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Grows strong, Maitland does

Fund administration firm Maitland has concluded an agreement with STANLIB, one of Africa's largest fund managers, to 'lift out' its traditional institutional fund administration operations.

The deal, effective 1 October 2015, will boost Maitland's own assets under administration by $40 billion to $260 billion, making it one of the world's largest fund administrators.

STANLIB's significant African footprint will further enhance Maitland's African and frontier market coverage.

The transaction is in the form of a lift out that will see Maitland assimilate STANLIB staff into a new Johannesburg office to perform operational duties on the Maitland administration platform, and provide access to a new talent pool located in Johannesburg in addition to its traditional Cape Town hub.

Steve Georgala, CEO of Maitland, commented: "This deal is evidence of just how high the threshold for talent and technology investment is becoming for asset managers who conduct their administration in-house. The merits of outsourcing to specialists such as Maitland will only become more apparent."

STANLIB decided to outsource its institutional back-office in line with global trends toward the adoption of independent third-party administration, according to its COO, Stewart Rider.

He said: "In line with global best practice, STANLIB has identified Maitland as a strategic partner offering the capabilities that will allow STANLIB to focus on its core business, namely customer service, investment returns and distribution."

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Bank of England to accept equities as collateral

Banks will soon be able to offer the Bank of England equities as collateral, executive director Chris Salmon has revealed.

Speaking about the Sterling Monetary Committee's annual report, Salmon said that the Bank of England has "started work to ensure there are no technical obstacles" in its ability to accept equities as collateral.

Currently, the bank accepts government bonds, asset-backed securities and pools of raw loans, but will work towards accepting equities in a bid to improve flexibility.

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More Italian banks choose BNP Paribas for T2S

BNP Paribas has been chosen to provide post-trade and custody services to the Italian Banca Popolare di Milano (BPM) Group ahead of the implementation of Target2-Securities (T2S) in the country in August.

BPM Group includes Banca Popolare di Milano, Banca Popolare di Mantova and Banca Akros. As a directly connected T2S participant, BNP Paribas will allow the banks to benefit from the T2S platform without making the associated investments themselves.

In January, BNP Paribas was chosen to provide these services for four other Italian banks: Banco di Credito Popolare, Banco Popolare dell'Alto Adige, Banca Popolare di Vicenza and Veneto Banca

Alessandro Gioffreda, head of BNP Paribas Securities Services for Italy, Switzerland and the Mediterranean, said: "We are delighted to work with the BPM Group and help them adapt to the rapidly changing market environment."

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Grows strong, Maitland does

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"The deal will assist STANLIB in achieving its 2020 strategy of becoming the preferred asset manager for assets destined for Africa."

Maitland completed its acquisition of UK fund administrator Phoenix Fund Services in June.

Bank of England to accept equities as collateral

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Salmon added: "Given the complexities involved, the project will take some time to deliver."

Work is anticipated to continue throughout 2015, and to be finalised at some point next year.

More Italian banks choose BNP Paribas for T2S

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He added: "The BPM Group will be able to draw on the strength of a global bank as a single point of reference for all its settlement activity, enabling them to make the most of T2S."

Giovanni Sordello, head of operations at Banca Popolare di Milano, said: "Thanks to this agreement we will be able to settle cross-border transactions efficiently and effectively while making use of the high value added services of a specialist partner like BNP Paribas."

Bitcoin ecosystem is fragile, says SWIFT

The bitcoin ecosystem exists in a fragile balance, and should be stabilised by encouraging smaller 'mining' pools, according to a white paper by the SWIFT Institute.

Bitcoin works using an open distributed system, in which 'miners' are rewarded with bitcoins for payments processing work. Participants form pools where they can share and trade rewards, and these pools form an essential part of the system.

Those participating in small pools can operate with reasonably low business risk. Large pools, however, can attack each other, with one pretending to work on another's behalf and taking a cut of the proceeds without ever actually contributing.

According to the white paper, these kinds of attacks are not currently very prevalent, with pools agreeing not to operate in this way, but the balance is unstable. As soon as one attack happens, others will retaliate. This would lead to a drop in the profitability of public pools, leading participants to move towards smaller, closed pools.

If pools grow too large they could pose a problem for the whole bitcoin system, and, according to the report, the community faces a challenge in dismantling them.

The white paper suggests that short-term incentives could encourage a natural dismantling, making the whole system more distributed and therefore more robust and secure. Currently, a small number of large pools dominate the system, and dismantling these will give the system a more stable footing.

Peter Ware, director of the SWIFT Institute, said: "Bitcoin is a hot topic in the industry at the moment and our latest research gives interesting insight into the Bitcoin system using game theory to highlight potential pitfalls and suggest ways in which to improve overall stability of the currency."

Understanding is key to Asia

It's important for investors to be aware of the subtle differences between key Asian countries, according to a survey by BNY Mellon and analytics and advisory firm Oxford Metrica.

The study looked at trends across Singapore, Taiwan, Hong Kong and South Korea, and noted that the differences between the markets also applies to distribution channels and other factors that have an impact on the market.

For example, Hong Kong retailers showed a preference for low-cost fund complexes that could meet all of their needs, while Taiwanese retailers were more inclined towards appointing specialist managers for each category.

The report also highlighted the comparatively high costs faced by retail investors in South Korea, compared to institutional investors, and noted that in Singapore and Taiwan, more importance is placed on investment performance, while in Hong Kong, the security of a well-known brand takes prevalence.

There were also differences in price sensitivity. While retail investors in Singapore, Hong Kong and South Korea that invest cross-border are sensitive to pricing by investment firms, this is not such a concern in Taiwan.

South Korean institutional investors enjoy the lowest fund prices and, at the same time, regulatory developments in South Korea are geared towards attracting international assets.

Product range preferences also vary—a one-stop shopping solution is popular among retail investors in Hong Kong, and they tend to favour firms that can provide funds suitable throughout different market cycles. Hong Kong institutions, however, generally favour niche providers that can provide specialist expertise.

Retail investors in Taiwan and South Korea were more inclined towards funds offered by specialist providers, and the retail market in Taiwan has even greater product diversity than Hong Kong.

For retail and institutional investors in Singapore and Taiwan, and, to some extent, South Korea, the report suggested that a fund's relative performance to the index is important. In Hong Kong, however, brand security tends to hold more weight.

In Hong Kong, brand security appears to hold greater weight than outperforming the benchmark in the long-term, however cumulative returns over one-year, three-year and five-year periods were shown to be a strong driver of sales for retail investors. This was found to be true across all four markets.

Singapore, Hong Kong, Taiwan and South Korea are all markets where the European UCITS structure is widely accepted, and so represent accessible entry-points for non-Asian investment managers looking to sell funds.

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Daron Pearce, global investment manager segment head for investment services at BNY Mellon, said: "Sales success in Asia's major cross-border funds markets requires a deep understanding of the different factors that inform retail and institutional demand."

He added: "As one might expect, retail investors are generally more price sensitive than institutional investors. However the interplay between price, product range and performance is finely balanced across all markets analysed and, as such, close attention to the realities of individual markets is required by fund promoters."

Russia's corporate actions reform signed in

The legal framework for Russia's corporate actions reform has been approved and signed in to law, and will be effective from 1 July 2016.

The federal law was signed on 29 June by President Vladimir Putin, and makes amendments to laws affecting joint-stock companies, those on the securities market, and the Russian central securities depository (CSD), National Settlement Depository (NSD), reflecting the key aspects of the corporate actions reform.

New statutory provisions will change the approach to drawing up lists of security holders and introduce a new procedure for exercising their rights in corporate actions, moving towards a centralised system through CSDs or registrars.

It will also authorise the CSD to use electronic data interchange formats to allow security holders to exercise their rights, and introduce new methods of participating in shareholder meetings such as e-proxy voting through a securities depository, or online e-voting.

A corporate information centre will also be established, with endorsement from the NSD.

The changes are intended to offer better protection for investors and reduce the cost of participating in corporate actions, while also reducing the risks involved.

International standards of corporate actions processing can be introduced, including ISO standards for data interchange, while e-voting and e-proxy voting allow for remote participation in shareholder meetings, and therefore a more accurate representation of shareholder views.

Both professional securities market participants and investors will have access to NSD as a single source of official information on corporate actions. A new online service will also be launched to act as the main channel of communication between the CSD and securities market participants in corporate actions reporting and processing.

2015 looking good for Euroclear

Euroclear has reported success across the board for the first six months of 2015, including a 10 percent increase in daily volumes on its Collateral Highway and record levels of both collateral outstanding and securities held on behalf of clients.

The Collateral Highway saw an average daily volume of €971 billion in transactions mobilised, 10 percent more than in the same period in 2014, while collateral outstanding reached a record level of €1 trillion.

The value of securities held on behalf of Euroclear clients increased by 11 percent compared to the first six months of last year, reaching a record high of €28 trillion.

Turnover for the value of securities settled also increased by 10 percent to reach €339.3 trillion, and netted transactions settled increased by 6 percent to reach 97 million transactions.

Funds serviced by Euroclear's FundSettle increased in value by 17 percent, while the volume of fund transactions processed increased by 18 percent to reach 11.4 million.

The increases have been attributed to a general increase in client activity across all business lines and favourable market conditions throughout the six months.

Tim Howell, CEO of the Euroclear group, said: "Euroclear has delivered another robust operating performance in the first half of 2015, benefitting from prior investments in both traditional products and new services such as the Collateral Highway."

Consolidated reconciliations becoming the norm

Financial institutions are consolidating their reconciliation functions to 'centres of excellence', a study by SunGard and Aite Group suggests.

Two thirds of institutions surveyed said they have consolidated their reconciliation in this way, while 40 percent said that compliance and regulatory reporting were the main factors in driving change.

The average time to deliver new production reconciliations was found to be 64 days, meaning institutions are finding themselves with a backlog of requirements that they're unable to clear fast enough.

The survey revealed a focus on reducing on-boarding periods—currently, 60 percent of on-boarding time is requirement analysis and acceptance testing.

Of those firms that have consolidated in to a 'centre of excellence', 12 percent reported cost savings of more that 40 percent, and a majority saw at least a 20 percent saving.

Richard Chapman, head of strategy for SunGard's reconciliation business, said: "While we've seen increased adoption of the [centre of excellence] model among major financial institutions, there is definitely room for growth and improvement."

He added: "It's no longer just about cost cutting; financial institutions with true [centres of excellence] for reconciliation are at a real strategic advantage."

Firms were also found to be using out-of-date technology, with 54 percent admitting that their reconciliation technology platform was at least five years old, and about a quarter saying theirs was more than nine years old.

More than 80 percent said they are taking a tactical approach to at least part, if not all, of their reconciliations, while 68 percent cited real-time reconciliations support as important, as middle- and back-office functions are forced to move towards an intra-day environment.

A vast majority of firms, 78 percent, said they are either planning a strategic reconciliations review, or have already conducted one. Many are planning further consolidation in the next year, with 64 percent saying this is the case.

London Borough of Brent appoints Northern Trust

Northern Trust has been appointed by the London Borough of Brent to provide global custodian, performance measurement and valuation reporting services for its £650 million in pension fund assets.

This marks the seventh appointment for Northern Trust under the national local government pension scheme (LGPS) framework.

Earlier this year, Northern Trust worked with the London boroughs and City of London, collaborating through London councils, to establish a tax-transparent pooled fund designed to help the boroughs achieve economies of scale and to provide a platform for cost savings.

Penelope Biggs, head of the institutional investor group at Northern Trust in Europe, the Middle East and Africa, commented: "Local government pension schemes have long found themselves under pressure to become more efficient and cost effective."

"We worked closely with Brent to ensure we delivered a tailored a solution to meet their evolving needs, helping to drive efficiencies."

Boutiques are crossing borders

Boutique asset managers are moving their focus away from their home countries in search of more investment growth, with a particular increase in interest in Europe, according to a survey by TABB Group for SunGard.

When asked about investment, 48 percent of respondents said that EU equities have seen either significant demand or the greatest demand so far in 2015. Of US managers, 57 percent said they are seeing demand for EU equities, compared to 21 percent in 2013.

Of 110 managers questioned, 70 percent are domiciled in the UK, but 90 percent are active in EU markets. The increased interest in Europe was attributed to a wider search for yield, and there is also evident demand for Asian equities, with 30 percent of respondents saying they have seen this.

Almost half of respondents, 48 percent, also said they have seen a significant demand for exchange-traded funds, with many using these as a low-cost means of investment, and a way to improve performance through stock-picking and direct investment.

Regulation emerged as the most pressing issue among boutique asset managers, with 68 percent naming this as their top concern, compared to 17 percent in 2013. This was attributed to growing complexity for boutiques in operating across multiple jurisdictions, regardless of where they are domiciled.

Rebecca Healey, consulting analyst of TABB Group in London, suggested that regulations could actually prove beneficial for boutiques, saying: "While institutional asset managers once had the advantage of scale and breadth, recent liquidity constraints, and the growing raft of regulatory complexity and technology demands no longer guarantee progress over smaller managers. Boutiques may yet prove to have the shortest flight path out of regulation into the new era of asset management."

Other concerns included raising assets, finding new alpha opportunities, and attracting money. Some respondents also noted the importance of investing in technology, internal processes and training in making boutique asset managers more attractive to investors.

Sunny June for Clearstream custody and settlement

Clearstream has seen increases across the board in its June figures, including a 10 percent increase in assets under custody, year-to-date, and a 12 percent increase in settlements.

In June, total assets under custody reached €13.4 trillion, an increase of 9 percent compared to €12.3 trillion in the same month last year.

Securities under custody in the international central securities depository (ICSD) increased by 11 percent from €6.5 trillion in June 2014 to €7.2 trillion in June 2015. Those held in the domestic German CSD increased by 7 percent from €5.8 trillion to €6.2 trillion.

Year-to-date for 2015, the combined value of assets under custody in both the ICSD and domestic CSD increased by 10 percent compared to the same period last year, from €12.1 trillion to €13.3 trillion in 2015.

The ICSD processed 3.8 million settlement transactions, a 4 percent increase on June 2014's total of 3.6 million. Of these, 85 percent were OTC transactions, and 15 percent were registered as stock exchange transactions.

Settlements on the domestic CSD reached 7.6 million in June 2015, a 20 percent increase from 6.3 million in June 2014. Of these, 37 percent were OTC transactions, and 63 percent were on the stock exchange.

Year-to-date June 2015, combined settlement transactions processed reached 71 million, a 12 percent increase on the same period last year, which totalled 63.4 million transactions.

This growth was exacerbated by the investment fund services (IFS) business, which saw corresponding transactions increase by 19 percent, from 4.3 million transactions year-to-date June 2014 to 5.1 million in the same period in 2015.

In June, IFS transactions reached 800,000 transactions, a 17 percent increase on the 700,000 seen in June last year.

Berthold Kracke, a member of Clearstream's executive board and head of business management, said: "June was a special month in the post-trade industry. After years of preparation, Target2-Securities finally went live. The pan-European settlement platform will transform our business model and it is our duty to make this ongoing transition smooth for our customers."

He added: "The good performance in June encourages us to stay at the forefront when it comes to giving our customers the top service they deserve."

SWIFT certifies SmartStream corporate actions solution

SmartStream's corporate actions solution transaction lifecycle management (TLM) has retained its SWIFT Certified Application status, verifying that it is fully compliant with the SWIFT corporate actions messaging standards.

SWIFT messages are the standard for corporate actions announcements, but message formats and protocol across the lifecycle can be complex. The SmartStream TLM Corporate Actions solution aims to simplify the process for firms, and reduce manual processes.

Alan Jones, a senior product manager at SmartStream, said: "The SWIFT certification further reconfirms our commitment to the industry and to making sure we remain thorough when it comes to corporate actions processing."

"We have worked hard to build a complete end-to-end solution enabling our customers to fully participate in active communications with account holders and their account service providers. Today, our software-as-a-service corporate actions utility is available to both sell-side and, perhaps most importantly, buy-side firms who need this low-cost yet highly advanced service."

July slump for SS&C GlobeOp

SS&C GlobeOp's Forward Redemption Indicator for July 2015 shows that notifications have dipped to 2.08 percent, from 4.72 percent in June.

Bill Stone, chairman and CEO of SS&C Technologies, partly attributed the drop to "normal seasonality", however, the reading is lower than July 2014's figure of 3.15 percent, and equal to the lowest ever July figure since the index was established in 2008.

The figure of 2.08 percent is also nearing the index's all time low of 1.85 percent, recorded in January 2012.

Stone said: "This is consistent with other recent SS&C GlobeOp data suggesting that investors are keeping their hedge fund allocations largely in place despite turmoil in international markets."

The indicator represents the sum of forward redemption notices received from hedge fund investors divided by the assets under administration at the beginning of the month for SS&C GlobeOp fund administration clients. It reached an all-time high of 19.27 percent in November 2008.

Data on the platform represents about 10 percent of the hedge fund industry.

The SS&C GlobeOp hedge fund performance index reported a flash estimate of -0.65 percent for July. Year-to-date the performance has achieved 6.74 percent, while the last 12 months has seen an increase of 8.52 percent.

Linear Investments acquires AQX Securities assets

Linear Investments has acquired the assets of AQX Securities's agency execution business from the Aquila Group.

The acquisition will enhance Linear's existing execution-only services and broaden its reach across asset classes, from equities, exchange-traded funds, futures and options, to cash and fixed income.

Paul Kelly, CEO of Linear Investments, commented: "Our acquisition of AQX Securities's execution business further enhances our multi-asset execution and outsourced trading desk capabilities."

He added: "By combining the two businesses our mutual clients will benefit from the competitive advantages associated with increased trading volumes and the broader umbrella services that we can now offer them all."

Sam Merali, head of agency brokerage at Linear Investments, added: "This is an exciting new chapter for Linear Investments as it on-boards and services AQX Securities's pan-European buy-side clients."

Prior to the acquisition, Merali was joint managing director of AQX Securities in the UK, responsible for pan-European sales and business development.

Custom House acquires Dundee Leeds US business

Custom House has acquired the majority of the US clients of the former Dundee Leeds Management Services, which is no longer in business.

The transaction represents $1 billion in assets, and became effective on 1 June. Custom House now has more than $20 billion in assets under management.

The acquisition adds to Custom House's growth since it split from TMF Group earlier in the year, and is intended to lead to further expansion in to the Asian market.

It will also lead to improvements to its Gateway fund services and reconciliation platform.

Chapman's Eye on the market

Dead calm

It's quiet out there. Too quiet. That's right—it's the summer blues. Each and every year, with very few, but notable (and welcome), exceptions, the recruitment market flattens and takes a breather after what has hopefully been a frantic first two quarters. A perfect storm of HR, hiring managers and candidates' holidays conspires to ensure regular timeframes for responses are extended by a factor of four or five. This year is proving to be no exception. After a bumper first half of the year, July has turned soporific with lacklustre volume and a noticeably reduced number of new roles coming through.

All well and good, one might say. It's invariably beneficial to take stock, recalibrate and recharge the batteries, isn't it? However, do spare a thought for those folks who are still desperately seeking work—as we are all only too painfully aware, mortgages, car loans, credit cards, school fees and Sky Sports subscriptions never take a holiday, and all debt needs to be serviced on an ongoing basis. The recruitment process—as fragmented and poorly structured as it is—is frustrating at the best of times, but if you have a strong and pressing requirement to secure a position, what should you do?

First of all you have to manage your own expectations and accept that all timeframes will be elongated. Secondly, as hard as this is, don't obsess over your job search. Over the summer months there is an inverse relationship between effort and reward; spend an hour or so, first thing in the morning, reviewing job boards and LinkedIn, sending a few reminders or updates and checking for new roles. Once that's done, get out and live as normal life as possible and then, perhaps later in the day, spend another hour reviewing responses and planning the following morning's agenda.

This balance will allow you to retain a sense of perspective while maximising your chances of securing a role. It is vital to keep the faith throughout the job-hunting process and applying a structure will enhance this. Cover all bases effectively and efficiently and you'll have done all you're capable of doing.

As a reminder on a suggested approach, treat it like a military operation and plan accordingly using a 'five-step' approach: use existing contacts and network, although press lightly—if they're good friends they should be looking out for you already; look at hiring firms' own websites—some choose not to use recruiters so a direct approach can be the best option; look at the third-party websites such as eFinancialCareers.com and Cityjobs; make sure your LinkedIn profile is as comprehensive as possible; and finally, use a small selection of recruiters that you trust—if too many are involved the 'comet's tail' effect can come in to play, with diminishing returns in terms of effort versus reward. As ever, I'm always happy to expand on the above if you'd like to contact me directly. Happy summer!

Paul Chapman, managing director, HornbyChapman Ltd

Taking it cirrusly

‘The cloud’ is becoming more and more prevalent in financial services, but many still see it as just a lot of fluff. There is a silver lining, says Neil Smyth of StatPro, as long as the tech is utilised properly

STEPHANIE PALMER REPORTS

Would you consider regulation as the biggest driver of innovation in financial services?

Regulation is a big driver of innovation within financial services, but it’s definitely not alone. Asset managers are innovating with new products in an attempt to differentiate themselves in a market that’s under increasing fee and cost pressures. Financial technology itself is also driving innovation, with new digital channels opening up and new ways to manage and collaborate on the increasing amounts of data we all have to deal with. The financial services industry still needs to add transparency and to communicate with its client base better, and new technology is helping to do that.

What requirements are being made of asset mangers with regards to data and analytics? What is the role of fund administrators in this?

Data management is becoming a major task and headache to asset managers. Of course, analytics requires data but if you put poor data in, you get poor data out. Managers are being expected to provide more transparency and easier distribution of analytics. This is something most are happy and willing to do, but increasing amounts of data management tasks are holding others back. Regulations and new product innovation have added to the data mountain, so getting everything in shape for robust and adaptive analytics is a challenge.

Fund administrators can play a big role in helping overcome these challenges. They hold key elements of data for the manager already, so by adding additional analytics capabilities they can provide a more complete service to their clients rather than just data feeds. StatPro works closely with more than 30 fund administrators to help them provide portfolio analytics to their clients without having to manage an IT project or any software.

How important is it for firms to adopt new technology?

New technology isn’t a solution alone, and firms need to review processes and workflow that have been designed around legacy technology platforms. Adopting new technology should allow for new processes to be put in place to take full advantage of faster calculation speeds or enhanced collaboration and information distribution.

Many portfolio analytics systems date back to 2006—before the first iPhone—and simply cannot cope with the demands of a modern asset manager. Legacy system performance often plateaus due to dated software architecture, meaning no matter how much additional hardware is thrown at them, they simply can’t go any faster or cope with additional volume. One area of technology where performance constraints have been removed is the cloud and software-as-a-service, where true cloud-based applications are not limited in their architecture and can scale massively. These flexible and outsourced systems allow firms to focus on their core business without having to plan for IT infrastructure to meet growing application demand.

How secure is cloud-based technology? Is there a risk that sensitive information could be vulnerable to cyber-attacks?

As with any system or software application, data security can be compromised if it is poorly designed or if vulnerabilities haven’t been managed and removed. Cloud-based technology is often cited as being more insecure but this is misleading. Traditional applications are often written using out-dated development platforms and data security is something that is added at the end of the process. Cloud-based systems benefit from having data security built into their foundations using the latest technology stacks. Cloud development makes it much easier to keep up with new advances in data security methods without having to re-write the whole application.

Many software-as-a-service solutions only have a single version, meaning companies don’t get left behind on old, insecure versions of code and new releases are pushed automatically. Firms should always look for external and independent data security audits such as ISO 27001. These frameworks set best practice for software vendors to manage information security at the highest levels. External pen tests also show how an application behaves when someone tries to hack it or gain unauthorised access. These tests expose any vulnerabilities and help vendors plug security holes before any code is released.

What kind of legal challenges could firms run in to, for example, when storing cross-border assets and data?

It is important for firms to understand where their data is being stored when working with cloud-based systems. Data is often replicated to other sites for disaster recovery purposes so it’s not always a straightforward question as to where your data is located. Many cloud-based providers offer a choice of data location, so if managed properly you can ensure your data remains within legal boundaries and jurisdictions.

How should financial services companies be properly utilising the cloud, and what kind of pitfalls do they need to look out for?

Cloud computing and software-as-a-service solutions can provide many benefits to financial service companies. Speed to market, reduced running costs and enhanced client service are just some of the real business benefits that can be realised, and the risks can be reduced, too. Software-as-a-service allows firms to implement solutions without the typical large IT project management risks. One key pitfall to avoid is that of ‘cloudwash’. These are fake cloud solutions that are simply old school IT hosting systems dressed up to be cloud-based purely as a marketing strategy.

True software-as-a-service solutions should be scalable with a single version of code for all clients running across shared and scalable hardware. Upgrades should be seamless and more frequent than traditional ‘big bang’ approach software. When utilised properly, cloud computing and software-as-a-service should be an enabler for business. It should be a service that allows you to focus on core business objectives without the surrounding IT support challenges of traditional software. **AST**

Neil Smyth
Marketing and technology director
StatPro

Gold coasting

Rich in sunshine, cork hats and tired clichés, Australia's funds industry doesn't buck the trend, boasting record levels of assets under custody

STEPHANIE PALMER REPORTS

Big enough to be a continent on its own, with its arid outback, surf beaches and obscure wildlife, Australia bears little resemblance to its Asian-Pacific neighbours, and its financial services industry is no exception to this. In fact, on all counts, this country can hardly be compared to anywhere else on earth.

Dominated by huge superannuation pension funds, the asset management market has taken a completely separate path to any of its peers, creating a unique set of servicing requirements on the way.

Madeleine Senior, newly appointed head of Australia and New Zealand for Northern Trust specifies: "Asia can be characterised by large sovereign asset pools – pension funds are largely administered by the state."

"In Australia, pension funds are very much administered by corporate structures. Super funds are largely unitised structures and they support various investment options for their members. Fund administration components are more relevant here."

Over the last 12 months, Australia has seen a significant influx of capital from the rest of the region, particularly from China. Stephen McNabb, Australian head of research for real estate asset servicing specialists CBRE, points out that offshore investment from China has seen an increase due to relaxation of regulation, particularly that surrounding real estate. Of Chinese investment in real estate, Australia has snapped up a 15 percent share of the capital.

At the same time, according to McNabb, "cooling measures" in China have created an unstable economical outlook, and more risk in the domestic real estate market.

"Regulatory liberalisation has allowed institutions such as life insurers to invest offshore and into real estate," he says. "Australia provides a good diversification opportunity with lower risk due to the sound residential fundamentals, particularly in Sydney."

David Knights, chair of the Australian Custodial Services Association (ACSA) adds to this, pointing out that its relatively easy for foreign investors to access the Australian market, while low sovereign risk goes hand in hand with optimistic projected growth and favourable exchange rates.

He says: "Assets managed by the top 25 alternative asset managers in Australia have grown to more than 338 billion AUD ($249.1 billion). These assets include real estate, infrastructure and liquid alternatives such as hedge funds. We should see continued growth in alternative assets due to the growth of fund inflows."

The capital coming in is not necessarily a brand new development, but there has been a shift in the trend and, more specifically, the origins of the investment.

McNabb points out: "Australian commercial real estate has attracted rising investment from offshore since 2008. Prior to 2012 around two thirds of this capital was from the US and Europe with one third from Asia, while since 2013 this has turned, with two thirds of capital from Asia."

According to Knights, there has also been a significant increase in the custody and administration sector; at the end of 2014, the industry had a collective total of 2.5 trillion AUD ($1.8 trillion) in assets under custody. Partially, he attributes this to natural growth in the market, however he also suggests that it's down to Australia's unique superannuation sector.

Under a compulsory retirement saving scheme, citizens must pay 9.5 percent of their wages in to an approved investment fund – leading to huge funds with immense investment potential. It's the fourth largest pension fund market in the world and the sixth largest from an asset management perspective. Senior believes it's also a key driver of the Australian asset servicing industry.

"The taxation and accounting regime for super funds is complex, and we've built a solution for that," she says.

"Growth and complexity means that a number of super funds turn to service providers to help them with their operating models. There are cost pressures, and funds need to be vigilant and review their providers regularly in order to secure a fair price for a fair service and get the best technology available to meet investment duties to pension fund clients, the underlying clients and the regulator."

"It could be help with matching trades in the market, or offering private equity monitoring and liquidity management, or purely carbon footprint monitoring and reporting, or regulatory requirements."

It's an already competitive sector, with the enormous funds holding all of the power. And they're only going to get bigger, and more powerful.

In 2010, the Cooper Superannuation system review noted that in 1996 the superannuation pool was equivalent to 47 percent of GDP, while in 2009 this had increased to 90 percent of GDP. It predicted that by 2035, the pool would be at 130 percent of GDP.

Knights says: "ACSA anticipates continued growth in the sector, as attractive tax rules encourage voluntary superannuation saving in addition to the compulsory contributions."

Senior goes in to more detail, saying: "Super savings structures are moving more and more towards pension funds and so we're seeing that contributions are increased. As they're increased and these pools grow, the asset managers for the super funds are looking at how to diversify their asset allocation in order to gain alpha."

"There's very much a liability-driven investment approach in the market here, in order to meet those future liabilities as the baby boomer generation retires."

Australia's business appears to be flourishing in-house, but such wealth has inevitably led to large funds looking abroad for greater opportunities. As Senior points out, Australian super funds and pension funds tend to have a large proportion of their asset exposure to the Australian market – often as much as 50 percent. However, there has been an increase in institutions setting their sights across borders – and they're not reciprocating to the Asian markets.

Knights points out the current level of assets under custody, 2.5 trillion AUD ($1.8 trillion), represents 154 percent of the entire market value of the Australian Securities Exchange – circa 1.6 trillion AUD ($1.1 trillion).

"This is driving continued pressure for our clients to seek either alternative asset classes of foreign investment opportunities in global and emerging markets," says Knights.

"We would logically see a continued focus by our clients to seek investment offshore."

Senior also suggests that with the complexities and liabilities attached to super fund administration – tax reporting, transparency requirements, data processing and risk mitigation – managers are looking for alternatives to increase their returns.

She says: "As institutions are looking to manage those liabilities, offset a low interest-rate environment and create diversification in their portfolio, we are seeing more investment in Europe, where there are opportunities around things like property, and Vietnam, Thailand and Malaysia for funds. As there are no UCITS structures per se in Australia, to gain global exposure the favoured route is via Ireland, as opposed to a complement segregated approach."

Nevertheless, the Australian asset management firms have evolved, and continue to do so, to meet the challenge laid down by these mega-funds – addressing everything from regulatory obligation to ethical considerations.

According to Knights, the Australian Prudential Regulation Authority (APRA) recently introduced requirements for super funds to provide detailed look-through data on their investment structures to underlying investments, both listed and unlisted.

At the same time, the APRA SPS 530 requirement on investment governance requires funds to regularly stress test their portfolios to asses their resilience in times of crisis, and APRA has also issued guidelines for asset servicing clients to regularly review their choice of providers.

Knights says: "Australian asset managers are increasingly growing in sophistication in the management of their investments. This is driven by competition in the sector, along with increasing Australian regulatory compliance."

Australian clients are a special breed, requiring particular services – and they have the prerogative to pick and choose those that can provide the correct product. According to Senior, they also have a tendency to look for the most responsible route to investment.

She says: "As those fund managers have become more sophisticated and complex – to reflect the way their clients have become sophisticated and complex – so they require more from the asset servicer."

"Many Asian sovereign wealth funds have signed up to the UN principles for responsible investing, so we have developed things like carbon footprint monitoring tools and private equity monitoring tools."

According to Senior, firms should strive to provide specially tailored services for particular funds, and, while efficiency and effective governance of portfolios is still fundamentally important, it's flexibility and adaptability that will keep an asset manager relevant. And a large part of this is a transparent approach to investing.

"In the Asia-Pacific region, we end up with a diversity of clients, generally very large pools of assets and clients who are sophisticated in their behaviour – ensuring they're responsible in the way in which they invest."

She concludes: "It means asset managers have to be multifaceted. Custody just doesn't describe

Industry Events

FundForum Middle East 2015

Date: 5–6 October 2015
Location: Dubai

Saudi Arabia opened its markets to foreign direct investments on 15 June. There has never been a more pertinent reason to invest into Middle Eastern markets and the FundForum community can't wait to explore and discover those opportunities during our 9th annual FundForum Middle East conference in October in Dubai.

NeMa Americas 2015

Date: 27–28 October 2015
Location: Miami

The conference provides a unique gathering of industry speakers, from global and sub-custodians, brokers and exchanges to CSDs, CCPs, regulators and technological innovators.

Do not miss this opportunity to find out from your peers, both on and off the record, how to survive and excel beyond 2015.

Industry appointments

DTCC has appointed **Stephen Scharf** to the newly created position of chief security officer.

Mark Clancy is stepping down as chief information security officer to focus on his full-time role as CEO of Soltra, DTCC and FS-ISAC's joint threat intelligence platform.

Scharf's new role is intended to help centralise and align DTCC's information security, physical security, crisis management functions and employee safety, while also increasing resilience.

He said: "Financial services remains one of the most heavily targeted industries. To continue safeguarding our industry from threats, we must remain vigilant and focused."

Georgina Marshall of Institutional Shareholder Services (ISS) is moving to a new position of head of global research, replacing **Martha Carter**, who is taking on a new role leading global education initiatives.

Effective 1 September, Marshall will lead the global research teams.

She will also be head of the global policy board and a member of ISS's new Governance 365 initiative.

Currently, she is deputy director of global research and head of ISS research for Europe, the Middle East and Africa.

Northern Trust has promoted **Madeleine Senior** to the position of head of Australia and New Zealand.

Starting on 1 September, Senior will replace **Rohan Singh**, who will return to the Singapore office to take up the position of head of Singapore and South East Asia.

The appointment comes after Northern Trust established an asset management client servicing team in its Melbourne office earlier in the year.

UniCredit is promoting **Susanna Scheffold** to head of global securities services, to take over from **Tomasz Grajewski**.

Grajewski has been head of global securities services in Poland in 2008, and took on additional responsibility as head of global securities services in 2011.

He will retain his position in Poland and his place on the global securities services executive committee.

Fund administration and software provider Pacific Fund Systems (PFS) has appointed **Paul Kneen** as COO.

Kneen specialises in the funds and fiduciary sectors, and joins from Abacus Financial Services Group, where he was CEO.

AIM Software has appointed **Ben Hopcroft** as director of sales for the UK, Netherlands and the Nordic markets, to help expand the firm's presence in these areas.

GFT has hired **Oriol Pujol** as head of market structure for its new legal, regulatory and compliance practice.

Pujol brings experience in designing and implementing electronic trading solutions,.

He specialises in bridging the business, technical and compliance domains.

Manish Neoliya has also joined GFT as a principal consultant in risk practice. He specialises in risk reduction and improving business processes in both the front and back offices, and has experience in trading equities, listed and over-the-counter derivatives, and structured products

SS&C has launched its new business unit dedicated to the private capital market, and hired **Bob Shepro** to lead it as senior vice president.

Shepro has a history with SS&C; after SS&C acquired his company Shepro Braun Systems, he joined the firm as head of product strategy. He will now re-join from Windward Advisory Group, where he was a managing partner. **AST**

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