

Clearstream Banking Investment Fund Services

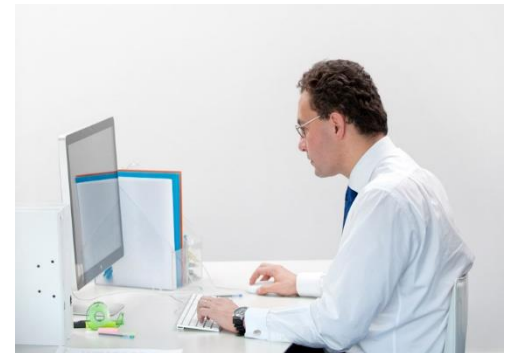
A view on the trends in global fund distribution

14 November 2019



Agenda

- Global market trends
- Funds Europe research project in collaboration with Clearstream
- Role of Clearstream in the global fund industry



Global market trends

1

GROWTH IN SAVINGS / PENSION FUNDS

- Global fund industry has grown at 5% (CAGR) over the last five years fuelled by an increasing demand for managing savings. (e.g. rising pension requirements in Europe; increasing saving capacities in emerging markets).
- Asia Pacific region alone has grown 11% in the period.
- PwC predicts that CAGR for the next five year will continue at the same paste

2

INSTITUTIONALISATION OF INVESTOR BASE

- Enhanced pension saving requirements are driving the increase in Institutional Investors' share of total AuM.
- A large share of these investment flows is channeled through Global Custodians servicing Institutional Investors. Therefore, Global Custodians themselves are becoming an increasingly attractive client segment for Market Infrastructure players

3

TECHNOLOGY THREATEN INTERMEDIATION MODEL

- Technology is hitting the Fund industry and disrupting it alike other industries.
- This disintermediation can come from a "direct to consumer" model whereby an Asset Manager invest both in communication to make his name recognized by final investors and in web or mobile app technology to connect directly to them.
- Blockchain technology has picked-up credibility in the last 5 years and new infrastructure and models are emerging that will make direct connection cheaper to operate via distributed ledgers.

4

POLARISATION OF INVESTMENTS (GROWTH OF ETF AND HF)

- As investors focuses more on specific outcomes, they are more distinguishing between active (including alternative) and passive strategies. This fuels the polarization between two investment strategies:
 - Index Funds: delivering β in line with the market at minimal administration costs
 - Hedge Funds: delivering α or at least performance uncorrelated with market, therefore able to command higher management fees
- ETFs and alternative funds are thus expected to grow at a faster pace than the traditional actively managed funds

5

REGULATORY DEVELOPMENTS BLOWS IN OUR SAILS

- The extensive regulatory agenda also affect the investment funds industry
- Mifid II impacts Open architecture because of impact on administrative burden to distributors and on trailer fee regime
- Mifid II and other local version are changing the economics of the distribution compensation by banning or limiting Trailer Fees inducements

Funds Europe research project in collaboration with Clearstream - Introduction



What is the most important distribution channels for an Asset Manager?

1 - Fund platforms offering distribution of third-party funds

2 - Private banks

3 - Independent financial adviser

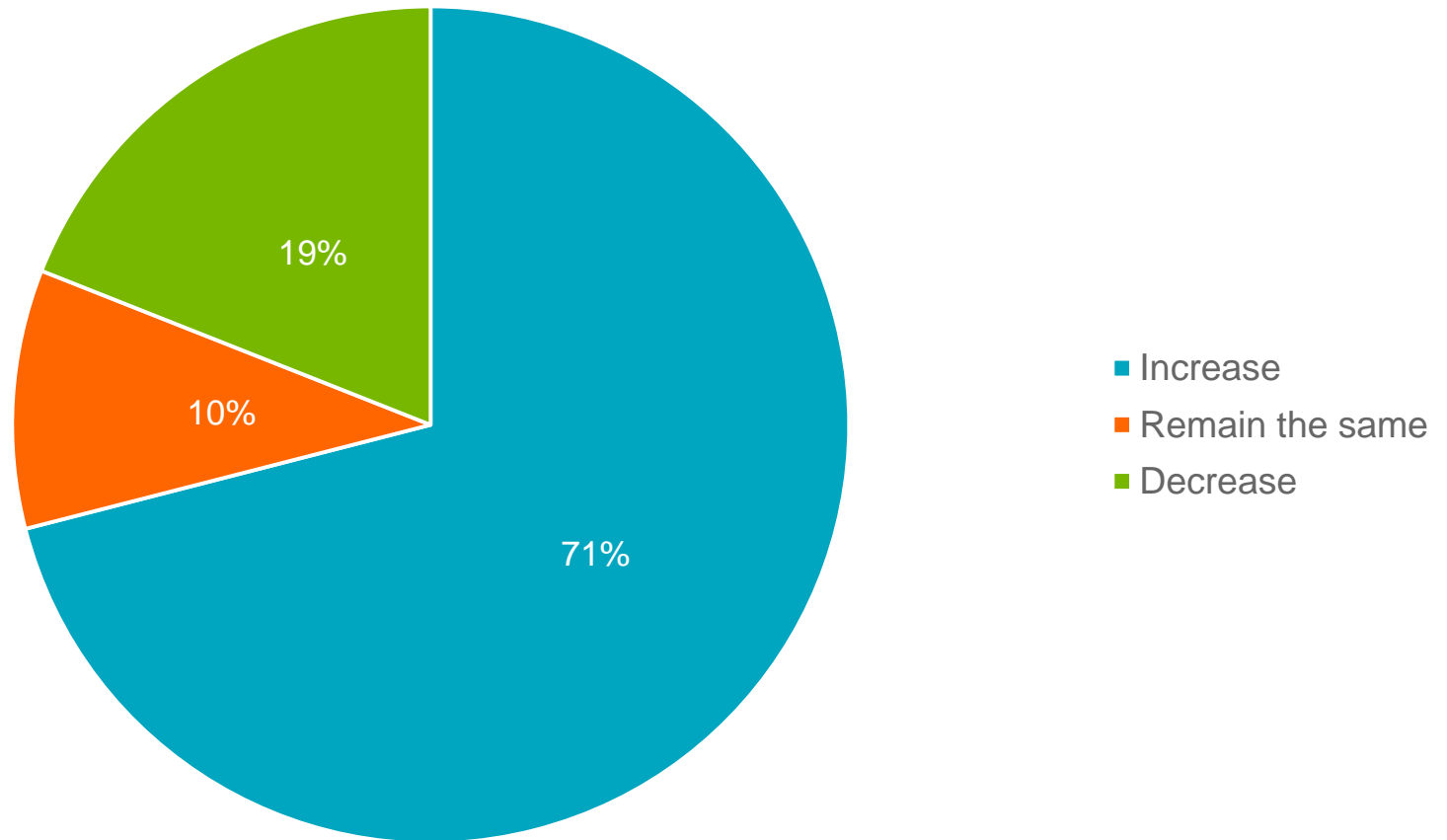
4 - Retail banks

4 - Insurers

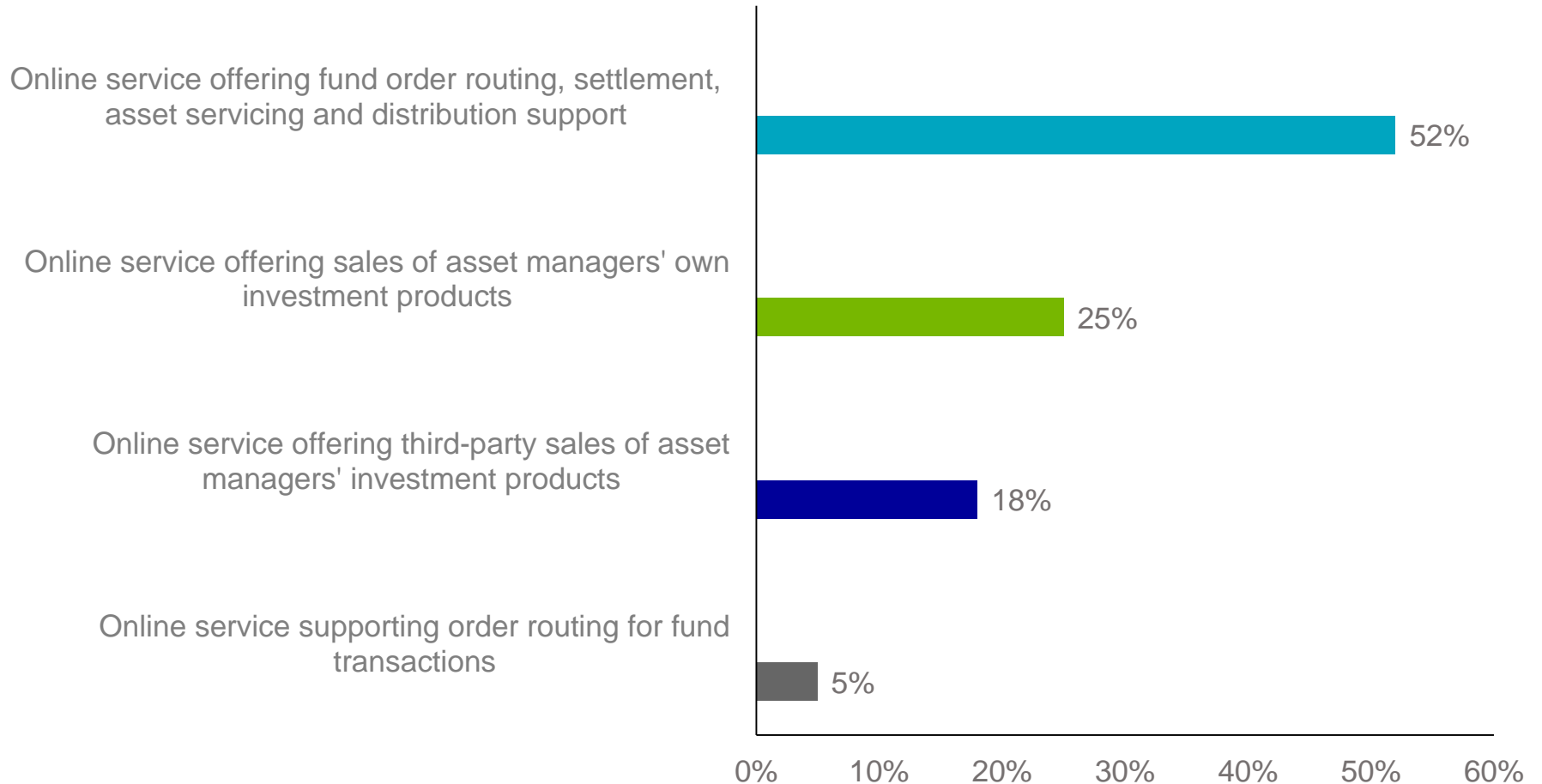
5 - Pension funds

6 - Direct-to-customer

How will demand for open architecture distribution solutions change over the next two years?



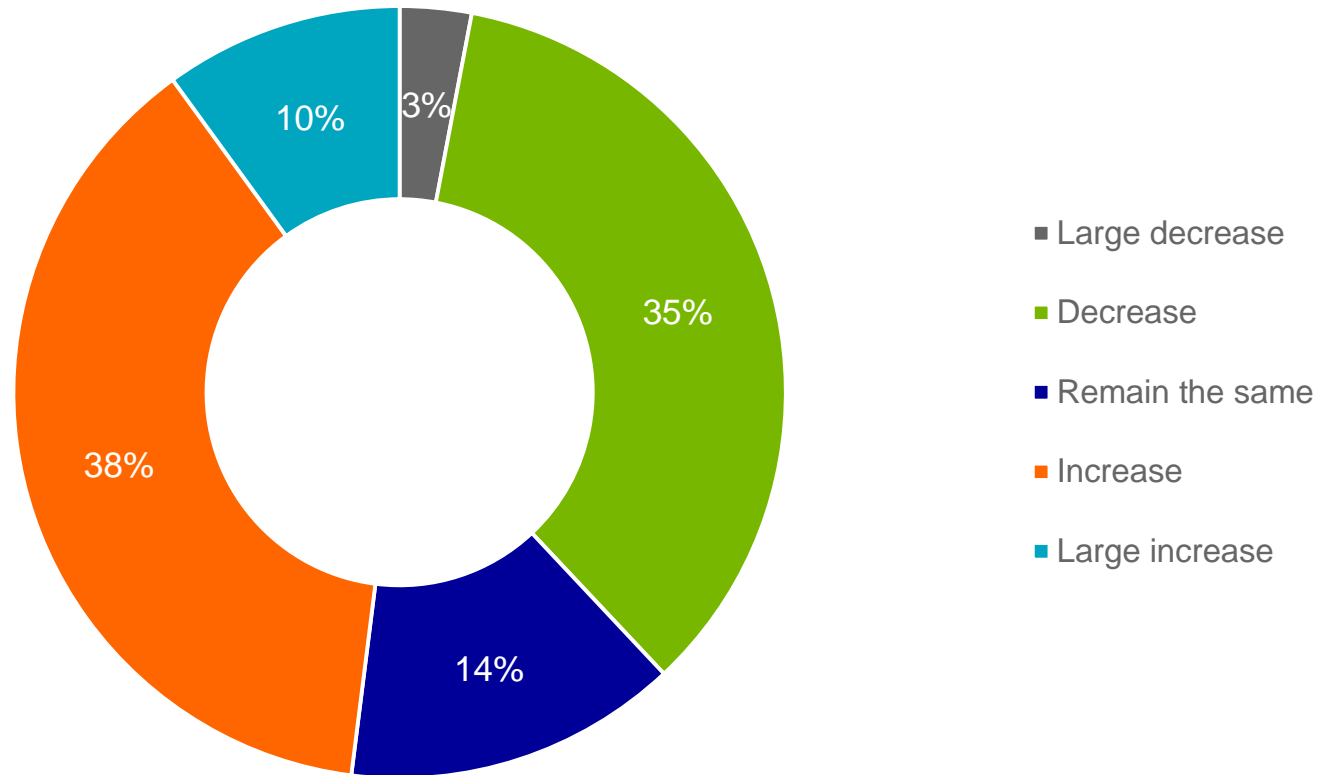
What do you understand by the term fund platform?



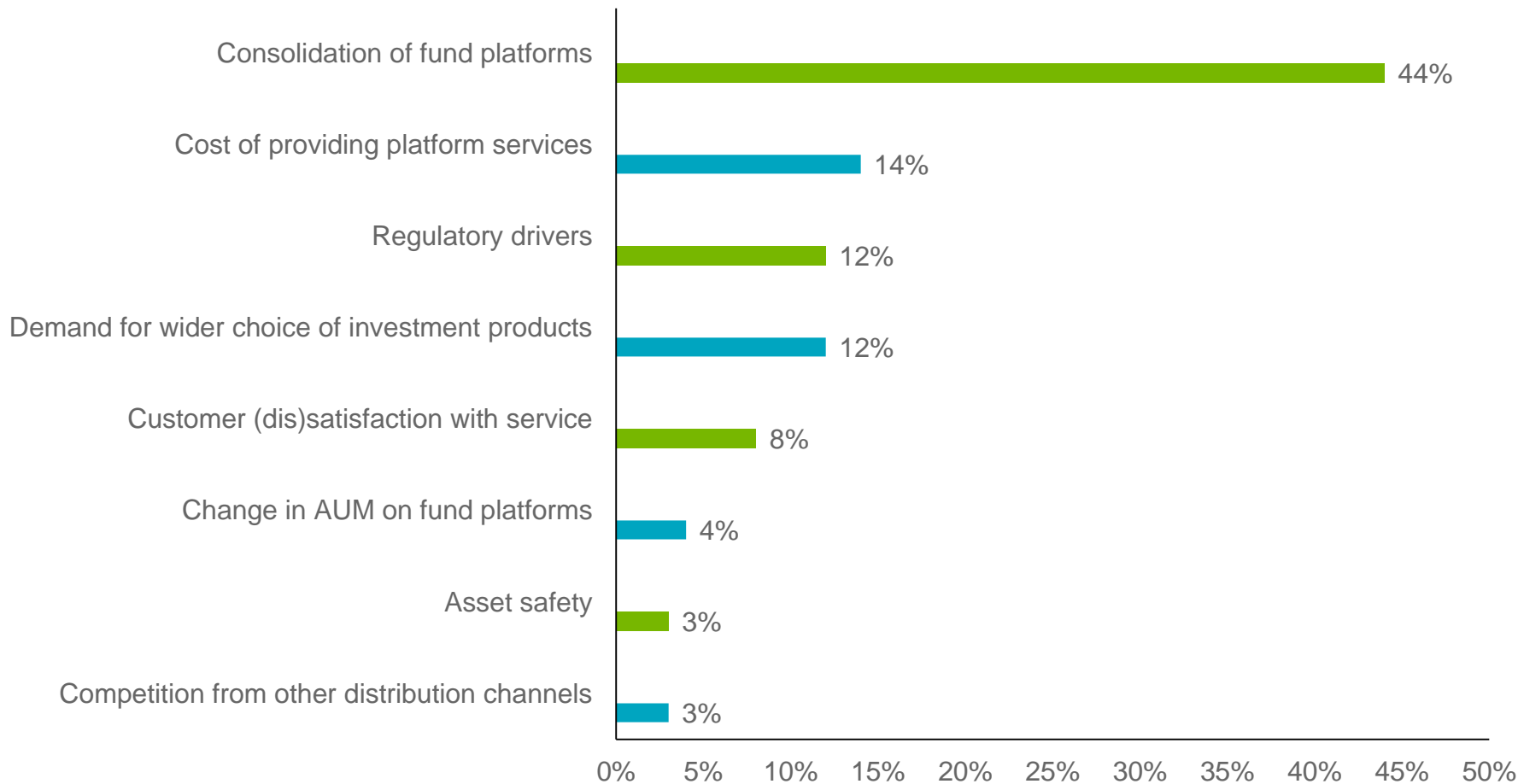
Dynamics of the third-party distribution economy

A close-up photograph of a person's hands using a white computer mouse and keyboard on a desk. The person is wearing a white shirt and a green tie. The background is blurred, showing a computer monitor and a desk with a pen and a small object. The overall scene is a professional office environment.

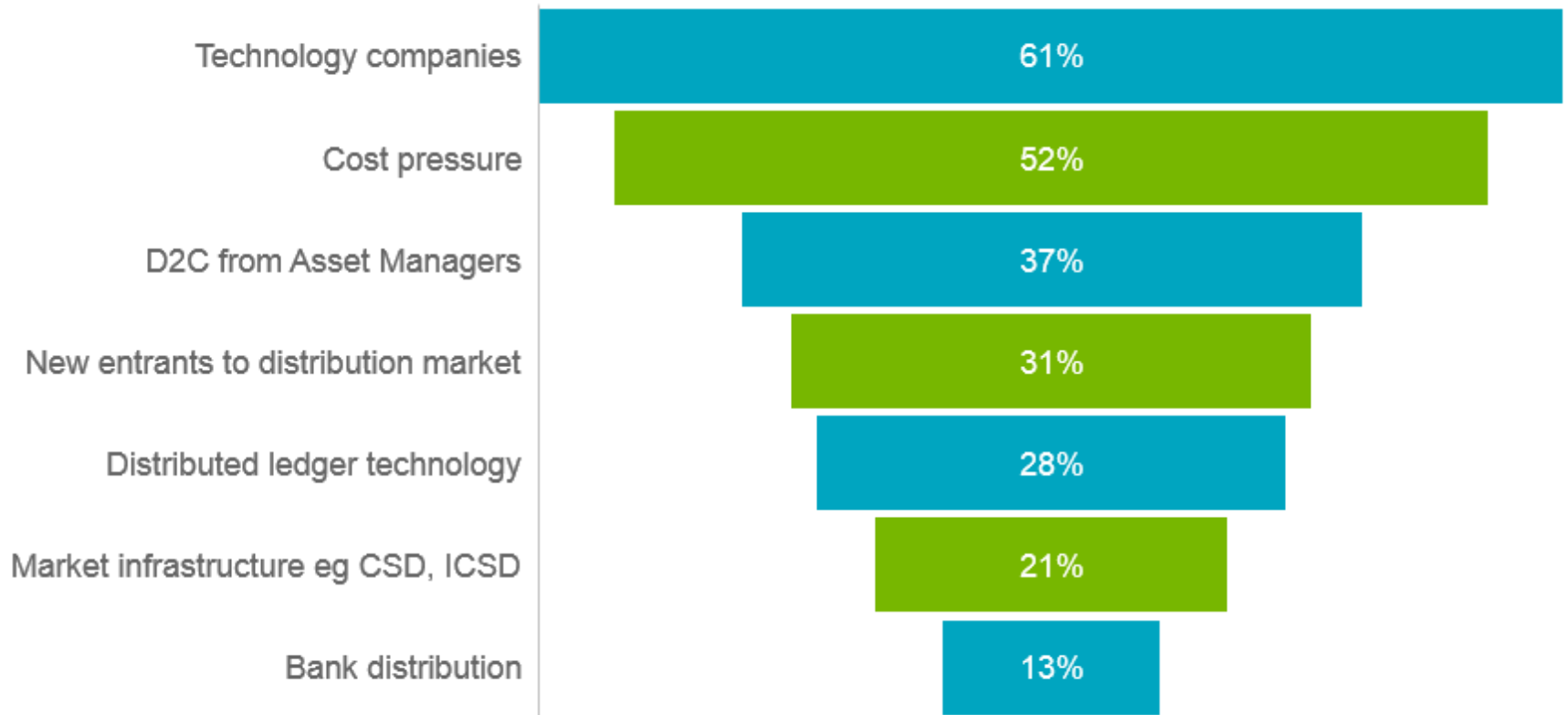
Will the number of fund platforms offering third-party distribution increase or decline in the next 3 years?



What will be the primary drivers of this change?



What will disrupt the market for third-party distribution of investment fund products ? (up to 3 choices)



Improving the distribution experience

Survey Feedback



How can fund distribution platforms improve service to asset managers?

Respondents prioritised :

Improved support for compliance reporting (KYC,AML)

Better onboarding process for funds

Improved transmission of sales data and information on end investors

Improved automation across transaction lifecycle

Better value for money

Lower priority :

Better geographical coverage

Improved asset safety

Improving service to end investors

Respondents prioritised :

Wider geographical coverage

Wider product range, esp
alternatives and ETF ranges

Better research data and online
access to fund documentation

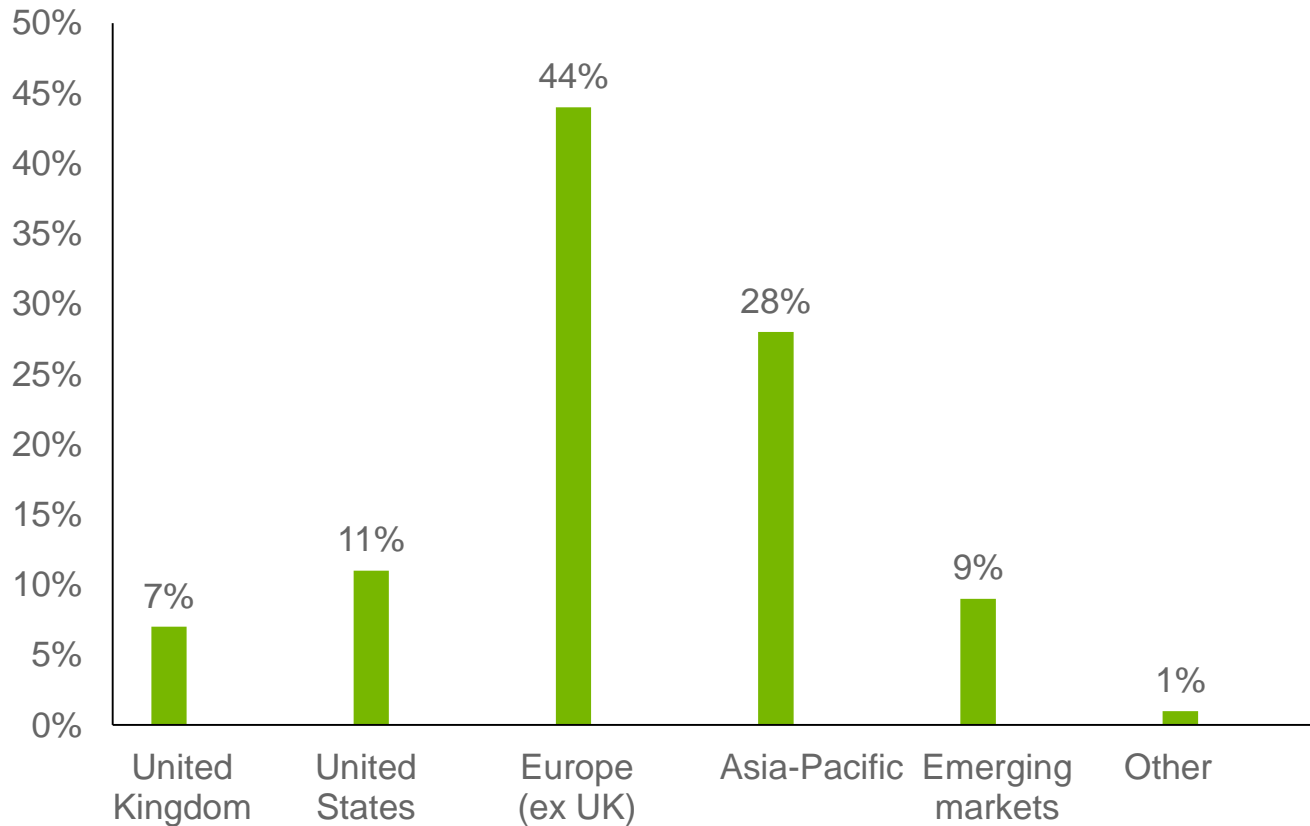
Easy-to-use performance reporting
and portfolio analytics tools

Lower priority :

Improved account opening
and registration procedures

Improved cost structures,
value for money to investor

Which region will experience largest increase in assets on fund platforms over the coming 3 years ?



Points to consider?

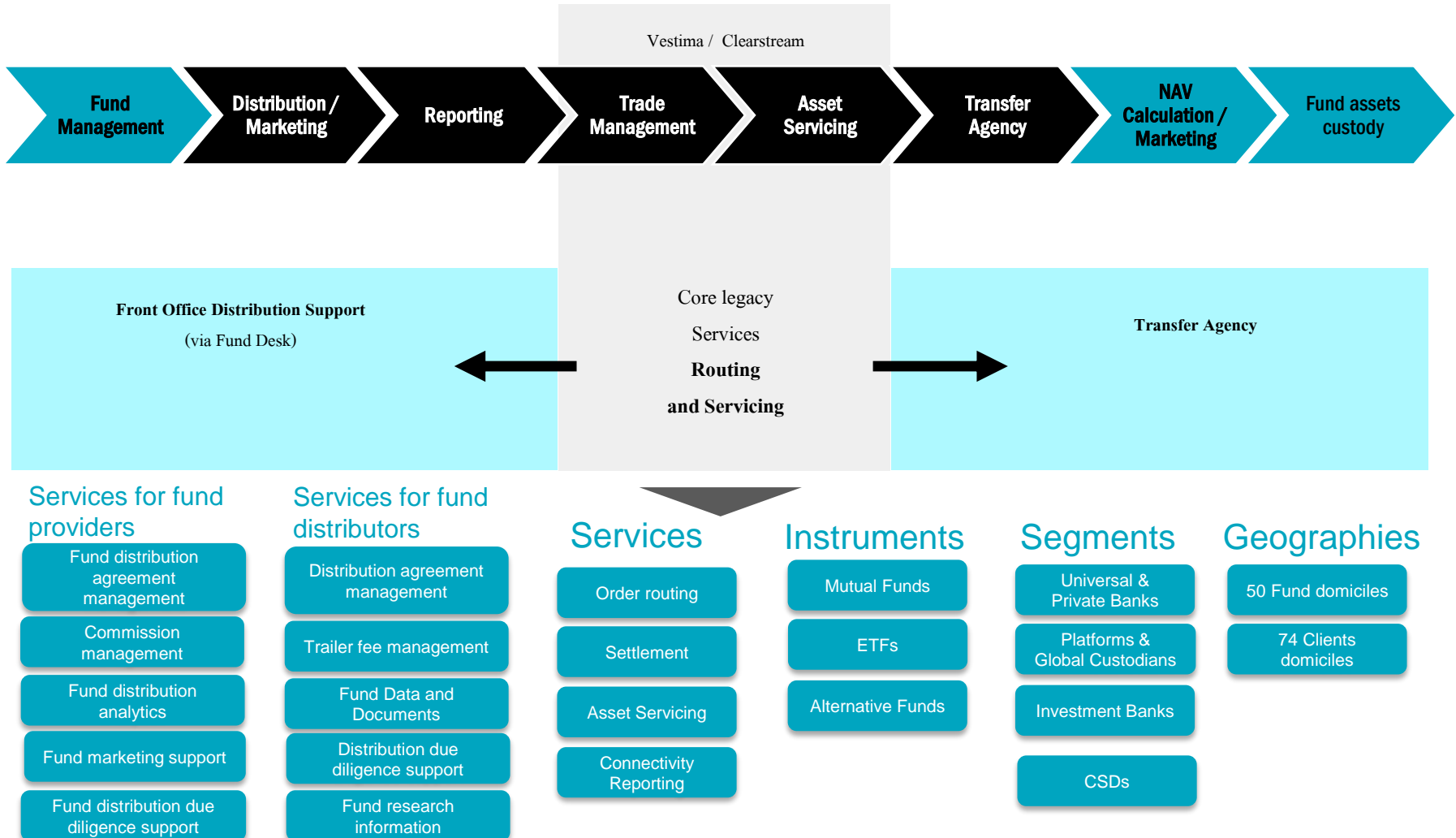
- Use of fund platforms / intermediaries as a support to local fund platforms / CSDs for cross border trading.
- Better distribution support as key service to asset managers.
- Wider geographical coverage and wider product range as a key services to end investors.
- Asia Pacific as a key region where there will be growth in assets in the next 3 years.

Role of Clearstream in the global fund industry

clearstream | DEUTSCHE BÖRSE
GROUP



Our answer to global trends in cross border trading – Expansion along the value chain

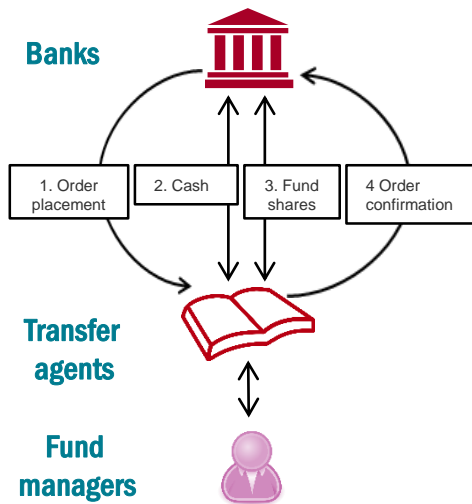


Appendix

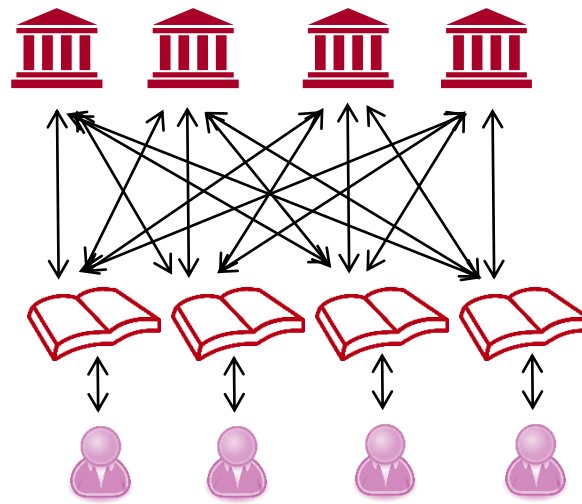


Our product offering today

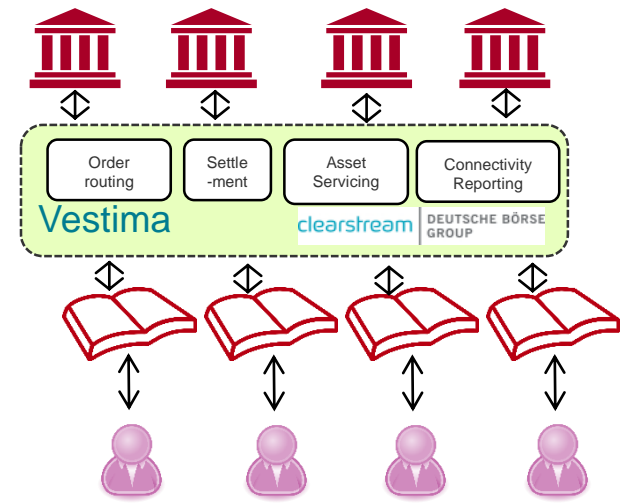
The typical scenario



The problem

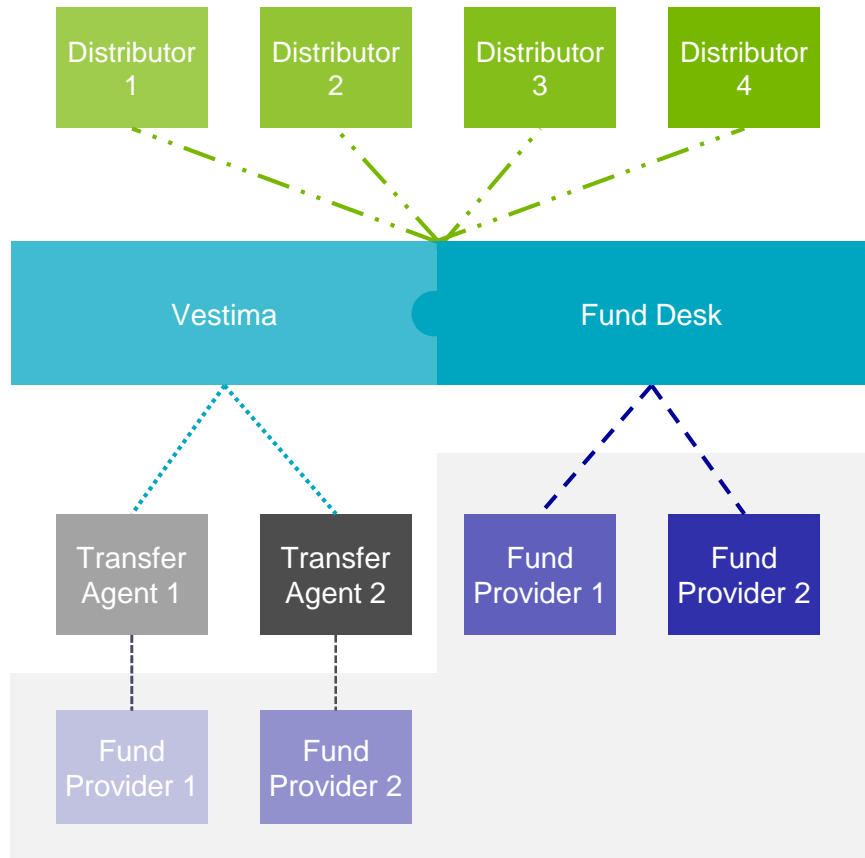


The solution: VESTIMA



Clearstream Fund Desk

Complementing Vestima



- ✓ Order Routing, Safekeeping and Asset Servicing
- ✓ Distribution Agreement and Trailer Fee Management
- ✓ Fund Data and Documents
- ✓ Fund Research

- ✓ Order Routing and Safekeeping
- ✓ Distribution Agreements and Trailer Fee Management
- ✓ Additional Services to Fund Providers

clearstream | DEUTSCHE BÖRSE
GROUP