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Fund Distribution and Investment Sub-Advisory in Europe to Rapidly Transform after MiFID II

Sub-Advised Fund Assets to Exceed €0.8 Trillion by 2022

NEW YORK, NY – September 27, 2017 – Europe's sub-advised fund market continues to expand at a strong pace with assets forecasted to surpass €800 billion by 2022, according to a new report by Impactvesting LLC, an asset management consulting firm. Potentially €300 billion of new sub-advisory assets will be won over the next five years, mobilized in part by regulatory changes such as the Markets in Financial Instruments Directive (MiFID II).

"Regulation, cost pressures, consolidation, vertical integration among wealth managers, and new technologies are rapidly transforming fund distribution in Europe", says Jag Alexeyev, founder and managing director of Impactvesting LLC. "Distributors are choosing to work more closely with a smaller number of investment managers as strategic partners, while expanding their proprietary offerings. However, an increasing number of proprietary funds are being delegated to external firms through sub-advisory arrangements".

During 2016, sub-advised funds captured a remarkable 32% of total inflows into actively-managed funds. Although this proportion was lower in the first half of 2017 as record net sales benefited funds across Europe, sub-advised funds should capture between 15%-25% of active fund gains during the next five years.

As discussed by Impactvesting in their new report, *Europe Sub-Advisory Opportunities, 2017 Edition*:

- MiFID II, which goes into effect in 2018, will change the economics of fund distribution and further mobilize sub-advisory. The regulations will ban inducements on independent advice and discretionary portfolio management, require higher standards for disclosure and product suitability, and necessitate greater coordination between managers and distributors to align solutions with client needs.

- Many wealth management and distribution organizations are responding to the changing economic realities by pursuing vertical integration across the value chain, with more emphasis on proprietary products but also greater reliance on sub-advised and fund-of-fund structures.

- Wider adoption of outcome-oriented solutions, multi-asset strategies, and risk-based model portfolios continue to reshape product needs, leading distributors to seek customized solutions through sub-advisory arrangements with investment managers.

Product development efforts play a critical role in generating sub-advisory assets. New funds accounted for 61% of all sub-advised fund inflows during the five years from 2012 through 2016. During 2016 and the first half of 2017 alone, more than €24 billion of assets were raised through sub-advised funds.

New offerings reflect ongoing demand for alternative sources of higher income alongside multi-asset, risk-based, and outcome-oriented solutions. Other major themes include global diversification, alternative investments and absolute returns, lower cost solutions incorporating high quality active and low fee passive strategies, and sustainable investments.

Leading sponsors with multiple sub-advised fund launches during the 18 months through June 2017 included Generali, Mercer, Lombard Odier, True Potential, and Schroders GAIA. Italy and the UK remain among the most dynamic markets for product development, especially for multi-asset and income strategies, followed by Switzerland and the Nordic countries.

“Active strategies remain the staple of sub-advisory demand, although delegated index solutions are becoming more common”, added Jag Alexeyev. “For example, True Potential’s wealth management platform in the UK features an ‘actively-managed passive’ component implemented by 7IM, one of several sub-advisors for the range”.

Sustainable investment, among the fastest growing themes in asset management, also is becoming more visible in the sub-advised space with offerings from Mercer, AZ Fund, Lombard Odier, Kirstein, ABN AMRO, NEAM, and Quaestio Capital. Sustainable investments encompass responsible investment or ethical screens, the integration of environmental, social and governance (ESG) factors, impact investments that seek measurable outcomes, green bonds, and low carbon solutions to address climate-related investment risks.

Investment managers are taking many steps to pursue sub-advisory opportunities as fund distribution rapidly evolves in Europe. Efforts include realigning retail and institutional sales teams, building the technology and service infrastructure to ensure more efficient sharing of real-time information and comply with MiFID II, and re-tooling product and service capabilities to deliver customized solutions and targeted outcomes.

About Impactvesting LLC

Impactvesting is a consulting firm that helps asset managers access the fastest growing segments of the investment industry. Combining data-driven analysis with insights and perspectives to support business expansion, Impactvesting specializes in global fund distribution, non-US sub-advisory, product innovation, sustainable investments, and ESG strategies. Learn more at www.Impactvesting.com.

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