MONEY management executive

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M&A activity thrives on fee pressure and tech

Q&A
By Suleman Din

THE ASSET MANAGEMENT INDUSTRY kept a healthy M&A pace in the third quarter, as some firms shopped to build up technological capabilities and scale.

The biggest deal was Invesco's $1.2 billion acquisition of Guggenheim Investments' ETF business, which represented $37 billion in assets under management. The year's biggest acquisition remains Scottish insurer Standard Life's $4.7 billion deal to acquire Aberdeen Asset Management, creating the U.K.'s largest active manager at $1.14 trillion.

The asset management and wealth management M&A space posted 35 deals worth $2.4 billion in total activity. Deal value jumped 20%, while deal volume rose 25% from the second quarter, according to PwC.

Bloomberg News

Standard Life's $4.7 billion deal to acquire Aberdeen Asset Management is still the largest of the year.

Technology demands and fee compression are contributing factors toward a firm's decision to sell or buy, said Jonathan de St. Paer, Schwab's head of strategy and product. He and Schwab Investment Management CEO Marie Chandoha spoke on M&A activity during a panel discussion at the annual Schwab Impact conference in Chicago.

Passive's popularity is another factor in M&A. Traditional managers have sought acquisitions of shops that specialize in passive. For instance, BlackRock's iShares rose to 27% of its total asset base in the third quarter, from 23% the previous year. But its active funds

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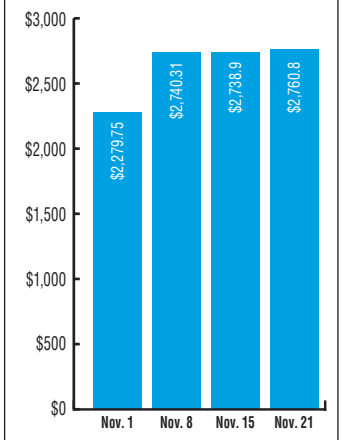
Money market fund assets increased $21.9B for the week ending Nov. 21 ($ billions)



Source: Investment Company Institute

This is what could pop the bitcoin bubble

TECHNOLOGY
By Luke Kawa

WHEN IT COMES TO CRYPTOCURRENCIES, one hedge fund manager warns, "not everything can win." That's not enough, however, to stop him from launching a $500 million fund to invest in the asset class.

Mike Novogratz, formerly with Fortress Investment Group, will offer the fund through his new firm, Galaxy Investment Partners.

More than 80 so-called crypto funds have been launched by hedge funds this year alone, compared to just 11 last year, according to research firm Autonomous Next, citing data through Oc-

BITCOIN, *on page 6*

Donor-advised funds keep growing in assets

STRATEGY
By Michael Cohn

THE AMOUNT OF TOTAL ASSETS UNDER management in donor-advised funds grew 9.7% to more than $85 billion last year, as an 80-year-old vehicle for philanthropy and charitable giving continues to grow in popularity.

The 2017 Donor-Advised Fund Report, the 11th annual report from the National Philanthropic Trust, found that grants from DAFs to qualified nonprofits grew 10.4% to a record level of $15.75 billion.

DAFs remain the fastest-growing giving vehicle in the U.S., with 285,000 individual donor-advised

DONOR, *on page 8*

INDUSTRY HIGHLIGHTS

Vanguard to launch its first actively managed ETFs in U.S.

Vanguard will launch its first domestic actively managed ETFs, according to Bloomberg. These will be the first offered by the firm in the U.S. since its inception.

Vanguard's five factor-based ETFs will focus on minimum volatility, value, momentum, liquidity and quality factors. Vanguard will also issue a multifactor ETF and a multifactor mutual fund.

Expense ratios are expected to be 0.13% for the single-factor ETFs and 0.18% for the multifactor funds.

Smart beta investing had long been a source of debate within the company, which is known for its passive offerings. CIO Greg Davis portrayed the factor-based funds as aligned with the company's core values. "With Vanguard's actively managed, rules-based approach to factors, investors can now harness well-known factor exposure in a more transparent and low-cost way," he said in a statement.

Bloomberg to provide muni pricing for Neuberger Berman

Investment manager Neuberger Berman chose Bloomberg to provide end-of-day pricing for municipal bonds in its mutual funds, Bloomberg said. Bloomberg's evaluated pricing service (BVAL) currently prices 1 million municipal bonds, which are updated three times per day.

BVAL is "uniquely positioned to help Neuberger Berman accurately track its fund's relative performance versus the market standard benchmark," Varun Pawar, global head of BVAL, said in a statement. The pricing service employs a team of municipal bond experts to monitor data models that track prices.

Stephens selects SEI to provide middle-office platform

Stephens Investment Management has handpicked SEI's middle-office platform for its institutional and high-net-worth accounts. SEI's platform aggregates data into a centralized dashboard with the goal of reducing risk and costs. The company will also provide a range of trade processing functions. Stephens specializes in small- and mid-cap equity investing for a range of institutional clients.

"We selected SEI because we needed an operating platform that offers state-of-the-art technologies, customized workflows and proven operational processes to give us more transparency into our clients' portfolios," said Michael Nolte, COO of Stephens.

RESEARCH

Multi-asset classes are reshaping active management

Asset managers are driving the development of multi-asset products in an effort to redefine active management, according to research. In doing so, they're moving away from style-box ETFs and replacing them with multi-asset products

ETF Estimated Net Issuance

($ millions)

	11/21/2017	11/15/2017	11/8/2017	11/1/2017	10/25/2017
Equity	8,784	4,548	3,682	2,955	12,718
Domestic	6,385	2,334	653	216	10,320
World	2,398	2,214	3,028	2,740	2,398
Hybrid	37	17	34	43	67
Bond	2,859	274	655	-78	3,446
Taxable	2,771	219	577	-17	3,197
Municipal	88	55	78	-61	250
Commodity	-39	136	-153	-242	98
Total	**11,641**	**4,975**	**4,219**	**2,679**	**16,329**

Source: Investment Company Institute

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that have risk-based allocations, research firm Cerulli said.

In the next year, Cerulli expects around a quarter of multi-asset-class product development plans to center on these kinds of products. The trend could represent an opportunity for strategic beta providers, especially those focused on managed volatility products, according to the firm.

Advisors seek education in SRI

Managers are tasked with educating advisors in socially responsible investing, according to a new report.

Eighty-four percent of advisors say clients are interested in SRI but only a third of them feel informed, according to the latest Eaton Vance Advisor Top-of-Mind Index (ATOMIX) survey.

The survey also found that younger advisors tend to have a more optimistic market outlook than their older counterparts. Clients, for their part, are split: 42% are wary and 39% are optimistic, according to the survey of 1,000 advisors. Ongoing political uncertainty "has created a sense of uneasiness even during a period of steady economic growth," said John Moninger, managing director of retail sales at Eaton Vance.

PRODUCTS

U.S. Charitable Gift Trust expands responsible investing options

As investments in donor-advised funds grow, so do the options. U.S. Charitable Gift Trust has added three responsible investing products from Calvert Research and Management to its lineup of options in donor-advised funds. The responsible-investing funds are separated into conservative, moderate and growth strategies.

SRI and donor-advised funds have expanded recently, and 93% of advisors now say they discuss charitable giving with clients, Eaton Vance reports.

Advisor Asset Management to enter ETF space

Advisor Asset Management (AAM) will introduce two ETFs for income investors, making it the latest manager to enter the rapidly expanding arena. The manager's two high-dividend value ETFs target large-cap U.S. equities and emerging markets. Both funds seek out stocks that offer dividend yield and free cash flow.

"There has been massive growth within the ETF industry, and we are excited to be part of the ETF landscape," said Andrew Williams, president of AAM. In the past, the 35-year-old company has specialized in mutual funds, unit investment trusts, separately managed accounts and structured products.

ARRIVALS

Vanguard shakes up management of top funds

Vanguard appointed two new managers to help lead some of its largest and oldest index funds.

Michelle Louie, who joined the firm in 2010, was tapped to become co-portfolio manager of the $367.5 billion Vanguard 500 Index Fund. Louie will also co-manage nine other funds. Christine Franquin will be co-portfolio manager of the firm's $315.6 billion Total International Stock Index Fund.

Vanguard also named five other portfolio managers. Collectively, the new appointees will help oversee 23 equity index funds.

J O Hambro beefs up multi-asset team, launches income fund

J O Hambro Capital Management has built up its multi-asset team with the recent addition of senior fund manager Robert Hordon and investment analysts Rémy Gicquel and Hugues Le Bras. The five-person team is led by Giorgio Caputo and also includes Lale Topcuoglu as head of credit.

The team has launched the JOHCM Global Income Builder Fund (JOBIX), which seeks out income and capital growth. Caputo's group — which joins JOHCM's roster of 15 teams — invests across asset classes and cites protection of capital as a major goal.

Frank Sottosanti to lead marketing for Transamerica

Transamerica welcomed Protective Life's Frank Sottosanti as its new chief marketing officer, a role that involves overseeing marketing and branding across the firm, including its asset management division.

Sottosanti has been tasked with applying his 20 years of experience to leading "innovative and transformational brand and digital platform initiatives that we have in development to enhance our customer, advisor and employer experiences," said Dave Paulsen, executive vice president and chief distribution officer for Transamerica.


Frank Sottosanti

Sottosanti was with insurer Protect Life for the past five years, and worked for BBVA Compass, Wachovia Bank and Bank of America prior to that.

American Century hires ex-BlackRock exec ahead of ETF launch

Matt Lewis, a former BlackRock ETF executive, has been named vice president and head of ETFs at American Century Investments.

The move comes as American Century gears up to launch a suite of exchange-traded products in 2018.

Lewis previously worked in BlackRock's iShares group, and will report to senior vice president and head of ETFs Ed Rosenburg, who was hired in June.

The team will spearhead the $171 billion firm's ETF expansion, pending regulatory approval. American Century recently filed a pair of transparent ETFs and licensed Precidian Investments' ActiveSharesSM methodology. MME

News Scan by James Thorne

M&A
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now contribute 18% of total AUM, from over 21% last year.

An edited transcipt of the conversation follows.

How is fee compression affecting M&A in asset management? Is there potential M&A activity for Schwab in asset management?

De St. Paer: We definitely see fee compression, which started before the DoL rule, but we see that continuing and expect it to continue and even ramp up in a post-DOL world, regardless of timing.

It is something that is affecting different asset managers very differently.

Those of us who have consciously built businesses that are more index-oriented, very low-cost, transparent, share-class structures, I think we're pleased to see the benefit of that serving clients, and therefore seeing growth in assets.

I think managers that have more of a legacy business model of higher costs inherent in that model, maybe some challenged performance, that's where you are really seeing them struggling with the business growth, and you are certainly seeing some acquisition, some transactions happening on that side of the space.

And where we play in that core area, more of the indexing, we're really focused on scale of our existing product set and scale of those core products, rather than acquiring a wide array of different capabilities or different strategies that might not fit, starting with what does the client need and how big is that.

That causes us to look at the industry and any acquisition opportunities a little bit differently, and a little bit more strategically and less opportunistically, than some others might.

Chandoha: I look at the M&A activity seeing two themes. One is, as John pointed out, the firms that have more-challenged business models, and that tends to be the more-traditional active managers who aren't growing but need greater scale.

Suleman Din

Schwab Investment Management head of strategy and product Jonathan de St. Paer and CEO Maria Chandoha discuss M&A trends at the annual Schwab Impact conference.

So you see some of those merging and coming together. But you also see some mergers because there is a growing opportunity, globally, of acquiring capabilities overseas, or overseas managers acquiring capabilities here.

I see those being two key themes where there is a lot of M&A activity, and I think it's only going to increase.

Is there a danger of too much passive in the markets, particularly as many active managers now launch their own passive ETFs? Where does this pendulum toward passive become a problem?

Chandoha: I do think that the growth of passive is going to continue for a couple of reasons. One is that passive investing, particularly ETFs, are really great ingredients in terms of creating portfolios.

Having that low-cost floor is a great way to construct a portfolio, and that is definitely amplifying the growth of indexing and ETFs.

I do think that the bar has gotten a lot higher for active managers.

You have to have good performance, and you have to have competitive fees to gather assets.

I was looking at some recent Morningstar data, and the flows into active funds are going into four- and five-star funds, and those active funds that have the lowest fees.

So I think you can win in the active space, but the bar is a lot higher than it was before. MME

"We're really focused on scale of our existing product set and scale of those core products, rather than acquiring a wide array of different capabilities or different strategies."

Schwab Investment Management CEO Marie Chandoha

BITCOIN
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tober 2017. With the increasing availability of investment options based on bitcoin and other cryptocurrencies, the coins may be finding mainstream footing.

Bubble warnings are also pervasive, however, and skeptics abound. While the digital currency has thus far defied doomsday prophesies, there are many ways this party could end badly.

KNIFED BY A FORK

The multiple offshoots of bitcoin could cause the world's largest digital currency by market value to cede its crown.

Divides among developers as to how to proceed with upgrades to bitcoin's network have led to "forks," in which different versions of the currency are spun off from the original. Excessive fragmentation could prove a bug for bitcoin.

Ether, the second-largest digital currency, has posted massive gains since the bitcoin forks began. But even that advance pales in comparison to the surges in bitcoin and bitcoin cash over the same span.

STRANGLED BY REGULATORS

Given bitcoin's checkered history as the means to purchase illicit materials, a vehicle for capital flight and a victim of theft, it's no surprise regulators have cast a watchful eye over the asset class.

As such, the specter of a complete crackdown on cryptocurrencies remains an ever-present risk. The SEC has been keeping an eye on crypto and has given guidance saying some tokens may be securities, making them subject to oversight.

UBS Group AG Chief Investment Officer Mark Haefele said the wealth manager wouldn't dedicate funds to bitcoin because "all it would take would be one terrorist incident in the U.S. funded by bitcoin for the U.S. regulator to much more seriously step in and take action."

Federal Reserve Chair nominee Jerome Powell said bitcoin isn't big enough to matter right now, but alluded to the possibility that it could impede the central bank's transmission mechanism "in the long, long run."

That raises the prospect of bitcoin becoming a casualty of its own success should cryptocurrencies gain sufficient mainstream adoption and pose a threat to the government's ability to collect taxes or the efficacy of monetary policy.

HACKED TO PIECES

Ever since the 2011 breach of the Mt. Gox exchange, bitcoin owners have had to face the possibility that this intangible asset may fall into the hands of hackers. The Tokyo-based exchange filed for bankruptcy February 2014, alleging there was a high possibility that what was then nearly half a billion in bitcoin had been stolen.

"All it would take would be one terrorist incident in the U.S. funded by bitcoin for the U.S. regulator to much more seriously step in and take action."

UBS Group AG Chief Investment Officer Mark Haefele

The 2011 breach and 2014 collapse of Mt. Gox were accompanied by steep declines in bitcoin, as was the $65 million theft of the digital currency from Hong Kong exchange Bitfinex in 2016.

But a $31 million hack of alternative currency tether in November was only a speed bump for bitcoin. After falling more than 5%, the cryptocurrency recovered to post a fresh record high the same session.

A SHORT DEMISE

CME Group, Cboe Global Markets and Nasdaq are planning to offer bitcoin derivatives, a move that seems poised to introduce more two-way traffic to the asset class.

At present, most options investors have for shorting cryptocurrencies are fairly expensive and risky. With futures from reputable, established exchanges in play, more investors may be incented to enter into positions that put downwards pressure on prices.

The introduction of bitcoin futures could also ultimately prove detrimental to its valuation should clearing organizations come under stress amid the digital currency's wild swings.

Thomas Peterffy, chairman of Interactive Brokers Group Inc., argued in an open letter that allowing bitcoin futures on platforms that clear other derivatives would raise the risk of price gyrations that could "destabilize the clearing organization itself."

PASS AWAY ON PROFIT-TAKING

The failure of major cryptocurrency exchanges such as Coinbase to handle traffic on the day bitcoin breached $11,000 throws into sharp focus the scalability problems that cryptocurrencies face as speculative vehicles.

Profit-taking opportunities could foster steep declines and waves of selling pressure due to poor liquidity.

DEATH BY 'WHO KNOWS?'

It's been a puzzle to explain why bitcoin's gone parabolic. Why would we expect the way down to be any different? The practical applications for cryptocurrencies to facilitate legal commerce appear hampered by relatively expensive transaction fees and the high energy costs associated with mining at this juncture.

Former Fed Chairman Alan Greenspan has said that "you have to really stretch your imagination to infer what the intrinsic value of bitcoin is," calling the cryptocurrency a "bubble."

Perhaps it could end like the dot-com bubble, with investors who have no clue how to value high-flying assets fleeing for the exit en masse. — *Bloomberg News* MME

MONEY management executive

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DONOR
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fund accounts, a 6.9% increase from the prior year.

"The popularity is continuing to grow," National Philanthropic Trust CEO Eileen Heisman said.

"The grants went up over 10%. The AUM is up almost 10%. If you just looked at any growth of any industry, you wouldn't expect to see double digits forever," Heisman added. "I think technology helps and financial service companies being involved in distributing it helps."

California, Massachusetts and Pennsylvania had the most DAF accounts, while Nebraska experienced the most significant growth in accounts.

"It's because Fidelity is headquartered in Massachusetts, and Vanguard and NPT are headquartered in Pennsylvania, and Schwab is headquartered in California, as is the Silicon Valley Community Foundation, so some of the largest providers are concentrated in those states," Heisman said. "I think that's how the state growth gets explained."

Millennials are beginning to get involved with donor-advised funds but still aren't heavily invested in them.

"The oldest millennials are starting to become donors," Heisman said. "We're not seeing them in large numbers yet, but we're certainly seeing their effect on philanthropy in general."

CRYPTOCURRENCY AND ILLIQUID ASSETS

The use of cryptocurrencies such as bitcoin has also been a growing trend in charitable giving.

"So far this calendar year, we've had about $10 million in cryptocurrency gifts, and we've gotten more sophisticated tools," Heisman said. "It seems like somebody absolutely has turned on the light on cryptocurrency giving. The next six weeks are going to be like living a whole year for us. We suspect that we'll probably see a few more cryptocurrency gifts."

Many charities do not feel equipped to handle digital currency, however.

"I think a lot of charities are really nervous about it," Heisman said.

"I was talking to some charities informally in the last month, and a lot of charities get upset at donor-advised funds because they believe that we're getting in the way between the charities and the donors," she added.

"But I said to the charity we were talking to, 'You know, why don't you use us to accept cryptocurrency? We'll accept it and pass it along to you. There will be a small fee, but if you don't want to take the risk and you don't have expertise in it, we're more than happy to do that, not just for cryptocurrency but for other illiquid assets,'" Heisman said.

NPT has been handling assets such as donations of artwork and real estate. "In the last couple of years, we've seen a lot of gifts of illiquid assets and tangible personal property," Heisman said. "We just had a piece of art sell at Sotheby's that was gifted to us, a pretty major piece of art."

It was a Picasso painting that sold for nearly $20 million. "I went to the auction in New York," Heisman said. "I'd never seen a professional art auction with that kind of quality and quantity. It was quite an event. It was fascinating to be there."

NPT has also been dealing with donations of real estate and hedge fund investments. "We've had probably five or six pieces of real estate, maybe more, in the last year," Heisman said.

"We see a lot of people are gifting private equity, hedge funds and partnerships of different kinds," she added. "We see people, especially [in] the high-net — worth [category], really looking at a wide range of assets that they own to see if they are giftable. We liquidate them as quickly and reasonably as possible. We'll try to maximize the value, and then that asset turns into a liquid asset that they can make grants from."

TAX REFORM UNCERTAINTY

One big question mark hanging over the nonprofit sector has been the tax reform bill, which may end up discouraging charitable donations if write-offs for gifts to charity and other itemized deductions prove to be much smaller than a doubled standard deduction.

"We see a lot of people are gifting private equity, hedge funds and partnerships of different kinds. "

Eileen Heisman, CEO, National Philanthropic Trust

Many donors plan to claim as large a charitable contribution deduction as they can for this year, while hoping they can do the same for next year. Meanwhile, the prospects for donor-advised funds still look bright.

"Philanthropy is such a part of the American way of thinking about life and passing values onto your kids," Heisman said. "One of the great benefits is to have public policy supporting it with a deduction for your gift and appreciated securities to avoid capital gains tax. But I really do think it's the ease of the product and the way it's been offered by charities that work closely with financial service companies.

"Once you put financial service company bankers and financial advisors in the mix, and they start offering a charitable product, now the distribution of that product goes farther and wider than you could ever imagine than if it was just in the charitable sector alone," she said. MME

Which mutual funds had the best YTD returns?

As good as the U.S. equity markets have been this year, the best returns could be found overseas. Indeed, of the 20 top mutual funds with at least $500 million in assets, 12 were focused on foreign assets, with 10 even more narrowly focused on emerging markets. Of the other eight funds, six were focused on tech.

Overall, these short-term winners have posted returns ranging up to 57% year to date. The eye-popping returns haven't come cheap. Expense ratios ranged from 54 basis points to 1.58%, with an average of 1.08%. With emerging markets investments, higher expenses are often expected, but can be a shock to some in an era of ever-declining fees. To be sure, many found healthy gains in the inexpensive world of passive investing. The S&P 500 ETF from Vanguard has returned more than 19% year to date at a cost of just 4 basis points. MME

	Ticker	YTD % Returns	3-yr. % Returns	Expense Ratio (%)	Fund Assets (millions)
Matthews China Investor	MCHFX	57.60	14.22	1.18%	$902
Fidelity Select Technology	FSPTX	56.47	22.93	0.77%	$6,683
Baillie Gifford Emerging Markets	BGEDX	54.12	N/A	0.71%	$2,066
Fidelity China Region	FHKCX	51.35	11.34	1.02%	$1,381
Oppenheimer Global Opportunities	OPGIX	51.10	22.83	1.19%	$6,872
T. Rowe Price Global Technology	PRGTX	50.98	23.71	0.90%	$6,177
Baillie Gifford EAFE 3	BGEUX	48.38	N/A	0.54%	$2,966
Janus Henderson Global Technology	JAGTX	47.25	20.28	0.95%	$2,290
VanEck Emerging Markets	GBFAX	46.88	6.27	1.53%	$1,894
VALIC Company I Science & Technology	VCSTX	45.82	18.28	0.99%	$1,310
Fidelity Emerging Markets	FEMKX	44.91	8.69	1.01%	$4,850
Transamerica Capital Growth	IALAX	44.89	15.03	1.23%	$856
American Century Emerging Markets Inv	TWMIX	44.79	10.70	1.29%	$1,585
Fidelity Emerging Asia	FSEAX	44.38	11.66	1.16%	$1,286
City National Rochdale Emerg Mkts	RIMIX	44.14	11.14	1.63%	$1,698
Vanguard International Growth Inv	VWIGX	43.70	11.21	0.46%	$32,928
Ivy Emerging Markets Equity	IPOAX	42.93	10.61	1.58%	$2,035
Franklin DynaTech	FKDNX	42.43	15.22	0.91%	$4,334
Columbia Seligman Global Tech	SHGTX	42.13	22.75	1.37%	$1,251
JHancock Emerging Markets Equity	JEMGX	41.94	N/A	1.18%	$1,074

Data as of Nov. 27. Source: Morningstar Direct

Fund Passporting: Your Ticket to Markets and Investors in Asia

By Hozaifa Arsiwala and Alan Fong

Several countries in the Asia-Pacific (APAC) region are participating in fund passporting schemes. These agreements allow approved investment funds that are domiciled in one country to be distributed in another participating country, and vice versa.

With a fund passporting scheme, an asset manager can, in theory, set up a fund once in a single domicile, and then achieve access to any other country that is in the same scheme. These schemes are being introduced within Asia-Pacific to boost the local fund industries and try to retain investment flows, rather than have them go offshore to the U.S. or Europe.

Following are three current passporting schemes:

1. **ASEAN Collective Investment Scheme (CIS) Passport:** The first scheme was launched in 2014 and includes Singapore, Malaysia and Thailand. It has been slow to gain traction due to tax differences between the participating countries and limited current market opportunities.

2. **Hong Kong-China Mutual Recognition of Funds (MRF):** This scheme, launched in 2015, opens mainland China to global funds domiciled in Hong Kong, and is considered a game changer for the industry. It provides global managers the ability to access the Chinese retail fund market, which has seen phenomenal growth and is on its way to becoming one of the largest in the world.

3. **Asia Region Funds Passport:** Australia, Japan, New Zealand and South Korea have already signed on to this agreement, which is expected to launch in late 2017. Singapore, the Philippines and Thailand are also expected to join. While further clarity is needed on specific regulatory and tax issues, the scheme could be quite attractive to global fund managers as it provides a mechanism to tap into a number of large fund markets.

Many large global fund managers are already doing business indirectly in Asia, either through a subadvisory arrangement, a local acquisition or offshore distribution. But fund passporting offers an attractive opportunity to expand by establishing locally domiciled funds targeted at local investors.

Hozaifa Arsiwala

Alan Fong

Passporting also makes it less costly and cumbersome for managers who are new to APAC to enter the marketplace. In Asia, every economy has its own rules, forcing managers to follow different sets of requirements for each country in which they hope to do business. Domiciling a fund in a single jurisdiction and achieving access to other countries lowers those barriers to entry.

Now the question asset managers must ask themselves is, "Where do we want to expand?" Some may choose to enter larger, more established fund markets such as Australia and Japan. Because investors in these countries already have access to wide variety of mutual funds and exchange-traded funds (ETFs), a manager would need to offer something unique, that can pursue better returns or better diversification.

On the other hand, China presents the most compelling growth story, with a sizable population that has seen low penetration by investment funds. Mutual fund assets under management represented just 10% of China's gross domestic product (GDP) in 2015, compared to 91% in the U.S.[1] Because Chinese investors have previously only had restricted access to overseas markets, products that offer diversification opportunities will be appealing.

There are other emerging countries to consider, including Thailand, Malaysia, Indonesia and the Philippines, who are current participants or likely to also join schemes. Though these are smaller countries, they are growing rapidly and offer interesting possibilities to managers looking to seize opportunities in Asia, particularly if they can be accessed through fund passporting.

Fund managers should ask themselves what their time frame is for considering an expansion into Asia. Should they make a bet now that a particular country will become the region's fund hub? Or wait until all the passporting schemes have matured?

The MRF scheme in particular offers a compelling argument for starting sooner rather than later. At present, it can take up to six months to establish a Hong Kong-domiciled fund and receive approvals from the local regulator. Any fund must then be active for at least 12 months before it can attempt to access mainland China through the scheme. Therefore, starting early and engaging with a service provider that can support fund managers launching Hong Kong-domiciled funds is a key to success.

Being the first fund manager in a new market is not as important as being the first with the right product that is not already available to investors. Firms should consider what their core capabilities are, and how they can use fund passporting schemes to bring those strengths to APAC countries.

Other important steps to take when contemplating how to expand into Asia are:

1. Educate yourself about the local market – demographics, demand and fund penetration.
2. Hone an appropriate distribution strategy that recognizes the lack of brand recognition of U.S. companies in Asia.
3. Determine how to tackle the technological challenges of dealing with multiple parties in manufacturing, servicing and distributing cross-border fund products.

The views expressed within this article are those of the authors only and not those of BNY Mellon or any of its subsidiaries or affiliates.

[1]Ernst & Young, "Mutual Funds: Ready for the next leap," 2015.

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Mutual fund flows

($ millions)

		Equity									
		Domestic							World		
Date	Total long term	Total equity	Total domestic	Large-cap	Mid-cap	Small-cap	Municipal multi-cap	Other	Total world	Developed markets	Emerging markets
Estimated weekly net new cash flow											
11/21/2017	-246	-3,749	-5,211	-2,023	-457	-514	-1,422	-794	1,462	1,001	461
11/15/2017	-3,784	-4,602	-6,547	-1,097	-763	-986	-1,744	-1,957	1,946	1,555	390
11/8/2017	3,508	-831	-4,313	-206	-933	-600	-1,356	-1,217	3,482	3,078	404
11/1/2017	1,916	-4,579	-5,670	-510	-930	-539	-3,692	2	1,091	974	117
10/25/2017	4,116	-2,719	-5,161	-2,242	-853	-200	-1,179	-687	2,443	2,031	412
10/18/2017	3,906	-2,308	-3,118	-177	-446	-381	-2,018	-96	811	846	-35
10/11/2017	3,557	-2,864	-4,766	-1,709	-363	-9	-2,378	-307	1,902	1,580	322
10/4/2017	-3,443	-10,673	-9,739	-4,186	-645	-1,553	-2,747	-607	-934	-592	-342
Monthly net new cash flow											
9/30/2017	375	-22,070	-22,682	-7,634	-2,724	-2,046	-9,330	-948	612	1,366	-754
8/31/2017	-531	-16,506	-24,582	-7,242	-3,514	-2,566	-8,205	-3,056	8,075	6,650	1,425
7/31/2017	3,777	-13,782	-25,545	-10,330	-4,491	-2,239	-7,299	-1,188	11,763	11,038	726
6/30/2017	7,558	-9,411	-18,492	-13,228	-3,146	-2,291	1,917	-1,746	9,081	7,504	1,576
5/31/2017	27,289	3,145	-9,243	2,766	-2,379	-2,169	-5,234	-2,227	12,387	8,827	3,561
4/30/2017	306	-12,498	-19,556	-5,056	-4,061	-2,006	-7,056	-1,375	7,058	5,197	1,861
3/31/2017	12,553	-14,101	-13,409	-1,715	-833	-827	-7,620	-2,415	-692	-571	-121
2/28/2017	27,047	3,996	-2,694	-1,235	524	712	-2,068	-626	6,690	5,784	906
1/31/2017	11,156	-7,754	-10,936	778	-792	998	-10,606	-1,314	3,182	2,124	1,058
12/31/2016	-56,071	-33,615	-26,974	-10,891	-977	-816	-12,204	-2,085	-6,642	-5,817	-825
11/30/2016	-52,080	-27,965	-25,929	-8,244	-1,709	-293	-11,058	-4,626	-2,035	-888	-1,147
10/31/2016	-32,792	-37,928	-31,452	-8,576	-5,287	-2,541	-12,213	-2,834	-6,477	-6,258	-219
9/30/2016	-9,028	-22,398	-15,377	-152	-1,750	-1,086	-10,123	-2,265	-7,021	-6,113	-908
8/31/2016	-9,810	-32,290	-24,782	-5,504	-3,355	-1,711	-12,753	-1,459	-7,508	-7,279	-229
7/31/2016	-15,129	-37,685	-31,253	-11,922	-5,015	-3,382	-9,045	-1,889	-6,432	-6,239	-192
6/30/2016	-14,369	-18,895	-14,871	1,099	-4,486	-1,576	-7,812	-2,095	-4,024	-4,027	2
5/31/2016	-5,589	-17,369	-17,342	-4,178	-3,363	-1,188	-7,098	-1,516	-27	-1,217	1,190
4/30/2016	-4,520	-23,767	-19,455	-5,800	-3,381	-2,405	-7,327	-542	-4,312	-3,413	-899
3/31/2016	14,661	-9,971	-9,814	-5,473	-1,428	87	-2,661	-338	-157	1,307	-1,464
2/29/2016	8,492	8,779	-2,332	2,072	-2,871	-351	-525	-657	11,111	10,509	602
1/31/2016	-20,729	-4,927	-15,549	5,587	-5,958	-2,887	-7,339	-4,952	10,622	10,862	-239
12/31/2015	-75,978	-36,660	-25,328	-5,347	-5,156	-4,053	-8,234	-2,539	-11,332	-7,175	-4,157
11/30/2015	-29,964	-20,482	-19,523	-6,164	-3,538	-3,587	-5,973	-262	-959	892	-1,850
10/31/2015	-7,515	-9,724	-11,782	-7,227	-684	-1,965	-2,912	1,006	2,058	3,187	-1,129
9/30/2015	-34,288	-9,233	-14,947	-5,318	-1,056	-1,976	-3,541	-3,055	5,713	7,964	-2,251
8/31/2015	-39,361	-9,458	-17,723	-3,927	-2,703	-1,433	-6,345	-3,315	8,264	11,489	-3,225
7/31/2015	-18,875	-9,291	-27,802	-14,811	-2,607	-992	-9,325	-66	18,511	19,008	-497
6/30/2015	5,417	-2,857	-16,488	-8,620	-926	-754	-5,866	-322	13,631	13,236	395
5/31/2015	3,040	-3,787	-16,703	-5,933	-390	-1,912	-8,099	-368	12,916	12,570	345
4/30/2015	5,810	-1,216	-19,429	-9,967	-2,082	-515	-6,992	128	18,212	15,497	2,715
3/31/2015	14,764	5,077	-8,599	-1,372	-501	-1,013	-6,753	1,041	13,676	10,264	3,412
2/28/2015	29,530	8,951	1,759	2,356	586	-997	-3,123	2,937	7,192	5,902	1,290
01/31/2015	25,706	13,060	6,647	9,751	-1,390	-1,794	-4,227	4,306	6,412	5,425	987

Note: Weekly cash flows are estimates based on reporting covering 98% of industry assets.

Source: Investment Company Institute