

Despite the rise of cross-border distribution, domestic funds continue to have a bright future

Unabated support and growth in Cross Border funds

Cross-border funds offer many advantages for investors and fund sponsors alike; most importantly, they enable all consumers to benefit from greater choice at a lower cost. Originally designed as retail investment products and benefiting from a passport for distribution throughout the EU, UCITS are now sold globally both to the public and to institutional investors.

A recent study by EFAMA has shown that the share of cross-border funds grew steadily from 25% in 2008 to 32% in 2017. According to its authors, this trend is related, in part, to Single Market initiatives, that are providing more consistent rules for international fund distribution. As part of its Capital Market Union project, the European Commission has recently proposed to tackle some of the remaining barriers to the efficient cross-border marketing of investment funds across the EU (e.g. removing physical presence requirements on managers marketing UCITS funds). New developments aim at increasing further the harmonisation of cross-border marketing between both (i) the AIFMD and UCITS regimes and (ii) different practices among EU countries. Cross-border funds -supported by the UCITS brand, the now established AIFMD framework as well as greater harmonisation- are a very attractive proposition to EU and non-EU asset managers who wish to undertake investment management and distribute across Europe with minimal distraction, efforts and costs.

Amundi's services and passports allow asset management clients, who lack the required know-how and resources, to launch and maintain their cross-border offering. Amundi Luxembourg is the core entity supporting Amundi's cross-border fund operations, acting as Management Company/AIFM for funds whose investment function is delegated to both Amundi affiliates and third-party firms. As part of Amundi's expansion plans, Amundi Ireland is currently converting its authorisation status from MIFID firm to SuperManco (with top-up authorisations). Subject to the CBI approval, this conversion will soon allow Amundi to propose Ireland, a major fund center, as a new fund domicile.

At Amundi, hosted funds can be set-up on a shared/pooled umbrella or as fully dedicated fund vehicles, formed as umbrella funds (with multiple sub-funds) or as independent single funds, regulated (e.g. UCITS, AIF SIF) or unregulated (e.g. RAIF) and established in different legal forms (e.g. SICAV, FCP).

Some institutional investors still favor domestic fund structures

Despite the uncontested advantages of cross-border funds, some clients tend to feel more comfortable with domestic investment vehicles. In Germany and Austria, institutional investors, including insurers and pension funds, prefer to invest in "Spezialfonds", which are domestic investment funds specifically managed for one or a small group of investors. As another example, many large institutional investors in France require

AMF-regulated dedicated funds (or "fonds dédiés") specifically tailored to their needs.

This preference is particularly true for non-vanilla products or alternative investment strategies. However, beyond product-specific requirements, it is often hard to tell whether a natural bias towards a domestic solution is sometimes also driven by obsolete internal guidelines, stringent statutory restrictions or even misguided prejudices against foreign domiciled funds. Moreover, the current focus on tax reputational risk may over-emphasise (often unfounded) concerns in choosing or transitioning to foreign jurisdictions.

"Old habits die hard" according to Alain Sigoillot, Head of partnerships at BFT Investment Managers (BFT IM). The increase in cross-border fund ownership in Europe in recent years is a welcome development; but an even wider acceptance of international fund centers by all stripes of investors will be a slow process. "Sales and marketing teams of international fund

BFT IM in France, Amundi Austria, Amundi SGR in Italy...), Amundi Services provide local substance and in-house specialist knowledge necessary to safely manage a variety of domestic fund solutions, that are both legally simple and efficient.

Subject to positive due diligence on delegates, Amundi's AIFM/UCITS Management Companies outsource the investment management function to third-party asset managers who need a locally regulated fund.

In France, BFT IM leverages on its long-standing relationships with local institutional investors and custodians to help foreign-based investment managers promote their investment capabilities in the French market. With more than Euro 3 billion in Fund Hosting, BFT IM has entered into long term partnerships with a dozen foreign based asset managers. BFT collaborates with world leader global asset managers and specialist investment boutiques.

In practice, BFT IM provides assistance in the preparation of common tender offers, it leads the client fund onboarding project and will implement domestic investors' own proxy voting policies where desired. In addition, BFT IM provides human and technical resources to effectively monitor the outsourced investment function and other administration activities managed by external fund service providers.

Finally yet importantly, as far as it stands, investment management delegations to UK firms should remain unaffected by current Brexit proceedings, ensuring EU investors' continued access to London-based investment capabilities.



operators commonly accept that combining a cross-border product range with locally regulated vehicles remains critically important to succeed in certain large European markets" adds Francois Bocqueraz, senior executive in Fund Hosting at Amundi. This explains why asset managers often establish a UCITS in Luxembourg or Ireland as their flagship cross-border product and then supplement that with local UCITS or AIF products where necessary.

Amundi Services acts as a facilitator between investment managers and their clients

Flexibility and adaptability to client preferences can provide a major competitive advantage; but local fund expertise requires costly expert resources and strong relationships in the relevant investment ecosystem. Few asset managers are able (or willing) to afford the cost of establishing and operating multiple management companies. Instead, many opt to retain the services of a third-party Fund Hosting provider.

With Amundi's established presence in all major European fund jurisdictions, well-resourced investment and support teams and its technological platform, Amundi Services can operate Fund hosting activities in a number of European countries (e.g. France, Austria, Spain, Italy) offering UCITS funds or AIF solutions for distributors, investment managers, banks and institutional asset owners. Through Amundi's affiliates (i.e.

In Focus: Amundi Austria, a leader in Fund Hosting

With more than Euro 7 billion in Assets Under Management across approximately 30 hosted funds, Amundi ranks among the top 3 players in the Austrian Fund Hosting market. Amundi Austria collaborates with a variety of domestic investors, such as Pension Schemes, Severance Payment Schemes, Foundations, Corporates, Insurance Companies and other institutions.

The firm's solutions in the country are designed according to investor needs and preferences; besides the structuring and operational maintenance of a fund, hosting services generally include the following features:

- a comprehensive range of customizable reporting;
- independent risk management;
- due diligence and oversight of appointed investment managers;
- middle office support;
- order processing and order execution (where needed).

Amundi | Services

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