontransparent ETFs will not be able to rely on the rule. Interestingly, shortly after the ETF Rule was approved, the SEC re-proposed the Use of Derivatives by Registered Investment Companies and Business Development Companies Rule (the Derivatives Rule)². Weaved into this proposal is an amendment to the ETF Rule to allow certain leveraged or inverse ETFs to operate within the scope of the 1940 Act.



One significant difference between the proposed and final ETF Rule is that providers do not need to publish information on their website about custom baskets that they would exchange for purchasing and redeeming creation units, relieving much of the industry's concern on the proposed rule. Another key change is that holdings information required to be posted to an ETF's website does not need to conform to Article 12 of Regulation S-X, which many commentators noted as a potential compliance burden. In addition, the bid-ask spread disclosures were cut back from what was originally proposed, which included bid-ask examples and an interactive website calculator. Instead, ETFs will only need to disclose their median bid-ask spread during the last 30 calendar days on their website.

The ETF Rule allows those funds relying on the rule to use custom baskets, as long as the ETF adopts written policies and procedures that are in the best interest of the shareholders. These policies and procedures must be included in the ETF's compliance regulatory filings and reported to the board of directors. ETFs relying on the rule will need to publish their holdings each day, but they are not required to publish what is in the custom basket. Another difference from the proposed rule is that the final rule does not require the daily holdings to be published to EDGAR, only on the ETF sponsor's website. An ETF's board should oversee these policies and procedures for custom baskets.

The ETF Rule also requires disclosure of other information on the ETF's website, including lookback information on bid-ask spreads and premium and discount trading information, all of which is intended to inform investors about the costs of investing in ETFs and facilitate the arbitrage process.

The final ETF Rule, like the proposed rule, does not require ETFs to disseminate an intraday indicative value (IIV), an estimate of the net asset value of the ETF based on the price of the underlying securities, because of concerns the SEC has on the accuracy of those estimates for certain ETFs. For securities that trade less frequently (and do not trade contemporaneously with the ETF)—for example, foreign securities whose markets are closed during an ETF's trading day—the IIV can be stale or inaccurate. Many mutual fund sponsors have policies and procedures in place to monitor and evaluate if a foreign equity price should be adjusted from its closing exchange price, but these policies can vary with ETF sponsors. Also, such a procedure itself, if performed at the end of the day, will be stale to the publishing of an IIV that occurs many times a day. Though not required, it does bring up an interesting point for fund sponsors of whether ETFs need a different set of policies and procedures from traditional mutual funds. To the extent that current exchange listing standards require IIV to be disseminated, the ETF Rule's omission does not equal a change in this requirement³.

There are also several amendments to regulatory filings (namely, Form N-1A) that open-end ETFs must use to register under the 1940 Act and to offer securities under the Securities Act of 1933, in order to make required disclosures and data more readily available to investors who purchase ETF shares.

SEC APPROVES ACTIVE NONTRANSPARENT ETF STRUCTURES

Second, the SEC has signaled it is receptive to active nontransparent ETFs that do not disclose daily holdings with the approval of the Precidian Investments' ActiveShares ETF structure⁴. This approval was just the start of the SEC's new lens to open up ETF innovation to the investment management industry. As of 19 February 2020, more than a dozen asset managers have signed licensing agreements for ActiveShares giving them the ability to go to market with their ETF structure, with more signaling interest.⁵ This could open the

door for active managers who have hesitated to venture into the ETF space for fear of making their investment strategies publicly available to competitors and potential investors alike, enabling free riding and dulling competitive edge. On 11 December 2019, the SEC Division of Investment Management (IM Division) also gave final approval to several firms who applied for exemptive relief for their active nontransparent ETF structures⁶. Meanwhile, one of those firms who filed for relief in December became the first asset management firm to launch an active nontransparent ETF under the ActiveShares structure mentioned above, with a few others to follow. With multiple choices for active ETFs, investment managers will likely raise the priority for evaluating the active ETF approach. The SEC actions and approvals serve to legitimize the nontransparent active ETF approaches, invoking the fear of being left behind for many in the asset management industry.



³SEC, 17 CFR Parts 210, 232, 239, 270, and 274 [Release Nos. 33-10695; IC-33646; File No. S7-15-18] RIN 3235-AJ60, Exchange-Traded Funds, Final Rule summary, <https://www.sec.gov/rules/final/2019/33-10695.pdf>.

⁴SEC, Investment Company Act of 1940 Release No. 33477, "In the matter of Precidian ETFs Trust, Precidian ETF Trust II, and Precidian Funds LLC," <https://www.sec.gov/rules/ic/2019/ic-33477.pdf>, May 20, 2019.

⁵<https://www.investmentnews.com/franklin-legg-mason-combo-could-produce-nontransparent-etf-powerhouse-188573>

⁶<https://www.etftrends.com/sec-officially-signs-off-new-wave-semi-transparent-etfs/>



However, the landscape is starting to settle as the active nontransparent ETF applications to date generally fall into two categories:

01. Disclosure of IIV through a confidential account
02. Disclosure of a basket of securities through a tracking or proxy basket.

An active ETF will need to comply with certain investment limitations, i.e., invest only in securities that trade on a U.S. exchange, as the IIV is disseminated every second therefore eliminating investment in international

equities which may be subject to certain markets being closed during an ETF's trading hours. The tracking/proxy basket method better supports investment in international equities as proxy pricing allows them to invest in securities whose markets may be closed during an ETF's trading day.

The pressure on active mutual funds from ETFs is accelerating. Since 2006, U.S. equity mutual funds have lost more than \$1.6 trillion in assets under management while ETFs have seen an inflow of just over \$1 trillion in that same period⁷. Active mutual fund investors have heightened expectations

for more liquidity and transparency, which is being met by regulators' demands for those same protections for investors. All of these factors combined are contributing to the growth of ETFs, which is likely to continue well into 2020 and beyond.

The road to launching active nontransparent ETFs can still be a bit bumpy for these firms, as there are still a number of other approvals that must be granted before these products can be launched. Beyond approval by the IM Division and review by the Disclosure Review and Accounting Office, these ETFs generally will need to seek relief from the Trading and Markets Division and Division of Corporation Finance within the SEC as well. On top of this relief from the SEC, these firms may need to seek approval from the exchange itself as some of the listing rules may have to be updated to accommodate this new product. Ultimately, these ETFs will take some time to get off the ground, but once they get the all clear, are expected to generate a great deal of interest from investors.

Active nontransparent ETF growth has the potential to change the playing field for investment management distribution but faces headwinds. The system supporting active management distribution through mutual funds has adapted to regulatory changes over the past several years, and it is well established. Distributors have been driving share-class changes in mutual funds since the Department of Labor Fiduciary Rule first surfaced. Active nontransparent ETFs complicate this landscape with another form of "clean share"

that distributors will have to consider as they act in the best interest of their clients.

As investment management firms evaluate any potential active nontransparent ETF offering, leading practices indicate that close coordination with distributor needs is part of the decision and development process. Additionally, the ongoing services that accompany active investments need consideration. Generally, ETFs do not charge service or distribution fees that mutual funds often charge (12b-1). If investors no longer pay for service and distribution through the fund expenses then how will the service model change and which firms will bear the costs? This change to the investment manager-distributor-investor dynamic is complex, and it may take years to settle into standard industry practices. In the meantime, active nontransparent ETF development will proceed but will likely be hampered by yet another change to the complex distribution dynamic.

Asset managers want to be at the forefront of innovative solutions for their clients. The ETF wrapper offers active managers a cost-effective solution to enter in a fast-growing segment of the market. Therefore, many industry experts are predicting a shift in the landscape of the ETF marketplace⁸. Index investing, and ETFs may no longer be as closely linked as they were when ETFs first appeared.

⁷<https://www.cnbc.com/2020/01/25/the-next-big-thing-in-etfs-could-give-a-boost-to-long-suffering-active-investors.html>

⁸ Nate Geraci, "Can nontransparent ETFs save active management?" ETF.com, <https://www.etf.com/sections/etf-strategist-corner/can-nontransparent-etfs-save-active-mgmt>, June 13, 2019.

NEXT STEPS

The ETF Rule, along with form amendments, became effective on 23 December 2019. The SEC is rescinding, one year after the effective date of the ETF Rule, prior exemptive relief orders for all ETFs that can rely on the rule. These investment managers will need to comply with the new ETF Rule. ETFs structured as funds of funds will maintain their existing exemptive relief; however, the SEC will be rescinding exemptive relief permitting ETFs to operate in a master feeder structure (certain existing master-feeder arrangements will be grandfathered). The SEC is also providing a transition period for the amendments to Form N-1A and other filings of one year following the amendments' effective date.

As the dust settles on the changes for traditional ETF approval and processing, the race is on for working active non-transparent ETFs into the product strategy. Several firms are on the front lines and getting ahead of investor demand for this strategy, while many others need to consider whether they should put their hat in the ring or fear being left behind. Important early considerations are

pricing levels and distribution partners. There is potential for AUM cannibalization of traditional mutual funds. The timing and rollout approach of active nontransparent ETFs is a complicated problem to solve, to balance early mover advantages within a diverse network of stakeholders, such as investors, broker-dealers, and regulators. However, the race may be slowing. Between the timing of the additional SEC approvals and the recent COVID-19 pandemic affecting the global health and market volatility, it is likely to have an impact on the much anticipated launch of active nontransparent ETFs. Investment managers will no doubt need to continue to work with regulators and monitor this situation very closely in the months ahead and evaluate impacts to timing of their active nontransparent ETF rollout.

This significant regulatory action cements ETF's footing in the investment management industry and will facilitate greater competition and innovation in the ETF marketplace going forward, which benefits all investors but will challenge investment managers.





TO THE POINT

- The SEC's recent actions and approval of the ETF Rule is significant for the ETF market and creates a more level playing field and opportunities for product innovation
- Now that most ETFs will operate under the scope of the 1940 Act, the SEC has opened the door to active nontransparent ETFs with the approval of several innovative ETF structures and more investment managers are lining up with other investor alternatives
- As AUM ETF growth is likely to continue well into 2020 (fueled by investor demand for active management strategies with lower costs and more transparency and new product growth in active nontransparent ETFs), the investment management industry needs to seriously consider ETFs as a strategic product option.

RIGHTING THE SHIP

Transforming active equity in a competitive world



J. TYLER CLOHERTY
CASEY QUIRK
A DELOITTE BUSINESS



JONATHAN L. DOOLAN
CASEY QUIRK
A DELOITTE BUSINESS



SCOTT T. GOCKOWSKI
CASEY QUIRK
A DELOITTE BUSINESS



BENJAMIN F. PHILLIPS
CASEY QUIRK
A DELOITTE BUSINESS



KEVIN P. QUIRK
CASEY QUIRK
A DELOITTE BUSINESS

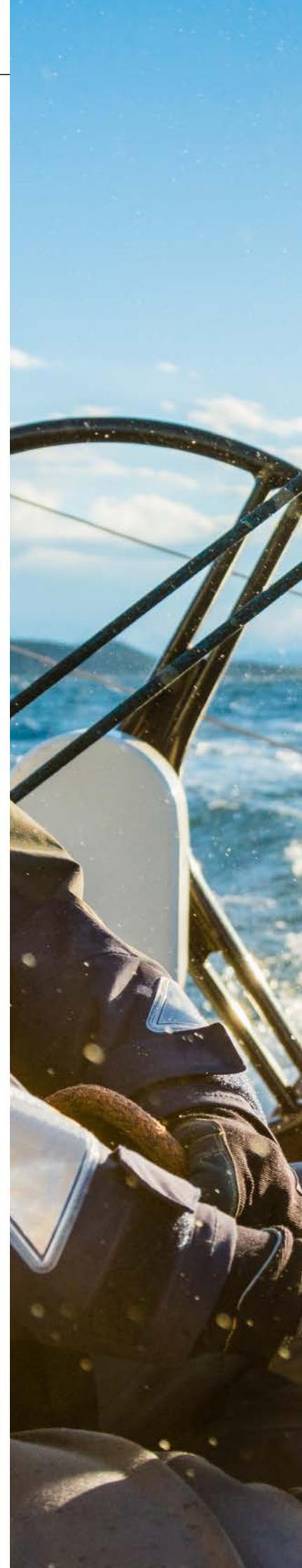
Active asset managers focused on long-only portfolios of quoted securities, particularly equities, have been the global asset management industry's bedrock for decades. Yet deep secular shifts in capital markets and asset management's operating environment are reshaping investment opportunities. Many active managers of listed equities are finding it increasingly harder to find alpha.

Yet the death of long-only active equities is exaggerated. Many portfolio managers consistently provide net excess return across actively invested strategies, but such investors are in the minority. The number of asset managers who can extend such outperformance across their entire product range is exceptionally small. As rivalry intensifies in an oversupplied market, many asset managers are discovering that their slim number of quality investment capabilities will fail to subsidize a wider range of less demanded, less differentiated strategies.

Asset managers who realize challenges with active equity management are secular, not cyclical—and therefore require proactive modernization—stand to gain from this unfolding dislocation. By leveraging consistently outperforming active equity strategies to shoulder out rivals while rehabilitating weaker offers, asset managers can improve their economics despite secular headwinds.

This article highlights four main points for this transformation:

- **Cyclical and structural trends are reducing the number of active investment strategies that consistently outperform**, requiring new skills, information, and methods to generate and deliver alpha
- **Demand for long-only actively managed equities will weaken**, slowing overall revenue growth and strengthening winner-takes-all competition for remaining assets
- As most asset managers maintain product ranges with both competitive and challenged strategies, **they stand to benefit from objectively addressing their active equity capabilities**
- **Thoughtful change management programs can strengthen weaker active equity offers** by enhancing them, delivering them more cost-effectively, or taking more dramatic action.







The current state of liquid active management

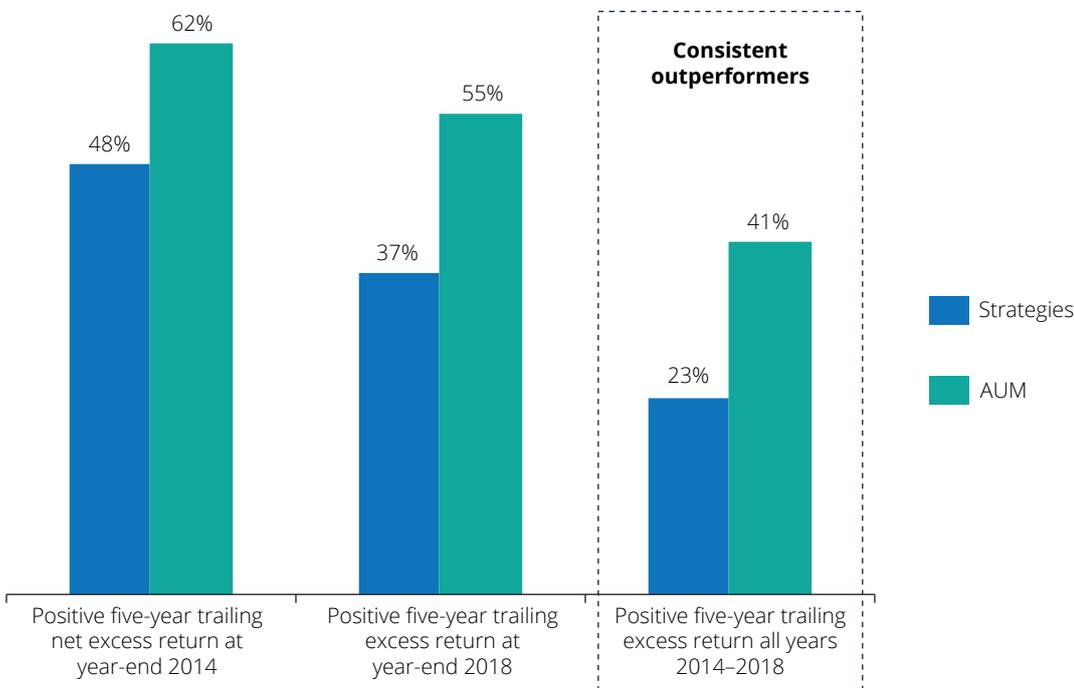
Several factors are reshaping both global demand and performance for actively managed portfolios of public securities:

- **The number of publicly traded companies in developed markets has dropped by half since 1996**, according to data from the World Bank. Coupled with a **rapid expansion in the number of investment products**—now numbering more than 100,000 globally, according to eVestment—the result is too many active asset managers chasing too few opportunities
- **Greater availability of transparent public information** has made it difficult for traditional proprietary research to provide a competitive advantage
- The **restrictions on position size in large pooled funds** have reduced active asset managers' ability to place large bets or capture illiquidity premia, diluting alpha. Such limits have made it more difficult for portfolio managers to influence companies, weakening efforts to drive value through shareholder activism
- The result has been **"closet beta"** e.g. broad diversification, particularly among large registered products that offer limited additional methods for diversifying risk, prompting correlation with major benchmarks. This has coincided with the proliferation of beta offerings at near-zero fees.

Consequently, fewer than 25 percent of actively managed investment strategies worldwide delivered consistent outperformance—defined as consecutive periods of five-year trailing positive excess returns, net of fees, exceeding the relevant benchmark.

While many asset managers have widened their product arrays, few have successfully extended consistent outperformance across their platforms. This inability to provide persistent alpha has bloated and overstretched product lineups.

Fig 1. Cumulative active outperformance (% strategies worldwide)



Actively managed equity capabilities are the most challenged. Even among the active equity strategies where outperformance has been most common, only a minority of assets have consistently beat benchmarks. For US equities, the proportion is 21 percent. Conversely, among fixed-income strategies where outperformance is prevalent, a majority of assets generate excess return.

Despite a fee-sensitive environment, investors are willing to pay for consistent performance. On average, the few asset management firms with more than 75 percent of their AUM in consistently outperforming strategies have resisted fee pressure for the past five years, while below-median performers among their weaker peers have seen fees shrink at least 5 percent and as much as 25 percent since year-end 2013.

While many asset managers have widened their product arrays, few have successfully extended consistent outperformance across their platforms. This inability to provide persistent alpha has bloated and overstretched product lineups. Only 11 percent of the world's asset managers have more than half their assets in consistently outperforming investment strategies.

Firms with mostly inconsistent or poor performance across more than 75 percent of their assets—the wide majority of asset managers—can suffer from a number of headaches: brand dilution, lower distribution productivity, inefficient investment staffing, distracted management and, perhaps most importantly, weaker economics from maintaining fixed costs of a long tail of subscale investment strategies.

Future repercussions for liquid active management

The changing fortunes for long-only active managers—across all types of securities, but particularly listed equities—are reshaping the global asset management industry in four ways:

01. Investors will likely adapt asset allocation and portfolio construction.

Asset owners and intermediaries worldwide are reducing their exposure to liquid “closet beta” and are reallocating assets toward three types of strategies: beta exposures, benchmark-agnostic alpha, and illiquid assets.

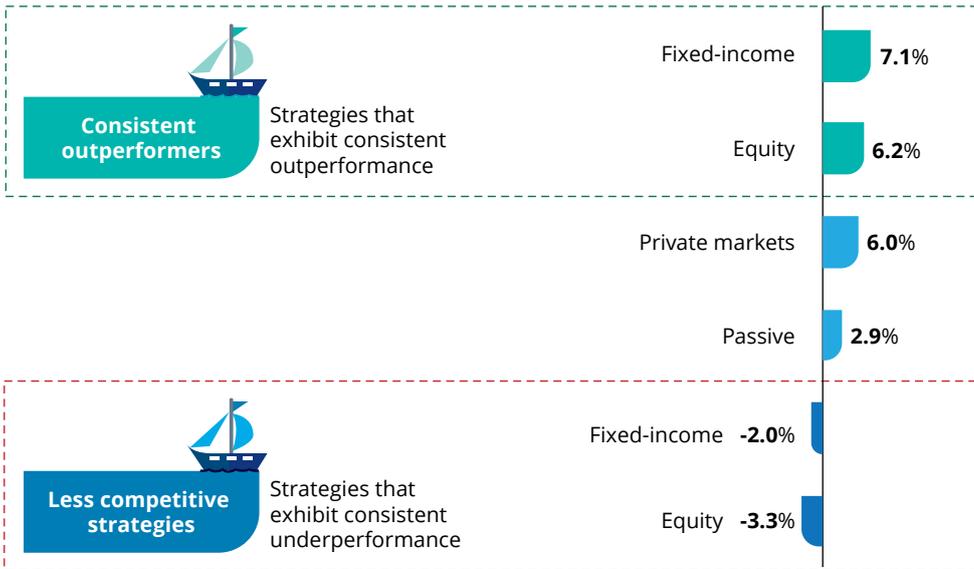
02. Consequently, passive strategies will likely become more prevalent, particularly in long-only equities, as investors are provided with a broader menu of factors and indexing methods.

03. Demand—and consequently, future economics—will shift away from listed active equity toward private markets and bonds. Between now and 2024, private markets will account for more than 70 percent of the industry's new revenues.

04. Among actively managed public markets strategies, competition will likely intensify. Consistently outperforming investment strategies could represent nearly all organic growth in long-only actively managed portfolios during the next five years.

Firms with mostly inconsistent or poor performance across more than 75 percent of their assets—the wide majority of asset managers—can suffer from a number of headaches: brand dilution, lower distribution productivity, inefficient investment staffing, distracted management and, perhaps most importantly, weaker economics from maintaining fixed costs of a long tail of subscale investment strategies.

Fig 2. Asset management industry revenue growth CAGRs by strategy type, 2019–2024E



Looking forward, several positive and negative external trends could affect performance, but none are likely to change the trajectory for liquid active portfolios, particularly long-only equities. This leaves most asset managers with a broad range of strategies ripe for transformation. The quest for alpha is far from over, but it needs to evolve.



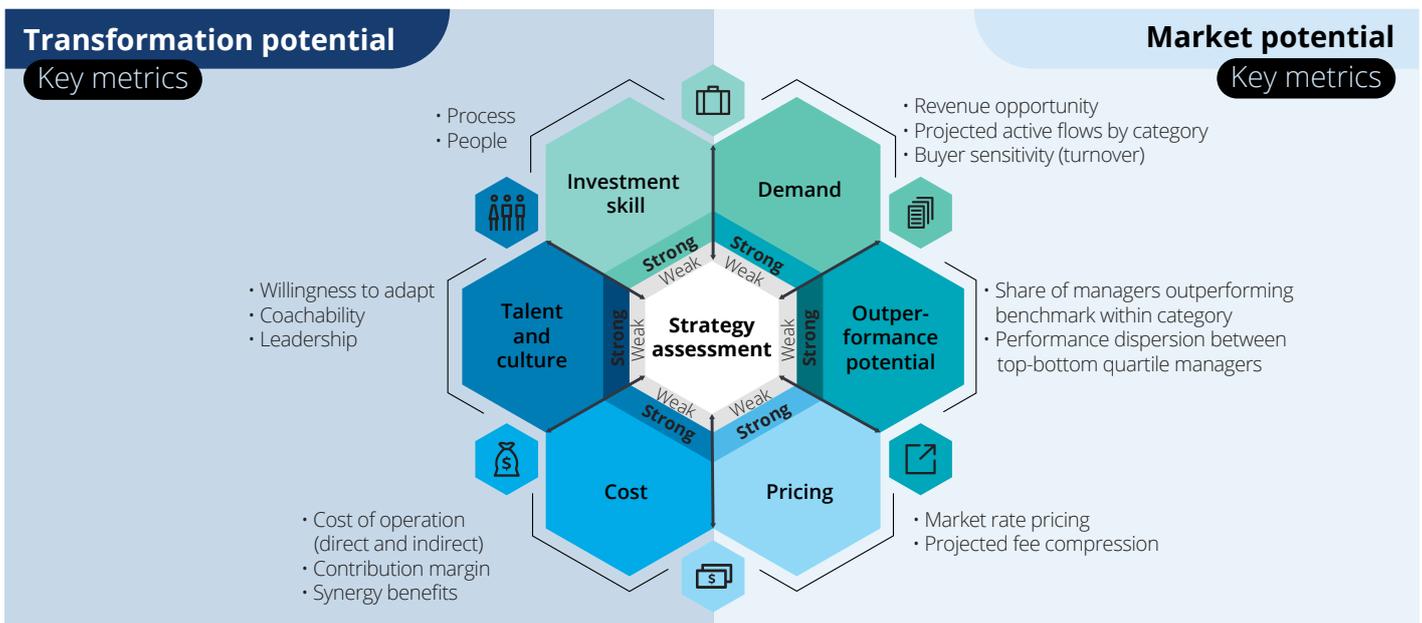
Assessing active equity competitiveness

To effectively transform their product lineups, asset managers need a clear-eyed, metrics-driven assessment of each investment strategy's current and future competitiveness. Weaker investment strategies should be measured on two axes:

- **Transformation potential:** Can the firm rehabilitate the investment strategy to deliver consistent outperformance and compete with peers?
- **Market potential:** Does the investment strategy meet both current and evolving asset allocation and portfolio construction needs of clients?

For asset managers, some of the greatest challenges are capabilities with low transformation potential—those resistant to change.

Fig 3. Investment capability assessment



For asset managers, some of the greatest challenges are capabilities with low transformation potential—those resistant to change. Such capabilities often involve inflexible talent, clunky operating processes that create rigid cost structures, or simply the weight of poor long-term performance. Rehabilitation options for such strategies are limited:

- For strategies with low transformation potential but high market potential, solutions often involve at least one of two actions: selling the capability to a rival with better performance but subscale assets under management, or rebooting talent through new hires in either a gradual or sudden transition. Both are high-risk,

disruptive, and reliant on the right external opportunity set (a buyer or new investment professionals).

- For strategies with low transformation potential and low market potential, little can be done, and the value of shedding costs may outweigh the short-term pain of losing revenue, particularly for loss-making strategies that are melting down from redemptions. In such cases, the least-worst alternative likely involves shutting down the strategy.

Fortunately, for asset managers with creative and strategic leadership, these cases will account for the minority of challenged capabilities. In most cases, change is possible through a wider set of

transformation options:

- For strategies with high transformation potential and high market potential, enhancing the investment process—through technology, activism, or access to a wider range of capital markets—can differentiate the capability from competitors and potentially improve performance.
- For strategies with high transformation potential but low market potential, reducing the cost of delivery increasingly represents the best solution. Raising the contribution margin on such strategies makes inevitably shrinking revenues more profitable, defending or even improving overall economics.

The rest of this article focuses on the steps that asset managers can take to help improve weaker investment capabilities with moderate-to-high transformation potential. The recommendations particularly focus on the strategies most likely to face challenges: long-only, actively managed quoted equities.

Enhancing investment processes

One of the biggest opportunities for managers of active listed equities resides within challenged strategies with high transformational potential aligned against strong demand. Successful asset managers will likely consider three approaches to enhancing challenged investment processes:

01. Use new information synthesis techniques and alternative data.

Technology provides portfolio managers ways to find more signals faster, potentially improving their ability to deliver alpha. Artificial intelligence, machine learning, and natural language processing algorithms can quickly process vast seas of traditional equity research data, using computing power to create an information advantage from finding different correlations and conclusions. Better and faster data analysis also offers portfolio managers more informative diagnostics and scenario analyses that can pinpoint suboptimal trades, unhedged risk, and cognitive bias.

Newly created data sets will amplify the power of faster, better analytics. Advanced synthesis can already unlock information from unstructured data sets, such as search engine activity and social media. Revealing correlations between traditional and alternative data will give portfolio managers proprietary insights that they can apply to security selection. Integrated data analytics platforms will allow an asset manager's investment professionals to share and leverage each other's insights more effectively. Simply securing technology and data is necessary, but insufficient. Successful transformation will require integrating these capabilities into existing investment teams. This will require asset management firms to become comfortable with new types of talent, such as data scientists.

02. Flex shareholder muscles through engagement and activism.

For decades, many "active" equity managers have been passive shareholders, often following board recommendations in proxy votes and remaining distant from management. Active

equity managers can stand apart from one another—and, more importantly, from indexers—through more vigorous engagement on behalf of their clients. Portfolio managers that vigorously and publicly push directors and managers of companies to create more shareholder value can build a stronger active equity brand, call more attention to their investment philosophies, and potentially generate better portfolio performance.

03. Provide access to less liquid capital markets.

A growing number of active listed equity managers, willing to court controversy in return for competitive differentiation, will likely explore adapting their investment processes and operating models to add illiquid capabilities into their traditional active equity strategies, where permitted and possible. Providing curated access to less liquid markets, however, will involve significant evolution of the traditional active equity investing platform, including:

- Deeper fundamental research capabilities to deal with more opaque

markets

- A robust network of advisors to secure access through deal origination and flow
- Specialist advisors providing tax, legal, and operating (e.g., property management) skill sets to aid investment professionals in security selection and portfolio construction
- An evolved distribution force able to handle more episodic fund-raising and co-investing
- Fund and pooled vehicle structures highly aligned with the liquidity traits of the underlying assets
- Enhanced risk management systems and processes.

Successful transformation will require integrating these capabilities into existing investment teams.



Reducing delivery cost

Many actively managed equity strategies may have high transformation potential but still face shrinking demand over the next several years. Yet such strategies still represent tens of billions of dollars of industry revenue, making drastic moves unsettling and undesirable. Instead, successful asset managers increasingly will explore three ways to deliver such capabilities at lower costs to existing clients, harvesting profits from slowly eroding portfolios.

One of the biggest opportunities for managers of active listed equities resides within challenged strategies with high transformational potential aligned against strong demand.

01. Systematize investment

processes. Using quantitative tools and techniques to automate equity research functions and handle more portfolio management decisions can make challenged strategies more profitable. Most importantly, transitioning to systematic approaches will involve thoughtful approaches to pricing, because most clients expect such strategies to cost less.

02. Optimize talent, data, and

workflow. By fine-tuning the current operating model and leveraging technology more cleanly and widely, median-sized asset management firms can reduce run-rate costs of delivering investment capabilities by as much as 16 percent. Keeping challenged strategies profitable will increasingly involve reducing run-rate pay for portfolio managers, linking more incentives to performance, and delayering poorly performing investment teams.

03. Rationalize products.

Merging investment products and strategies can create operational and compliance issues, but larger challenged capabilities remain marginally better than subscale ones. Larger products also remain equally profitable at lower price points, allowing asset managers to retain, and potentially gain, more clients through price reductions.



CONCLUSION

Transforming less competitive active investment strategies, particularly those focused on long-only listed equities, requires tough decisions and significant change. During the next decade, the role of the chief investment officer (CIO) will evolve more rapidly. While CIOs still will play a key role in overseeing investment philosophy

and process, increasingly they will need to make the crucial business decisions required to make an asset manager's product array more competitive for the long term. CIOs who are adept at talent management, comfortable with technology, strategic in their view of capabilities, and able to implement difficult change will provide their employers with significant competitive advantage.

The death of active management—in particular, fundamental, long-only, listed equity strategies—truly has been exaggerated. But innovation is sorely needed. As the small number of consistent outperformers squeeze the rest of the industry, asset management firms need to be creative and strategic with their product ranges and not hesitate to carefully and thoughtfully reshape,

or even exit, outmoded and uncompetitive investment strategies. Asset managers with the right mix of high-quality strategies, coupled with well-managed legacy products, will compete effectively in a less forgiving operating environment.

COVID-19 crisis implications

Immediately prior to the release of this paper, the COVID virus unleashed the largest market crisis since 2008-09. Equity values have dropped dramatically, outflows from equities have accelerated, and equity oriented managers potentially face significant top line revenue compression. It remains too early to tell the performance impact on active management throughout the cycle of the crisis. However, past crises have generally shown the similar performance outcomes to our long-term analysis. As a result, previous crises ultimately served as an accelerator for investors to move more aggressively

into less expensive passive alternatives. We expect this crisis will have similar impact. The strongest and most persistent generators of active performance will be best positioned to rebound out of the crisis.

The crisis will likely increase the urgency to prioritize efforts around the cost structure of the front-office and to pursue further product rationalization (which has already been well underway for the previous 3-5 years). When greater certainty arises regarding the end of the pandemic, we anticipate that there will another spike in M&A focused on driving scale and costs savings.

In summary, the strategic changes required to overhaul active equity businesses remain mostly unchanged by this crisis. A volatile market can provide the opportunity for high-quality active managers to prove their worth. And for those less capable, the crisis may expose their weaknesses. Decisive action organized by a salient long-term vision will be essential. Our recommended solutions lay out a clear plan to pursue higher performance, cost efficiency, and organizational focus; all which are essential regardless of the market environment.

The strongest and most persistent generators of active performance will be best positioned to rebound out of the crisis.



TO THE POINT

- Long-only active managers are struggling, with only 23 percent of strategies consistently delivering excess return
- Investors will adapt their portfolios, pulling over US\$2trillion in flows out of active equity products, in favor of private markets and fixed income
- Strategies that exhibit consistent outperformance will consolidate share and deliver six to seven percent revenue growth
- Managers need to transform their product lines by addressing non-competitive strategies based on their transformation and market potential
- While the recent COVID-19 crisis creates market uncertainty, the fundamental long-term trajectory will not change
- Active managers who transform their equity platforms will be best positioned to retain assets, win-back investors into active strategies, and capture growth in a volatile market.

MANAGING INVESTMENT COSTS AND ALIGNING INTERESTS

KIM BOWATER
DIRECTOR OF CONSULTING
FRONTIER ADVISORS

The views expressed in this article are the personal views of the author and not those of Deloitte.

A decade ago, we released a set of Fee Principles that proposed alternative investment fee structures to better align the interests of those that manage money with those who provide money¹.



One of the key elements was a focus on a combined flat dollar base fee with a performance fee to reward targeted performance outcomes. We were careful not to suggest a standardised approach to allow

for the differences in asset classes and manager styles, and not to be too prescriptive in the performance based fee component to avoid the wrong kind of risk taking. We focussed more on the “pay for

performance” elements, while suggesting asset owners and managers needed to agree a commercial relationship that was mutually beneficial.

Despite our enthusiasm,

and the passage of time, flat dollar fees are not the norm. However, unsurprisingly, this debate has moved on as the role of the active external manager has changed in the context of greater internalization of money management by the large asset owners and greater interest in passive management globally.

The development that has had the biggest impact on fees has been the internalization of money management by large superannuation funds. In 2012, one of Australia’s largest superannuation funds² announced it would be building an internal investment team and ultimately manage as much as 30 percent of the total assets internally within five years. Five years later the Fund reported that, “*over the course of 2017-18 total member assets increased by 17 percent, while total investment costs grew by a modest 2 percent.*”

1. “Managing Costs and Aligning Interests” <https://frontieradvisors.com.au/wp-content/uploads/2019/09/Frontier-Line-153-Managing-costs-and-aligning-interests.pdf>

2. “AustralianSuper Brings It In-house” <https://www.investmentmagazine.com.au/2012/09/australiansuper-brings-it-in-house/>



The most significant driver of these scale efficiencies is the increased internalization of the Fund's investment management capability, with 31 percent of the portfolio now managed internally. This has contributed in excess of US\$100 million in annual savings to members." The Fund continued this shift and many other super funds have joined them. The transfer of power, responsibility and accountability from managers to asset owners is well underway.

The other key catalyst for change has been the increase in the use of passive management in mainstream asset classes and the ability to access specific target "betas" or risk factors via what is called "alternative beta". Disappointment with active management outcomes led a number of institutional investors to question the ongoing use of active managers leading to terminations of some relationships in favor of passive mandates. This has also assisted with a reduction in fees as managers reduced fees as part of the negotiation to retain a mandate.

A large influence on the awareness and comparison of fees in Australia was the introduction of the MySuper product regime in 2014. MySuper products are required to be "simple and cost effective" with restrictions on the types of fees that can be charged and a simplification of product features. Recent guidance by regulators to Australian superannuation funds has also made its heightened focus on member outcomes, including fees, very clear. We expect the two main financial market regulators in Australia, ASIC

and APRA, to be much tougher in enforcing their objectives and we expect there to be more rules with which asset owners will need to comply.

Some positive global developments

The United Kingdom

Our global research partner in the UK, LCP, recently released its annual Investment Management Fees Survey for 2019, aptly titled "Investors are in the Driving Seat"³. LCP concluded there have been notable fee reductions in the average fees for active global equities, multi-asset diversified growth funds, multi-asset credit, liability driven investment strategies and passive global equity mandates for UK-based investors. It also concluded there had been an increase in fees for certain fixed interest related mandates, such as corporate bonds, private direct lending, emerging markets debt and absolute return bonds, which it noted could be attributed to pension fund demand for bespoke and more sophisticated fixed interest strategies.

Europe

MiFID II has also had an impact on behavior in financial markets. MiFID II applies to how and what costs and charges are incurred and subsequently reported to investors on an unbundled basis. These fees were previously packaged as a combined service, with a total commission paid to brokers in return for executing trades and providing research. They were also almost always paid for by the investors in a fund and the client had no visibility on how they were incurred or for what service. The process of unbundling has created greater

accountability for the costs incurred and reduced fees as a result.

Japan

The largest pension fund in the world, the Japanese Government Pension Investment Fund (GPIF), has introduced a "symmetric" performance-based fee structure. This involves paying active managers an ad valorem fee equivalent to a passive fee as the base fee, along with an uncapped performance fee, that is not paid in full each year but rather partly retained by GPIF and then allocated in the following year.

The Netherlands

We have seen a continuation of the Dutch focus on overall fee levels although one survey of 10 Dutch pension funds by LCP Netherlands noted that by mid-June 2018, asset management fees had risen for the first time since 2014 due to "the use of more expensive asset classes, such as infrastructure and residential mortgages, and higher performance fees for asset managers."

North America

It would appear not much has changed in the US although

we have seen some manager terminations and reduction or removal in specific asset classes by some of the large Californian public sector funds such as CalPERS exiting the hedge fund space in 2014. Canadian institutional investors have typically implemented a more direct investing model for many years, but it is difficult to determine the impact that has had on overall fees or whether this has changed over the last few years.

New models

Several managers in the US have been experimenting with zero and negative fees which appear to be legitimately at no investment management cost to the investor. Managers can still make money on products where asset owners pay no fees via, for example, securities lending or from taking active positions and hoping for the value added to be positive, which they then retain. In Australia, a manager offers a range of what it calls "Trust Index" funds that guarantee the investor the index outcome for no total fee, and the manager absorbs any difference (upside and downside) between what it actually earns and what it pays the investor. The risk to the



3. "LCP Investment Management Fees Survey 2019" <https://www.lcp.uk.com/pensions-benefits/publications/lcp-investment-management-fees-survey-2019/>.



investor is in the manager as the counterparty as opposed to any active management risk.

We recently saw the launch of a private equity fund scrapping the traditional “2% and 20%” model in favor of a budget-based approach for the base fee, plus the allocation of units in the fund to the manager as a performance based fee⁴. The fund, known as the “Long-term Private Capital Fund” is different in structure to the common private equity funds in the management buyout space with very long term planned holding periods for investments, permanent capital (i.e. not closed end funds), and typically lower leverage.

The fee model is innovative in

that it combines an assessment of the actual cost of running the Fund as the base fee with the allocation of units to the manager for the incentive-based component. At face value, this new model looks innovative, more equitable and more transparent – all positive developments – but it remains to be seen the extent to which it will catch on more widely, or the extent to which Blackrock will introduce the model more broadly in its own organization.

So, have the Fee Principles stood the test of time?

Principle 1 – Quantum of fees

This Principle originally stated investment management fees should normally be limited to a maximum proportion of

the expected active returns of 33%. Our experience was that a numerical maximum guide worked well in some circumstances and not as well in others.

Principle 2 – Performance fees

The use of performance fees is predicated on two simple principles: (1) the manager is “financially aligned” i.e., it does well when the investor does well and poorly when the investor does poorly; and (2) the manager is financially motivated to limit assets under management to maximize performance fees. It is also argued that higher fees will attract the best talent to a fund manager and thereby deliver better net returns.

There are certainly cases where all these apply. However, in general, the outcome appears to have been that “a bird in the hand has been worth two in the bush” (i.e. managers have preferred bigger base fees to uncertain performance fees). As a result, performance fees are not common in most asset classes.

Principle 3 – Structuring performance fees

We continue to support the proper structuring of any performance-based fees to ensure there is equity in the fee agreement for each party.

Principle 4 – Unlisted and illiquid investments

In some circumstances, we continue to accept the use of performance-based fees for unlisted and illiquid investments but, we strongly believe equitable structuring is critical, especially in the context of the much lower ability to transact. We have however found these have been much harder to negotiate and/or change, reflecting the greater complexity in the asset classes and the likely higher bargaining power of the managers due to perceived higher skill or scarcity

Principle 5 – Investment costs

We continue to believe there should be full transparency around investment costs and these should be regularly reported and reviewed.

Principle 6 – Review of fee structures

We continue to believe a formal review of the investment management relationship consistent with the mandate type at a pre-agreed point in time makes sense.

4. “Private Equity Drove Two Canadians Crazy. At BlackRock, They’re Trying to Fix It”, <https://www.institutionalinvestor.com/article/b1fmb7jbpysz1/Private-Equity-Drove-Two-Canadians-Crazy-At-BlackRock-They-re-Trying-to-Fix-It>,

The next decade

Fees remain as important today as they were a decade ago, and potentially more so in a “lower yield environment”, where how much asset owners pay for market and excess returns is even more critical.

As consolidation in the superannuation industry continues managers will need to rethink their business models due to the lower number of large mandates available. The changes in the manager landscape will change the offerings of externally managed products to all investors.

Our encouragement to managers to be innovative remains as relevant today as it was 10 years ago. Asset consultants have faced this challenge for many years as many of the functions undertaken for asset owners have slowly but surely moved in-house (or to other providers). This has enabled asset consultants to focus on the best approach to deliver value to asset owners.

We also believe there will be a role for external managers that are skilled, can add value and where the commercially agreed arrangement allows for an appropriate sharing of the risks assumed, and of both success and failure relative to targeted outcomes. These arrangements need to reward genuine skill and both parties need to think they are fair and transparent.

The fundamental question is: how should managers be rewarded for managing money on behalf of others?

It is not possible to reconcile a fee model that works as well for managers as it does for investors. Managers will always want a certain fee for what investors expect to be an uncertain outcome. Investors will always want to pay the least possible for the outcome they think they will get, or at least only pay when the manager delivers.

So how can this be resolved? Greater awareness and transparency of fees paid and fee models have made investors question these old approaches and it seems clear the generic ad valorem model is well past its use by date. However, it remains the most common and so the typical goal of the investor has been to make fees paid as low as possible.

A pricing philosophy that values transparency and can prove the value of the service, that shares the benefits of scale, that rewards long-term relationships, that balances structure with complexity, and that makes it clear what investors are paying for (investment returns and all the collateral of running the business including risk management) will enable more enduring fee models to emerge. Successful commercial relationships need the organizations on both sides to be sustainable and for both parties to think that it is fair.

Looking ahead to what makes the most sense for the next decade, we have developed a Fee Philosophy that includes the key elements of focus on net returns to investors, share of excess returns, alignment of interest, transparency and willingness to share the benefits of scale.

We believe net of fees (and tax and other costs) returns are most important for asset owners who are providing the capital and taking the risk and so should retain the bulk of the return. Returns are uncertain, but fees are always negative.





TO THE POINT

To drive long term alignment between asset owners and investment managers, the following should be considered in determining the appropriate fees and fee structures:

01. The proportion of the expected diversification- adjusted excess returns generated by the manager that the client is paying in fees including prospective net return of the manager.
02. The various fee models expected to result in an improved alignment of interest between asset owners and the manager
03. The willingness and ability of the manager to be proactive and transparent in their dealings with asset owners, including regular reviews of fees and costs
04. The willingness of the manager to share the benefits of scale and long-term commitment of capital.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) 2020

A NEW IMPETUS FOR GIPS STANDARDS

YOAN CHAZAL
PARTNER
DELOITTE

OPHÉLIE PEYPOUX
SENIOR MANAGER
DELOITTE

JEAN-FRANÇOIS BOUILLY
CFA, CIPM - CHAIR OF THE CFA SOCIETY
FRANCE'S GIPS® COMMITTEE



The final version of the new Global Investment Performance Standards (GIPS®), known as “GIPS 2020”, was published in June 2019. Created in the late 90’s, GIPS standards have been completely revised by the CFA Institute and adapted to consider, among other things, the rise of alternative management. This revision has

also provided the opportunity to harmoniously integrate the different rules and recommendations issued over the past 10 years. The GIPS 2020 came into effect on 1 January 2020.

GIPS standards were introduced 20 years ago (and already reviewed in 2010) to

meet the growing need for institutional investors, including American pension funds, to be able to compare various investment management capabilities. Beyond the sole performance calculation, GIPS standards enable homogeneous investment performance presentations, requiring exhaustiveness in

the chosen perimeter (the “Firm”) and organized by type of investment management capability and/or asset classes (the “Composites”).

Today, over 1,700 investment management firms declare themselves “GIPS compliant” with an increasing proportion in Europe (around 200).



The novelty of the GIPS 2020 stands firstly in a simplified reading of the standards thanks to the publication of three separate handbooks: for asset managers (“firms”), for institutional investors (“asset owners”) and the last for verifiers.

Thus, emphasis has been placed on something new from the focus of recent years: the use of the GIPS standards by institutional investors for the presentation (and therefore the calculation) of their own investment performance. Many asset owners already request application of GIPS standards from investment management firms in their tenders so that they can easily and exhaustively study and compare their investment performances.

The revision of GIPS standards follows numerous discussions with various stakeholders. The adjustments implemented since 1 January 2020 meet the need to facilitate the adoption

of GIPS standards by both traditional and alternative investment management firms, including private equity and real estate investment managers.

Although the GIPS standards having been international best practice in terms of performance calculation and reporting for the past two decades, GIPS 2020 represents a mini-revolution in the investment management industry. The record number of participants in the last annual CFA Institute’s GIPS Conference in September 2019 is a prime example of the continued interest.

This article provides the key points for understanding the changes made in the 2020 version of the GIPS standards.

TO START, A FEW REMINDERS CONCERNING GIPS STANDARDS

By establishing standardized requirements for the

calculation and presentation of investment performance, GIPS standards enable:

- For asset managers: competition on an equal footing on all markets
- For asset owners: a comparison of the past performance of asset managers
- For all stakeholders: a sincere and fair presentation of the performance of the invested assets.

In the absence of such a standard, comparing the investment performance of multiple asset managers would be particularly difficult, in a given country, on a world scale. In addition, asset managers can make decisions that result in intentional or unintentional misstatements in investment performance reporting and/or communication. Here are some examples:

- Selective presentation of investment periods and/or portfolios
- Incorrect aggregation of portfolios whose investment strategies have nothing in common
- Use of an inappropriate calculation methodology in order to overestimate investment performance
- Use of a book value that does not represent the fair market value
- Reference to a benchmark that is not representative of the investment strategy.

GIPS standards are a set of rules based on the fundamental principles of full disclosure and fair presentation of investment performance. Asset managers that comply with GIPS standards offer their customers and prospects the opportunity to fairly assess their past performance.

A LEXICON OF KEY CONCEPTS

Firm: The entity defined for compliance with the GIPS standards; an investment management firm, subsidiary, or division presented to clients or prospects as a separate business entity.

Portfolio: An individually managed group of investments that may be:

- A segregated account, owned by a single client; or
- A pooled fund, whose ownership interests may be held by more than one investor.

Composite: An aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy.

Wrap fee portfolio:

A portfolio for which the sponsor charges investment management services through a bundled fee that is typically all-inclusive, asset-based, and includes a combination of investment management fees, transaction costs not separately identifiable, custody fees, and administrative fees.

Carve-out: A portion of a portfolio that is, by itself, representative of a distinct investment strategy, typically used to create a track record for a narrower mandate from a multiple-strategy portfolio managed to a broader mandate.

Overlay strategy:

A strategy in which the management of a certain aspect of an investment strategy is carried out separately from the underlying portfolio, typically designed either to limit or maintain a specified risk exposure that is present in the underlying portfolio, or to profit from a tactical view on the market by changing a portfolio's specified risk exposure.

Money-weighted return:

The return for a period that reflects the change in value and the timing and size of external cash flows.

Time-weighted return:

A method of calculating period-by-period returns that reflects the change in value and negates the effects of external cash flows.

TIPS FOR READING GIPS 2020

- There are no longer separate sections per asset class for real estate, private equity, and wrap fee portfolios
- Real estate and private equity are now part of a larger category, called "private market investments"
- Each section includes provisions for each specific asset class or type of asset (for example, overlays, carve-outs, wrap fees, private market investments etc.)
- The effective dates of application of the provisions are now mentioned at the bottom of the page
- The terms defined in the glossary are in capital letters.

GIPS FOR FIRMS: MAIN NEW FEATURES, CLARIFICATIONS, AND/OR DEVELOPMENTS

- Firms now have **a maximum of one year** to update their GIPS reports at the end of the

most recent period, when no time was previously required.

• Composites vs. pooled funds:

- Firms must create composites for strategies that are managed or intended to be marketed in the form of segregated accounts
- All discretionary segregated accounts paying management fees must be included in at least one composite
- All discretionary pooled funds paying management fees must be included in all composites for which they meet the definition
- Firms are not obliged to create a composite that includes only one or more pooled funds, if the strategy of this fund(s) is not intended to be marketed in the form of segregated accounts
- Firms may close out

composites that include only one or more pooled funds, if the strategy of that fund(s) is not distributed like the strategy of a composite.

- Firms must **classify and list** each of their portfolios in one of the following categories:
 - **Segregated account:** A portfolio owned by a single client
 - **Broad distribution pooled fund:** A pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations
 - **Limited distribution pooled fund:** Any pooled fund that is not a broad distribution pooled fund.
- Some **changes in terminology** have been made:
 - "Trading costs" are replaced by **"transaction costs"**.

Furthermore, if these are not known, they can now be estimated to calculate the net performance (with some required disclaimers)

- "Wrap fees/separately managed accounts" are renamed **"wrap fee portfolios"**
- "Compliant presentations" are replaced by **"GIPS reports"**. There are now two types of GIPS reports for firms: GIPS composite reports and GIPS pooled fund reports (required for limited distribution pooled funds and recommended for broad distribution pooled funds).

- **Carve-outs:** GIPS 2020 offers more flexibility in terms of cash management for carve-outs by reintroducing the concept of synthetic cash allocation (applicable retroactively, on the whole track record). However, creating a carve-out with independent cash

management remains the preferred option. Thus, as soon as the firm gets a standalone portfolio managed according to the same strategy as the carve-out(s) with a synthetic allocation of cash:

- The firm must create a composite that includes only standalone portfolio(s)
- The GIPS Composite Report of the composite that includes the carve-out(s) with a synthetic allocation of cash must also present the performances and the outstanding amounts of the composite that include only the standalone portfolio(s).

• **Money-weighted returns:**

Firms may present money-weighted returns only if the firm has control over the external cash flows into the portfolios in the composite or pooled fund and the portfolios in the composite have or the pooled fund has at least one of the following characteristics:

- Closed-end
- Fixed life
- Fixed commitment
- Illiquid investments as

a significant part of the investment strategy. Other developments should be noted for firms that present money-weighted returns.

- **Overlay strategies:** More details are provided on the methods for calculating and reporting overlay strategies. Also, for overlay strategy composites, firms can now choose between presenting the firm's total assets or the firm's total overlay exposure.

• **Firms' and composites' assets:**

- Uncalled committed capital and advisory-only assets must not be included in the firm's total assets. However, it is now possible to present them separately or combined with the firm's total assets, if the latter in the strict sense is presented and that the comments and details necessary for the good understanding of the users are well included
- It is no longer possible to present the composite's total assets as a percentage of the firm's total assets,

unless the firm's total assets are also presented, and this for each period-end.

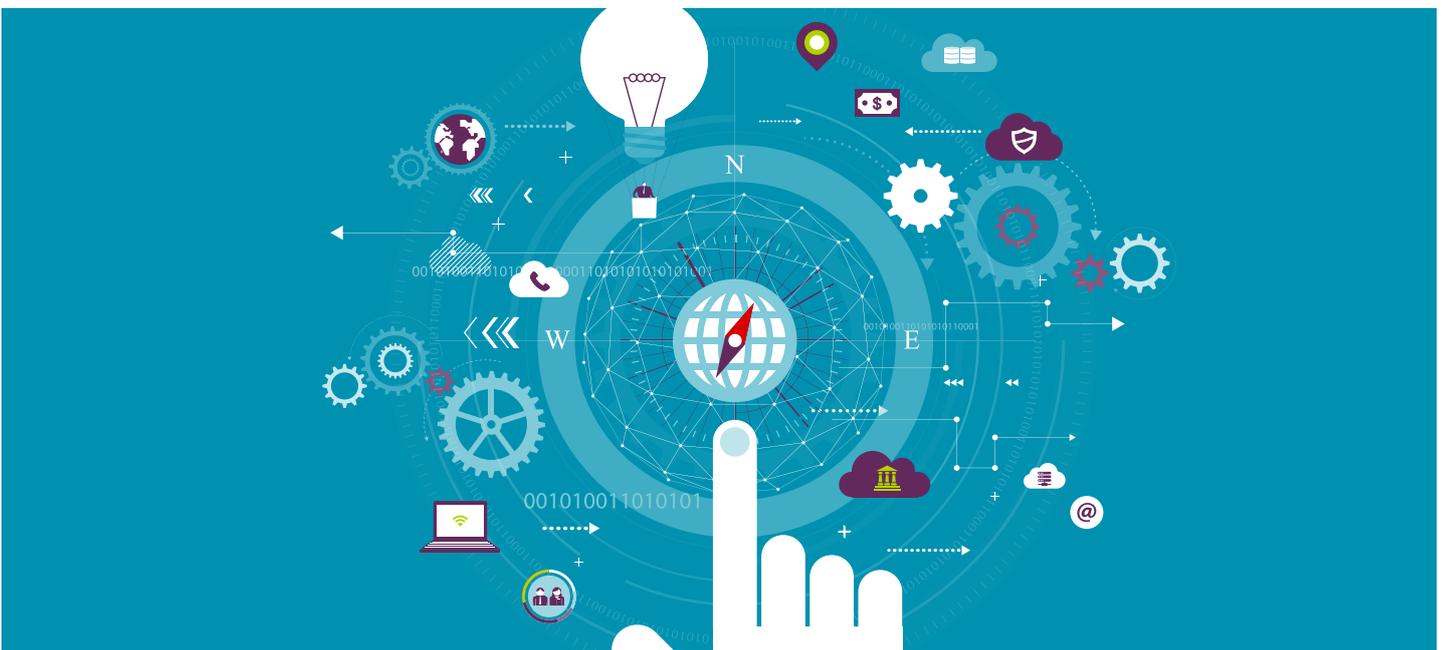
• **Real estate:**

- Investments in real estate in open-end funds must benefit from external valuation at least every 12 months
- Investments in real estate that are not in open-end funds must obtain an external valuation at least every 12 months, unless the contract with the client stipulates another frequency. In this case, the portfolio must benefit from an external valuation at least every 36 months or at the frequency defined in the client's contract if it is less than 36 months
- Investments in real estate must be accounted for according to the fair value principle and the annual financial statements must be audited by an independent accounting firm.

- **GIPS advertising:** There are three options available to firms when marketing a

strategy:

- Prepare a GIPS Advertisement on a composite, a limited distribution pooled fund, or a broad distribution pooled fund by following the GIPS Advertising Guidelines
- Prepare a GIPS Advertisement and include a GIPS report
- Do not mention GIPS standards. The GIPS Advertising Guidelines have been broadly expanded in GIPS 2020. The main points to remember are that:
 - The returns of the composites/pooled funds presented in the GIPS Advertisement must be derived from the returns included in the GIPS reports
 - Requirements differ depending on the type of returns presented in the GIPS Composite Report (money-weighted returns vs. time-weighted returns)
 - The concept of broadly distributed pooled fund is now included in the GIPS Advertising Guidelines and replaces the obligations



previously included in the Guidance Statement on Broadly Distributed Pooled Funds.

- **Sunset provision:** Some disclaimers must be included for a minimum of one year and can now be withdrawn if the firm determines that the disclaimer is no longer relevant for interpreting the performances presented, such as:
 - Significant events that help a prospective client or investor interpreting a GIPS report
 - Changes in the name of a composite or a pooled fund
 - Retroactive change of a

benchmark

- Corrections of material misstatements
- Change in the type of returns presented (money-weighted returns vs. time-weighted returns).

EFFECTIVE DATE

GIPS 2020 is effective as of 1 January 2020:

- GIPS Reports that include performance for **periods ending on or after 31 December 2020 must be prepared in accordance with GIPS 2020.**
- GIPS Reports that include performance for

periods ending before 31 December 2020 (for instance 30 June 2020) **may still be** prepared in accordance with the **2010 edition** of the GIPS standards.

- Firms can choose to adopt GIPS 2020 early, but only full adoption is possible i.e. **no cherry picking** due to early or progressive adoption.

Some new GIPS 2020 provisions are subject to interpretation, so they have been gradually explained through communications from the CFA Institute since the beginning of 2020.

CONCLUSION

Technical aspects of GIPS standards are important to consider, but their adoption must come from a desire for openness and transparency. If integrated into a reliable and fluid reporting process, their implementation is generally not a source of concern or does it bear excessively high costs.

Upstream, the definition of the firm and composites will be cause for reflection on the proposed range as well its strengths and weaknesses.

Reliable technology and data are essential for the calculation and presentation of GIPS compliant investment performances, but this must always be the case regardless of the size of the investment management firm, if only to satisfy requests from clients and

other third parties. Compliance with GIPS standards is essential for an asset manager that offers its services, but also for an asset owner that must answer for its investment management, including and especially when it is delegated to third party managers, vis-à-vis the stakeholders who are their principal concern and their representatives within an oversight body..

TO GO FURTHER...

USEFUL LINKS:

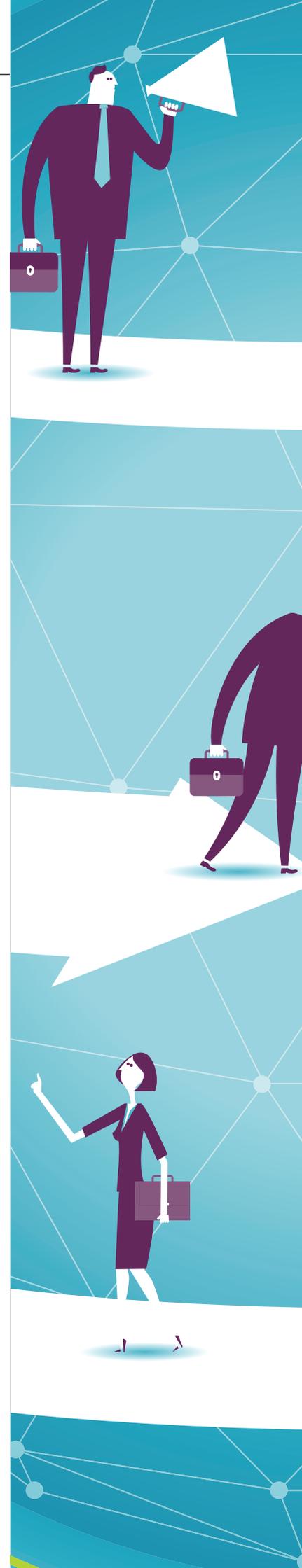
2020 GIPS standards:

- **For firms:** <https://www.cfainstitute.org/en/ethics/codes/gips-standards/firms>
- **For verifiers:** <https://www.cfainstitute.org/en/ethics/codes/gips-standards/verifiers>

- **For asset owners:** <https://www.cfainstitute.org/en/ethics/codes/gips-standards/asset-owners>

Presentations from the 23rd Annual Conference on GIPS standards:

- **2020 GIPS standards update:** <http://cfainstitute.gallery.video/gips2019/detail/video/6085332667001/gips-2020-update?autoStart=true>
- **Topics for high net worth firms:** <http://cfainstitute.gallery.video/gips2019/detail/video/6085332667001/gips-2020-update?autoStart=true>
- **Alternative investments:** <http://cfainstitute.gallery.video/gips2019/detail/>





TO THE POINT

- GIPS standards were introduced 20 years ago to meet institutional investors' growing needs to be able to compare various investment management capabilities.
- The adjustments implemented since 1 January 2020 meet the need to facilitate the adoption of GIPS standards by both traditional and alternative investment management firms, including private equity and real estate investment managers.
- Technical aspects of GIPS standards are important to consider, but their adoption must come from a desire for openness and transparency. If integrated into a reliable and fluid reporting process, their implementation is generally not a source of concern or does it bear excessively high costs.
- Compliance with GIPS standards is essential for an asset manager that offers its services, but also for an asset owner that must answer for its investment management, including and especially when it is delegated to third party managers, vis-à-vis the stakeholders who are their principal concern and their representatives within an oversight body.

ART & WEALTH MANAGEMENT

**Creating a personal and emotional connection
with clients through passion-related wealth**



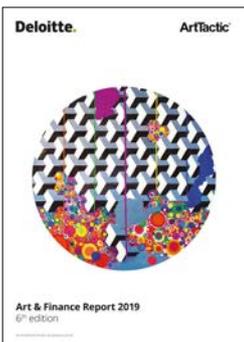
VINCENT GOUVERNEUR
PARTNER - ART & FINANCE LEADER
DELOITTE LUXEMBOURG



ADRIANO PICINATI DI TORCELLO
DIRECTOR - GLOBAL ART & FINANCE
COORDINATOR
DELOITTE LUXEMBOURG



ANDERS PETTERSON
MANAGING DIRECTOR
ARTTACTIC LONDON



Deloitte Luxembourg has been producing its Art & Finance Report* since 2011. The report looks at the development of Art & Wealth management services. In this article, we present some of the results of the last report published October 14th 2019 during our 12th Art & Finance conference that took place in Monte-Carlo.

METHODOLOGY AND LIMITATIONS

Deloitte Luxembourg and ArtTactic conducted research for the Art & Finance report between April 2019 and June 2019. The survey was taken by 54 banks (down from 69 in 2017), and 25 family offices (down from 27 in 2017).

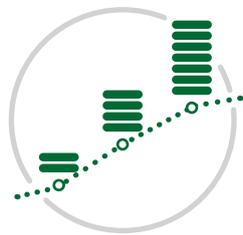
As in previous years, research was conducted among other important stakeholders in the Art & Finance market, such as art collectors and art professionals (galleries, auction houses, art advisors, art lawyers, art insurers, art logistics specialists, etc.). A total of 138 art professionals (down from 155 in 2017) and 105 major art collectors participated in the survey (down from 107 in 2017). These stakeholders from Europe, the US, the Middle East, Latin America, and Asia were surveyed on a variety of topics relating to art as an asset class, their motivations, current and future involvement, challenges, and opportunities.

*Our reports can be found at www.deloitte-artandfinance.com

Types of art wealth management services

Accumulating
wealth growing assets

- Museum endowments
- Art investment
- Art funds
- Stock of art businesses
- Private Equity in start-ups
- Financing of art business
- Social impact investment



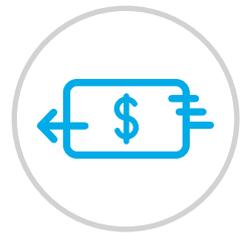
Protecting
wealth managing risks

- Art advisory
- Valuation
- Assets consolidation
- Reporting
- Art insurance
- Passive portfolio management
- Art collection management
- Art risk management



Transferring Wealth
Creating a legacy

- Philanthropy advice
- Art related inheritance & estate planning
- Securitization



Converting wealth to income - Creating an income stream

- Art secured lending

Not included

- Client entertainment
- Internal education
- Art sponsoring
- Corporate collection

Key findings

Key motivations for including art and collectibles in wealth management

Wealth managers continue to see significant benefits in including art and collectibles as part of their product and service offering

86 percent of wealth managers said they thought there was a convincing argument for including art in their wealth management service offering (82 percent of private banks and 94 percent of family offices aligned with this view). This was slightly lower than in 2017, when 88 percent of wealth managers were strongly in favor of the inclusion of art. This year's findings show the largest consensus so far among wealth managers, art professionals (86 percent of whom said art should be included in a wealth management offering), and art collectors (81 percent of whom agreed).

86 percent



of wealth managers said they thought there was a convincing argument for including art in their wealth management service offering

The desire to develop a holistic wealth management advisory service remains the key argument for including art and collectibles as part of a service offering. A large majority (83 percent) of wealth managers said that the growing push to offer more holistic services to their clients was a prime reason

to include art and collectibles as part of a broader range of services (this was slightly lower than the 85 percent seen in 2017). It is clear that as more wealth managers move towards a holistic management approach, fewer banks describe competition in the sector as the prime reason for including

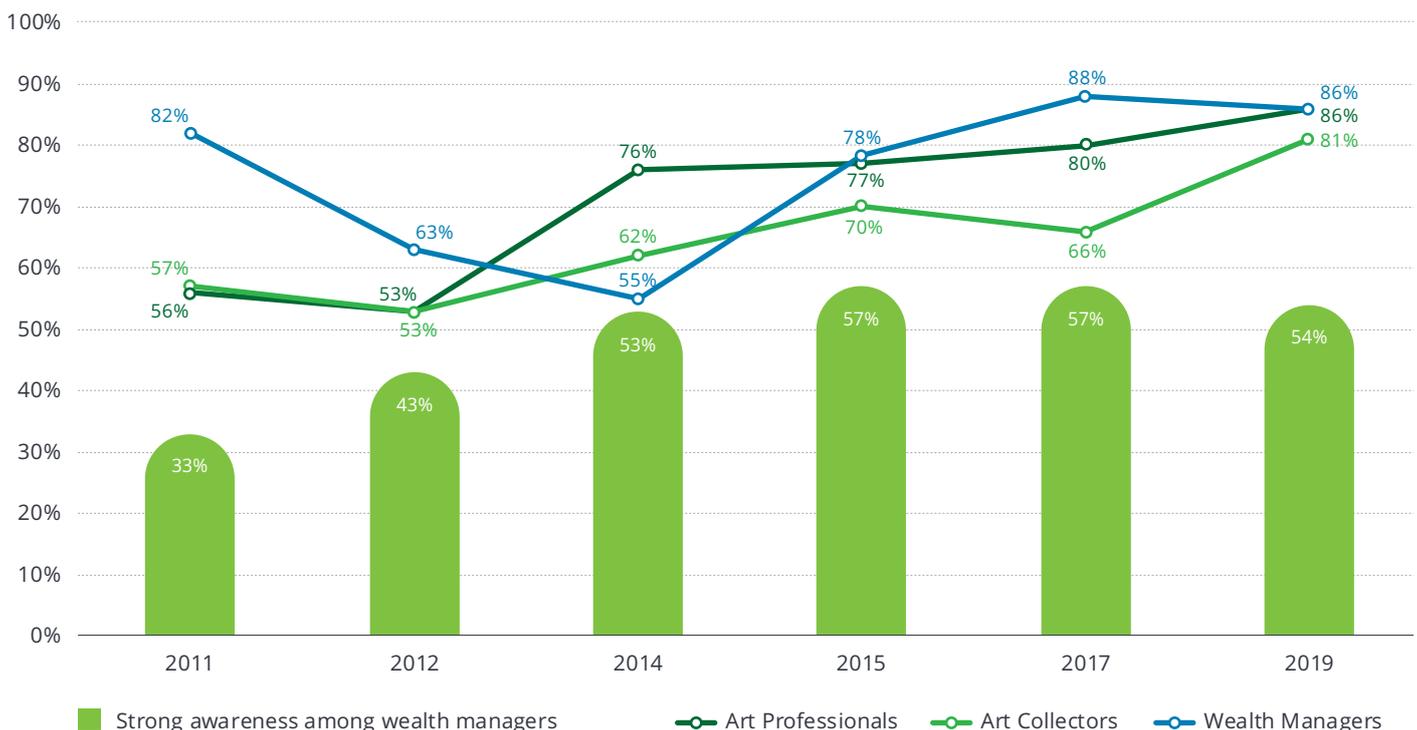
art in their wealth management offering, as only 58 percent of wealth managers said this was the case (down from 72 percent in 2017).

Shifts in opinion among wealth managers Wealth managers are not motivated by rising art valuations

The fact that art now accounts for a larger share of clients' overall assets is seen as a significantly less important argument this year; only 39 percent of wealth managers said this was important, compared with 73 percent who said the same in 2017. A number of conclusions may be drawn from this. Firstly, the wealth management community views the rise in art market sales and prices with suspicion, and professionals are not prepared to change and adapt their strategy according to these market trends. Secondly, there is a lack of understanding and

Figure 1. Do you think that art and collectibles should be part of a wealth management offering?

% answering Yes - Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019



knowledge about the art market and how to respond to rising art valuations. In other words, wealth managers do not know how to properly assess the risks and rewards linked to providing art-related services aimed at protecting, enhancing, and leveraging the increasing value of art.

Less pressure from clients

Just 34 percent of this year's wealth managers said that they were seeing growing calls from clients for wealth managers to help with art-related issues (tax planning, estate planning, etc.). This was significantly lower than the 55 percent who expressed this view in 2017.

The portfolio diversification argument is back in fashion

While the results from this year's survey indicate weaker support for many of the arguments that were among the most important in 2017, it is interesting to note that



El Silencio Del Color © Lina Sinisterra (2016)

more wealth managers (54 percent this year compared with 48 percent in 2017) now believe that art and collectibles offer portfolio and asset diversification benefits and therefore should be included in wealth managers' services. This finding also echoes the changing motivations for buying art reported by art collectors and art professionals.

Perceptions of the importance of art as an asset class have diverged and should be brought back into line

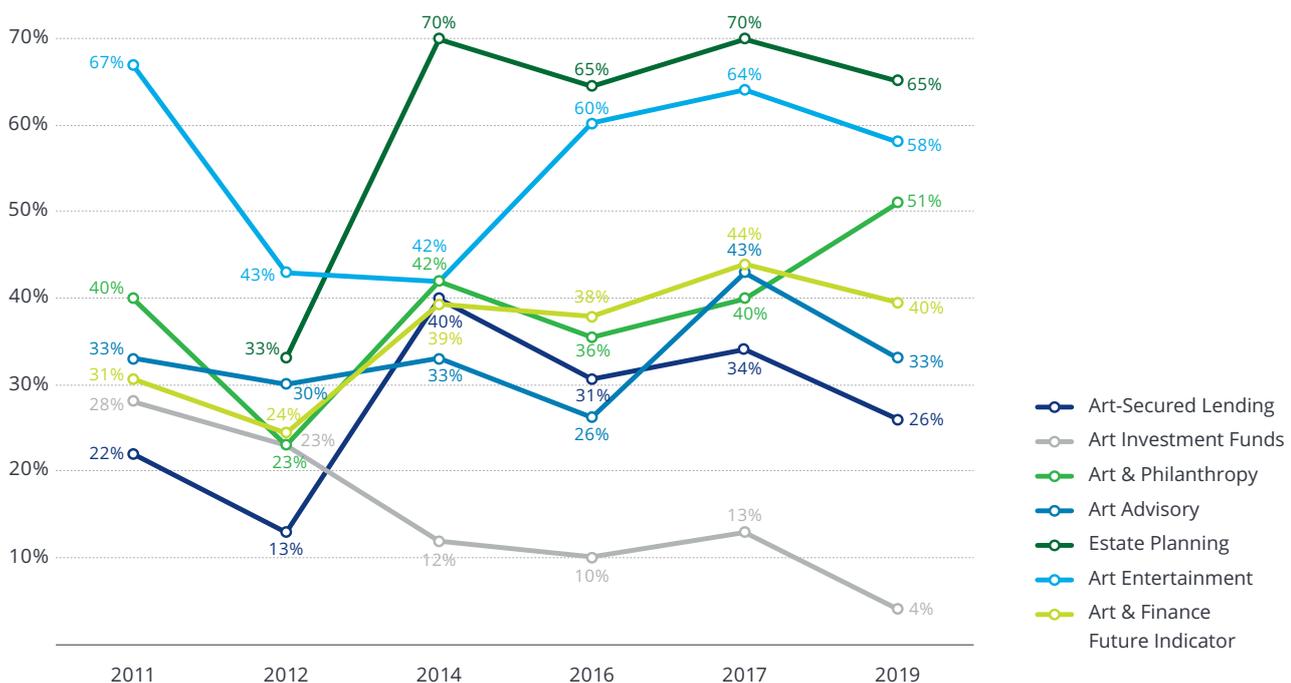
Recent years have seen the wealth management community respond to demand by offering clients more art-related services

72 percent of wealth managers surveyed this year (80 percent

of private banks and 53 percent of family offices) said they were currently offering art-related services to their clients. This was up from 64 percent of wealth managers in 2017. This shows that more private banks and family offices are responding to client demand for additional services; however, the near future looks somewhat uncertain.

Figure 2. Future trends : which services will you focus on in the next 12 months?

Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019



Strong consensus among stakeholders about the value of art as part of a wealth management offering

This year’s findings show the highest reading since the launch of the survey in 2011, indicating a strong consensus that art should be part of a wealth management offering among wealth managers (86 percent expressed this view) art professionals (86 percent), and art collectors (81 percent).

to invest less in the future, in light of the other findings and with 72 percent of banks already offering art-related services (up from 64 percent in 2017), it seems more likely that the wealth industry is preparing to meet client demand for services associated with art-related wealth.



Todos los destinos © Lina Sinisterra (2015)

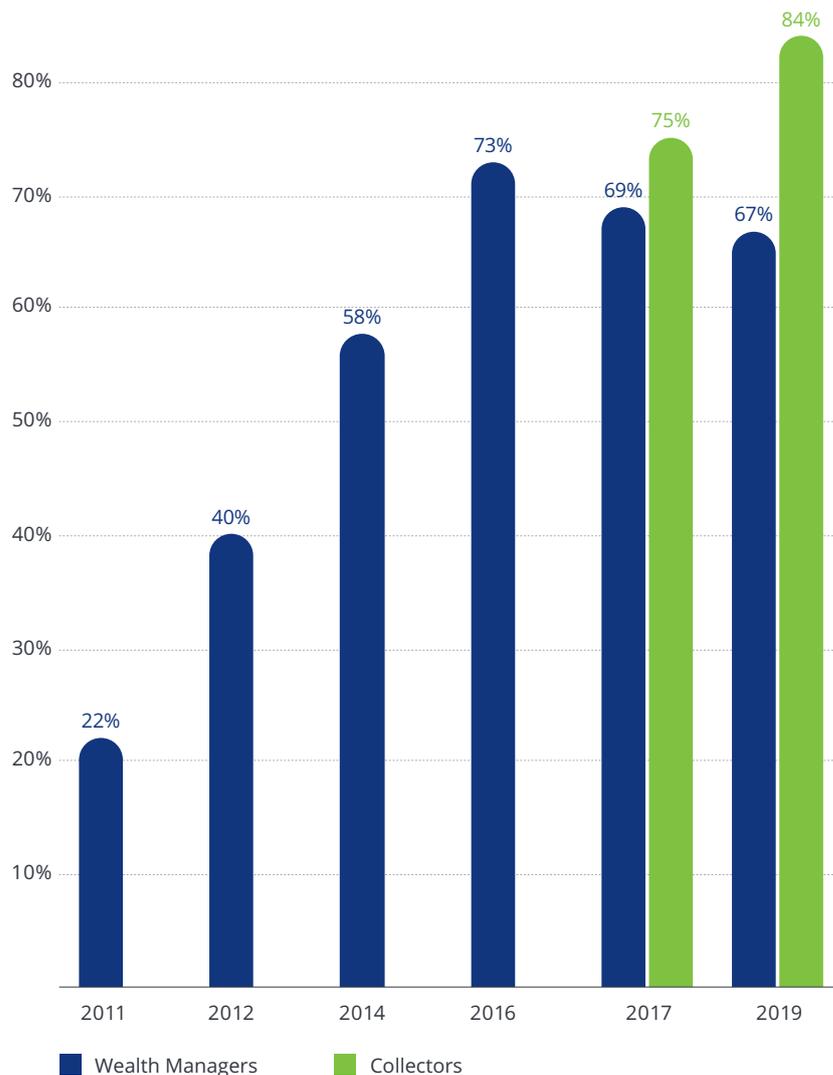
There has been a slight decrease in awareness among wealth managers about developments in relation to art as an asset class; however, this could be the result of differences between this year’s sample and the sample from 2017.

Uncertainty around future investment in activities relating to Art & Finance could reflect a maturing market

This year’s survey shows that both collectors and art professionals believe that art and collectibles should be part of a wealth management offering. This finding was echoed by the wealth management community, with a large majority (86 percent) of wealth managers expressing this view (compared with 88 percent in 2017). However, this year’s findings signal a lower level of focus on most activities related to Art & Finance. The exception to this was art philanthropy, as 51 percent of wealth managers said they would focus on this in the coming 12 months (up from 40 percent in 2017). Whilst these findings could be interpreted as suggesting that the wealth management community plans

Figure 3. Future trends: do you expect your clients to want to include art and other collectible assets in their wealth reports so as to have a consolidated overview of their wealth and a better understanding of their exposure?

Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019



*This question was first added to the art collector survey in 2017

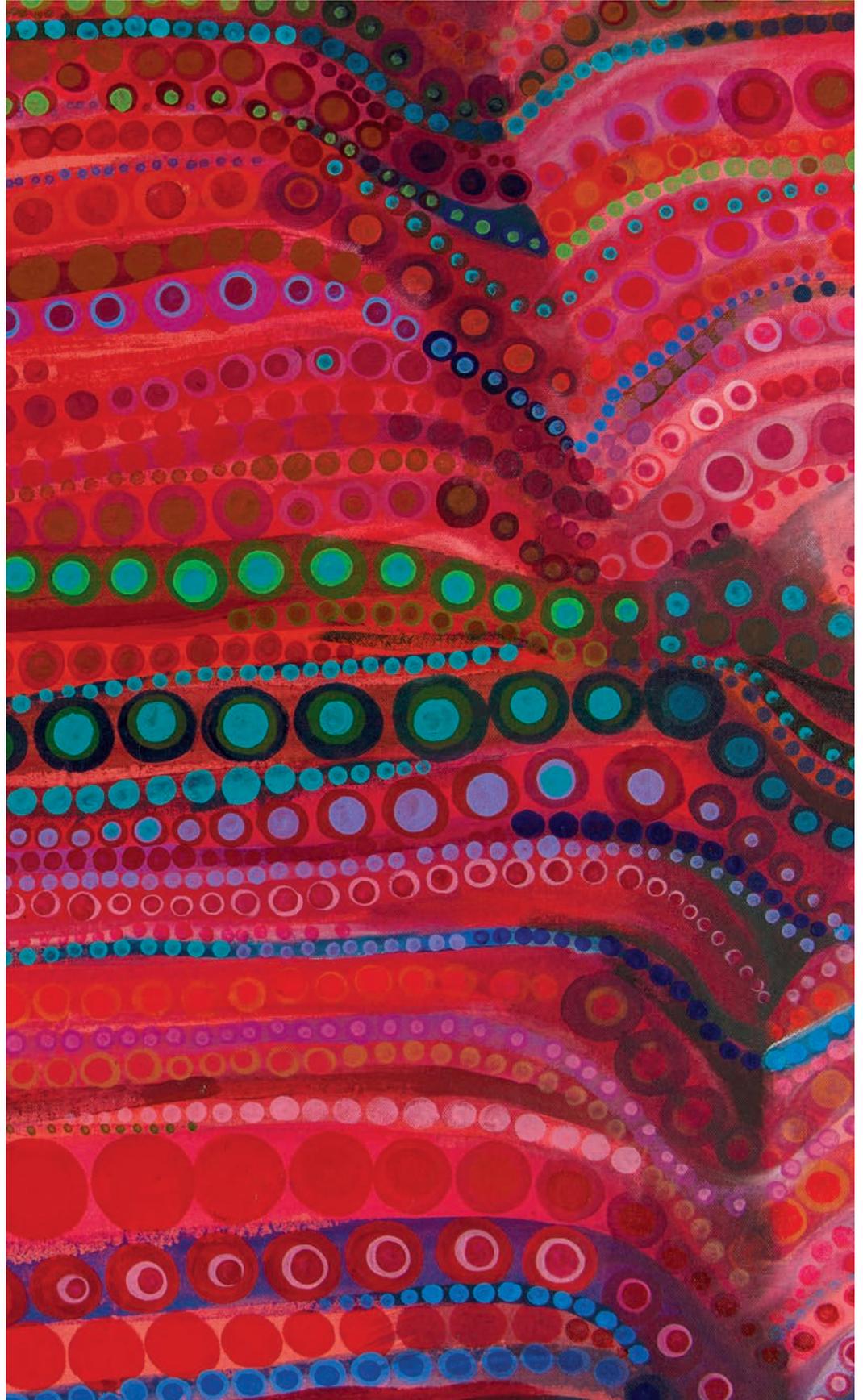
Art-related wealth and consolidated reporting

67 percent of wealth managers said they expected their clients to want to include art and other collectible assets in their wealth reports in order to have a consolidated overview of their wealth and have a better understanding of their exposure (compared with 69 percent who said the same in 2017). There was no difference of opinion between private banks and family offices on this point.

Although private banks are aware of the need for consolidated reporting, only 28 percent said they currently offered this service. In contrast, 77 percent of family offices said they already included art and other collectible assets in their clients' wealth reports.

This year, 84 percent of collectors and art professionals surveyed said that their clients were likely to want to include art and other collectible assets in their wealth reports. Again, this finding suggests that there is a difference between what wealth managers are offering and what their clients would like to see.

This could represent an opportunity for wealth managers and be an effective way to introduce an art-related wealth management offering in order to offer a proactive and meaningful value proposition to clients.



"Gap" - Series: Noospheres - Inks on cotton paper (70x70) © Lina Sinisterra (2019)

Art-related services offered by the wealth management industry

What art-related services do wealth managers currently offer?

Client entertainment

This year, 77 percent of the wealth managers who offered art-related services said they offered client entertainment in the form of private viewings, visits to art fairs, museum exhibitions, etc. (this was down from 94 percent in 2017). 58 percent of wealth managers said they were likely to be investing more in art-related client entertainment over the next 12 months.

Estate planning and philanthropy rank high on the list of services

77 percent of wealth managers said they helped their clients with art and estate planning issues (compared with 89 percent who said so in 2017). 67 percent of wealth managers offered advice around art philanthropy and individual giving (compared with 72 percent in 2017). 88 percent of wealth managers said they offered estate planning services in-house (compared with 77 percent in 2017), and 74 percent said they offered in-house art philanthropy services (this was the same as in 2017). 65 percent of wealth managers said they intended to increase their involvement in estate planning over the next 12 months (compared with 70 percent who said the same in 2017).

Client education

71 percent of wealth managers who offered art-related services said they were focusing on client education (compared with 76 percent in

2017). 73 percent of wealth managers said that these services would be provided by in-house experts. Client education was also at the forefront of 47 percent of wealth managers' minds as a key focus area for the next 12 months.

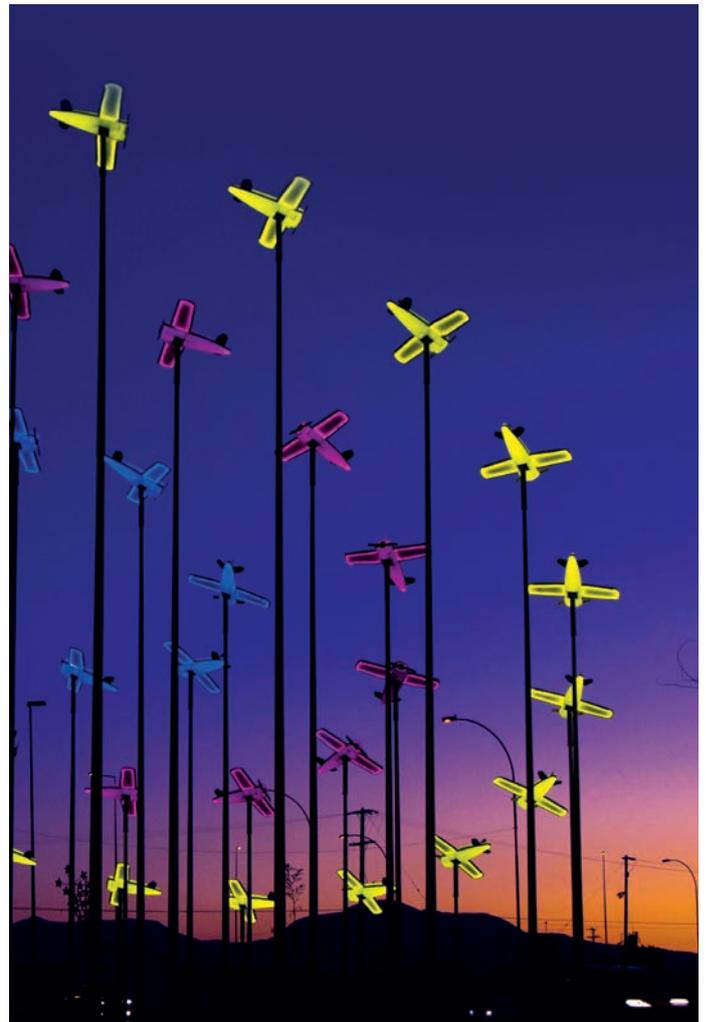
More than half of wealth managers offer their clients the option of investing in art and collectible investment funds

44 percent of wealth managers said that they offered art investment fund services, with 78 percent of these reporting that this service was provided by a third-party. Only four percent of wealth managers said they would focus on this service in the coming 12 months, down from 13 percent in 2017.

Art collection management remains a priority

67 percent of wealth managers who already offered art-related services said they offered their clients art collection management services (78 percent said the same in 2017). 40 percent of wealth managers said this service was provided in-house, while 60 percent said they were using a third-party provider. 37 percent of wealth managers (compared with 36 percent in 2017) said they intended to develop art collection management services for their clients. On the technology side, some new tools are being developed in this regard.

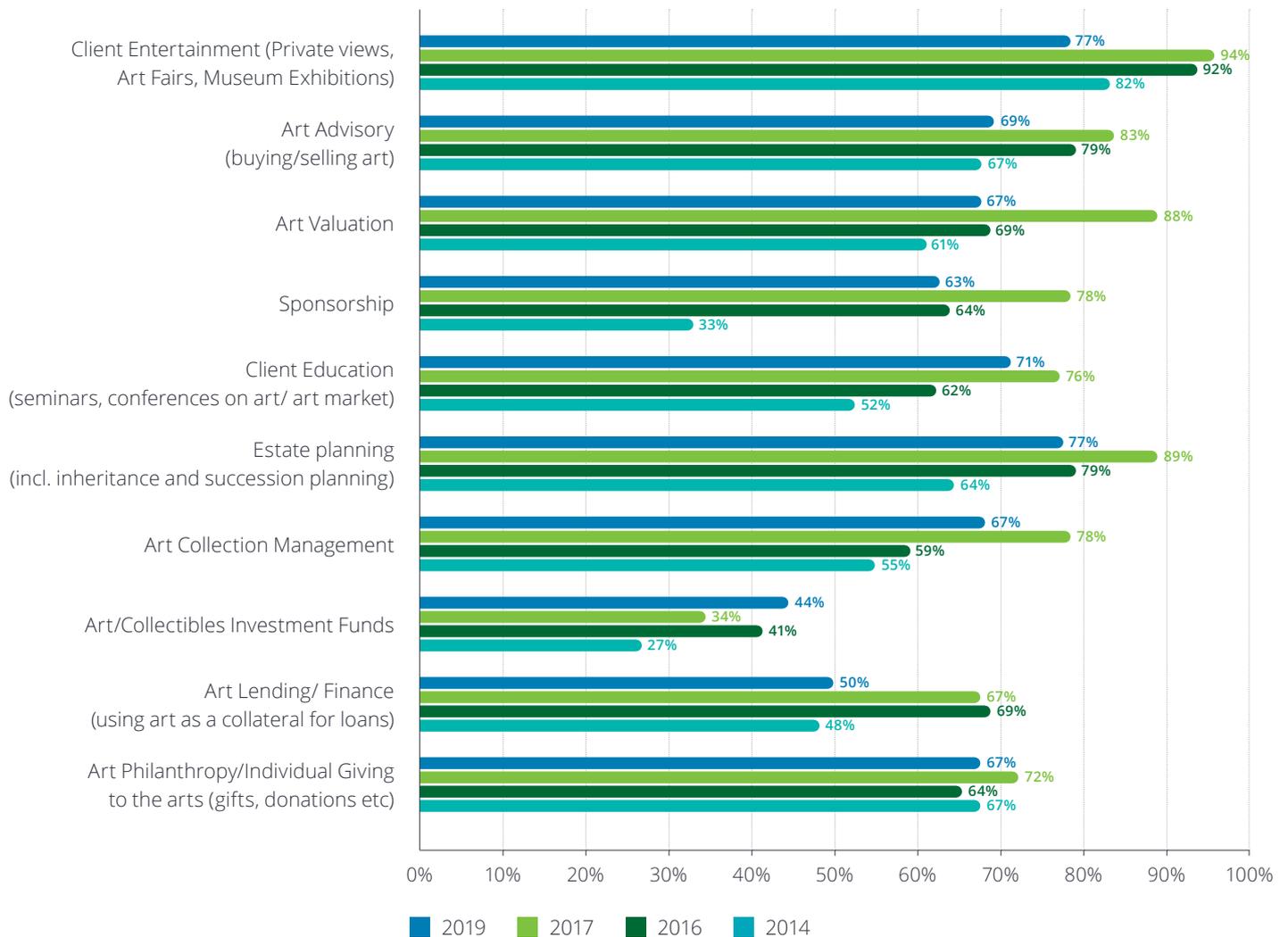
71 percent of wealth managers who offered art-related services said they were focusing on client education



Todos los destinos © Lina Sinisterra (2015)

Figure 4. Which of the following services do you offer? (Percentages shown represent banks who offer art-related services either in-house or through a third-party provider)

Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019



Art valuation services remain important and are predominantly provided by external parties

67 percent of wealth managers said they could help their clients with valuation issues (down from 87 percent in 2017). 86 percent of wealth

managers said they would use a third-party for this service (79 percent said the same in 2017). In the short term, 30 percent of wealth managers said they intended to start providing valuation services for their clients (37 percent said the same in 2017).

Key challenges

Why are wealth managers struggling to incorporate art and collectibles into their services?

Low transparency

Lack of market transparency was cited as the top challenge by 58 percent of wealth managers this year. However, this was lower than 2017, when 75 percent of wealth managers said this was the key challenge.

The unregulated nature of the market

58 percent of wealth managers

said this was a major obstacle to providing art-related services to their clients (compared with 65 percent in 2017).

Lack of internal expertise

42 percent of wealth managers said that the lack of internal expertise was a key challenge to offering art-related services and products, down from 45 percent in 2017. Finding

the right expertise was also mentioned by 47 percent of wealth managers as a key constraint (compared with 55 percent in 2017).

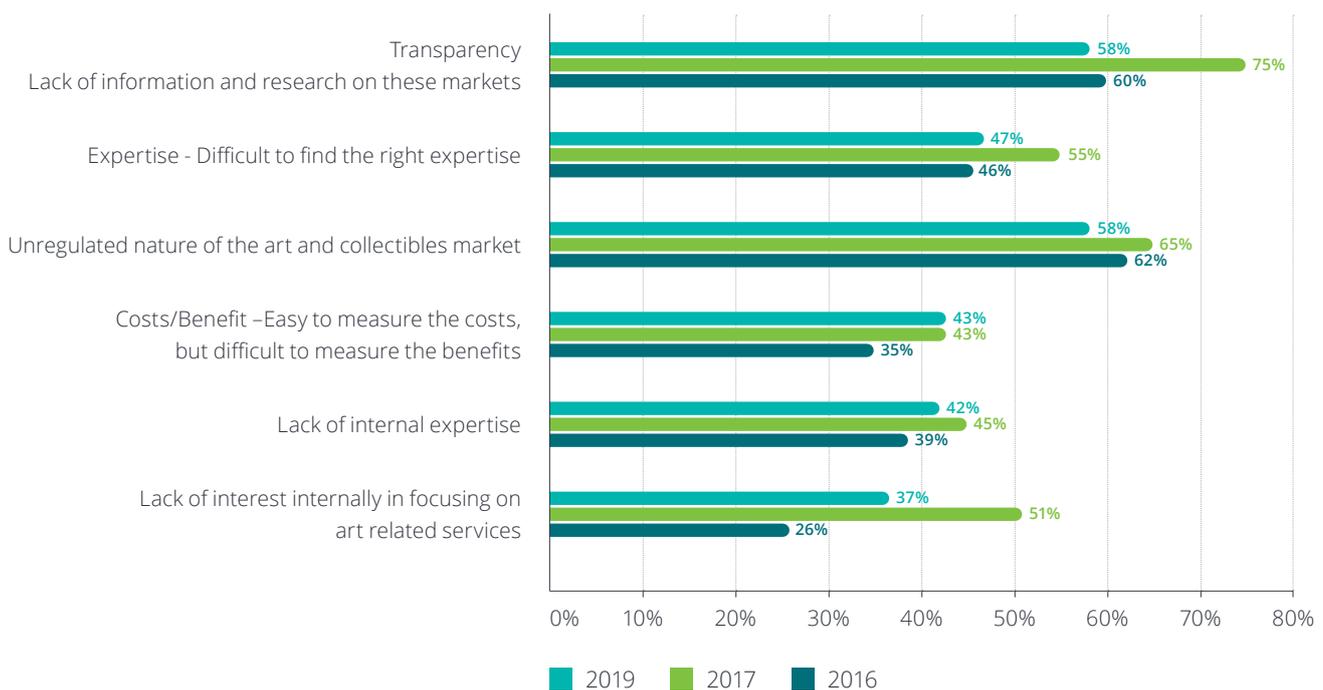
Difficulty in measuring benefits

Almost half of wealth managers (43 percent) said it was hard to measure the benefits of art-related services (the same

figure as in 2017). However, as wealth managers move towards focusing on improving the personal connections they have with their clients, it is likely that the benefits of offering art-related services will become more apparent and therefore easier to sell internally.

Figure 5. Wealth managers: what do you see as the biggest challenge in offering art-related services/products?

Source: Deloitte and ArtTactic Art & Finance Survey 2019





TO THE POINT

- 86 percent of wealth managers said they thought there was a convincing argument for including art in their wealth management service offering
- Holistic wealth management is a key driver behind the focus on art-related services
- Collectors increasingly see their art as an integral part of their total wealth
- There is an urgent need to address art and estate planning issues

53 PAGES FOR 45 QUESTIONS

Deloitte Luxembourg's 2020 Cross-Border Fund Distribution Conference explored the future of the asset management industry and what opportunities the next decade will hold.

Now in its 8th edition, Deloitte Luxembourg's 2020 Cross Border Distribution Conference has become a keynote event within the wider investment management industry. As part of the conference, we publish white papers highlighting particular topics. For the 2020 conference, given the start of a new decade, we concentrated on looking Towards 2030: New Opportunities, New Expectations, exploring the future for distribution and regulation, the complex pursuit of profitable growth and the ever-present issue of technology.



MARC NOIRHOMME
DIRECTOR, CONSULTING
DELOITTE LUXEMBOURG



PAOLA LISZKA DRAPER
SENIOR MANAGER, CONSULTING
DELOITTE LUXEMBOURG



JAMIE ERRINGTON
ANALYST, CONSULTING
DELOITTE LUXEMBOURG

Our 2020 conference publications gave our insights into the future; firstly our Fund Distribution Industry Survey¹ of 45 questions whose results across 53 pages provided a benchmark on the operational best practises of key asset management actors. Around forty global asset managers participated, representing a broad

range of assets under management, and the conclusions were generally in line with the trends we see in our day-to-day business. The other paper from Casey Quirk², a Deloitte business, shared high-level conclusions from recent industry papers focusing on the industrial evolution, distribution and integration.

1. Deloitte Luxembourg – Fund Distribution Industry Survey 2020
2. Casey Quirk – The Age of Change: Transformation in a Maturing Industry

Profitable growth

One of the main hurdles facing the asset management industry is the increasing need to develop profitable growth, particularly as competition intensifies. New customer needs and market structures will force asset managers to adapt their value propositions and business models to remain vibrant and valuable. Those who cannot, will not or do not want to do so — and in an oversupplied marketplace, there are many such firms — will likely peak in terms of franchise value and steadily, if slowly, shrink in terms of size, profitability and influence.

CaseyQuirk suggests that

without dramatic changes to revenues and costs, about one-quarter of asset managers still risk becoming unprofitable by 2028. This is evidenced by the fact that in recent years only around a third of asset managers obtained profitable growth and an additional third engaged in cost-cutting that unfortunately failed to increase profits. Moreover, our survey identified increasing scale and efficiency as the most critical element for asset managers to improve over the next few years, which is consistent with the theme of margin pressures. Evidently, significant changes are needed for asset managers to not only survive but also thrive.

“One of the main hurdles facing the asset management industry is the increasing need to develop profitable growth, particularly as competition intensifies.”

Is this the ideal time to do so, with around 75% of asset management CEOs retiring or just taking the helm? These changes should breathe new life into the industry, creating an ideal environment for the implementation of changes necessary to take us into the future. We predict the need for new executive and managerial skills to create different success metrics, confidently pursue innovative strategic choices, modernize operating models, navigate cultural evolutions and drive change. The leaders of tomorrow will also need to navigate the complex regulatory agenda which will undoubtedly also impact the bottom line. In fact, our survey participants emphasised that compliance is their biggest distribution challenge with regulatory risk, indemnification and AML/KYC being firmly on the radar. These concerns are justified given the extensive regulatory outlook they will need to contend with including PRIIPs, EMIR, cybersecurity, shareholder rights, ePrivacy, AML and ESG as well numerous reviews and consultations on existing legislation.

Historically differentiating factors, such as investment quality and customer satisfaction, are now so commonplace that new competitive advantages are needed for success. One common thread is the creation of higher demand investment strategies through the support of strong

product management and development. Strategic pricing is also common to profitable growth firms, reflected through a combination of premium fees and greater contribution margins. Customized client experiences built using proprietary data and reinforced by a strong brand image are also highly effective tools. Profit growing asset managers are investing significantly in proprietary technology, with a specific focus on research and development coupled with efficiency initiatives. While these strategies have borne fruit, they are by no means the only approach.

Another option is to rely on scale to magnify competitive advantage, provide efficiencies and pay for the changes required to meet shifting client needs. However, this raises questions about the effectiveness of such inorganic strategies. To date, our research suggests that such integration via mergers and acquisitions has not always achieved the desired effect as substantial cost savings have not occurred.

Redefining distribution

Distribution remains both a significant challenge yet a fantastic opportunity in the development of competitive advantage. Our survey participants outlined partnerships with distributors as the most critical element to a successful distribution strategy, outsourcing product performance and client servicing satisfaction. It is therefore paramount for asset managers to articulate how such a partnership should be concluded to make an impact. As ever, regulation and fees remain the biggest challenges. This likely reflects not only the level of investment and costs required to meet all the regulatory requirements, but





also the required focus to ensure the efficient operation of product manufacturing, management, servicing, and distribution.

Acquiring capabilities to overcome these challenges is a daunting task, especially when targeting global markets. Good use of technology and outsourcing are certainly two key elements for success. Our survey also revealed that the sanity checks and ongoing enhancements brought about by process re-engineering remain top of the agenda, combined with increased resources to

cope with additional risks and requirements. Let us not forget changes at the investor level. Powerful social and operating environment trends are reshaping retail and institutional clients, who now seek more continuous but less transactional relationships with investment firms. Most asset managers appear to have failed to keep up, making only incremental changes to address the changing needs of buyers. While the industry has seen significant increases in sales teams, their efficiency and profitability are actually decreasing. Evidently, further

“We predict the need for new executive and managerial skills to create different success metrics, confidently pursue innovative strategic choices, modernize operating models, navigate cultural evolutions and drive change.”

consideration of investors is critical. Further personalization of the client experience, development of more desirable products and seeking a more effective balance between digital and analogue touchpoints will already start meeting these enhanced investor expectations. Delving deeper into distribution strategy, having a global

distribution model and limiting the number of distributors remains the industry standard, with our research suggesting the majority had, on average, less than 500 distributors. European countries stood out as being the most efficient source of cross-border asset collection namely the United Kingdom, Germany, Italy and Switzerland. As regards

fees, most asset managers, in particular larger asset managers, offer specific share classes solely for the use of certain types of distributors. However, our survey participants said they respond to special fee requests through rebates before utilising bespoke share classes. Even asset managers with a global distribution model rarely rely solely on a unique distributor or are ready to provide exclusivity to one or a few distributors.

Fund marketing materials offer further opportunities for the development of competitive advantage with the majority of asset managers using standard materials; some customization occurs for large strategic distributors. Interestingly, our survey indicates that smaller players tend to provide more customized materials. In the future, we may see a shift away from standardization to more industrialized customization as

we need to be mindful of the improved customer experience expectations of distributors and the changing needs of buyers. This may prove to be the trigger for asset managers to phase out their standardized offerings as industry players recognize the “partnership with distributor” as a critical key success factor for distribution.

Technology as a solution

The rapid innovation and progress of technology, particularly in the last decade, has transformed the distribution of goods and services fundamentally. In many industries, data, analytics and digital applications have removed intermediaries, compressed value chains, and reduced costs. Asset management has been somewhat slower than other financial services industries in embracing new technologies. Its high-profit margins have precluded the need to innovate

labour-intensive models; its focus on sales and growth has de-emphasized client service and retention; and its culture has reinforced the belief that strong investment performance would trump all distribution inefficiencies, despite increasingly prevalent

“Winning managers of tomorrow, however, will need to embrace distribution technology — partly for efficiency, but mostly to deliver better client experience at scale leading to greater client acquisition and retention.”

contrary data. Winning asset managers of tomorrow, however, will need to embrace distribution technology — partly for efficiency, but

mostly to deliver better client experience at scale leading to greater client acquisition and retention.

Firms that place technology, measured by above-average investments in data, analytics, and client experience applications, at the centre of their distribution strategy could enjoy dramatic improvements in distribution efficiency across multiple metrics. This is reflected in our survey, which highlighted that most asset managers identified “digital capabilities” as the area that would receive their highest level of IT investment.

In practice, asset managers are researching various technological options. The majority are looking to Blockchain, with AML/KYC, register maintenance and investors’ order handling as the areas where they see the most potential benefit and application for this technology.



Moreover, innovations such as Artificial Intelligence, Distributed Ledger Technology or Cloud Computing will play a key role in our digital transformation. Moreover, as data will remain at the heart of our industry's future, a further potential technological option could be the creation of an integrated data repository combined with a client analytics engine, allowing for the analysis and modelling of information such as website browsing activity, internal finance data, client performance, account activity, client satisfaction data and competitor information. Lastly, attention is key when considering the impact of technology on the client experience. From tailored digital content and automated digital on-boarding to bespoke offers and advice resulting from insight-rich client portals, the effect of technology on investors will be significant. However, increased use

of technology will present additional challenges relating to regulation, with a particular focus on privacy.

Finally...

As competition in the asset management industry increases, the pursuit of profitable growth will remain high on the agenda. The changing tides of leadership are creating prime opportunities to review and alter operations and strategies. We believe high demand investment strategies, strategic pricing, customised client experience and investment in technology are the best means for firms to develop a competitive advantage. Technology will undoubtedly play a key role and research suggests that companies investing in new technology are already reaping the benefits. However, deploying such technology will only work in tandem with firm-wide initiatives designed



to transform the entire distribution organization. This includes factors such as a new distribution talent model, processes that support more rapid innovation and deployment, and a change management program that builds confidence and attracts

clients. The future of the highly competitive asset management industry has significant mountains to climb but exciting rewards are available to those that reach the top. The challenge is set!



TO THE POINT

- The focus of the industry over the next decade will be on ensuring profitable growth
- Historically differentiating factors, such as investment quality and customer satisfaction, are now so commonplace that new competitive advantages are needed for success
- Distribution strategies and operating models will be a major differentiating factor between asset managers over the next ten years
- Technology will undoubtedly play a key role in the success of the asset management industry and research suggests that firms investing in new technology are already reaping the benefits
- The future of the highly competitive asset management industry has significant mountains to climb but exciting rewards are available to those that reach the top.

SUSTAINABILITY CORNER

NOTES FOR INVESTORS



FLAVIA MICILOTTA
DELOITTE - PARTNER
SUSTAINABILITY LEADER

On a global scale over the past few months, not only our economies but also our societies have been experiencing realities worthy of the most creative literary scenarios.

From Philip K. Dick to George Orwell and even Albert Camus, pandemics or crises that completely change our systems and acclimatize us to new, almost dictatorial regimes that forever change our lives and relationships have been fertile ground for writers.

Over these past weeks, I have considered the extent to which our species has faced a complete revolution, forcing us to change our habits and become fearful of each other. What has this done to our society and economies? Many businesses have experienced economic difficulties due to the COVID-19 crisis, forcing them to temporarily suspend or substantially reduce their activities and the working hours of their staff.

This has led European regulators to take action, providing financial support to those most affected by measures put in place to substantially slow the infection rate. The European Commission, for instance, has proposed a new temporary instrument called SURE (support to mitigate unemployment risks in an emergency) to complement national efforts to protect employment. This is expected to enter into force from 1 June this year.

This unprecedented and mostly unexpected disruption is testing all players to their very core on their resilience and, ultimately, their long-term strategy and sustainability. For companies in different sectors, there is no one-size-fits-all solution or roadmap to come out of this crisis. The only certainty is that a company's readiness to deal with new and strategic risks and opportunities ensures more long-term sustainability. It is an important lesson for businesses that were either unable or unwilling to factor sustainability into their business model, as sustainability and resilience are very closely linked and interconnected.

What we can observe during times of crisis is the extent to which some companies fail to see potential risks, or are unable to thrive appropriately when confronted with anything other than "business as usual". For these companies, anything that appears "in the way" of their normal operations can represent a serious hurdle. When companies are used to taking sustainability into account by way of embedding it into their business, they can assess ESG elements from a risk point of view and also consider what they mean for their business in terms of opportunities.

This is reflected in the way a company's strategy is defined and how it can position itself in the long run. Furthermore, a comprehensive strategy usually provides a clear picture of the management's disruption readiness. A management consideration of disruptors, plus the forceful engagement in ensuring the business is "fit and resilient", are the key elements that allow a business to truly be sustainable.

Take climate change for instance. While it is increasingly what everybody speaks, lectures or writes about, not everyone acts upon it, including companies. Companies that are using sustainability frameworks to test their business against disruptors, such as climate change, already have a good grasp of what that means. A good example of such a tool is the Task Force on Climate-related Financial Disclosures (TCFD). A crucial element of the TCFD is its emphasis on the importance of the correct pricing of some risks that a business is not yet able to correctly estimate regarding the impact they represent for their business. Climate-related risks are a very prominent example of this.

Furthermore, it is not enough to know in general terms about a potential risk that may occur.

This unprecedented and mostly unexpected disruption is testing all players to their very core on their resilience and, ultimately, their long-term strategy and sustainability.

What really matters is the ability to attribute it a precise dimension for the business; measuring it. Only then can we determine what it means for a company and how the company needs to prepare for it.

Although we don't know what tomorrow is made of, we certainly know there will be more crises, risks and opportunities. Some risks cannot be avoided but companies can still prepare for them. A "sustainable business" has a better chance of being prepared to deal with the unprecedented and be "sustainability proofed". Investors take note.



Webinars

Programme 2020

Since 2009, Deloitte has decided to open its knowledge resources to the professionals of the Financial Services Industries community. We are happy to present to you the calendar of our new Link'n Learn season which, as in previous years, will be moderated by our leading industry experts. These sessions are specifically designed to provide you with valuable insight on today's critical trends and the latest regulations impacting your business. An hour of your time is all you need to log on and tune into each informative webinar.



Investment Funds

- Derivative Financial Instruments
18 June
- Introduction to Money Market Fund Regulation
10 September
- Carried interest: What to look out for when analysing the waterfall
24 September
- From outsourcing to smartsourcing, a key step to create value in the IM industry
01 October
- Data is king
15 October
- Valuation of illiquid assets
26 November
- Delegation, Oversight & Due diligence
03 December



Regulatory

- PRIiPs and KID
11 June
- Trends on NAV errors and compliance breaches
12 November



Innovation & Technology

- Technology and innovation in Investment Management
25 June

For access to the sessions do not hesitate to contact deloittelearn@deloitte.lu
Dates and detailed agendas available here: www.deloitte.com/lu/link-n-learn

Contacts

Africa - East, West, Central and South



Dinesh Munu
Partner - Audit
+27 011 806 5767
dmunu@deloitte.co.za



David Nchimbi
Partner - Audit
+255 222 169 000
dnchimbi@deloitte.co.tz



Joshua Ojo
Partner - Audit
+234 190 421 30
jojo@deloitte.com.ng

Australia



Neil Brown
Partner - Assurance & Advisory
Wealth Management
+61 3 967 171 54
nbrown@deloitte.com.au



Siew-Kee Chen
Partner - Tax
+61 2 9322 3823
skchen@deloitte.com.au



Declan O'Callaghan
Partner - Assurance & Advisory
+61 2 932 273 66
deocallaghan@deloitte.com.au



James Oliver
Partner - Assurance & Advisory
+61 3 9671 7969
joliver@deloitte.com.au

Austria



Dominik Damm
Partner - Advisory
+431 537 005 400
dodamm@deloitte.at



Nora Engel-Kazemi
Partner - Tax
+431537005420
nengel@deloitte.at



Robert Pejhosky
Partner - Tax & Audit
+431 537 004 700
rpejhosky@deloitte.at

Bahamas



Lawrence Lewis
Partner - ERS
+1 242 302 4898
llewis@deloitte.com

Belgium



Maurice Vrolix
Partner - Audit
+32 2 800 2145
mvrolix@deloitte.com

Bermuda



Mark Baumgartner
Partner - Audit
+1 441 299 1322
mark.baumgartner@deloitte.com



James Dockeray
Partner - Tax
+1 441 299 1399
james.dockeray@deloitte.com



Muhammad Khan
Partner - Audit
+1 441 299 1357
muhammad.khan@deloitte.com

Brazil



Cristina Yong Hae Soh
Partner - Consulting
+55 11 5186 1305
csoh@deloitte.com

British Virgin Islands



Carlene A. Romney
Partner - Audit
+1 284 494 2868
cromney@deloitte.com

Central Europe



Grzegorz Cimochoowski
Partner - Consulting
+48 22 511 0018
gcimochoowski@deloittece.com

Chile



Ricardo Briggs
Partner - Consulting
+56 2 2729 7152
rbriggs@deloitte.com



Pablo Herrera
Partner - Financial Advisory
Services
+56 2 2729 8150
paherrera@deloitte.com



Alberto Kulenkampff
Partner - Audit
+ 56 22729 7368
akulenkampff@deloitte.com

China (Southern)



Sharon Lam
Partner - International Tax
Services
+852 28 52 65 36
shalam@deloitte.com.hk



Anthony Lau
Partner - International Tax
Services
+852 2852 1082
antlau@deloitte.com.hk

China (Easter and Northern)



Natalie Na Yu
Partner - Tax Services
+86 10 85207567
natyu@deloitte.com.cn



Lily Fang Wang
Partner - Audit
+86 2161412431
lilyfwang@deloitte.com.cn

Colombia



Ricardo Rubio
Partner - Financial Advisory
Services
+57 1 546 1818
rrubio@deloitte.com

Cyprus



Panikos Teklos
Director - Consulting
+ 357 994 917 61
pteklos@deloitte.com

Denmark



John Ladekarl
Partner - Audit
+45 36 10 20 78
jladekarl@deloitte.dk



Anders Oldau Gjelstrup
Partner - Audit
+45 20 41 68 02
agjelstrup@deloitte.dk

Finland



Ilkka Huikko
Partner - Consulting
+358 40 740 3529
ilkka.huikko@deloitte.fi



Sami Toivoniemi
Director - Regulatory Risk
+358 207 555 808
sami.toivoniemi@deloitte.fi



Juha Hyttinen
Senior Manager - Strategy
and Operations
+358 207 555 653
juha.hyttinen@deloitte.fi

France



H el ene Alston
Partner - Tax
+33 1 55 61 60 32
healston@taj.fr



Yoan Chazal
Partner - Risk Advisory
+33 1 40 88 72 19
ychazal@deloitte.fr



St ephane Collas
Partner - Audit
+33 1 55 61 61 36
scollas@deloitte.fr



Jean-Marc Lecat
Partner - Audit
+33 1 55 61 66 68
jlecat@deloitte.fr

Germany



Andreas Koch
Partner - Audit
+49 892 903 687 39
akoch@deloitte.de



Marcus Roth
Partner - Tax
+49 892 903 682 78
mroth@deloitte.de



Dorothea Schmidt
Partner - Consulting
+49 699 713 734 6
dschmidt@deloitte.de



Nina Schrader
Director - Consulting
+49 173 258 5554
nschrader@deloitte.de



Christof Stadter
Partner - Audit
+49 89 29036 8269
cstadter@deloitte.de



Alexander Wenzel
Partner - Tax & Legal
+49 69 75695 6111
alwenzel@deloitte.de

Greece



Alexandra Kostara
Partner - Audit
+30 210 67 81 152
akostara@deloitte.gr



Despina Xenaki
Partner - Audit
+30 210 67 81 100
dxenaki@deloitte.gr

Hong Kong



Anthony Ming Young
Partner - International Tax Services
+852 285 210 82
antlau@deloitte.com.hk

Guernsey



John Clacy
Partner - Audit
+44 1 481 703 210
jclacy@deloitte.co.uk

Iceland



Gunnar Thorvardarson
Partner - Audit
+354 580 3031
gthorvardarson@deloitte.is

India



Rajesh Gandhi
Partner - Tax Leader
+91 22 6185 4380
rajegandhi@deloitte.com



Bimal Modi
Partner - IM Leader
+91 22 6185 5080
bimalmodi@deloitte.com

Indonesia



Rosita Sinaga
Partner - Audit
+62 21 2992 3100
rsinaga@deloitte.com

Ireland



David Dalton
Partner - Consulting
+353 140 748 01
ddalton@deloitte.ie



Brian Forrester
Partner - Audit
+353 141 726 14
bforrester@deloitte.ie



Mike Hartwell
Partner - Audit
+353 141 723 03
mhartwell@deloitte.ie



Brian Jackson
Partner - Audit
+353 141 729 75
briackson@deloitte.ie



Christian MacManus
Partner - Audit
+353 141 785 67
chmacmanus@deloitte.ie



Deirdre Power
Partner - Tax
+353 141 724 48
depower@deloitte.ie

Israel



Ran Feldboy
Partner - Audit
+972 3 6085478
rfeldboy@deloitte.co.il

Italy



Marco De Ponti
Partner - Audit
+390 283 322 149
mdpontini@deloitte.it



Maurizio Ferrero
Partner - Audit
+390 283 322 182
mferrero@deloitte.it



Paolo Gibello-Ribatto
Partner - Audit
+390 283 322 226
pgibello@deloitte.it



Marco Miccoli
Partner - Audit
+390 283 322 308
mmiccoli@deloitte.it



Riccardo Motta
Partner - Audit
+390 283 322 323
rmotta@deloitte.it

Japan



Yang Ho Kim
Partner - Tax
+81 3 621 338 41
yangho.kim@tohmatsu.co.jp



Nobuyuki Yamada
Partner - Audit
+81 90 650 345 34
nobuyuki.yamada@tohmatsu.co.jp

Kazakhstan



Roman Sattarov
Director - Audit
+7 7272 581340
rsattarov@Deloitte.kz

Korea



Kyoung Il Yoon
Partner - Audit
+82 2 6676 1149
kyoon@deloitte.com

Luxembourg



Eric Centi
Partner - Cross-Border Tax
+352 451 452 162
ecenti@deloitte.lu



Benjamin Collette
Partner - Advisory & Consulting
+352 451 452 809
bcollette@deloitte.lu



Laurent Fedrigo
Partner - Audit
+352 451 452 023
lafedrigo@deloitte.lu



Nicolas Hennebert
Partner - Audit
+352 451 454 911
nhennebert@deloitte.lu



Lou Kiesch
Partner - Regulatory Consulting
+352 451 452 456
lkiesch@deloitte.lu



Benjamin Lam
Partner - Audit
+352 451 452 429
blam@deloitte.lu

Malaysia



Anthony Tai
Executive Director - Enterprise Risk Services
+60 3 7610 8853
yktai@deloitte.com

Malta



Michael Bianchi
Partner - Audit
+356 2343 2879
mibianchi@deloitte.com.mt

Mexico



Ernesto Pineda
Partner - Financial Services
+52 55 5080 6098
epineda@deloittemx.com

Monaco



Julien Le Marrec
Director - Risk Advisory
+377 97 77 27 41
jlemarrec@deloitte.mc



Pascal Noël
Director – Risk Advisory
+377 97 77 47 37
pasnoel@deloitte.mc

Netherlands



Jan-Wouter Bloos
Partner - Consulting
+31 88 288 2768
JBloos@deloitte.nl



Bas Castelijm
Partner - Tax
+38 288 6770
BCastelijm@deloitte.nl



Marieke van Eenennaam
Partner - Risk Advisory
mvaneennaam@deloitte.nl
+31 88 288 2500



Remy Maarschalk
Partner - Audit
+31 88 288 1962
RMaarschalk@deloitte.nl



Evert van der Steen
Partner - Enterprise Risk Services
+31 62 078 9545
evandersteen@deloitte.nl

Norway



Sverre Danielsen
Partner - Enterprise Risk Services
+47 99 517 686
sdanielsen@deloitte.no



Henrik Woxholt
Partner - Audit & Advisory
+47 23 27 90 00
hwoxholt@deloitte.no

Philippines



Bonifacio Lumacang
Partner - Audit
+63 2 581 9000
blumacang@deloitte.com

Portugal



Maria Augusta Francisco
Partner - Audit
+351 21 042 7508
mafrancisco@deloitte.pt

Singapore



Ei Leen Giam
Partner - Global Financial
Services Industry
+ 65 62 163 296
eilgiam@deloitte.com



Ho Kok Yong
Partner - Global Financial
Services Industry
+65 621 632 60
kho@deloitte.com



Michael Velten
Partner – Tax
+65 6531 5039
mvelten@deloitte.com

Slovakia



Peter Longauer
Partner - Audit
+421 2 582 49 411
plongauer@deloitte.com

Spain



Rodrigo Diaz
Partner - Audit
+349 144 320 21
rodiaz@deloitte.es



Francisco Rámirez Arbues
Partner - Regulatory
+34 606289571
framirezarbues@deloitte.es



Antonio Rios Cid
Partner - Audit
+349 915 141 492
arioscid@deloitte.es



Alberto Torija
Partner - Audit
+349 143 814 91
atorija@deloitte.es



José María Grande Esturo
Partner - M&A Consulting
+34 944 447 000
jgrande@deloitte.es



Ignacio García Alonso
Partner - Tax
+34 67 952 180
igarciaalonso@deloitte.es

Switzerland



Marcel Meyer
Partner - Audit
+41 58 279 7356
marcelmeyer@deloitte.ch



Simona Terranova
Partner - Audit
+41 58 279 8454
sterranova@deloitte.ch



Andreas Timpert
Partner - Consulting
+41 58 279 6858
antimpert@deloitte.ch



André Kuhn
Director - Tax
+41 58 279 6328
akuhn@deloitte.ch



Markus Weber
Partner - Tax
+41 58 279 7527
markweber@deloitte.ch

Taiwan



Vincent Hsu
Partner - Audit
+886 2 545 9988 1436
vhsu@deloitte.com.tw



Olivia Kuo
Partner - Audit
+886 2 25459988
oliviakuo@deloitte.com.tw



Jimmy S. Wu
Partner - Audit
+886 2 2545 9988 7198
jimmyswu@deloitte.com.tw

Thailand



Somkrit Krishnamra
Partner - Risk Advisory
+66 2 676 5700
somkrishnamra@deloitte.com

Turkey



Hasan Kiliç
Partner - Audit
+90 212 366 60 49
hkilic@deloitte.com

United Kingdom



Allee Bonnard
Partner - Audit
+44 20 7303 0472
abonnard@deloitte.co.uk



Gavin J Bullock
Partner - Tax
+44 20 7007 0663
gbullock@deloitte.co.uk



Andrew McNeill
Partner - Consulting
+44 20 7007 6151
amcneill@deloitte.co.uk



Jamie Partridge
Partner - Audit
+44 14 1314 5956
jpartridge@deloitte.co.uk

United States



Patrick Henry
Partner - Vice Chairman
+1 212 436 4853
phenry@deloitte.com



Kristina Davis
Partner - Advisory
+1 617 437 2648
kbdavis@deloitte.com



Ted Dougherty
Partner - Tax
+1 212 436 2165
edwdougherty@deloitte.com



Paul Kraft
Partner - Audit
+1 617 437 2175
pkraft@deloitte.com



Liliana Robu
Partner - Consulting
+1 646 673 2511
lrobu@deloitte.com

Venezuela



Fatima De Andrade
Partner - Audit
+58 212 206 8548
fdeandrade@deloitte.com

Vietnam



Tinh Pham
Managing Partner
+84 839100751
thpham@deloitte.com

Contacts

**Cary Stier**

Partner - Global Investment
Management Leader
+1 212 436 7371
cstier@deloitte.com

**Vincent Gouverneur**

Partner - EMEA Investment
Management Co-Leader
+352 451 452 451
vgouverneur@deloitte.lu

**Tony Gaughan**

Partner - EMEA Investment
Management Co-Leader
+44 20 7303 2790
tgaughan@deloitte.co.uk

**Jennifer Qin**

Partner - Asia Pacific Investment
Management Leader
+86 21 61 411 998
jqin@deloitte.com

Please do not hesitate to contact your relevant country experts listed in the magazine.

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.