



Opalesque Roundtable Series '17

IRELAND

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Editor's Note

There are over 4.3 trillion Euros in assets under administration in Ireland, including over 2.5 trillion Euros of alternative and hedge fund assets – many from other jurisdictions such as Cayman – which is easily 40% of the world's total. And naturally, a huge body of indigenous Irish domiciled funds (over 6,600) that are authorized and regulated by the Central Bank in Ireland. Of those, about 75% (by assets) are UCITS funds and the remaining 25% AIFs.

Irish funds are distributed to around 70 countries globally as they are found to be easy to distribute, recognized and accepted by institutional and retail investors, and also fit easily on to platforms. **Most UCITS sold in Europe in 2016 and 2017 were Irish funds.** Ireland also has the lion's share of European ETFs, about 56% by asset size, which with the move to passive investments continues to enjoy large growth rates as well.

Like the UK and the US, Ireland has a **common law legal framework** which is a key reason why Ireland sees interest particularly from the US around potentially re-domiciling products from traditional offshore jurisdictions like Cayman and BVI into European locations. Irish service providers believe the island is probably best placed in Europe as it's a lot easier re-domiciling common law to common law than common law to civil code such as in jurisdictions like Luxembourg or France, for example.

Ireland seen to benefit from Brexit

Post-Brexit, Ireland will be the only remaining country within the European Union that's native English speaking. *For anyone in the fund industry either selling into or out of the UK, whilst there may or may not be a first move advantage, it is very important that they looked to the options, that they have worked out contingencies and have a plan of in place – something they can action if and when Brexit, hard Brexit or soft, whatever it is, actually does come to fore* (page 18).

The Opalesque 2017 Ireland Roundtable, sponsored by SANNE, took place in Dublin with:

1. Declan O'Sullivan, [Managing Partner, Dechert](#)
2. Oisín McClenaghan, [Partner, Matheson](#)
3. Sean Herlihy, [Director, PWC](#)
4. Kieran Fox, [Director of Business Development, Irish Funds](#)
5. Sean Murray, [Head of Funds Services EMEA, SANNE](#)
6. Graeme Rate, [Head of Hedge, SANNE](#)
7. Philip Dempsey, [Ireland Branch Manager, LIS Ireland](#)

The group also discussed:

- Ireland's role in the private credit industry which could reach one trillion dollars in assets by 2020 (compound growth of 20% a year) (page 7)
- Why has there been a significant uptake in Irish Common Contractual funds (CCFs) in the recent past? (page 9-11, 13)
- What is behind the Dublin-Luxembourg debate? (page 11-13)
- Ireland and Brexit (page 14 - 18). Will there be a significant difference to the investment management industry between a hard and soft Brexit? (page 22-24)
- Ireland's one of the most important recent developments (page 18)
- Dublin is also a major Tech Hub - countless benefits and synergies with the finance sector (page 19)
- Will we see a return to more actively managed funds over the next three to five years? (page 24-25)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT):

Sean Herlihy, Graeme Rate, Oisín McClenaghan, Sean Murray, Declan O'Sullivan, Kieran Fox, Philip Dempsey, Matthias Knab

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THE DIFFERENCE

Introduction

Graeme Rate
SANNE

Graeme Rate, Head of Hedge at SANNE based in Cape Town, South Africa. I am a qualified chartered accountant by profession and have been working in the hedge industry for more than 18 years, seven of which as a Chief Operating Officer at a hedge fund and the last 11 years in fund administration. In my role I am responsible for the strategic direction and rollout of SANNE's Hedge Fund offering.

Sean Murray
SANNE

Sean Murray, Head of Funds Services - EMEA at SANNE. I have been working in the alternative investment and fund administration space for coming up to 20 years in both the Channel Islands and Luxembourg. I am responsible for our fund service offering across the EMEA region, developing that out further and so today is quite important for us in terms of just having received our fund administration license also here in Ireland.

Sean Herlihy
PricewaterhouseCoopers

I am Sean Herlihy from PricewaterhouseCoopers. I am a chartered accountant and registered auditor and have been sixteen years in this industry. I specialize in hedge funds and I also help coordinate some of PwC's hedge fund activities.

Philip Dempsey
LIS Ireland

Philip Dempsey from LIS Ireland. I joined LIS in April this year and have established and grown our presence here in Ireland. Prior to joining LIS, I held various senior roles, most recently as EMEA Head of Transfer Agency for Citibank, Senior Product Architect for Citi Technology, and Ireland Head of Operations for a US Technology firm.

I have also had a number of operational and relationship roles with Citi, State Street and PNC (now BNY Mellon). I'm also a very active member of the Irish Funds association, involved in various working groups.

Declan O'Sullivan
Dechert

I am Declan O'Sullivan, Managing Partner of Dechert at our Dublin office. I have been with Dechert for seven years. Before that, I was with William Fry for 15 years (10 as a Partner). In my work, I focus on all asset classes including hedge funds and UCITS, but more recently, I have had a particular focus on private debt and private equity.

Kieran Fox
Irish Funds

Kieran Fox, Business Development Director at Irish Funds. I have been doing this role for just over ten years, prior to that I worked for a short while as a risk specialist in the Central Bank of Ireland, and before that I worked for about seven years in hedge fund management in London.

Oisín McClenaghan
Matheson

Oisín McClenaghan, I am a Partner in the Asset Management Group in Matheson. We have a large and diverse practice and act for some of the world's biggest asset managers. We act for 29% of Irish domiciled funds by assets under management, covering a broad spectrum of fund structures for a diverse client base.

Matthias Knab

Our last Roundtable in Ireland was two years ago, so let's start looking at some of the most recent trends and developments in our industry. Kieran, I know that your organization Irish Funds has always the most recent statistics and numbers, would you like to start with some of those?

Kieran Fox: Sure! There are a number of trends I am happy to highlight.

As a start, let's take a look at where we are at today. Right now we have **4.3 trillion Euros in assets under administration in Ireland. Of that, there are 2.2 trillion Euros in Irish domiciled funds across just over 6,600 funds that are authorized and regulated by the Central Bank here in Ireland. Within that, about 75% by assets, are UCITS funds and the remaining 25% by assets in Alternative Investment Funds (AIFs).**

At the moment we also have 364 ICAVs, the new corporate legal structure launched in Ireland two-and-a-half years ago. We also have just over 600 AIFMs operating in Ireland on a cross-border basis, a couple of hundred fully authorized AIFMs and about 80 UCITS management companies.

Let's now look at some of the trends we see on an aggregate industry level. One I would draw attention to is the net sales of Irish domiciled funds, numbers we have been receiving and tracking from the Central Bank for about seven years now. 2016 was a very strong year for net sales of Irish authorized funds, with **139 billion Euros of sales across all Irish authorized funds. That was the highest for any European jurisdiction in 2016.** Out of that €139 billion, about €117 billion was net sales into UCITS funds that were authorized in Ireland. Again, that was the most for UCITS in any country in Europe in 2016.

Ireland made up just over 30% of the net sales for all European authorized funds in 2016. This is remarkable because if you look at the total asset base, Ireland makes up about 16% of the assets. So the **net sales into Irish domiciled funds is running at about twice what you might expect**, and that has continued into 2017.

In the first half of 2017 we registered, again, very strong net sales of Irish funds, actually more in the first six months than in all of 2016, and 2016 was a record year in itself. That means we've had a very strong first half of the year of net sales, across the board in every asset class that we get data for from the Central Bank.

ETFs have contributed a significant portion of that. Ireland has the lion's share of European ETFs, about 56% by asset size, and again, the vast majority of European ETF sales are into Irish authorized ETFs.

Another trend I would like to highlight is the increased interest for the more illiquid end of the investment fund spectrum as well, for example in infrastructure, private equity and debt funds of various types, etc.



Declan O'Sullivan: Kieran, I am very impressed that you are able to give all those statistics from memory and I agree with everything you have said in relation to the structures. Dechert came into the European fund business by advising US client to establish UCTS in the late 1980s. We are still seeing a very large interest in UCITS funds by US managers across all asset classes; particularly ETFs and money market funds.

Accordingly, we are watching very closely Brexit developments and possible collateral damage for US managers arising from opinions and discussions by both ESMA and the European Commission on Brexit and on delegation to non EU entities.



In addition to UCITS, a key focus for Dechert over the years, particularly out of our European offices has been alternative funds, especially hedge side funds. However, more recently, we have seen an increasing trend for hedge fund strategies to be established as UCITS Fund with the growth of the alternative funds being, as Kieran mentioned, on the illiquid strategies' sides, particularly property, private equity and private debt.

Just today, a report was published by the Alternative Credit Council which is the private credit affiliate of AIMA in collaboration with Dechert which stated that the private credit industry could reach one trillion dollars in assets by 2020. This represents a compound growth of 20% a year over the past few years. This is also one of the reasons why we are very keen to ensure that there is as much regulatory support for the private debt market as possible, for example, through the enactment of updated Investment Limited Partnership legislation in Ireland.

Philip Dempsey: LIS, from a service provider perspective, is very interested in servicing debt/loan funds, private equity, real estate, and infrastructure funds.

LIS came into the Irish market in May of 2017 with the rationale to service this growth sector. The size and number of assets of Irish domiciled fund structures keeps increasing.

As Declan has also been referring to, there will be a number of challenges along the way, but also a lot of opportunities, namely upcoming legislation and regulatory changes, with a few other unknowns, the biggest of which, as we sit here in October of 2017, Brexit, and what will be the eventual outcome of it?

I think regardless of the outcome, Ireland is very well-positioned from both a location and a strategic perspective. We have obviously a very highly capable and skilled workforce. We have a **common law legal framework**, and our connectivity, between the UK, Europe and the US, is very valuable. Don't forget the fact that post-Brexit, Ireland will be the only remaining country within the European union that's native English speaking - with English being the working language of the European Union, we have that natural advantage.



Sean Herlihy: Also from our side at PwC I can confirm that there are a lot of conversations and activities around both loan origination and secondary markets. A lot of people looking at this sector.

There is also a lot of discussion around **real assets**, and not just real estate, but also things like shipping products, bridges, all sorts of infrastructural assets, and a lot of discussion around how they should be structured – what works, what doesn't work, tax implications and so on – especially from the US, around those types of structures and assets.

Another sector where we are seeing quite a bit of movement is specifically in PE. For quite some time there was an established structure for setting a **PE fund**, and I think that's changing to some extent.

There are a lot of reasons for that based on BEPS and so on, and I think people are looking at Ireland again as a location for some of their PE products, and I think that's quite exciting.

As everyone can imagine, there is also a lot of discussion around Brexit, but probably not a whole lot of action at the moment from the alternative investment sector on Brexit, but surely a lot of discussions around what it might mean for alternatives, what it might mean for UK managers or for non-UK managers trying to sell into UK – what will all that look like in the future. Again, I don't think anybody has the answer at this stage, but there are a lot of discussion around what the various options might be.

There is also a continuing interest from a lot of alternative investment managers what we like to call **becoming mainstream**. For example, a lot of existing alternative investment managers are trying to see how to get their traditional Cayman hedge fund into a UCITS type product, what's allowed, what's not allowed, and how far can those bounds be pushed.



There is a lot of interest on the buy side for all sorts of alternative strategies that are coming under the regulatory wrapper of **UCITS**, and we see some very good success stories in that sphere.

We also see some interest particularly from the US around potentially **re-domiciling products from traditional offshore jurisdictions** like Cayman and BVI into European locations, and I think Ireland is probably best placed in Europe to probably capitalize on that, simply because we do tick a lot of the boxes. A lot of our products like the ICAV are particularly well-designed to effectively carry on the feel and the structure that a lot of managers that have Cayman products will be used to.

Sean Murray: Philip already mentioned the opportunity here in the Irish market as one of the main drivers for SANNE pushing for our license to provide regulated fund administration services to Irish Authorised Collective Investment Schemes. This is also supported by the limited partnership legislation, which has been updated recently.

In addition to that we saw a trend for some of our clients in the debt and capital markets space, which constitutes a significant part of our business, moving away from traditionally using Section 110 companies and starting to use the ICAV here in Ireland as their legal structure to purchase assets such as Spanish mezzanine debt. Motivated by that client demand, we decided to go down the regulated fund administration route also here in Ireland. This step has enhanced our EU-based funds capability.

I predict **Brexit will result into a certain influx into Ireland**, however I am not sure that there will be as much relocation of people as some tend to think, but that does depend on what Declan referred to around the recent publication by ESMA on delegation and third countries. That's probably going to drive the level of relocation that will happen. Businesses will need to forecast how many people will be needed to maintain and bring that substance into the jurisdiction, then delegating it back to what Britain which is going to be classified as a third country; at least that's what ESMA are saying in their guidance notes. These things will definitely affect Dublin going forward.

Hopefully it does lead to a steady increase in demand and an influx of new funds being set up in Dublin. I think the common law aspect we already mentioned does make Dublin the domicile of choice when relocating from another common law jurisdiction such as Cayman and other former British or current British protectorate jurisdictions. It's a lot easier re-domiciling common law to common law than common law to civil code such as in jurisdictions like Luxembourg or France, for example. I think US Fund Managers would have a lot more difficulty around the more prescriptive civil code than lets say common law understanding that we benefit from here.



Graeme Rate: As a listed business, SANNE is fast becoming a global service provider which shelters us from certain uncertainties faced in particular countries. Regardless of current global economic uncertainties we see some exciting opportunities in Ireland. Being based in Cape Town, I am geographically quite far from our Irish presence; however, I would like to offer a few thematic views on what we have seen with our clients. Many South African Managers have either a presence here or have Irish fund structures in place, mainly from an open ended alternate fund perspective.

One trend we are certainly seeing, and which was also confirmed by Kieran's earlier comments around growth in funds in the ETF space, is the global move towards more **passive investment management**, rather than active management. We have noted that managers are placing significant emphasis in this area, as they seek to capture additional investor flows. We have seen this through flows into ETFs as well as Smart Beta strategies. The returns of actively managed funds have been less than stellar over the past 18 months, and the move to passively managed funds has in large been driven by cost optimisation, which has led to the downward pressure on management fees. We have noted a downward pressure on the median of management and performance fees that are charged.

Other prevalent themes include the increasing use and interest in Artificial Intelligence trading strategies, both within ETFs as well as in actively managed portfolios. Quantitative trading is well established, but now larger managers such as BlackRock and the MAN group are actively looking at technology that not only assists in investment decisions, but also enables their investment models to learn from their own data.

The growth in value of crypto currencies has been significant and the trading of Bitcoin and other crypto currencies will expand the investment opportunities available to investment managers.



We have also monitored the recurring theme regarding the alignment of managers' and investors' interests. This is outlining the way that managers charge their fees, not necessarily the quantum of fee. The use of hurdle rates, sliding fee scales, lockups and the use of founder's shares have all increased as managers seek to ensure that their compensation is both fair and reasonable. This has in part been driven by an increase in disclosure requirements to investors, especially TER's. The Central Irish Bank has been at the forefront of a review of all fund fee charges across regulated portfolios using statistical analysis, to ensure that costs are correctly reported and are not misleading to investors.

Oisín McClenaghan: We have seen significant uptake in Irish Common Contractual Funds (CCFs) in the recent past, with these tax transparent structures gaining a lot of momentum, particularly since the start of 2016. After what was initially a fairly slow uptake after this structure was first introduced in Ireland about 10 years ago, there has been a lot of activity in this space in the last few years. Since the first of January 2016 we have seen a 60% increase in the number of CCFs umbrella funds authorized in Ireland, so there's clearly a lot of investor appetite for CCFs.

In line with the increased focus on Common Contractual Funds, we have also seen fund administration businesses in Ireland investing quite heavily in building out their capabilities to service the needs of CCFs, particularly around tax reclaim services and services specific to CCFs.

Apart from that, there's a lot development in the private equity and the real asset space and we have set up funds for clients investing in a broad range of distinct asset classes in this space, from funds investing in data centers, pharmaceutical royalties, life settlement funds, infrastructure funds and even funds which are set up to provide seed capital to managers looking to establish funds.

So there is a lot of interest in the alternative space and the liquid alternatives space.



There is also a lot of interest in the loan origination space. Loan funds have had a slow uptake initially, and there was a bit of back and forth between the industry and the regulator in terms of getting the regulatory framework to an appropriate place, however we are starting to see more and more managers setting up loan origination funds using the current structures that are in place.

Brexit obviously is a huge theme. We are having a lot of discussions with clients around adjustments to what a lot of people are referring to as their “footprint” in Europe, and there can be a lot of nuances to the discussion depending on each fund structure, where your manager is located, what license you do or don’t have, the extent of your presence in the UK and who you are selling to or you want to sell to.

We have seen some clients already “switch off” their UK AIFM and appoint an Irish AIFM to their structures early on this year, preemptively taking a step to shore up their structure in anticipation of the passporting rights being shut off post-Brexit.

There still is a lot of discussions going on around that space. Quite a few promoters are tying in their discussions on Brexit preparation with updates to their Irish structures to address recent updates to the Central Bank’s management company regulatory regime, generally referred to as “CP86” after the related Central Bank consultation paper that led up to the changes. So there are ongoing discussions on addressing Brexit related restructuring at the same time as any changes required to existing structures to comply with the new CP86 regime.

Matthias Knab

Just a follow-up question regarding the CCFs and the ICAVs, so Irish structures where you have seen good positive growth: For the benefit of the readers who are not so familiar with those structures, what is the strength of those products, why this uptake now?

Oisín McClenaghan: The ICAV is a relatively new corporate vehicle specific to investment funds which sits alongside the public limited company (or “plc”) fund structure which has historically been the most popular fund structure in Ireland. The ICAV represents a modernizing and streamlining of the investment company fund structure and was designed specifically for investment funds.



The ICAV has its own legislative regime which assists in ensuring that the ICAV is distinguished from ordinary companies and avoids those aspects of company law legislation that aren’t relevant to funds.

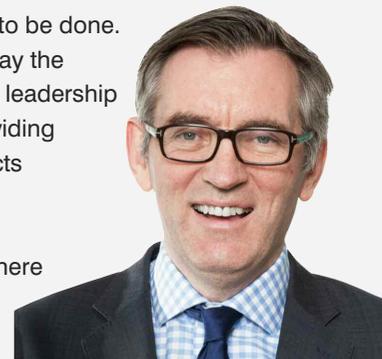
In terms of CCFs’ development, the CCF is a fully tax transparent structure, so each investor has a tax exposure to the underlying asset. So it works and it’s attractive to the pension community where those entities are exempt. The tax transparency of Irish CCFs has been recognized by a large and growing number of countries. By comparison with some other jurisdictions offering similar vehicles, the Irish CCF isn’t liable to be recognized in Ireland as tax transparent for some purposes, and non-tax transparent for others, and this has helped the Irish CCF to get recognized by other countries.

Declan O'Sullivan: I think that when the CCF came out first, essentially the difficulty that it encountered was that it was dependent on tax opinions in multiple jurisdictions - opinions in the jurisdiction of the investor and opinions in the jurisdiction of the investment. This initial tax work has been done and the structure has bedded down, people are comfortable with the tax position and. As a result, they are more comfortable in establishing CCFs.

We also see a significant uptick in Solvency II compliant funds. Insurance companies are becoming much more significant investors in alternative funds that are Solvency II compliant, they are looking for Solvency II reporting and an increasing number of service providers can provide solutions around that. There is a lot of interest from the US in particular in Solvency II.

This is another good example where Ireland as a jurisdiction has gotten on top of what needs to be done. It's kind of interesting in terms of the way Ireland as a domicile has developed. We see what way the market moves and develop solutions, be it the CCF structure, Solvency II or providing thought leadership on the ETF market. Similarly, within Dechert, we have also developed and worked hard at providing solutions to clients to enable to sell their funds and tap into demand for European fund products globally.

Kieran talked about the increase in sales for UCITS and I was wondering whether you know where those sales are coming from?



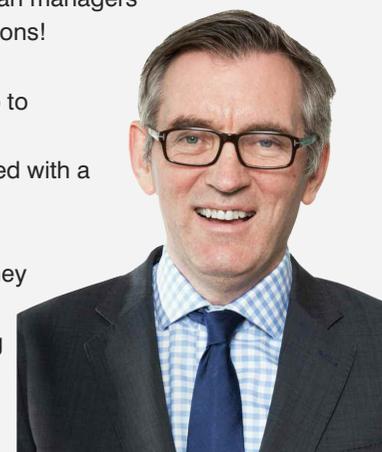
Kieran Fox: It's actually quite difficult to drill down and get behind where net sales data come from in terms of origin of the investor base. Most of the times that information is proprietary to the fund and asset managers don't really like that information being released, even at an aggregate level.

That being said, it is data that we are trying to source at an aggregate level from the Central Bank. What I can say is that the Irish funds industry is supporting **distribution to around 70 countries** globally. As an industry association this is one of our key messages we are sending out far and wide, that Irish funds are easy to distribute, that they are recognized and accepted by institutional and retail investors, that they fit easily on to platforms, and that's a message that is increasingly gaining traction.

Declan O'Sullivan: One perception, we typically tend to come across vis-à-vis the Dublin-Luxembourg debate is that managers and product manufacturers have preferred Dublin as a domicile in terms of the regulatory understanding of the product, but that salespeople prefer Luxembourg, with its longer history in continental Europe and its retail capability combined with the fact that that it seems to be more popular and more recognized among Asian managers and the Asian marketplace. These are perceptions we are looking to address, in both jurisdictions!

We want to address the group think about domicile selection – that if you are an Asian, you go to Luxembourg, and if you want to do an ETF, you go to Dublin. I think we just need to continue challenging that and this has been a key focus for Irish Funds over the past few years combined with a lot of air miles back and forth to Asia.

There's no real reason why Luxembourg should be favored over Ireland for these funds, but they are, and we need to challenge that orthodoxy on this which we are seeing happening more and more. So from that perspective it's great to see that Kieran's sales figures are also backing that up.





Declan O'Sullivan: I am pleased to say that we are domicile neutral in Dechert and that we ask managers to look at each domicile on its merits.

And while we know that while many Asian managers have Dublin products, for those who default to Luxembourg, we need to demonstrate that everything that you can do in Luxembourg, you can do in Dublin, but you can do it slightly easier, we hope, slightly cheaper and with better flight connections. So I'd like to see our industry here servicing more and more Asian funds. I know that Irish Funds have been focusing to a very significant different degree on the Asian marketplace and I think that's very important and that's growing our market share.

Oisin McClenaghan: One important thing to add to the Dublin v Luxembourg discussion, and this is a huge point for some of our clients, is the difference to your bottom line choosing Dublin can make – essentially five bps or one bp on foot of the tax Luxembourg imposes on its funds. If the fund is sold to retail investors, Luxembourg imposes a 5 bps tax on your AUM, which is significant. If it's sold to institutional investors, the Luxembourg tax is one bp.

This is a clear argument in favour of Ireland over Luxembourg particularly when margins are thin. I have had discussions with one very large manager last week about a new Irish retail-oriented equity fund that they are considering setting up. The new fund will have very low fees and the negative impact the Luxembourg tax would have on their thin margins was enough to exclude Luxembourg as a potential domicile for the new fund very early in the process. So this is a pretty significant point for a lot of managers.



Kieran Fox

While there may be some historic and legacy aspect to this, when we look at the funds that are set up today or over the last couple of years, then I would say an Irish authorized UCITS fund is actually just as likely to be registered and sold in any Asian country as any other cross-border UCITS fund. That's something which investors and distributors are increasingly aware of.

Philip Dempsey: I agree that a lot comes down to perception. I think our ICAV is absolutely fit for purpose from a US manager's perspective to set up, say, a private equity fund. There has been a tradition for using a partnership structure and that's the route that they want to go down, they are comfortable with it. They may want to set up a parallel European structure, in the market of their European investor base.

Ireland currently has Investment Limited Partnership changes coming through the legislative process. Through this process, there has always been a solid engagement between industry, the regulator, and Government.

I'd also like to bring to attention that there are also other structures in Ireland which perhaps, are slightly more forgotten, like the 1907 partnership structure. I had a meeting with a prospective client in London recently. They automatically assumed that they would be structuring their fund in Luxembourg. It's a private equity mid-cap buyout strategy fund with EUR 800 million going to be seeded from their captive investors and another EUR 200 million from new investors.



They were looking at the unregulated Luxembourg RAIF structure, without necessarily considering any other jurisdiction. Their captive investor base is German. If you look on the Irish funds' website, one of the largest jurisdictions for Irish fund sales is actually Germany. I think it's number two, behind the UK. So rather than Ireland as a jurisdiction sitting back and saying, "Well, obviously Luxembourg is going to win this one," we put up a fight. We have demonstrated our strengths. For example, on the product level, I already mentioned the 1907 partnership structure, which although unregulated, has all the necessary regulatory protections when managed by an authorised and regulated AIFM such as LIS. You have the necessary protections for all their investors and the passporting throughout the eea. The Investment Limited Partnership (ILP) will only strengthen Ireland's product toolkit when it comes into force expectedly in early 2018, making Ireland a compelling jurisdiction for managers to domicile their funds.

Sean Herlihy: When it comes to alternative investment managers, there's always debate around Ireland and Luxembourg. I believe that you can have a balance today for traditional funds, but **when it comes to alternatives, I personally believe that Dublin has a clear advantage over any other competing European jurisdiction.**

There are a lot of aspects which specifically play well to the alternative mindset and to the structures that are needed. Structures like the ICAV offer a far better operational answer, and a lot of our clients are benefitting from things like reduced operational in terms of the various requirements they need to fulfill.

We also talked about the CCF which gives a better tax answer to pension funds, and that can also be a real substantial saving from a dollar bottom line perspective. Depending on the basis of the portfolio, you can reclaim quite a proportion of the withholding tax. For a US-based portfolio, that can be **up to 30% of the withholding tax on the income**, so it can be quite substantial if the underlying investor, such as a pension fund, is structured appropriately. That is a clear advantage.

I would also think that if we'd look at the proportions of our market share in the alternative space specifically compared to Luxembourg, I think we are doing very well certainly in the hedge fund space, and again I would certainly argue that Dublin is a better jurisdiction for that part of the market.



Declan O’Sullivan: It’s very difficult to see how it’s going to play out across all the issues and all the sectors.

Clearly, Ireland as a domicile will hope to benefit, because UK entities will need to look at how they access European markets, and simply that can be achieved by way of locating to Ireland.

Now, to a large extent, you could argue that Brexit happened a long time ago in the investment management industry, because UK is not a domicile for funds, neither is the US as those funds typically go to Luxembourg or to Ireland. So the issue that remains is the management of those funds and UK and US have very clearly established themselves as the world’s leading domiciles for investment management.

What we can expect is that the UK over time would become similar to the US in terms of being a non-EU jurisdiction as a third country and having to figure out how to access the EU. While we hope that these managers will use Dublin to centre their operations, there will be an increasing focus and demands on the level of substance for those management companies.

When I take into account the recent ESMA opinion and some European Commission reports as well, this means that we need to look very closely how substance can be achieved. I think that the Central Bank has been quite clear where they stand in terms of substances and they have been engaging with industry and with stakeholders on this.

To a large extent, I think that we can take comfort from the fact that while we have all endured some pain with regard to the implementation of the Central Bank’s management company guidance – CP86, it does set an important benchmark in terms of the necessary level of substance and, in that regard, we can probably credit the Central Bank with some foresight.

With new entrants to the market here, such as the recent acquisition of LIS by SANNE, we have seen a big influx of Luxembourg third party managers. I think that the third party managers have, in general, been increasing their substance with a greater focus on headcount, systems and risk management and that sufficiently resourced to allay any concerns around substance in the context of Brexit.

But against that, I think we are going to see that the managers who are in Mayfair will want to stay in Mayfair and those that are in New York will want to stay in New York. London and New York are and will remain the key so we need to work out solutions to see how we can coexist and cooperate balancing the need for substance against investor choice.

Here in Ireland, we have been in this space now for 30 years and have always come up with solutions. We will all watch what’s happening very closely and we will come up with solutions, and that is why we see new entrants in the marketplace, because they see opportunities to provide solutions as well.

Summing up, I think Ireland is in a good place in respect to Brexit, and I do think that we will need to have some form of extra substance, but isn’t that a good thing?



Oisín McClenaghan: In terms of the current Commission and ESMA focus on substance and delegation, the CP86 regime introduced by the Central Bank which requires additional layers of protocol and procedure and oversight in the Irish management company structure, is definitely beneficial from an Irish perspective, and the Central Bank has been very clear and articulate in confirming its view that the Irish position is firm in terms of substance.

In connection with delegation by that structure, the Central Bank has been very clear following on from the publication of the initial ESMA opinion in late May, and then the follow up opinion in July, that the Irish position is robust and we are well placed as a jurisdiction to address any new requirements.

So obviously it remains to be seen how the draft Commission regulation which has now been published in the last few weeks will impact on the Irish regulatory regime, there could be a bit of flux there. It may get to a point where enhancements to the Irish structures may be required.

We can all remember how a few years ago when AIFMD came into play and hit the industry, we expected to be inundated with AIFM authorization applications here in Dublin. But we weren't inundated. There were some UK managers who did get AIFMs authorized in Ireland by the Central Bank, but most of our UK clients went through the process of obtaining AIFM licenses for their UK investment management entities, and then, using the passporting mechanism, those UK AIFMs were simply appointed to the Irish structures. It was a lot simpler to have this reconfigured London based investment manager, which now had an AIFM license, simply appointed to the Irish structures.

So, most of our UK clients did that, but Brexit has thrown a complete spanner in the works on that front, because the overwhelming expectation of the industry is that this type of passporting will not operate post-Brexit. You will not be able to simply plug your UK AIFM into your Irish fund structure, so those entities will have to either avail of the likes of LIS, appointing third party managers in Dublin or alternatively, to set up a management company in Dublin themselves. As I mentioned, we have already seen some clients replace their UK AIFMs with Irish AIFMs in preparation for this expected outcome.

They can still delegate back the investment management to London, the delegation model is the bedrock of fund industry and today you can set up a fund and delegate investment management to a manager in pretty much any OECD country provided the manager is subject to prudential regulation and authorized to perform portfolio management in its home state.



Philip Dempsey: I was looking at the recent paper from ESMA on substance and convergence, and I also read the recent European Commission paper on CMU. Obviously Brexit is a significant driver in all of these guidelines. The first consideration is trying to put in place a **framework that prohibits a race to the bottom in terms of regulatory arbitrage**, where firms could be looking to relocate to other jurisdictions where there are less strict laws and enforcements in place.

Post Brexit, it will be interesting to see how a delegation back, to say a manager in Mayfair, is going to work. So when you look at a third country, such as the UK, it will be strange that the UK will soon become a third country once Brexit has been fully completed.

If Brexit proceeds as anticipated, it will be interesting to see how, from a regulatory perspective, the EU 27 are going to deal with it. Certainly for UK investment managers and the passporting rights that they currently enjoy today, how will they address access to the EU distribution markets? If they have a UK entity, will they now look at appointing or establishing themselves an Irish or other jurisdiction entity so they can continue to access the EU market, allowing them to freely market their funds across borders?

The other thing which was interesting to hear was the Central Bank of Ireland talking about the recent European Commission paper on CMU and certain areas such as authorisations and registration processes.



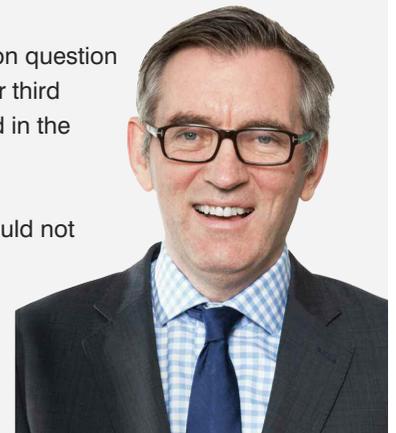
The guidelines from the European Commission are saying that ESMA is going to have, certainly within the authorisation and registration process, much greater authority and powers of enforcement.

Listening to the Central bank of Ireland, there is a concern with the CMU paper and the possible future powers of ESMA. There will be a lot to play out in this arena, and the level of pushback from national Regulators.

It would appear that France is behind some of these recent papers – they are certainly pushing hard to become the location for post-Brexit business. From a process of registration and authorisation, you are adding an extra layer of bureaucracy. This is a process that's actually working very well, a process all of the national competent authorities are very familiar with. The funds industry now, especially here in Ireland, is not like it was in the early 2000s. It is now a very mature and well established, professional, regulated industry. Ireland is well used to dealing on an international and a global basis.

Declan O'Sullivan: When AIFMD came in, there were some big red flags around the delegation question with massive concerns about whether you actually could delegate to a US manager or another third country manager. I think that the US Treasury Secretary at that time, Tim Geithner, got involved in the process and subsequently the European Commission backed off a little bit.

I think we do need make the argument that the EU cannot be protectionist here and that it should not reduce investor choice. This would not be good for European citizens.



Sean Murray: As Philip says we can bring back Brexit to this topic, I read a very interesting article recently and the main drivers that we see happening here is within the European Union – or what will remain of the European Union – two really internationally focused fund centers which are Dublin and Luxembourg which don't have their own large internal distribution markets, and therefore depend on the ability to delegate back to third countries. You've got that operating on one level versus France and Germany, which have their own highly developed internal fund markets and therefore don't depend on a delegated model, and unfortunately, politically what's happening at the moment is that the discussion around delegation is being driven at the ESMA level by France mainly with its own internal market in mind. Germany is probably not taking a major position at present, but also not actually challenging France on these issues.

So I think that's where our main sort of challenge will come on any delegation, and any delegation allowances back to third countries such as the US and UK as a third country in the future. That's really the biggest thing that we are facing and on that, Ireland should work closely with other internationally focused jurisdictions such as Luxembourg. The UK has always been there to support the international element at the ESMA level, with them going out of the EU is not really good politically for jurisdictions such as Ireland and Luxembourg, because generally the UK would take a more international trade-focused position and it would be to the benefit of jurisdictions like Ireland, Luxembourg, Netherlands, et cetera, who are more internationally focused. That's the biggest challenge we are facing versus the protectionism happening in France and in Germany that's going to take more-and-more of an influence over ESMA as we go forward.



Kieran Fox: Regarding Brexit, let's not forget that the funds industry in Ireland has had an extremely deep and a very broad, successful partnership with the asset management industry in the UK for many decades, and this manifests itself in many different ways. Philip already made the point that the UK is the country where most Irish funds are sold into, for example. More than one third of all Irish authorized funds are sold into the UK. This is a very significant point, and we feel strongly this access should continue, for many reasons, after the UK withdraw from the European Union.

First and foremost is the point around investor choice and investor outcomes which Declan already referenced. Secondly, as has already been mentioned, any move to restrict delegation would also have a detrimental impact on **investor choice and investor outcomes**. I think Oisín made the point about UK AIFMs – there are 253 UK AIFMs that operate in Ireland on a cross-border basis, for example. UK managers manage Irish authorized funds with many hundreds of billions of Euros in assets, and the net beneficiary of this is investors, both European and global investors through increased access to more investment choices. That's the key point that we focus on, and I think that European policymakers should continue to focus on. The global success which is UCITS funds, as a passportable investment fund structure, has ultimately benefitted European and global investors by giving them much greater choice of investment fund structures to invest in and access to global portfolio management expertise. This has increased choice, reduced cost, and provided access to the best investment talent globally, within an efficient structure that's easy to distribute, and benefits from scales of size.

So in all of that context, I would say that first and foremost, policy setters should put investor outcomes at the top of their priorities.

Ireland has got huge advantages, we've talked about a lot of them, but one of the points I think which hasn't been touched upon a lot much is the Central Bank of Ireland. They have a very close and long standing relationship with the FCA and its predecessors. In fact, the Central Bank of Ireland has a Memorandum of Understanding already in place with the FCA. I think the Central Bank's close relationship with the FCA is one which will continue after the UK leaves the European Union.

In addition to the points that have been made about a common language, business, cultural and family links, ease of travel is another important point. With 60 flights a day between Dublin and London, this is the most frequently served route between any European destinations.

There are hundreds more flights between the rest of the UK and Ireland, so there's great ease in terms of doing business here. IDA Ireland have a phrase which I am sure they won't mind me borrowing, which is, *"Ireland is the country which is most like doing business in the UK without actually being in the UK"*, and I think that kind of sums it up quite nicely.



Oisín McClenaghan: On additional concern in terms on Brexit is that the UK and Ireland were always quite firmly aligned in terms of common positions at the Brussels negotiating table on EU regulatory developments effecting the funds industry, so there is a concern in Ireland that we are losing a significant ally when it comes to such negotiations in Brussels. How that pans out remains to be seen. One thing that remains to be seen is the types of developments we will see from the UK down the road presuming Brexit goes ahead. I am referring here to things like the future iteration of the UCITS and AIFMD regimes. There could be the time when new and onerous pan-European requirements are introduced which the UK won't be subject to and the UK can then create a differentiating or competing offer to the global funds industry, but it's all very much tied up in how Brexit actually pans out which very much remains to be seen.

Sean Herlihy: I think you have all raised some excellent points here, but as we said earlier, particularly in the alternative investment industry, there has been a lot of discussion but probably not a whole lot of action, and possibly, given the extend of the potential changes at hand, maybe there wasn't even enough discussion probably as much as it needs to be.

I think if anyone in the fund industry is either selling into or out of the UK, whilst there may or may not be a first move advantage, I believe it is very important that they looked to the options, that they have worked out contingencies and have a plan of in place – something they can action if and when Brexit, hard Brexit or soft, whatever it is, actually does come to fore.

Of course, the challenge is that when you start having those discussions, anybody talking to anybody in any part of the industry is looking for some degree of certainty. But, you won't get a whole lot of certainty about Brexit, even if it will have or not, I think even that could still be somewhat debatable.

Kieran already pointed out that since the foundation of our state over a hundred years ago, Ireland's biggest trading partner has been the UK across every industry. It's pre-EU and it will carry on post-EU, whatever the solution is, I have absolutely no doubt that when Brexit is finished, when the dust is settled, Ireland will still be the best route into and out of the UK in the financial service industry and other industry for that matter.



Matthias Knab

Let's look at innovation, so new products and new services coming out of Ireland at the moment.

Oisin McClenaghan: I think that for our sector one of the most important recent developments is the ILP, the limited partnership structure, which has been enhanced in order to create a more workable limited partnership structure available in Ireland, particularly for the asset management community focused on the private equity side. The previous Irish limited partnership structures are now being enhanced and reengineered following on from a protracted engagement led by Irish Funds with the relevant government departments.



Irish Funds are very active, the body has about 30-plus working groups, many of which are focused on very niche areas and they are always made up of industry experts from the asset management, fund service provider and legal communities. Irish Funds successful engagement with the relevant Government departments is leading to a redraft of the limited partnership legislation to make it fit for purpose. So this work is progressing well and hopefully we will have new legislation in place in 2018.

Kieran Fox: Ireland certainly has a very long, successful and proven record of innovating in terms of fund products. Declan, am I right in saying Ireland had the first regulated hedge fund product in Europe with the QIF, the Qualifying Investor Fund? Ireland was certainly the first country in Europe to fully implement the AIFM Directive and begin accepting applications. We've also had the new ICAV legal structure a two and a half years ago, so there's a track record is there.

Also outside of the fund structures, on the technology side, Ireland has a lot to offer in terms of innovation. If you look around Dublin and the infrastructure here, you'll see that many global technology companies have their European headquarters here, with thousands of staff. This is in addition to the many financial services companies that have set up their European FinTech or innovation hubs here. There is a real **coming together on the technology and the international financial services side.**

One thing we did earlier this year at an industry level, with our FinTech Working Group and our Regulatory Reporting Working Group with a cooperation from five or six companies, one of which was a European blockchain headquartered in Dublin, was to produce a proof of concept using blockchain technology for regulatory reporting to the Central Bank. That project took about 12 weeks from start to finish with the industry companies and the experts in the blockchain lab to build the product. We were able to successfully put the reports on a blockchain and run live demos. That's a really good example some of the innovation that can take place here and which attracted a lot of interest.



Declan O'Sullivan: In terms of product innovation, I mentioned earlier that the headline figure relating to loan and private debt funds is getting close to \$1 trillion and Ireland has not been as prominent as it could be in that marketplace and that it is addressing its market position by bringing forward modern Investment Limited Partnership legislation so that we can be in that marketplace and compete for those funds.

In other areas, such as ETFs or smart beta products. This is a space our Central Bank understands really well, there was a very detailed discussion paper on ETF funds earlier in the year and we'll also have a large ETF conference in November. So effectively, in the EFT space, Ireland is a world leader with a world leading regulator. The same holds for money market funds.

The Irish Central Bank has also done a lot of work and in fact it guided the ESMA opinion on loan funds as well, despite some feeling that the final outcome may have turned out to be a bit too prescriptive.

So in many sectors, the Irish industry and the regulator are very much ahead of the market which is really valuable in terms of thought leadership. Martin Moloney from our Central Bank chairs the investment management group within ESMA, so from that perspective, we are at the centre of the discussion in Europe on these issues as well.

In relation to FinTech and blockchain, JP Morgan are taking over a big tower block in the financial services centre and expect to employ up to a 1,000 staff. Developments in FinTech is a very important part of their thinking in terms of setting up in Dublin. In addition to being a financial centre, Dublin is also a leading centre for technology and the combination of Dublin's preeminent position in both sectors puts Dublin in a great market position in terms of innovation.



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Philip Dempsey: I agree, and this trickles down even to companies such as SANNE, LIS, and many other non-Irish companies coming to Ireland. For example, there have been many other management companies, from, say Luxembourg, and some other jurisdictions, that have set up a presence or a branch here in Ireland.

This is really based on the sentiment that Ireland is going to be very much on an upward trajectory for the next number of years. We are a safe, regulated, professional, pro-active, pro-business jurisdiction and location and certainly when I go abroad and talk to people, they get that. I also agree that the ESMA guidance on substance and convergence is a direct result of the CP86 guidelines that were issued via the third set of guidelines in Ireland last December. And probably the same can be said in terms of the ICAVs. I mean Jersey, the Luxembourg RAIF, all of these followed Ireland's lead after the Irish ICAV structure was introduced in early 2015.



Sean Murray

Another reason why SANNE has invested and grown our operations here is due to the very talented group of skilled professionals. So we are very happy to have an established presence here and are confident of continuing to grow our presence in Ireland, which will surely happen as a result of the combination of talented people, the regulatory environment, upcoming advances in technological developments and the need for service excellence.

Graeme Rate

To echo what Sean has said, it is important for ourselves as a global administrator to have a presence in all of the main financial markets in order to stay close to our clients and service their growing needs in their jurisdiction of choice. Given Ireland's jurisdictional presence within the EU, its relatively swift recovery from the economic crisis and the available workforce, it was an easy decision to apply for a fund administration license with the Central Bank.

Oisín McClenaghan

I believe that approximately 40% of the world's hedge funds are serviced from Ireland. So obviously there's the indigenous Irish domiciled funds, but there is also this huge body of funds domiciled around the world in other jurisdictions such as Cayman, that are serviced here. Kieran, you may be able to confirm that figure? So there is an impressive body of expertise that has been built up in Ireland over the years servicing that volume of assets, in some, as we know, esoteric and demanding asset classes as well.

Kieran Fox: This is absolutely correct, there is **in excess of 2.5 trillion Euros of alternative and hedge fund assets administered in Ireland, which is easily 40% of the world's total.** As Oisín said, we are working with every conceivable fund structure, legal framework, asset class, type of securities. Ireland has that expertise across the board, including pricing liquid or illiquid assets.

I agree with the earlier comments about Ireland's very significant skill base. We have a very well-educated, young population and also attract people who want to come and live in Ireland.



Declan O'Sullivan

I came across an interesting statistic last week that said Dublin is the World's 24th most visited city. I think this is pretty amazing for a relatively small town. And we see the effects across the board, not only in technology and finance, but also in others such as pharma.

Sean Herlihy: While Ireland is successful as an innovation hub, so far in the alternatives industry technology has not yet made that much of an impact as in other sectors, but I believe technology will be the next major impact to come to the alternatives industry, and I have every confidence we'll be at the forefront of that.

Coming back to some of the overall trends in the industry, one thing we have certainly seen is a marked increase in the number of **US managers wanting to do business also outside the US**. And once an US manager makes that decision and starts looking around and analyses the options, I think Ireland certainly offers all the right answers in terms of the various questions they have. Obviously, each one is different and there's a lot of complexity until final decisions are made, but fundamentally, when the US manager decides that they want to make a shift and go for global distribution, Ireland is certainly the center to do it from.



Graeme Rate

We have spent some time discussing Brexit in-depth but I have a further question. Do you think there will be a significant difference to the investment management industry between a **hard and soft Brexit**?

Oisin McClenaghan

The most fundamental immediate impact of Brexit on the investment funds industry will be on the passporting rights under UCITS or AIFMD, and my view here is that whether it's a hard Brexit or a soft Brexit, I don't believe that that passporting mechanism will continue to work. That will really have the most fundamental impact on our industry.

Kieran Fox: I would say potentially yes to Oisin's point, but *even within the confines of a soft Brexit or a hard Brexit, I think there are still a lot of different options and outcomes.*

For example, when I spoke earlier about the distribution of Irish funds to UK investors, regardless of whether we have a soft Brexit or a hard Brexit, in theory at least, the answer to that question remains solely within the remit of the UK authorities. Once the UK leave the European Union, they are absolutely free to determine which funds from which countries will be allowed to be sold to investors in the UK.

As things currently stand, there is delegation of portfolio management to authorized managers in many third countries, whether they be in the US, Switzerland, Hong Kong, Singapore, Australia, wherever it might be. And today, that is in the remit of the Central Bank of Ireland, (or any national competent authority) to determine, through a very rigorous process assessing the regulatory regime in a particular jurisdiction, making sure it is of a suitable standard that is comparable and equivalent to what is provided here. The Central Bank will look at the regulatory status of the asset manager in that jurisdiction, they will ensure there is a sufficient Memorandum of Understanding between them and the relevant regulator in the third country. The Central Bank will then make their decision on delegating portfolio management within the confines of CP86 and all the regulations and provisions that are in place in Ireland to oversee that structure.





Declan O'Sullivan: Before the vote and immediately after, we were discussing what form would Brexit take? But because of the fact the Brexit vote was linked to one of the four freedoms, free movement of labour, that really meant that all hope of a soft Brexit dissipated at that time, so I think that we are looking at a hard Brexit. But we are still not seeing people moving or making decisions to any great extent.

It may well be that people are slowing down their decision making process in the off chance that this might happen. I think that absent that scenario, we are heading towards a hard and sharp Brexit.

Philip Dempsey: First and foremost, the UK is the finance capital of the world. It's the largest single location to provide financing globally.

So post-Brexit, just by virtue of its sheer size, and scale, the financial muscle in London being located outside the EU, will weaken the European Union. It also means that the UK is going to become a competing jurisdiction. So, from a financial service's perspective, there are going to be all sorts of long and hard felt ramifications associated with Brexit. Nobody has a crystal ball, so nobody can predict. But certainly on the balance of everything, I think Brexit will have no winners.



Sean Murray: Brexit was not expected by the majority, as was the recent US Presidential Elections, and I believe we are going to see more unpredictable events globally, probably partly as a fall out of globalisation.

I agree that we are looking at a hard Brexit, unless the Tories are out of government and we have a rerun of the Brexit referendum. That's the only option we're looking at, and I agree that the passporting rights will be lost. I don't believe that ESMA and some of the core EU countries like France and Germany, would want the City of London to retain their passporting rights. This is, again, *a huge opportunity for the Irish financial services market.*

Philip Dempsey: The mood music has changed in the UK. The initial vote to leave was intended to take back control and protect the borders, and not being subject to the European union directives and regulations. The realisation that leaving the EU has wider and deeper consequences is now starting to sink in.

I heard a comment from Tory grandee Lord Heseltine who believes that by 2019, public opinion could shift and parliament 'may not have the stomach' to vote in favour of withdrawal from the EU. The key factor in this will be the possible change in public sentiment, and the timing of the next general election in the UK. So, there are so many unknown factors including, if and when, and how, Brexit is going to happen. I don't think anybody fully knows.



Declan O’Sullivan: From an Irish perspective, I think we also need to re-calibrate. If you look at the number of Irish funds, probably at least 60%, maybe more, are from US and UK managers because they represent the bulk of the global investment industry, and we have been very happy about that. But just a thought that maybe going forward, not only in the investment management space but generally, Ireland needs to look beyond to what has become a relatively unfriendly US and a different UK and work more with continental Europe particularly with France and Germany.



We are unfortunately losing our big brother with the UK, and we need to build new allegiances. This is something that we have also been pretty good at over the years with the EU, and we also need to work more in Asia. Our food industry and other sectors have been looking at the same issues too. We need to seek out new markets and new friends in the funds industry as well.

I have a questions for the others at this Roundtable. One of the fundamental principles of the EU is the passport, which provides for the ability of a Luxembourg manager to passport to Ireland, and vice versa. I was wondering how you see this principle working in the real life in the sense of does the market accept a passported, foreign manager over a boots on the ground manager say here in Ireland?

Philip Dempsey: One of the questions I get asked when I meet a perspective clients is, “What is your substance?” Obviously LIS has built up a very significant presence in Luxembourg, with approximately 75 people servicing over a hundred AIFs. Our plan, as a new entrant in the Irish market, is to simply replicate the Luxembourg model, hiring people into Ireland to work in operations by servicing Irish business out of Ireland. We have the pipeline, and we plan to build it out, while growing the staff and expertise around that. This will be the same with Sanne growing their fund administration business here in Ireland. It’s all about new business, new mandates, which will dictate the number of staff and level of substance.

So once we demonstrate we have a local workforce, then I don’t think there’s any issue from a perception perspective. We have risk management expertise, investment management expertise. Clients and partners want to see that – once we demonstrate this, I don’t think there’s any negative perception regarding the pass-porting model from Luxembourg that we are using.



Graeme Rate: With a comprehensive breakdown of funds and their flows, where do you see the future flow of assets, Kieran? Do you expect to see further flows into the illiquid and ETF space where assets have significantly grown, or do you think that we will see a return to more actively managed funds over the next three to five years?



Kieran Fox: Good question! I wish I could give you an answer that I could attach a high degree of probability to. I personally think we are dealing with a number of different trends at the same time, some which are more long term and others which are more cyclical trends.

There is a long term established trend that is likely to continue for the foreseeable future towards lower cost funds, which will be probably mean ETFs and other lower cost passive funds continue to attract new flows.

As part of the ongoing trend regarding low cost funds, I believe that the scrutiny we see applied to fees will continue.

That being said, although markets keep delaying the expectation for this a bit, at some point quantitative easing stops we'll get slightly more normalized interest rate environments.

And when that happens, I personally think that some of the cyclicalities comes back, and we'll see for example actively managed stock pickers being able to demonstrate their value again.

If such benign environments for active managers prevail, investors may not mind paying extra for actively managed funds. One or two years of strong outperformance by an active fund could recoup a lot in terms of extra fees paid over a passive fund.



Matthias Knab

Kieran is right, and there is some data from Morningstar that confirms that. While in 2016 only 26% of active U.S. stock funds beat their composite passive benchmarks, over the 12 months through July 2017, however, 49% outperformed.

One of the reasons that stock picking is making more of a difference for investors now is that correlation between stocks has collapsed. In the S&P 500, for example, correlation has gone from almost 70% at the beginning of 2016 to less than 30% today. Despite market-level volatility being very low, we are seeing rather high single-stock volatility and significant sector rotations. This is the cyclicalities that Kieran mentioned which is now coming back and enables active managers to seize more alpha opportunities.



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Contact

Matthias Knab
Founder
Opalesque Ltd.
www.opalesque.com
Email: knab@opalesque.com
Tel: +49-89-2351-3055
Mobile: +49-170-189-0077

