

# THE KEYS TO WINNING DISTRIBUTION STRATEGIES



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## INCREASED COMPLEXITY

10 or 15 years ago, asset managers, who needed to connect to a wide range of investors, had to build their own distribution channels. They did this based on performance, track record and relationships with gatekeepers.

Today, a lot of requirements around MiFID II<sup>1</sup>, IDD<sup>2</sup>, cross-border distribution, taxonomy, ESG<sup>3</sup>, PRIIPS<sup>4</sup>, AML<sup>5</sup> and KYC<sup>6</sup> have created a much more complex fund distribution industry. For instance, when asset owners want to buy or distribute third-party funds on behalf of their clients, private, retail or institutional, they need to agree to different commercial and regulatory conditions with each asset manager they want to work with. This represents quite the administrative burden for both counterparties without any added value.

Of course, a number of processes have now been intermediated and several specialists have emerged, thereby creating an eco-system for asset managers to distribute their funds. This eco-system is also fostering **the development of fund-commerce platforms, which offer to consolidate processes through outsourcing, digitalisation, automation, and standardisation.**

## TARGETED AND CUSTOMISED FUNDS, THROUGH PLATFORMS

With the number of new investment products, ETFs<sup>7</sup> in particular, providing similar investment features and returns at much smaller costs, **investment fund managers need to create a product offer that matches investors' needs and demand, and make distribution more efficient and less costly.**

Fund platforms work with many asset owners and asset managers around the globe, providing economies of scale through the volume of contracts they manage. Platforms give asset managers access to all types of investors either via intermediaries or directly. In this case, the asset manager only signs one contract with the platform to access the network of fund distributors, thereby optimising their revenue streams.

**They benefit from a single point of contact, distribution agreement and rebate management process with often a one-stop shop solution that includes enhanced fund distribution, data solutions, and tailor-made solutions.** A differentiator for the fund platforms is the flexibility of their services.

## DATA: THE NEW GOLD FOR THE FUND DISTRIBUTION BUSINESS

The fund sector is sitting on millions of trillions of units of data, which technology and artificial intelligence (AI) allow us to package in a way that will be useful for fund companies. Technology also allows certain fund platforms to pool data and information between the stakeholders of the distribution chain. Nowadays, providing data analytics, including data flows and data accuracy, all the way to the end-investor level is becoming part of the market's expectations, because it represents a concrete benefit for the industry.

**Funds distribution platforms give asset managers access to data and transparency that will allow them to better capture investor behaviours. As a result, they will be able to adapt and optimise their investment and commercial strategy towards investors.**

## DIGITALISATION: NOT JUST AN ENABLER

Given all the new regulations that have been introduced over the last decade and the related complexity for all stakeholders, asset managers and owners to comply, fund platforms have no choice but to fully automate regulatory tasks

(AML/KYC, regulatory reporting for PRIIPS, KIID<sup>8</sup>, EMT<sup>9</sup>, EET<sup>10</sup>). There are tons of data and documents to be produced, and asset managers rely on fast, accurate, and hence digital processes.

Digitalisation is a no brainer when it comes to reporting and compliance but, as explained above, it will be key in creating value from data.

## SIMPLIFYING ESG REPORTING

The proportion of sustainable funds is rising, and we saw ESG ETFs grow by 223%<sup>11</sup> in 2020. There is widespread enthusiasm for accommodating ESG metrics to reflect a 'greening' of the investment world as part of the transition to a more sustainable future.

**Asset managers either based in the EU or selling into it are already required to provide disclosures, clearly demonstrating the importance of ESG credentials for funds.** All in all, there is a lot of support for full disclosure.

Fund platforms can ease the reporting process for ESG asset managers and asset owners and play a key role in helping the transformation of the investment market.

## THE FUTURE OF FUND DISTRIBUTION SERVICES IS BRIGHT...

...at least for fully fledged platforms as they bring real value to the different counterparties, kill some pain points and time-consuming tasks, and also bring in additional services such as business intelligence and regulatory services.

**Fund platforms give asset managers and asset owners the time and freedom to focus on their core business: generating value for their customers, offering innovative, sustainable solutions and optimising revenue streams.**

We will continue to see new data solutions emerge, using the large amounts of data collected through trades. The ever-stricter regulatory environment will keep on driving the different counterparties towards distribution platforms as long as the latter are able to provide easy solutions to tackle existing and new regulations.

(1) Markets in Financial Instruments Directive (MiFID) II. (2) Insurance Distribution Directive (IDD). (3) Environmental, Social, and Governance (ESG). (4) Packaged Retail Investment and Insurance Products (PRIIPS) regulation. (5) Anti-money laundering regulations (AML). (6) Know Your Customer (KYC) processes. (7) Exchange traded funds (ETF). (8) UCITS Key Investor Information Document (UCITS KIID). (9) European MiFID Template (EMT). (10) European ESG Template. (11) Source: Trackinsight.