

Fund Distribution Industry Survey
2020

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Introduction

Efficient fund distribution is the key to reaching a maximum set of potential investors and collecting Assets Under Management (AUM) from as many sources as possible.

Nevertheless, the concept of fund distribution is not commonly defined. Its meaning can encompass many different aspects such as: proprietary vs. third party fund distribution, institutional vs. retail distribution, and proprietary network vs. independent distribution. It even covers activities as diverse as sales and marketing, document compilation (KIDs or KIIDs, factsheets), know-your-customer and anti-money laundering tasks, order collections and processing, and fund registration in multiple countries.

The exact definition will therefore vary by region, country and even asset manager.

For this survey, we have defined distribution as selling proprietary funds through third party intermediaries. We designed the survey to span all operational phases of distribution support, and have included 'front office' activities such as sales, product development and marketing, through to the 'middle office' areas including compliance and sales support (i.e., KYD/KYC, DAs) and ongoing client and regulatory reporting. The general focus of these questions is on UCITS funds and other cross-border fund offerings.

As the distribution of funds expands rapidly and evolves globally, we have set ourselves a target to benchmark the operational best practices of the largest

asset managers. We aim to understand the approach these firms take towards supporting their businesses through their processes, technology platforms and service models, including the use of outsourced providers.

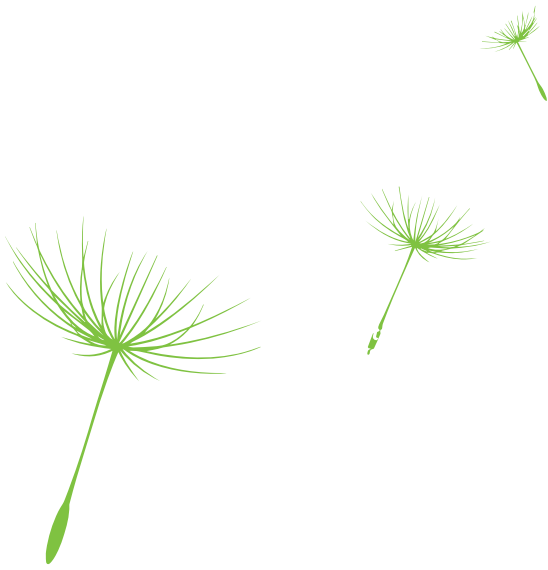
We contacted leading asset managers from across all regions, which resulted in participation from 36 firms, originating mainly from Europe and the USA in equal proportions. The sample of participants provided a good representation of all asset manager size segments with 40 percent of respondents managing less than \$50billion, 47 percent managing between \$50billion and \$250billion, and 13 percent more than \$250billion.

A copy of this report, as well as the anonymized source data, was made available to each participant with, as additional information, their individual positioning vis-à-vis the market.

The results of this survey are grouped into five sections:

- Organizational profile of the respondents
- General business views
- Relations with distributors
- Marketing/client materials
- Outsourcing of IT infrastructure and future technologies.





Organizational profile

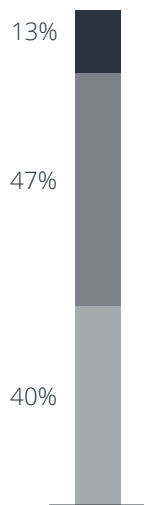
Question

01

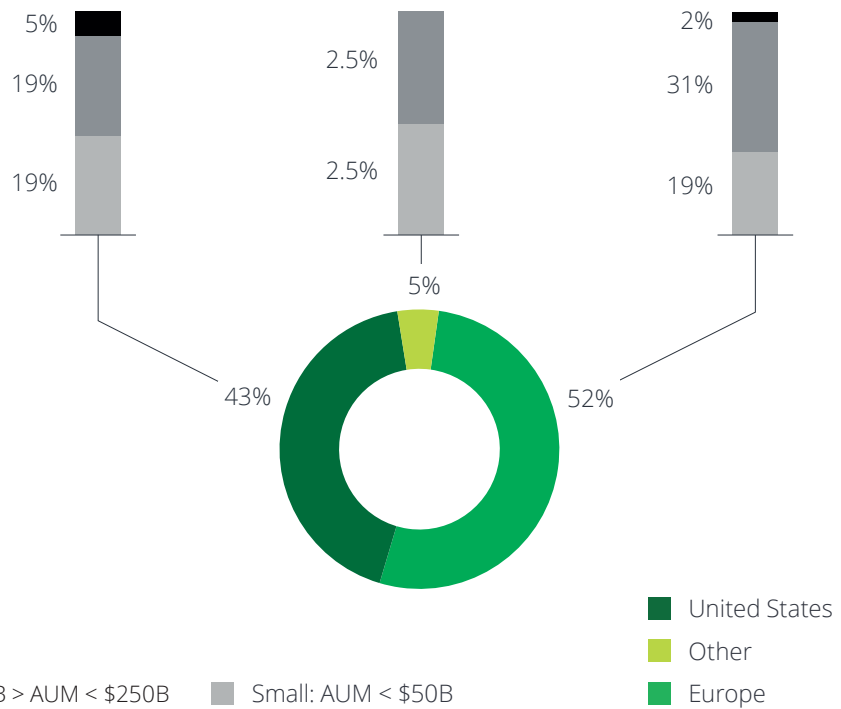
What are your firm's assets under management (AUM) for your UCITS/cross-border funds?



➤ Asset managers with up to \$250 billion represent close to 90 percent of our survey respondents, which is a fair representation of the industry players¹ across all size segments.



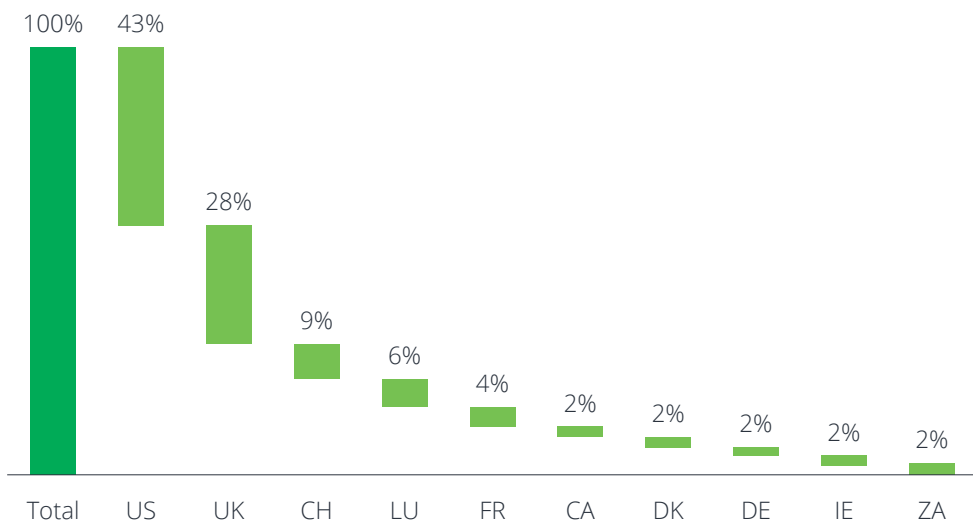
➤ Asset managers from Europe and the US are evenly split (respectively 52% for Europe and 43% for the US).



■ Large: AUM > \$250B ■ Medium: \$50B > AUM < \$250B ■ Small: AUM < \$50B

■ United States
■ Other
■ Europe

➤ In terms of countries, here is the detailed breakdown of the origin of the asset managers:

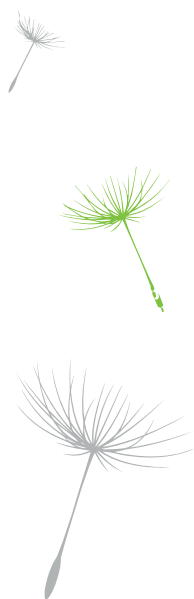


1. Categories have been defined as follows:

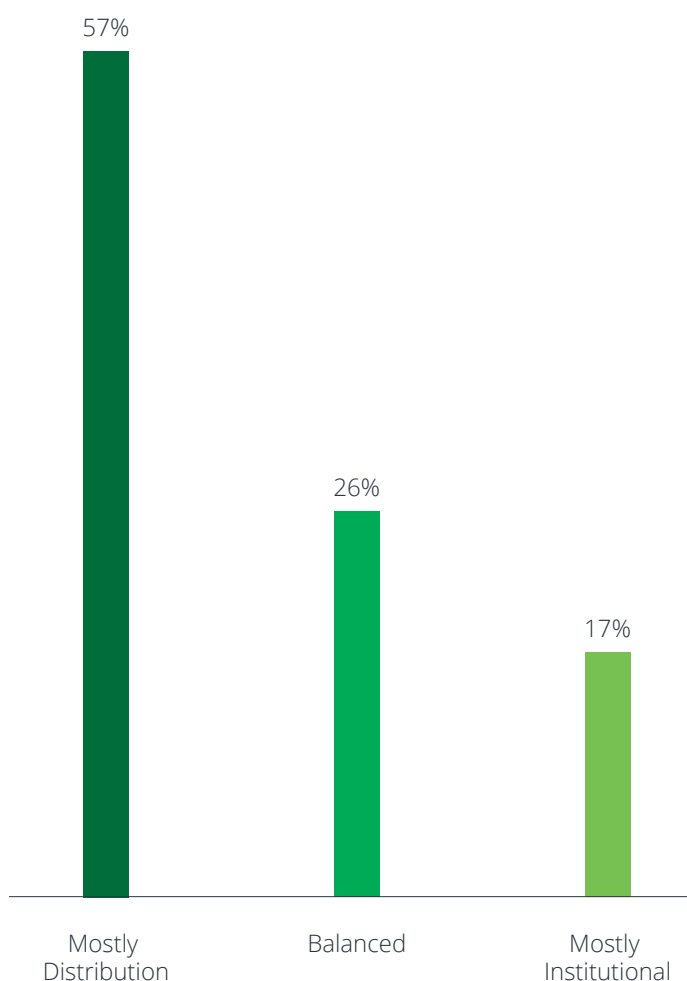
- Small: AUM < \$50B
- Medium: \$50B > AUM < \$250B
- Large: AUM > \$250B

Question
02

What is the closest approximate split of the AUM between your institutional clients and direct distribution (wholesale/intermediary) client channel business?



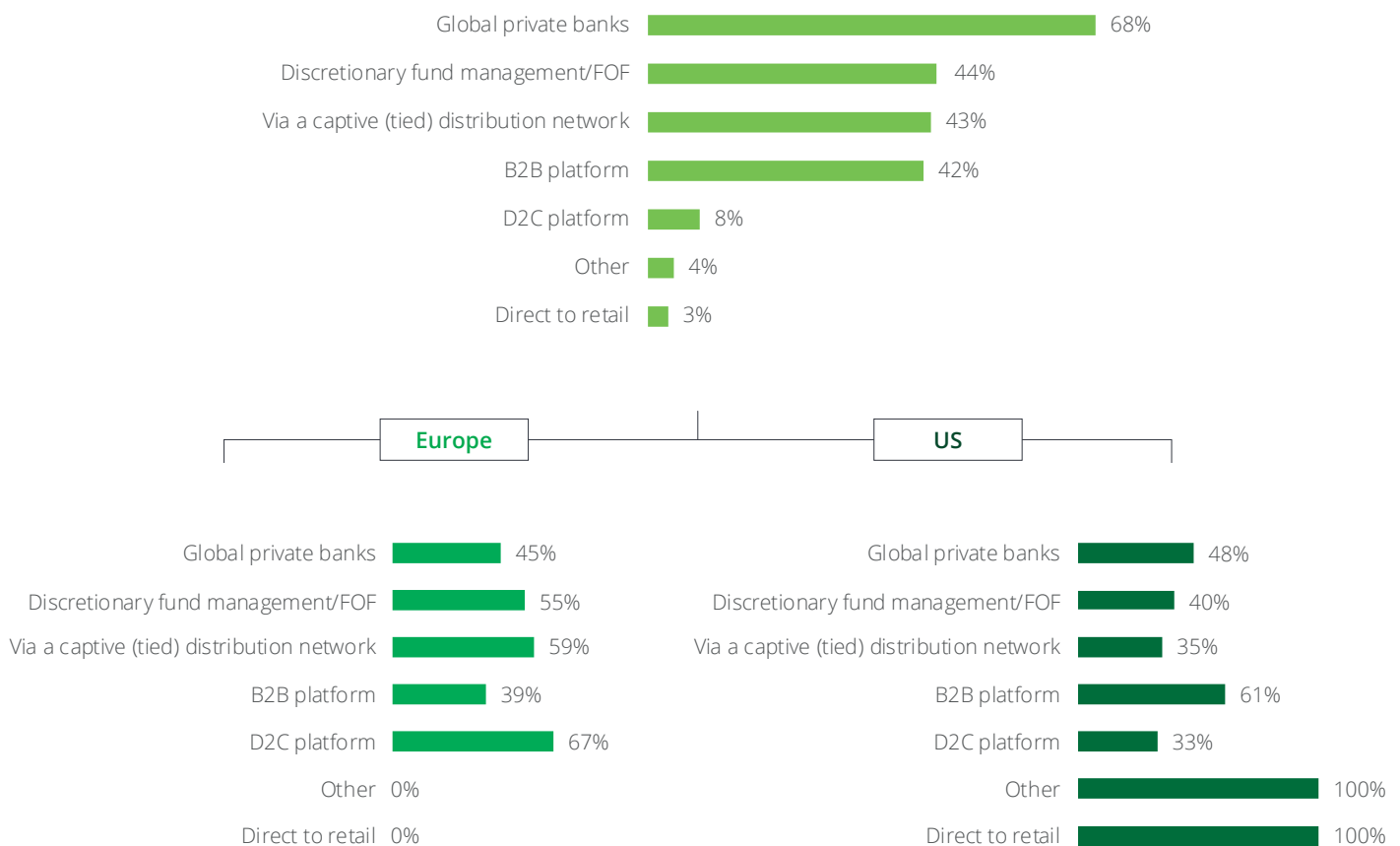
> The most favored distribution model is direct distribution to wholesale or intermediary (in a B2B2C approach) with close to 60 percent. A distribution model mostly based on institutional partners was only favored by 15 percent of respondents. The asset managers that use a balanced model have, on average, a split of 70 percent going through direct distribution and 30 percent via institutional distribution.



Question

03

Where is the majority of your AUM concentrated in the distribution channels?



➤ Indirect channels (such as global private banks and discretionary fund management/FOF) are the most common distribution channels amongst asset managers globally when compared to direct ones (D2C platform and direct to retail). This confirms the increasing importance of open architecture for cross-border fund distribution models.

However, a clear difference is observed when zooming in on US asset managers who have a tendency to use more direct distribution models compared to European players (either directly towards investors or through specific D2C platforms). US asset managers active in the “direct to investors” space may therefore gain a better understanding of the specific needs

of their end investors (as further detailed in this survey).

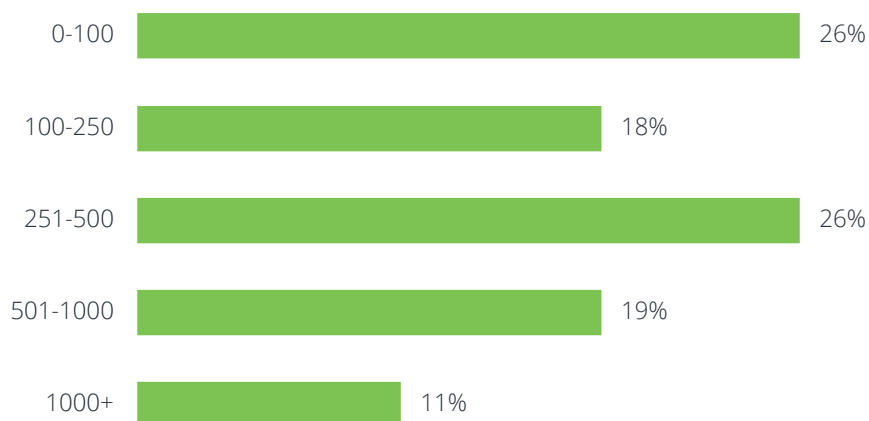
For the Asian market, other studies indicate that asset managers are focusing mainly on the institutional business - representing \$11 trillion of AUM - and expect growth to be in double digits over the next five years².

Question

04

How many distributors do you contract with directly?

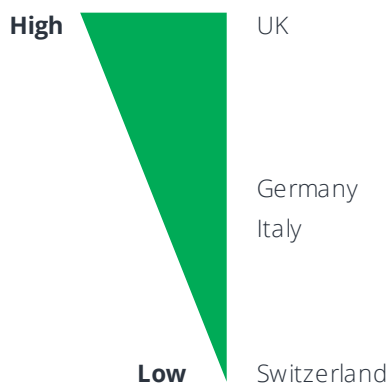
> Most asset managers prefer to have a global distribution model and limit the number of distributors. This survey confirms this trend as more than 70 percent of the respondents had (on average) less than 500 distributors.



Question

05

Please identify the top countries/regions through which sales are generated.



> Four countries clearly stand out as being the most efficient source of cross-border asset collection: United Kingdom, Germany, Italy, and Switzerland. Next come Spain and France with Asian countries following much later on in the list with the most sales in Hong Kong, Taiwan and Singapore. (In terms of the number of respondents as well as ranking for most successful country to collect assets, Hong Kong ranks eighth in both criteria).

Question

06

Do you have any structured products/structured notes investing in your UCITS funds?

➤ Almost 50 percent of the respondents have structured products or notes as investors in their UCITS funds irrespective of the region or the size of the asset manager.



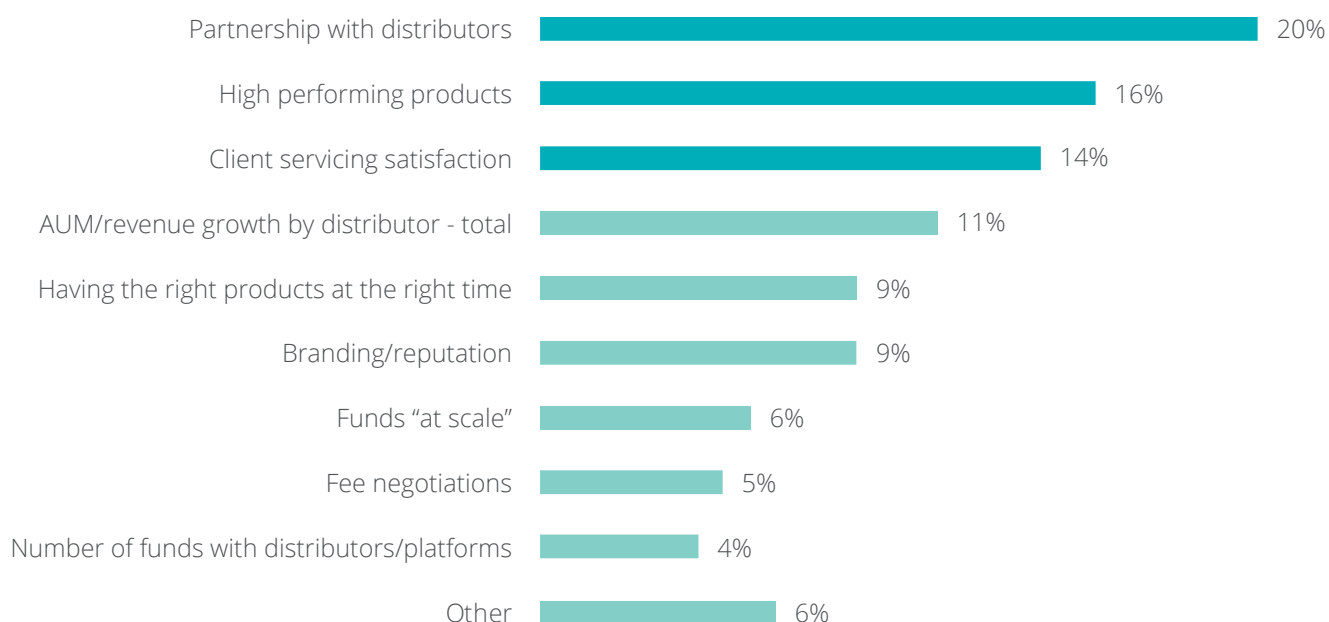




General business views

Question
07

What are your most critical elements to be successful in distribution?



> The top three elements identified by the asset managers as being critical for success in distribution are:

- Partnership with distributors
- High-performing products
- Client servicing satisfaction

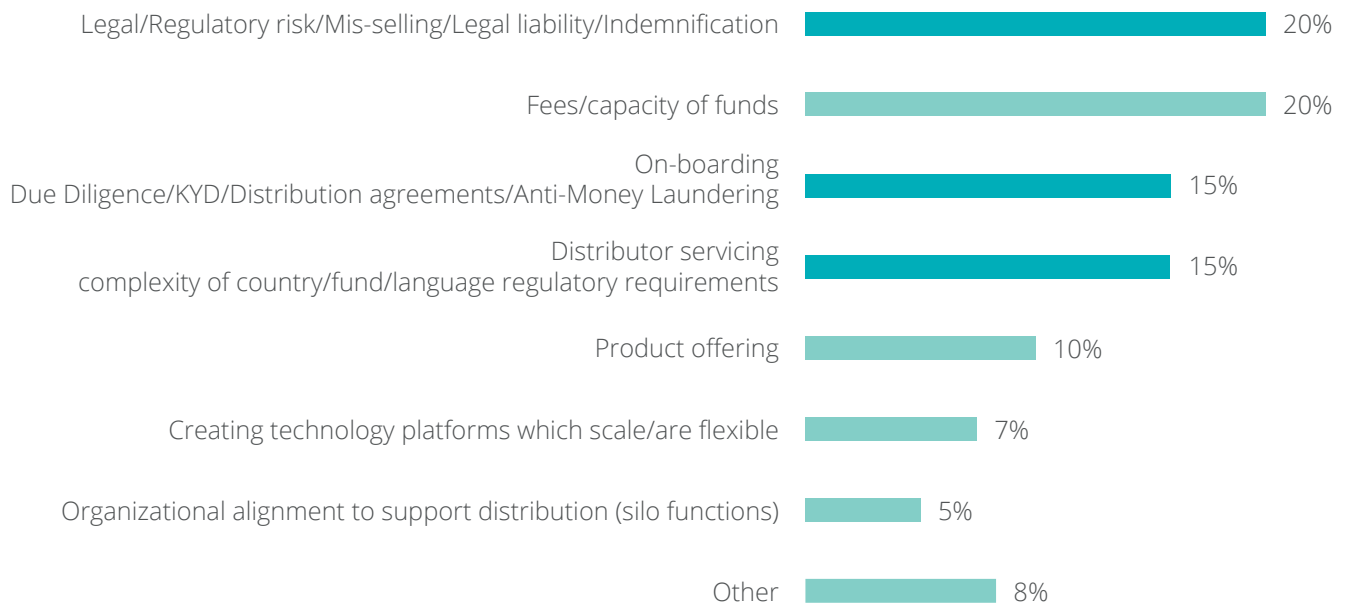
Partnership with distributors is singled out as the most critical factor and it is therefore paramount for asset managers to articulate how such a partnership should be concluded for it to make an impact. Higher performing products and increased client servicing satisfaction are key

differentiators for actively managed funds compared to passive funds such as ETFs. It is worth noting that brand reputation and funds at scale or fee negotiations rank relatively low compared to the first three criteria.

Question

08

What are the biggest challenges/risks in distribution facing the industry?



> Due to the increasing number and complex regulatory requirements, being compliant is definitely a major point of concern. This is demonstrated by three of the main challenges/risks identified by asset managers:

- Legal/regulatory
- Onboarding/due diligence
- Distributor servicing, including the complexity of local regulations

Besides the regulatory challenges, asset managers are under significant margin pressure, confirmed by this survey, as respondents' highlighted fees/capacity of funds as a main risk.

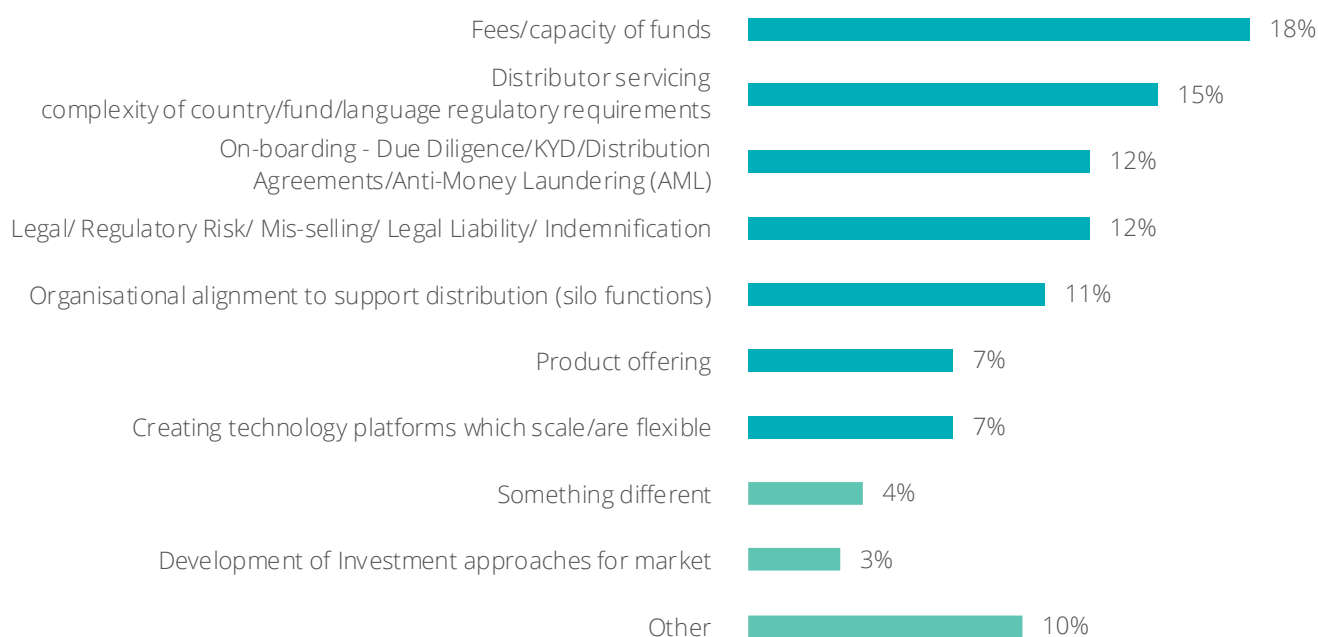
All the above challenges confirm the findings of previous market surveys and only emphasize the need for a robust, holistic, and properly equipped compliance and oversight function.



Question

09

What are the biggest challenges/risks in distribution facing your organization?



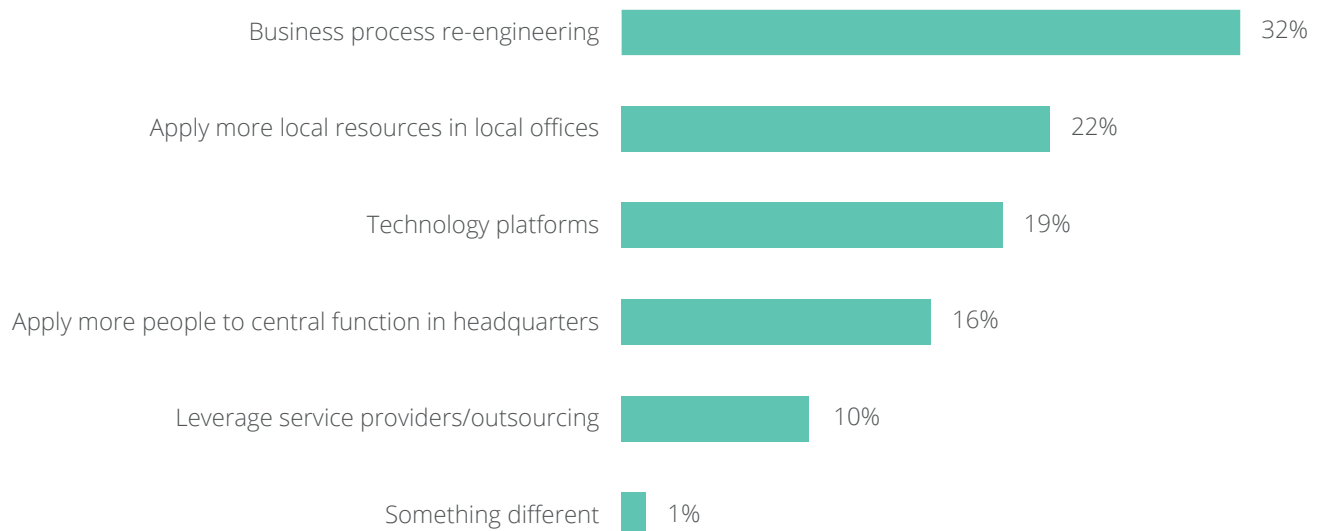
➤ The challenges highlighted by asset managers inside their own organization are clearly similar to the key trends they reported for Question 8 relating to the industry challenges.

It is, however, worth noting that fee levels were identified as the most important challenge asset managers are facing internally. This may likely reflect not only the level of investment and costs required to meet all the regulatory requirements, but also the focus that is needed to ensure the efficient operation of product manufacturing, management, servicing, and distribution.

Question

10

How has your organization addressed these challenges/risks? Please select two.



➤ Acquiring capabilities to overcome the challenges above is certainly a daunting task, especially when targeting global markets. The latest research tends to show that good use of technology and outsourcing are certainly two key scenarios for success⁴. This survey however revealed that the sanity checks and ongoing enhancements brought about by process re-engineering remain top of the agenda, combined with the good old recipe of adding resources to cope with additional risks and requirements.



4. Casey Quirk – 2019 – Distribution 2.0: How technology will redefine relationships with asset management clients





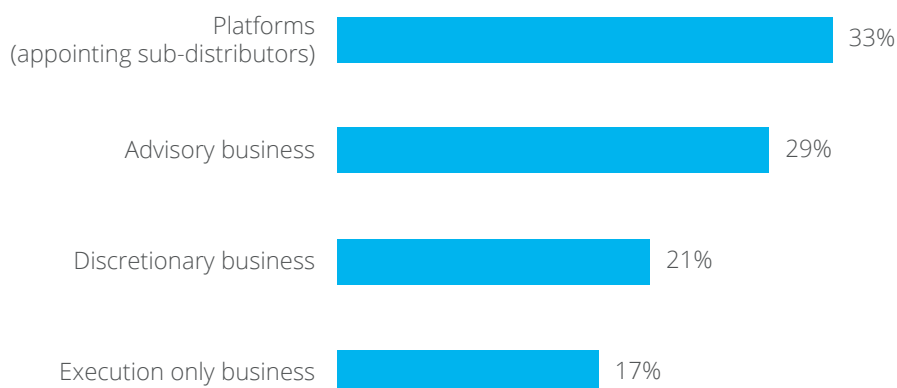
Relations with distributors

Question

11

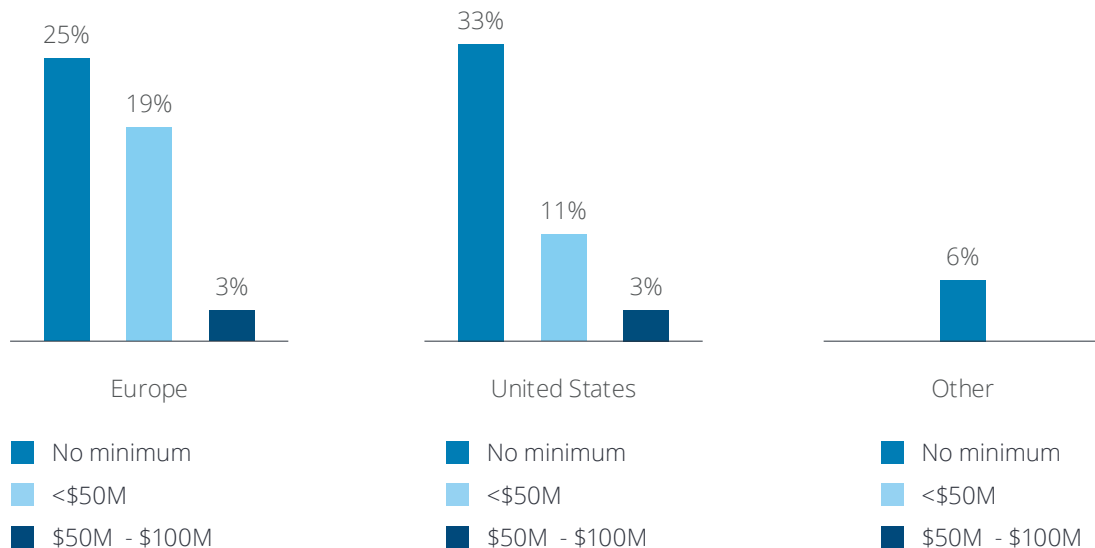
In which instances would you enter into a distribution agreement (or equivalent)?

➤ Asset managers would use distribution agreements in approximately 60 percent of cases when there is a need to distribute their funds in B2B2C channels and to benefit from advisory business.



Question
12

What is your minimum AUM for onboarding a distributor?



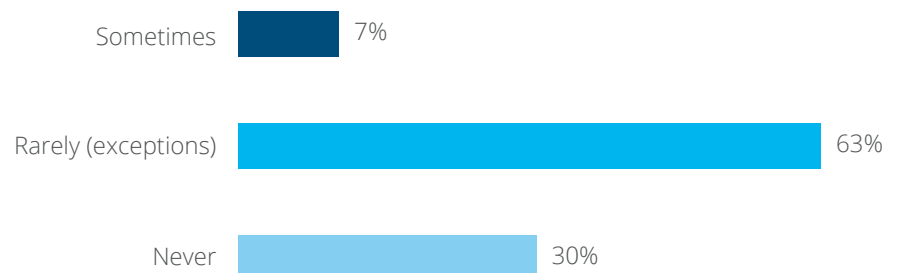
➤ Most of the respondents have a very low or no minimum AUM to onboard a new distributor. The recent increase in distributor due diligence and oversight requirements from the regulators, as well as the recent CSSF Circular 18/698, are important factors to reflect on. One should consider whether or not a cost-benefit analysis should be conducted prior to entering and/or maintaining a distributor relationship, which may prove costly to maintain whilst not generating the expected net sales.



Question
13

How frequently do you offer fund exclusivity to one distributor?

> Even if asset managers prefer the global distribution model, very few only rely on a unique distributor or are ready to provide exclusivity to one or a few distributors.



Question

14

Do you offer any specific share classes solely for the use of certain distributors?

Yes  69%

No  31%

If yes, is it mainly fee based?

ⓘ To tailor the fee levels, the majority of asset managers offer specific share classes solely for the use of certain (types of) distributors. This is more pertinent for large asset managers.

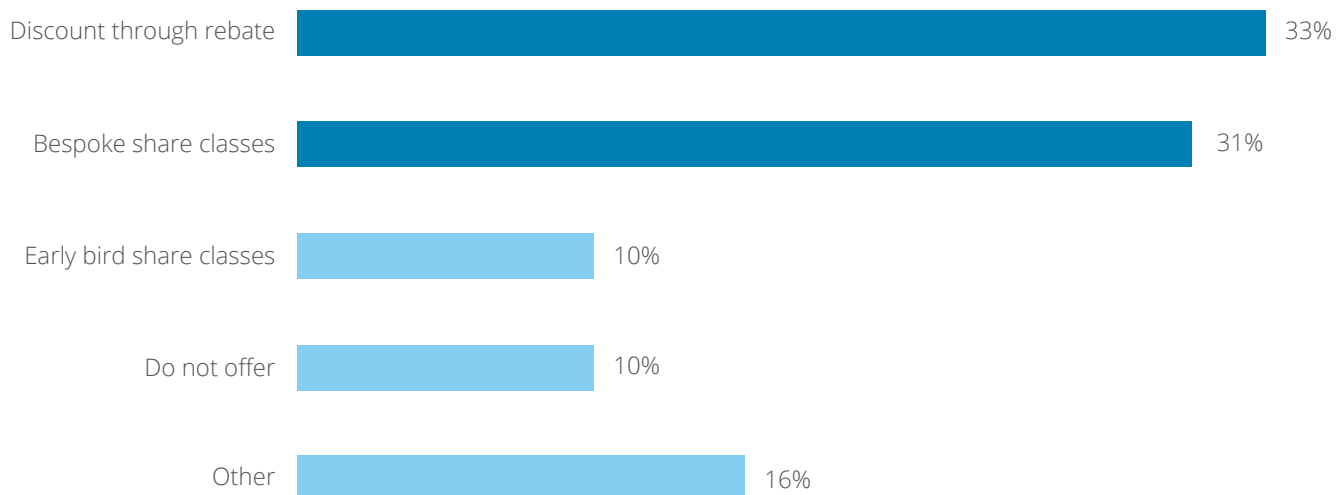
Yes  88%

No  12%



Question
15

How do you deal with special fee requests?



> Asset managers mainly deal with special fee requests either via rebates or via bespoke share classes which counted for a little more than 60 percent of responses.

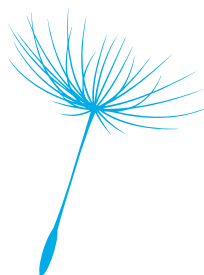




Question

16

When reporting to distributors, do you use a standard reporting template or do you use customized distributor reporting (e.g. performance, holdings, and attribution)?



Standard for all 21%

Standard for some 71%

Tailored for all 8%

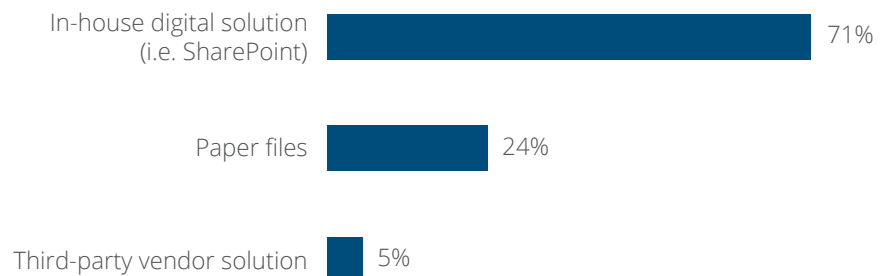
Most asset managers use a mix of standard and tailor-made reports for their distributors. The tailor-made reports tend to be reserved for the largest and most successful distributors, while the preference towards standard reports is to ensure scalability and efficiency, and *de facto* cost reduction⁵. Looking to the future and the increase of customized interactions being necessary, we expect to see a trend of industrialization of customization (especially in the context of the partnership with distributors being identified as a key success factor – refer to Question 7). This will probably result in more investment in technology and digital solutions.



Question
17

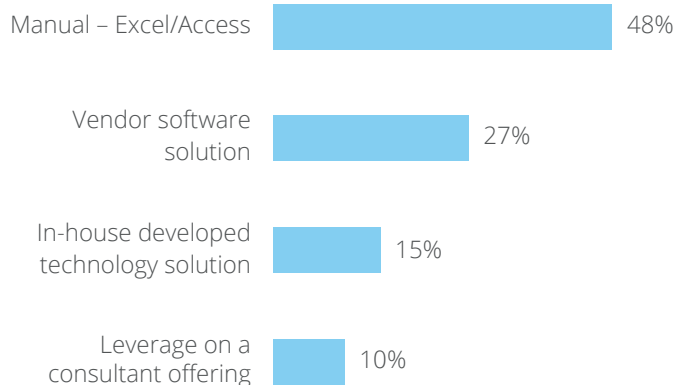
Operationally, how do you manage/store your distribution agreement contracts?

➤ Digitalization of legal documents is not yet effective, but is an area in which asset managers will need to invest in the future to increase their scalability and efficiency. Innovation in distribution agreement definition and storage is still to be designed, but one could imagine initiatives around Blockchain or other digital solutions.



Question
18

In terms of distributor due diligence, how does your organization track/manage that process?



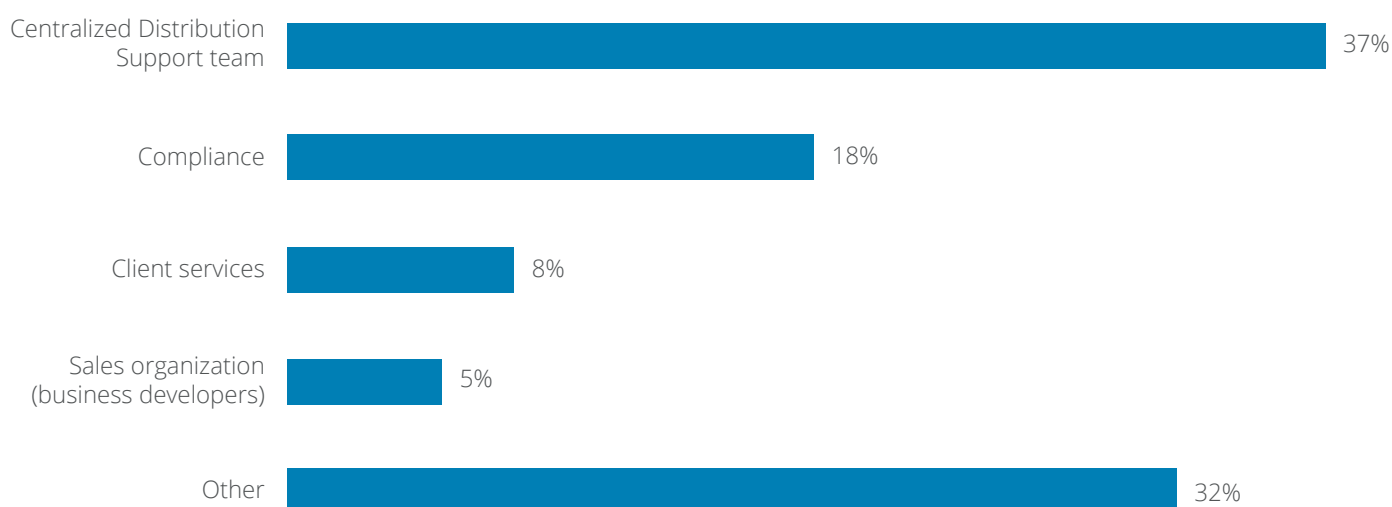
➤ Recently, a significant proportion of asset managers have started to assess how to modernize their due diligence processes through technology or third-party solutions. However, at present close to 50 percent of asset managers are still relying on traditional/manual processes and we can expect this ratio to fall in the next few years as a result of the general quest for cost savings through a centralized collaborative platform and data repository⁶.

The survey data shows that large asset managers tend to keep full ownership of their due diligence processes by either doing it manually or via in-house developed technology solutions. Small and medium asset managers seem more favorable in contracting with external providers.

Question

19

Who is responsible for distributor management and oversight?



> The survey revealed that approximately one third of asset managers rely on a centralized team to manage and oversee distributors. For another third, either the compliance, client services or business development departments handle this task.

The remaining asset managers have allocated this responsibility to other areas of their organization. This mostly reflects legacy processes that have not yet been adapted to the recent reality and increased expectations on distributor due diligence and ongoing oversight.

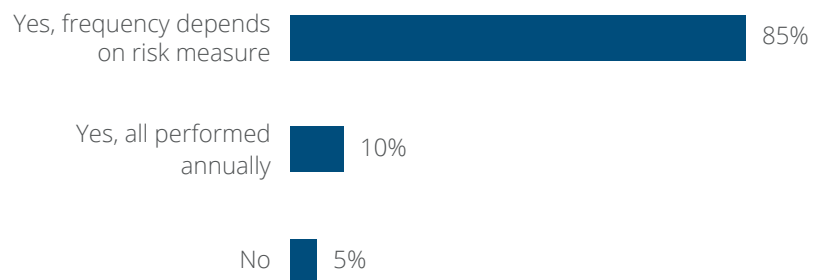


Question 20

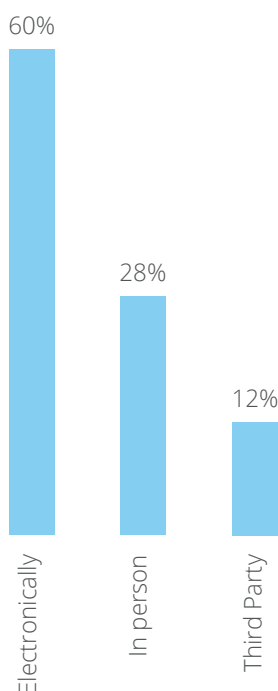
Do you perform due diligence on your distribution network?

➤ The large majority of asset managers conduct regular electronic due diligence on their distribution network (as shown below).

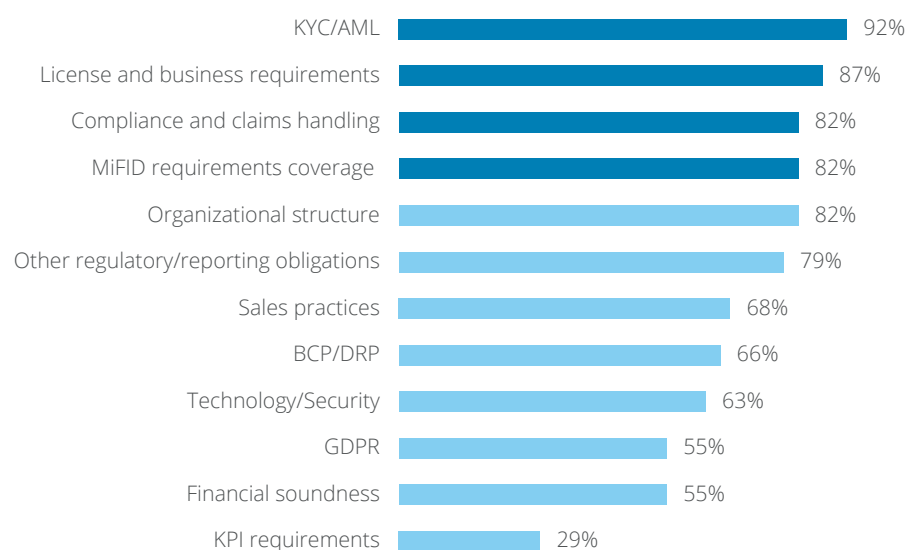
Only a minority of asset managers—small and medium European players—do not perform any due diligence at all.



If yes, how is it conducted?



What scope is covered via the due diligence performed?

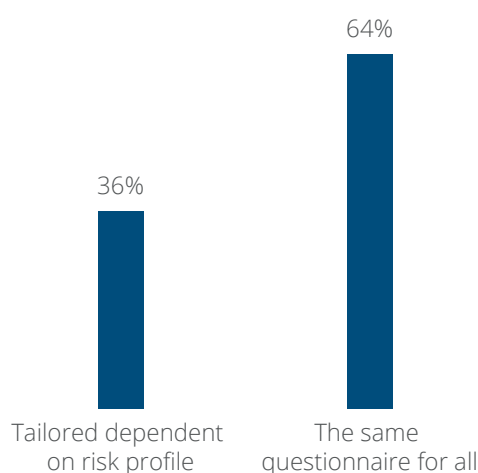


➤ The main topics covered by the due diligence process are linked to regulatory requirements. In the future we anticipate changes in the scope in light of the latest regulatory requirements. For example, Luxembourg CSSF Circular 18/698 lists the topics that need to be covered by the oversight function and which go beyond pure regulatory aspects.

Question

21

Do you use a similar due diligence questionnaire for all distributors, or do you tailor them based on their risk profile?



➤ Approximately two-thirds of the asset managers use the same due diligence questionnaire for all their distributors whatever their risk profile.

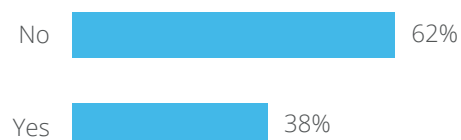
Despite the wish of the industry to enjoy a “one size fits all” questionnaire and given the regulatory demand for periodic due diligence to follow a risk-based approach, an evolution in the above ratio is to be expected coupled with an increase in tailor-made questionnaires.

Question

22

Do you interact directly with sub-distributors?

➤ Approximately 60 percent of the asset managers do not interact directly with their sub-distributors. This is particularly true for European asset managers as, 75 percent of these respondents answered that they do not interact directly with their sub-distributors.



There is no clear trend that indicates that the size of funds managed by an asset manager has an impact on whether or not they interact directly with their distributors.

Question

23

Do you require or perform due diligence/transparency/look-through into the underlying sub-distributors?



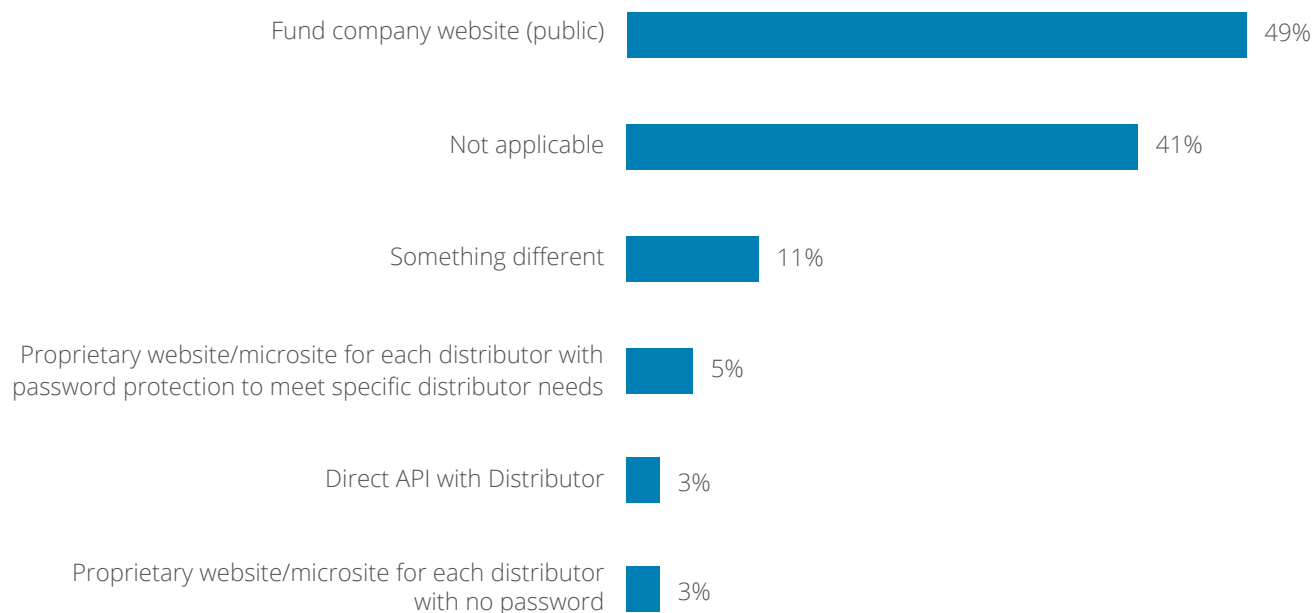
➤ The look-through of the entire distribution and sub-distribution chain is becoming a new trend in-line with the new regulatory requirements imposed on UCITS and AIF managers. This look-through is, in most cases, done by asking the distributors questions on their own processes or oversight activities.

25 percent of the asset managers (mainly US-based) do not to perform any due diligence at all on their sub-distributors (and even in some cases, do not know them). This is expected to dramatically decrease next year.



Question
24

Do you have a specific distributor portal or distributor website for self-servicing? Please select all that apply:



➤ The majority of asset managers use the public website of the fund company as a means to communicate with their distributors. This reflects a lack of sophistication as communication is understood as basic information to be made available such as prospectuses,

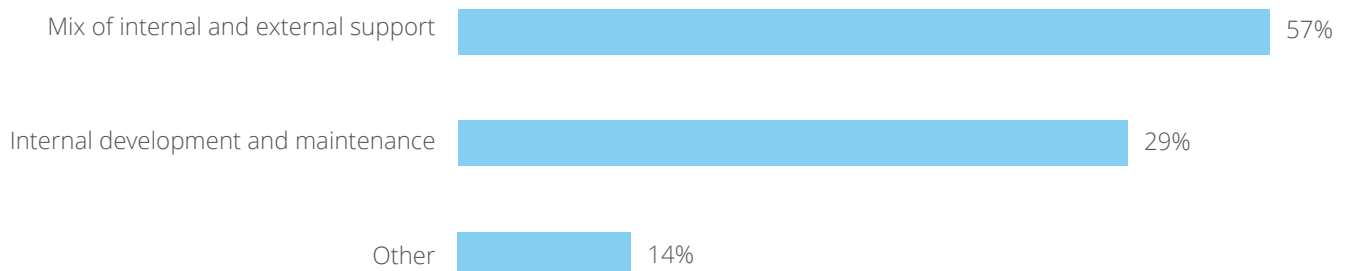
factsheets, and other documents. In an era of digitalization, asset managers will certainly start looking for more effective and alternative means of interaction, particularly since a tailor-made relationship with a distributor was identified as a key differentiator.



Question

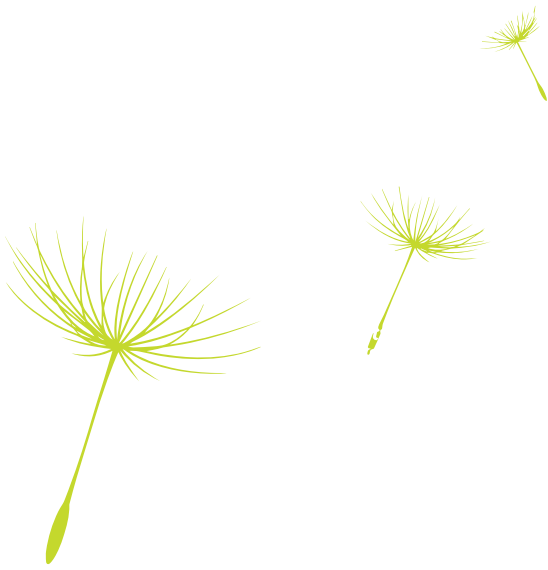
25

What approach does your organization take towards the development and maintenance of your web services?



➤ The majority of respondents maintain their web services using a mix of both internal and external support.



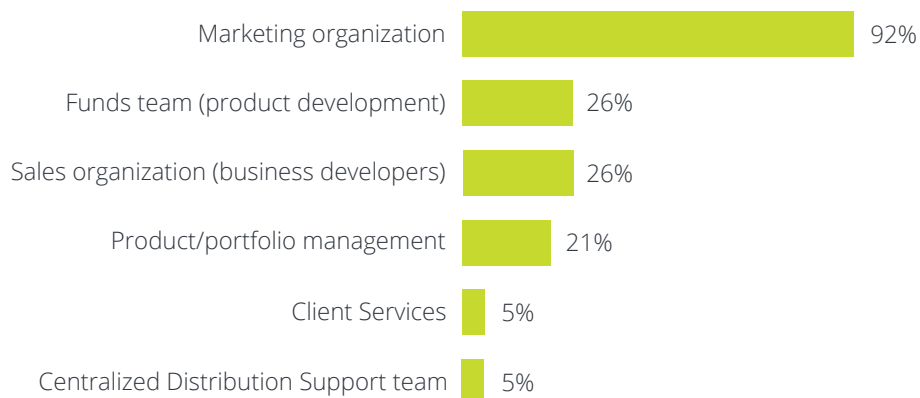


Marketing/client materials

Question
26

Organizationally, which functional area(s) take(s) the lead role in the creation of marketing materials?

➤ The survey confirmed that the majority of medium and large asset managers have a dedicated marketing team, separate from the sales and/or product teams, taking care of the creation of the marketing materials. For small players, these tasks may be entrusted to other functions such as product and business development.



Question

27

To what extent are your sales materials automated?

➤ Although the production of some documents is automated, roughly 50 percent of the asset managers confirm that the production of materials such as legal documents is still, predominately, a manual process. The survey showed both large and medium players are using more automated processes than smaller asset managers, especially for prospectuses.

Technology is an essential component for better investor education, providing information, and is critical in developing cross-border fund distribution. Improving the automation of marketing materials will lead to cost reductions, but also to a quicker, smoother time to market for new products.

RPA and machine learning (AI) may help to improve the level of automation in the industry, which in turn, will decrease the margin pressure.

Automated



Manual

Factsheets

European MiFID Template (EMT) Production

UCITS KIID

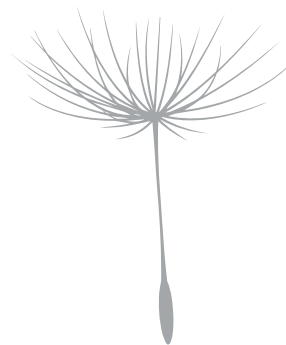
European PRIIPS Template (EPT) Production

PRIIPS KID

Fund books (generics)

Banker Decks

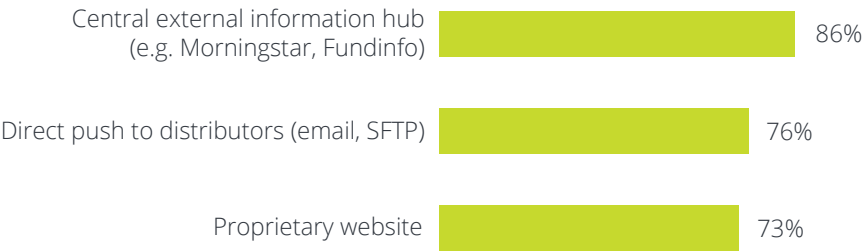
Prospectuses



Question
28

How are the different sales documents and data reports transmitted/made available to the distributors? Please select all that apply:

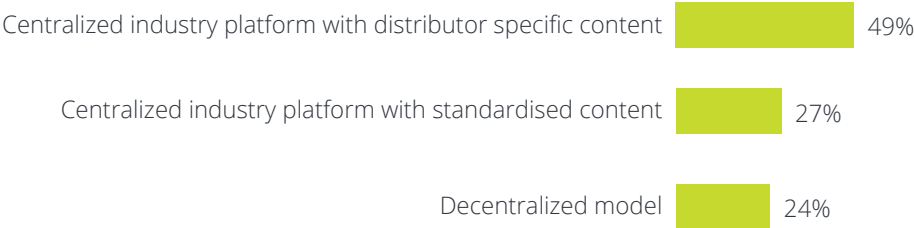
> The majority of asset managers transmit their sales documents and data reports to their distributors via multiple channels which are used almost equally.



Question
29

What is your view on tomorrow's model for asset managers' document and data access?

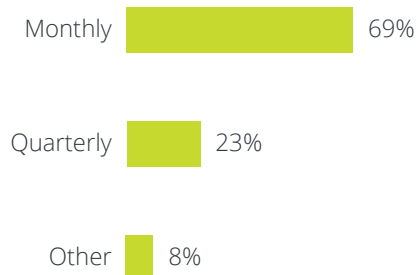
> The key trend on the future target operating model for document and data management is a centralized platform. Respondents are equally divided on the level of customization/standardization that the platform should provide to the distributors.



Question

30

How frequently would you expect to distribute generic fund marketing materials?



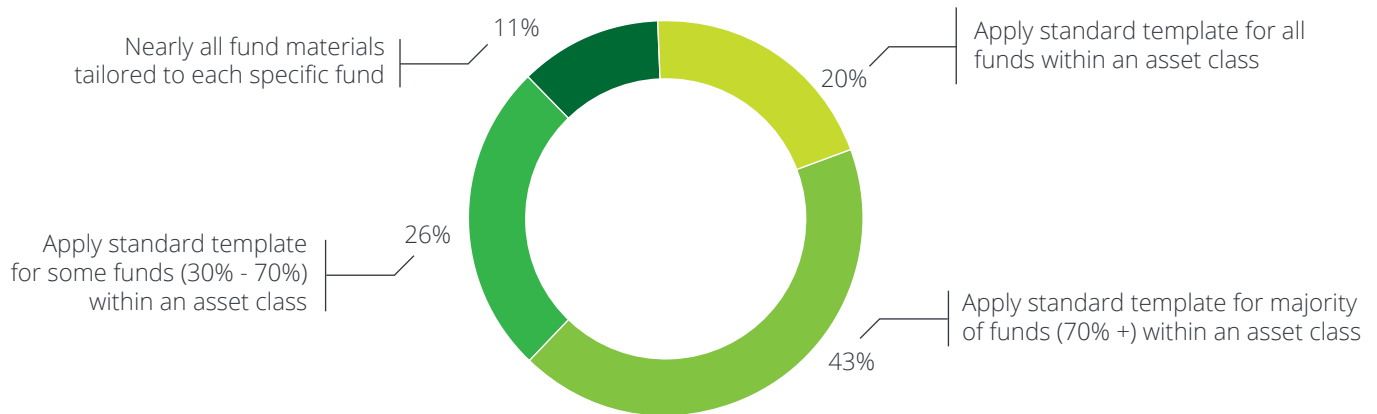
➤ Generic fund marketing materials are expected to be distributed at least on a monthly basis (>60 percent). This is true for all players and locations.



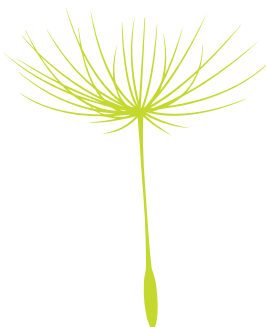
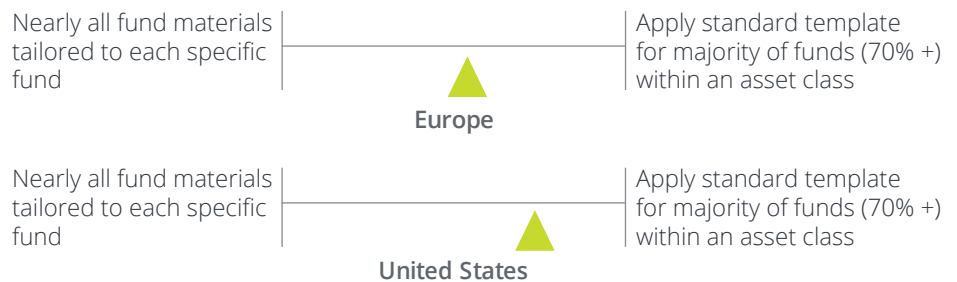
Question

31

To what extent are your marketing/fund materials “standard” across funds?



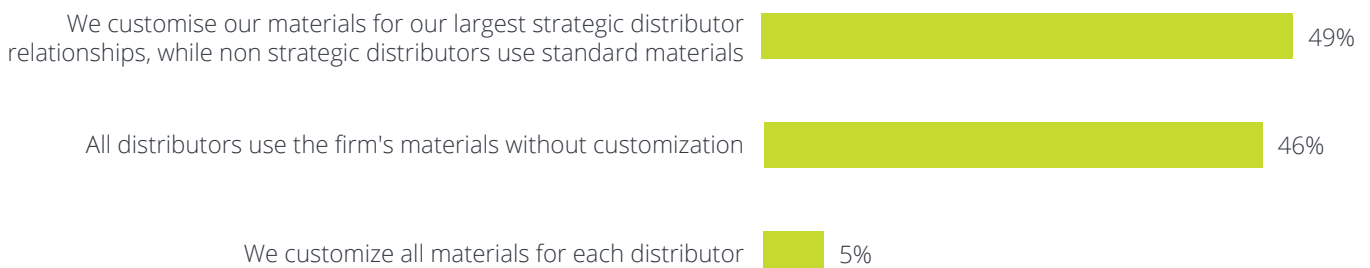
➤ Standard templates for the majority of funds seems to be common industry practice. The survey shows that European players are behind the United States in terms of standardization. This may be explained by the different requirements at both jurisdictional and EU level. Around 10 percent of asset managers still produce only tailored fund specific materials. Standardization should take into account the growing demand for customer experience, increased need for qualitative information, and investor education.



Question

32

To what extent are your marketing/fund materials “standard” across distributors?



➤ The large majority of asset managers (95 percent) use standard materials, with some customization for their largest strategic distributors. In addition, the level of customization is linked to the size of the asset managers with the small players providing the more customized materials.

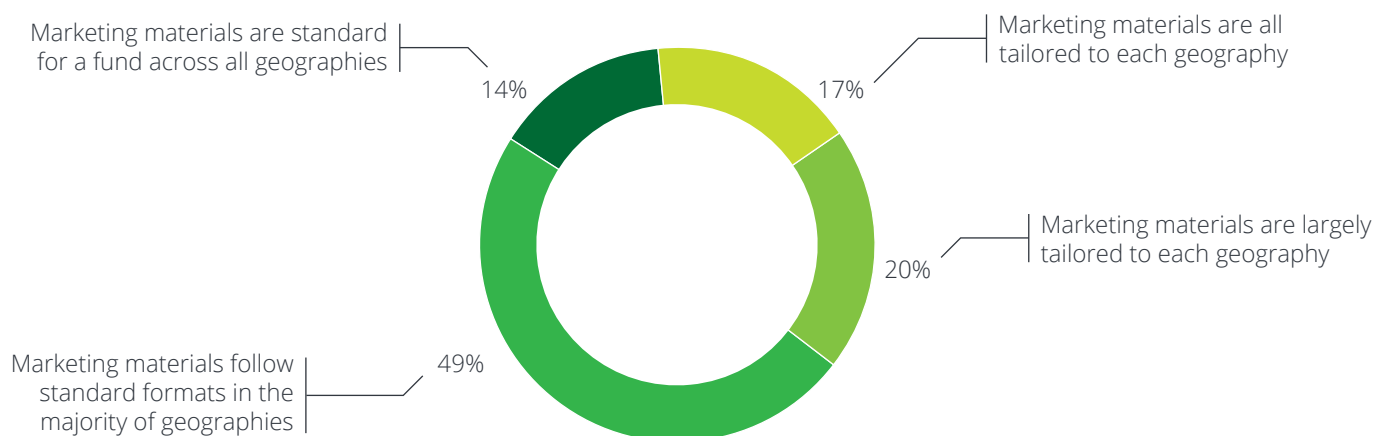
As stated earlier, this confirms the trend in the fund industry to make these activities as cost efficient as possible. However, we may see a shift away from “standardization” to “industrialized customization” as the industry needs to keep in mind the “improved customer experience” expectations of distributors. This may force asset managers out of their standardized offering as all industry players recognize the “partnership with distributor” as a key success factor.



Question

33

To what extent are your marketing/fund materials “standard” across all geographies?



> We can clearly see a tendency to standardize (as much as possible) marketing materials across different geographies where the fund is distributed. That being said, as marketing rules are not harmonized, there will always be a requirement for some level of customization by country as confirmed in Question 35 by asset managers who use country specific content.



Question

34

Does compliance provide the final sign off for marketing materials?

➤ Compliance is involved in the final sign off for marketing materials for almost all actors. This is in-line with observations that regulators are increasingly focused on the compliance of marketing materials, in addition to the regulatory reporting and/or documents.



Question

35

Do you produce country specific/regional marketing materials?

➤ The quality and tailored production of information to investors is again emphasized as both retail and professional investors receive country/regional specific marketing materials.





Question
36

How does your organization approach the translation of marketing materials?

> Translation is mainly outsourced to dedicated providers.

Use of outsourced translators 86%

Use of technology and human translators 14%



Question

37

Do you allow distributors/sub-distributors to produce/create marketing materials for your funds?

➤ Half of the respondents allow distributors to create their own marketing material, but require the asset manager's approval.

Yes with firm's review/approval



56%

No



44%

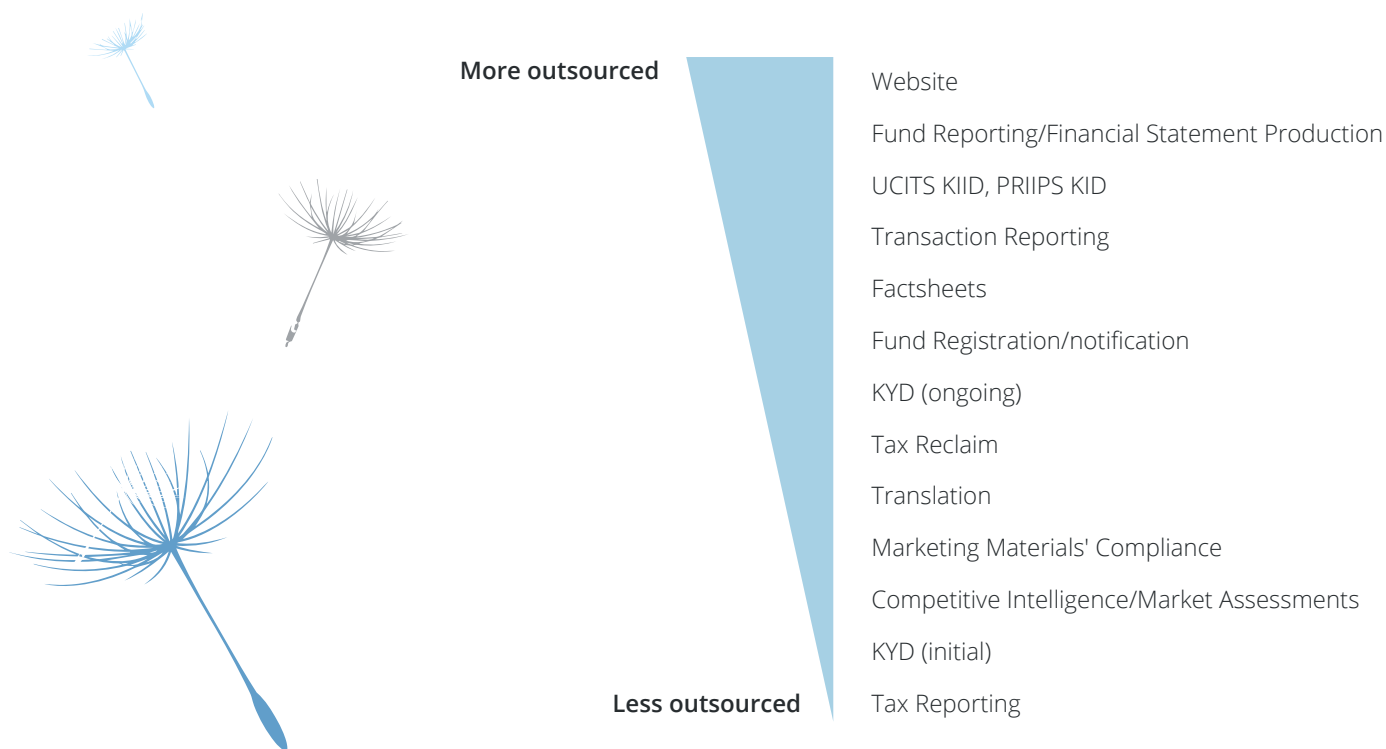




Outsourcing and technology

Question
38

For each of the following activities/functions, please identify the degree to which your firm has outsourced or utilized a service provider:



⤵ The main outsourced processes are linked to the production and generation of reports (e.g. KIID, factsheets, financial statements) to reduce operational and investment costs for non-core activities.

In addition, website development is also identified by the asset managers as an outsourced activity (in line with Question 25). This may be explained by the particular complexity of asset management websites, which require the management of fund documents to be published in different distribution countries and to particular investor types only.



Question

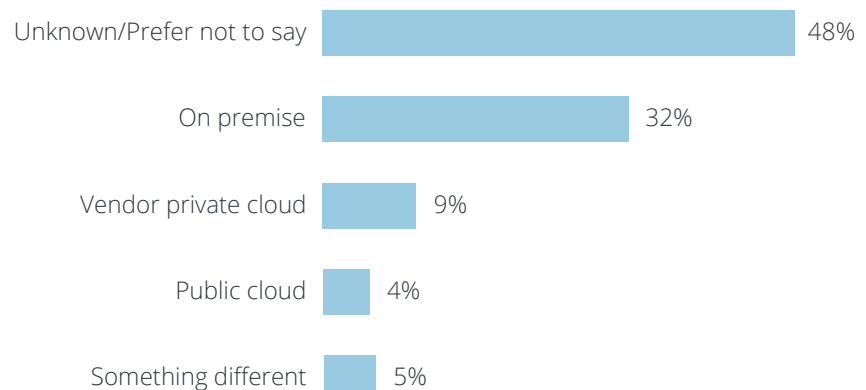
39

Where is your core IT infrastructure for distribution content hosted?

➤ Of the asset managers that responded, the majority preferred to have their core IT infrastructure on premise and under their control. We may however, expect in the coming years, an evolution towards more cloud solutions as regulators are becoming more flexible on these new technologies and as the industry becomes more familiar with the efficiency and cost savings opportunities they provide.

If your core IT infrastructure for distribution content is hosted on premise, what is the reason?

The main reason given to keep IT infrastructure on site is the “current state architecture”. In the future, legacy system evolution (or maybe it should be a “revolution”) will be a major challenge for asset managers in their digital journey.



Question
40

Have you implemented any third party technology solutions to help scale your distribution platform?

➤ The survey results do not show any major trend in terms of third party technology solutions by asset manager size and location.

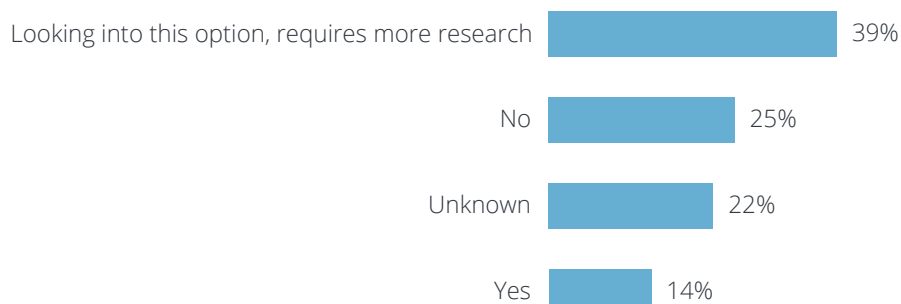
With the increase in external solutions (think FinTech, RegTech) and cloud based models, we are likely to see a shift away from the “full in-house” model to a hybrid one. This will mean mixing both in-house and external elements that better fit the asset managers’ needs and bring efficiencies not least in terms of cost.



Question
41

Are you considering using Blockchain in the future to help scale your distribution platform?

➤ The survey shows that Blockchain technologies are being considered by approximately 50 percent of respondents. There is no “market approach” as yet, but the industry needs to continue considering and analyzing the potential applications in the short term, in the hope of gaining the benefits in the long run.



Question

42

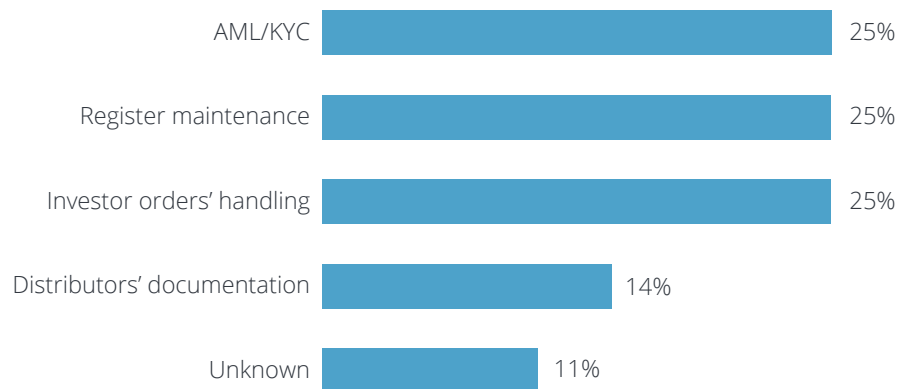
On what dimensions do you think Blockchain will have the most impact?

➤ US and EU asset managers have the same expectations in terms of dimensions where Blockchain will have the most impact.

The top three dimensions are:

- AML/KYC
- Register maintenance
- Investor orders handling

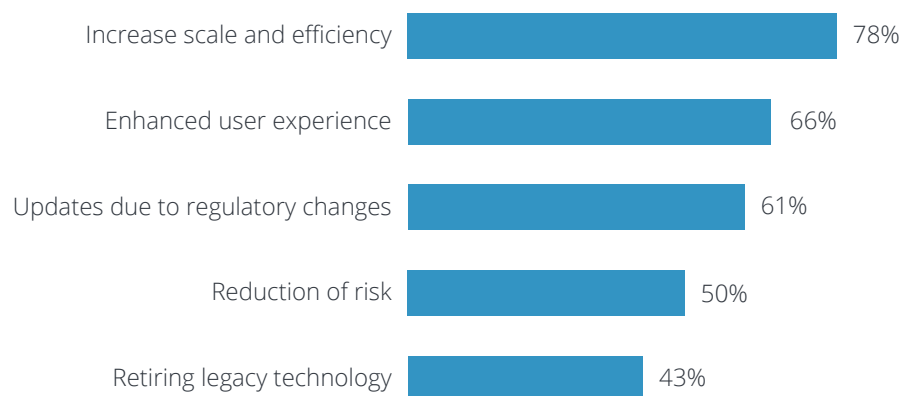
These dimensions are in-line with the current trends observed generally in the fund industry.



Question
43

On a scale of 1 to 5, rate the following on the criticality to improve over the next year:

➤ Most asset managers identified “increase scale and efficiency” as the most critical element to improve over the next few years. Margin pressure is a consistent element throughout the survey. It is refreshing to observe that “enhanced user experience” takes second place, ahead of “updates on regulatory changes”. A focus on user experience, and more generally on value creating solutions, will bring intellectual excitement and dynamism in the next evolution of the distribution value chain.



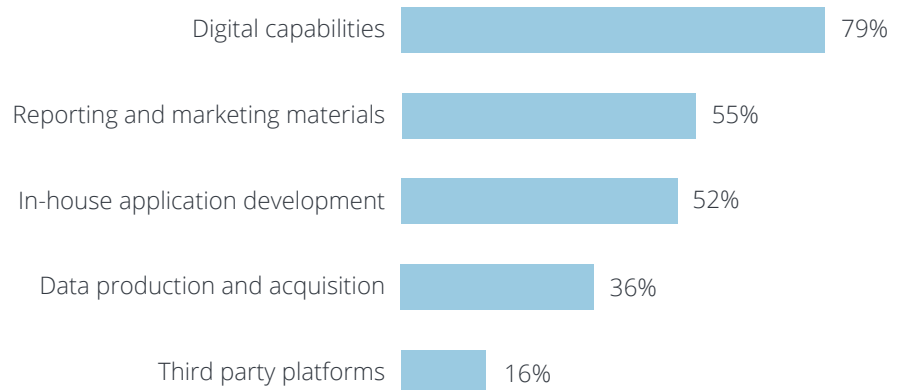
Question

44

On a scale of 1 to 5, rate the level of IT investment in the following areas:

➤ Most asset managers identified “digital capabilities” as the highest level of IT investment. It will be increasingly essential for asset managers to adapt their business and their technology capabilities to be in-line with the expectations of the new generation of digitally knowledgeable investors.

Technological innovations such as APIs, Artificial Intelligence, Distributed Ledger Technology or Cloud Computing will be key elements in the digital transformation for asset managers.



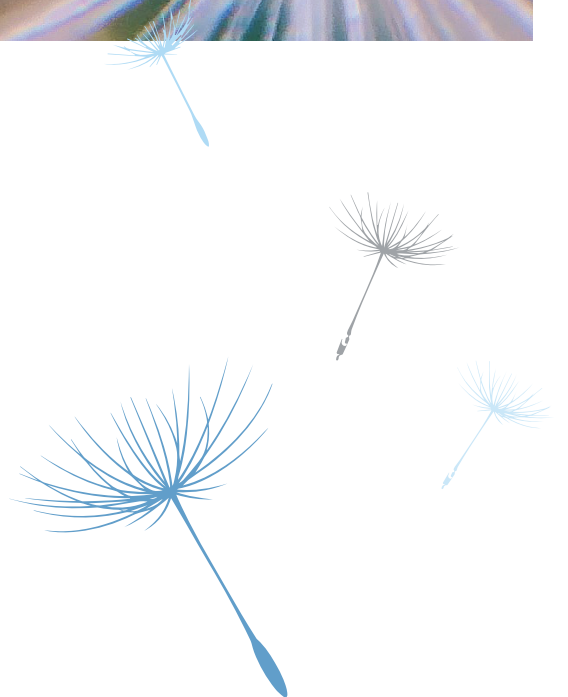
Question

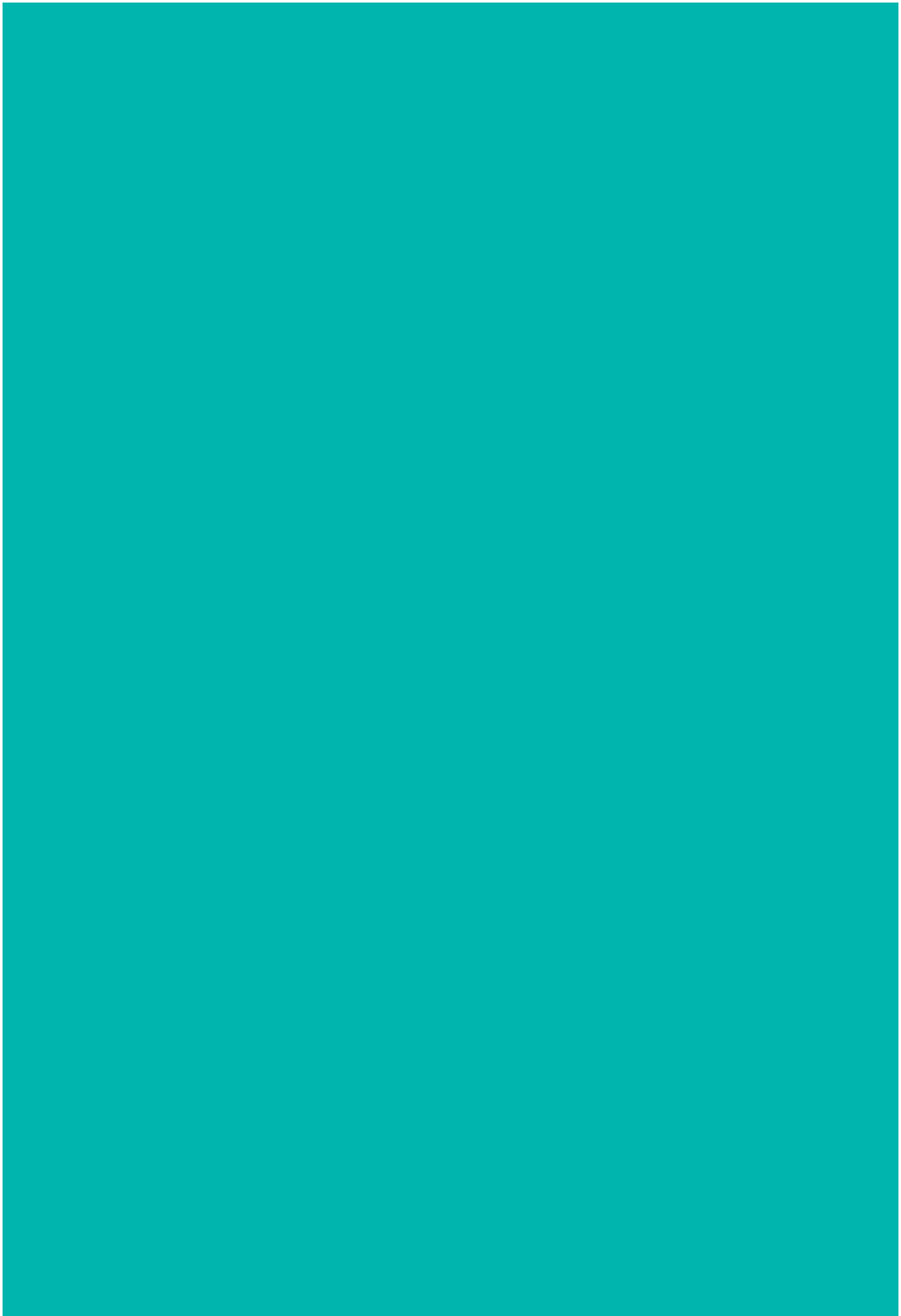
45

What is your biggest technology headache regarding distribution of funds?

➤ As highlighted in the questions throughout the survey, the biggest technology challenges will be the digital transformation and the ever-evolving regulatory environment.

Asset managers have also identified data management as one of the key concerns and specifically data capture, data quality, and data analysis.





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