



A specialist local European offering globally

Stockholm (HedgeNordic / RBC I&TS) - According to EFAMA, in 2017 net European fund sales amounted to €949 billion contributing to a total net assets of €16 trillion. This success can be largely attributed to the UCITS and AIFMD regimes that are recognized globally as the gold standard of fund structures. We spoke with Johan Lindberg (*pictured*), Managing Director of Global Client Coverage for RBC Investor & Treasury Services (RBC I&TS) to understand why this is and how specialist asset servicing providers are adapting to meet their clients' changing needs.

The European investment fund industry continues to grow. While alternative investment funds contribute approximately 25% of net assets according to EFAMA, it is the Undertakings for Collective Investment Transferable Securities (UCITS) that dominate the figures with close to €10 trillion.

“UCITS is a well-known brand for mutual funds as well as ETFs, and investors all over the world are drawn towards them due to the standardization and ease of access, but above all the gold standard of regulatory obligations that they must adhere to,” says Lindberg. “UCITS has become synonymous with the global funds industry. Originally established over 30 years ago to harmonise investment fund regulation and distribution across the EEA, it is now commonplace for a

significant number to be registered for distribution outside the region, particularly in Asia, the Middle East and Latin America”.

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While 29 European countries have UCITS funds domiciled with them, Luxembourg (36%), Ireland (19%) and the United Kingdom (12.5%) account for over half of the total net assets according to EFAMA. As a leading UCITS fund administrator, it is no surprise that RBC I&TS has asset servicing operations in these 3 jurisdictions as well as a number of others. “While almost all, if not all, the EEA countries have UCITS funds domiciled domestically, the distribution network of the top 2 (in particular) is the difference,” says Lindberg. “The distribution power of the product makes you investible worldwide, but to leverage it, you need an administrative partner who equally has the global reach coupled with the technology and operations to support the fund across its investment lifecycle.” According to Lindberg, RBC I&TS has a unique offering of connectivity to over 10,000 distributors worldwide across more than 115 countries.

Elaborating on the safety aspect, Lindberg points out that “the regulatory framework provides investors with confidence”. This includes the functions which the asset manager has responsibility for such as the board of the fund (often SICAV) and the delegated functions provided by the management company. Another critical aspect is the role of the depository “acting as a second pair of eyes to the administrator striking the NAV” he adds. Adding to this is the oversight from local regulators, such as the Luxembourg CSSF. RBC I&TS provides both administration and depository services, and “there is strict segregation of tasks. The two are completely segregated and physically separated in different buildings” stresses Lindberg.

The rise and rise of private capital

The Alternative Investment Fund Managers Directive (AIFMD) is another success story, and once again the need to meet institutional investors’ desire for regulation has been the driver. “Many alternative asset managers or strategies have become regulated since AIFMD was introduced, which has resulted in a

broader investor base,” Lindberg explains. “Before AIFMD, though private equity, debt, infrastructure and real estate were attractive to institutional investors, the lack of regulatory oversight restricted many of them from venturing into the asset classes.”

With 36% market share of real estate funds domiciled in Luxembourg under administration (according to the 2017 ALFI real estate report), and boasting 3 out of the top 5 private equity firms (by AUM) as clients, RBC I&TS has become one of the leading European private capital fund administrators.

The growing success in their Private Capital Services (PCS) franchise is attributed to the consultative and “one RBC” approach according to Lindberg. “With our strong balance sheet and one of the best credit ratings among our asset servicing peer group (according to S&P and Moody’s), we’re able to look at our clients’ entire investment lifecycle to deliver a bundled solution that matches their needs. Leveraging the power of Royal Bank of Canada, our end-to-end solution usually begins meeting financing needs (committed lending, subscription and/or asset financing, onto fund administration (including depositary licences in all of the jurisdictions we operate), all the way through to underlying investor services”.

Interest in private capital does not seem to be diminishing any time soon. As an example, according to Preqin, global private equity fundraising totalled \$453 billion in 2017. The industry now has more than \$2.8 trillion in assets under management, higher than at any other time in its history.

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“The interest in private capital investment is showing no signs of slowing” suggests Lindberg. “AIFMD has been the catalyst in allowing insititutional investors who were previously unable or unwilling to invest into these asset classes to do so. Interest rates at record lows and the volatility in liquid assets have contributed to the success private capital firms have seen in fundraising”. Fund raisers themselves are certainly not slowing down, and tend to be casting the net wider to catch more investors. In a recent private real estate survey commissioned by RBC I&TS, 67% of the top 75 managers (by AUM) predicted an increase of more than 30% in their AUM within 5 years, while 89% forecasted an increase of client investors originating from Asia.

Which location?

Following a very similar model as UCITS, Luxembourg, and Ireland have become the leading European jurisdictions in addition to the Channel Islands for regulated private capital fund structures. The UK too has a significant private capital market but questions continue over its future EU access while Brexit negotiations continue. Lindberg is keen to point out that “as RBC I&TS is a global business active in these and other locations, we are indifferent to which domicile our clients choose.”

In the same private real estate survey, 32% of the top 75 surveyed, cited Luxembourg as the domicile being used for their next PERE fund. Only Delaware (54%) and Cayman Islands (36%) had a larger number. “When you consider over half the top 75 managers are US based, the top 2 are obvious, but its testament to Luxembourg that it’s become the jurisdiction of choice for European private real estate fund structures,” claims Lindberg.

“Luxembourg has probably become more popular than other domiciles, because of its stable legal and political framework. An investor and an asset manager have some assurance that this stability will remain throughout the private capital investment,” says Lindberg.

The specialist touch

RBC I&TS prides itself on its specialist approach. “We’re not trying to be everything to everyone in Europe” explains Lindberg. “Our specialist approach has been built up over decades in supporting asset and fund managers worldwide who want to leverage UCITS and/or AIFMD”. Lindberg suggests that client expectations are changing though, “While we continue to deliver traditional fund administration (custody/depository, fund accounting, transfer agency, etc.) and the associated ancillary services (FX hedging, securities lending, cash management and so on), we are transforming into a data enabled business to deliver next generation asset servicing.”

Data has become a hot topic in the funds industry. With the potential disruption from non-traditional entrants and the future expectations of investor experience means it is becoming crucial that asset and fund managers have the intelligence they need to remain competitive. But it’s not easy as Lindberg suggests, “Deciphering data is challenging; but keeping it trapped could lead to severe

consequences for our clients to compete in tomorrow's environment. That's why we're developing data driven solutions to help them remain competitive."

Local nuances however still require that specialist approach. For example, Lindberg heads up the Nordics team within RBC I&TS Client Coverage recognising local differences, "Our clients are based all over the world, and one size does not fit all. Our model supports that with dedicated teams for different geographies who understand the local environment and who are able to consult with our clients before delivering a solution that matches their unique needs."

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