Marketing Investment Funds to New Investors

By Mr. Tony Trescothick
Business Development Director, Mellstock Limited

We have many discussions with managers who offer funds with great performance, perceived market appeal and a good regulatory profile, but which are lacking in investor engagement and therefore, subscriptions volume. Investors simply aren’t listening to them and are going elsewhere. What’s going wrong?

This is a common story in fund management today – a crowded market place is hard to break into unless your marketing is not only sound and well-planned, but targeted to your chosen investor audience. Many firms take a top-down rather than a more-preferable, bottom-up approach. This means they have the product packaged and ready-to-go without any significant investor research or structured assessment of market demand. They almost say: “We’ll build our funds and investors will come.” Sadly, even though in many other fields the premise of “Build it and they will come” can work, it rarely works in the investment business.

Before you can market your product, you need to establish your own goals and objectives, evaluate your core values as a fund manager and fully understand your own business and why you do, what you do. What motivates you, what are your relevant interests? Are you passionate about the asset class or the principles behind it? (Responsible investing is one example). If you don’t know these things and don’t “feel” what your business stands for, how will your investors know and share those feelings enough to trust their money with you?

Using differentiation to build trust and engagement

Just having a good investment strategy isn’t enough. You may know what you do and how to do it well, but do you know what makes you and your company tick? What makes you and your colleagues stand out amongst dozens of other managers who are offering the same promises? The key word here is “differentiation” – offering something that sets you apart from the rest.

Too many businesses, in all industries, suffer from a distinct lack of forethought in establishing what makes them worthy of customers’ attention and eventually earning the most crucial element in any relationship, namely, trust. Trust leads to them spending their money in a store or restaurant or investing money in your fund ideas. Remember, people invest emotionally as well as rationally –
behavioural finance theories tell us that.

A simple Results Cycle – each element is mission-critical for a good marketing outcome

Taking time to align your clients’ needs and perceptions of themselves, with your proposition and your perceptions of yourselves, is a critical stage in the marketing process and should begin way before you open your doors to accept investor money. This is differentiation. Many managers do not take these vital planning steps – if you do, you are showing your customers you care enough to explore these vital elements of your own proposition and are laying the foundations of a good future relationship.

At the planning stage, it is important to go back to basics. Do you enjoy what you do? How can you align your proposition with your customers’ needs, desires and, critically, their aspirations? You can’t always align your customer’s needs to your product – that’s likely the wrong way around. For example, an income investor needs just that – income. Great medium to long term capital growth may just not be what they need.

What lead can you take from success stories elsewhere in the investment industry or even from businesses in other industries that have clearly defined and achievable marketing goals? Who do you admire and why?

Then, think deeply about the fund vehicle you are proposing and if/how it needs to be shaped to match your target market. Is its regulatory status in-tune with the investor protection criteria necessary to create the right environment? There is such a thing as over-regulation – would your new customers feel restricted by an over-robust and unnecessary supervisory regime? Conversely, would such regulatory oversight be comforting, boosting trust and engagement?

Creating a marketing plan with achievable objectives

Finally, create a practical marketing plan that starts at the heart of the proposition you offer, takes full account of the resources you have available and what truly achievable goals and objectives you see in the near, mid and far time horizons.

Evaluate and project the fund’s personality and other abstract “soft attributes” into your proposition alongside the more tangible “hard attributes”. Soft could be the ability to communicate your feelings about investment markets (always a very personal thing), hard attributes could be proven skills and track record in your chosen investment markets and asset classes.

People invest with people. People invest more with people they trust. Trust is built upon engagement and confidence-building. These are critical steps to building any investment business and creating the right environment for investors to feel right about investing with you. There are no short cuts. Asset classes and investment strategies can come in and go out of favour, but a trusted and admired investment brand must be built on more than a passing fad or bandwagon.
Understanding why you do what you do and how that matches and enhances investor expectations and satisfaction, is a crucial step in fund design and hence, fund marketing, and ultimately fund success.

Tony has a background in the investment management industry that started in the early 1980s in the UK. His practical experience in both management and marketing provides a unique insight where both elements combine to create unique and attractive investment propositions. He holds both industry and management qualifications from leading bodies such as the Chartered Insurance Institute, the Chartered Management Institute and the European Institute of Management and Finance. Mellstock is based in Limassol and provides specialist marketing services to the fund management industry with clients in London, Dubai and Cyprus.

Common Reporting Standard (CRS)

By Mr. Alexios Kartalis
General Manager, GMM Global Money Managers Ltd.

Offshore tax evasion is a very serious problem for countries around the world. Individuals, but also legal entities tend to move their wealth to other locations, in an effort to avoid to be taxed by their home country authorities.

In order to cope with that issue, countries have been exchanging tax related information for many years now. The Organization for Economic Cooperation and Development (OECD) was and still is facilitating this exchange, by setting the framework, developing technical standards, offering training and helping countries to automate the process as much as possible.

In 2010 the US administration enacted a law commonly known as FATCA (Foreign Account Tax Compliance Act). This law requires US withholding agents, to deduct 30% of certain US payments (dividends, coupons, etc.) to non-US financial institutions. This 30% deduction will not happen, only if the non-US receiver agrees to perform due diligence, identify and report to the US authorities US persons that hold accounts with it.

A good number of countries have decided to leverage on the FATCA framework and expand this model to exchange tax related information for their citizens. For example, Cyprus will send Greece information about Greeks holding accounts in the Republic and Greece will send the relevant information about Cypriots having accounts in the Hellenic Republic.

So, with the support of G20, OECD together with the G20 countries, EU and other stakeholders, created the Common Reporting Standard (CRS) for the Automatic Exchange of Financial Account Information. This is a standardized model for the exchange of information that builds largely on FATCA.

From their side financial institutions need to perform their internal due diligence and identify the reportable accounts.

So, the financial institutions of each participating jurisdiction (almost 100 countries) collect and send specific information to their local authorities, regarding account holders of other participating jurisdictions.

All participating countries have signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information. Some countries will start the reporting in 2018, some others in 2017. Cyprus is an early adopter and CRS is effective as of January 1, 2016 and first reporting is taking place by July 21, 2017 (initially scheduled for June 30).

A decree was issued in December 2015, that was revised in May 2016 and is still in force (Decree 161/2016).

The first thing that one needs to define is which are the institutions in Cyprus that need to report, as per CRS. These are the following:

- Authorized credit institutions
- Investment entities authorized by Cysec, defined as:
1. An entity mainly active in one of the following on behalf of clients
   - Trading in money market, forex, securities, futures, etc.
   - Individual or collective portfolio management
   - Otherwise investing, administrating, or managing financial assets on behalf of others

2. Entities that are managed by other entities, but their income comes mainly from investing, or trading
   - Institutions performing custody activities
   - Some insurance companies registered under the Insurance Services Law.

In general, the reportable accounts are the financial accounts. As financial accounts are defined the following:
   - Depositary account, an account from which payments are executed
   - Custodial account, an account where assets under custody are held
   - An account where equity, or debt instruments (or their equivalent) are held
   - An account from where payments are made in respect with insurance, or annuity contracts

But who is a reportable person? According to the decree is any individual residing for tax purposes in any country (E.U. or third country) with which Cyprus has signed the agreement for the information exchange.

Additionally, the term “reportable person” covers entities. Some of these entities (passive NFEs) have as controlling persons reportable ones. In this case the reporting organization has the obligation to “look through” behind passive entities and identify the controlling persons.

There is a wide segregation of reportable accounts to “pre-existing” and “new”. As pre-existing are characterized all the accounts that were open in the books of financial institutions on 31/12/2015. As new we classify all those that opened from 1/1/2016 and onwards.

On top of the above, clients are split according to their nature to individual and entity accounts. Individuals are further split to the ones that had balance below 1mio $ on 31/12/2015 (low value) and the ones that had more than that (high value). Entities are further split to the ones having balance below 250.000 $ on 31/12/2015 and the ones that had more than that. The entities that had below this threshold are excluded from reporting, provided they will never exceed it.

According to the type of client (retail. Legal entity), the level of portfolio he/she had on 31/12/2015 if he/she had an account by then and whether it is a new relationship (after 1/1/2016) there are different due diligence procedures and different deadlines for defining if a client has to be reported on not.

CRS is a new reporting obligation that touches upon almost every financial institution in Cyprus.

Mr. Alexios Kartalis was born in Athens in 1968. He graduated from the Department of Statistics of Athens University of Economics and Business (ex A.S.O.E.E) in 1991. In 2003 he got an MBA in Finance from ESCEM.

He started his career from Citibank Athens, where he worked from 1994 till 1997. From 1997 till 2012 he worked at BNP Paribas Securities Services Athens, initially as Head of Securities Operations and then as General Manager.

From September 2013 till today he works as General Manager in GMM Global Money Managers Ltd, a Cypriot mutual funds management company.

He holds the advanced certification from Cyprus Securities and Exchange Commission and he is also a lecturer in seminars in European Institute of Management and Finance (EIMF), being certified by the Human Resources Development Authority of Cyprus.
The reaction to increased NPEs: How are Cypriot banks responding?

By Ms. Damiani Papatheodotou, Research Analyst, AXIA Ventures Group Ltd.

By Mr. Eleftherios Kouppas, Intern in the Research Division, Axia Ventures Group Ltd.

Four years after the economic crisis that resulted in the bail-in of depositors of two of the biggest banks in Cyprus and the EUR 1.7bn state-aid to the Cooperative Central Bank, the banking system stands now on a much more solid foot. Having overcome previous re-capitalization needs, the banks are now more focused towards dealing with the ‘number one’ problem of the Cypriot economy; their non-performing exposures (NPEs).

From a macroeconomic perspective, efforts to set the economy back on the right path have been fruitful and the economy recorded positive growth rate; in 2016 real GDP growth reached 2.8% and continued at a higher pace of 3.3% in 1Q17. The unemployment rate declined to around 11% in May, following a peak of 16.9% in 1Q14.

The Cypriot banking system has undergone a deep transformation as the macroeconomic and banking realities over the last few years at European level caused a serious change in perception and resulting focus of the competent authorities and the banks themselves. The Cypriot government, enjoying economic support from the centrist DIKO, facilitated the passing through Parliament of significant legislation that is likely to prove instrumental in the banks’ efforts to mitigate the large stock of NPEs; the property foreclosure legislation and the sale of credit facilities law are examples that, in combination with a fertile economic climate, have supported banks in their efforts to deal with NPEs. Furthermore, and equally prominently, the banks have taken additional initiatives, including the creation of in-house specialized units as well as the introduction of NPE platforms, partly due and certainly in line with forward-looking European banking standards.

![Figure 2: Unemployment rate](source)

![Figure 1: GDP evolution](source)

![Figure 3: NPEs of HHs and NFCs vs. m-o-m changes](source)
The biggest bank on the island, Bank of Cyprus (BoC), has achieved a rather remarkable turnaround. In January 2017, BoC announced the full repayment of ELA, which had peaked at EUR 11.4bn in April 2013. During the same month, the bank proceeded with the issuance of a 10-year 9.25% EUR 250mn Tier 2 capital note with the option of earlier redemption in five years, a wise move considering the impacts of the upcoming EU regulation. In mid-January, BoC achieved a double listing on the London Stock Exchange, completing a commitment of its most recent management. With regard to NPEs, the bank proceeded with the establishment of an in-house NPEs management unit, the Restructurings and Recoveries Division (RRD), which has managed to reduce the stock of NPEs from a peak of EUR 15bn in 2014 to EUR 10.4bn in 1Q17. In early 2016, BoC announced the full operation of its Real Estate Management Unit (REMU), which is responsible for the treatment of all assets on-boarded to the bank through debt-for-asset swaps. In 1Q17, REMU’s assets totalled EUR 1.4bn, while it has managed to sell circa EUR 276mn of assets since the unit’s inception. To date, BoC did not express its intention to move ahead with the outsourcing of its NPE portfolio through the creation of a servicing platform.

Cooperative Central Bank, the second largest and state-owned bank on the island, recently announced the creation of an NPE platform in cooperation with the second largest Asset Management Company (AMC) in the EU, the Spanish Altamira. A new joint venture will be established in which CCB will hold 49% of the share capital and Altamira the remaining 51%. The agreement has ten-year duration and provides for the servicing of the bank’s NPEs (EUR 7.2bn) and the management of its real estate portfolio (EUR 0.4bn). The fees payable to the joint venture will be based on progress achieved in reduction of NPEs. The bank is entering a new era, being re-named to “Cooperative Cyprus Bank Ltd” while also getting ready to list on the Cyprus Stock Exchange (CSE) in a bid to reduce the State’s shareholding to levels below 25% by 2020, as agreed during the country’s bail-out programme. To that end, 6bn ordinary shares will be listed on the Main Market of the CSE at a listing price of EUR 0.10 per share.

In mid-January, Hellenic Bank (HB) was the first Cypriot bank to announce a 10-year agreement with the Czech AMC, APS Holdings, for the management of its entire NPEs (EUR 2.3bn) and real estate portfolios (EUR 150mn), which will remain on HB’s balance sheet. To that end, a new company was created and commenced operations on July 1, “APS Debt Servicing Cyprus Ltd”, in which HB holds 49% while APS Holdings owns 51%. The administration fee payable to APS Cyprus comprises of a fixed and variable element, as the level of fees will vary according to the progress of collections with the majority of fees being driven by the successful resolution of the portfolio.

**Figure 4: System NPE ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
<th>1Q15</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPEs</td>
<td>14.0</td>
<td>13.9</td>
<td>12.6</td>
<td>11.9</td>
<td>11.0</td>
</tr>
<tr>
<td>HHs</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>NFCs</td>
<td>7.6</td>
<td>7.4</td>
<td>7.3</td>
<td>7.4</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: Central Bank of Cyprus
Overall, the Cypriot banking system appears to stand on a more solid foot than prior to the crisis. The Cypriot banks are, for the moment, adequately capitalized and their provisioning levels are sufficient compared to EU averages. The supportive recovery and flexibility of the economy, alongside the new and effective legislation in place, have helped contain (but far from solve yet) the problem of NPEs. The recently announced joint venture platforms are a step in the right direction but their results will need to be recorded and assessed over time. Looking at what lies ahead, challenges feature prominently; the difficulty in utilizing the banks’ excess liquidity in a small economy with many players during periods of low interest rates is likely to persist while a series of penalizing regulations are upcoming. The IFRS 9 introduces for the first time the concept of expected loss provisioning methodology, which is expected to negatively, although to a limited extend, affect the profitability of the banking sector at least for the next five-year horizon. MREL is also coming and, in such a challenging environment, the banks and the authorities on the island should insert every effort to prove resilient in order to safeguard the future of the economy.

Mr. Damiani Papatheodotou joined AXIA in January 2016 as an Analyst in the Research Division, after successfully completing a three-month internship during the period July to September 2015. Damiani primarily focuses on macroeconomic and political research vis-à-vis Cyprus and is the author of AXIA’s Cyprus weekly research note. At the same time, she actively monitors a number of European banks in Cyprus, Greece and Portugal with the help of AXIA’s Financial Institutions research team. Damiani holds a BSc in International, European and Economic Studies from the University of Cyprus and is due to complete her MSc in Finance.

Mr. Eleftherios Kouppas joined AXIA in June 2017 as an intern in the Research Division. He is currently pursuing a Bachelor in Finance at the University of Cyprus which is due for completion in May 2018.

The Fund Industry: a look into global trends and Cyprus

By Mr. Christoforos Stylianou
Assistant Manager, Financial Advisory Service, Deloitte Limited.

Worldwide trends

The funds industry has become very popular amongst investors as it provides a broader selection of investment opportunities. Overall the regulated open-ended fund assets increased by c.18% during the first quarter of 2017 compared to the same quarter of 2016, reaching c.€43tn in value.

During the first quarter of 2017, the worldwide regulated open-end fund net assets were dominated by c.41% of equity, followed by c.21% of bonds and c.18% of balanced-mixed investments while the remaining 20% was allocated to real estate, guaranteed and other investments. The allocation remained stable since 2012.
The European funds industry has been growing since 2008 and during 2016 has reached c.€23tn of assets under management and c.€14tn of net assets. As per EFAMA, the ratio of assets under management to European GDP has reached 138% by the end of 2016 signaling confidence in the financial markets.

One of the biggest investment trends of the last years which keeps growing, lies in passive investment. ETF investments are on the rise especially those which are tied on indices. They offer easy access to any sector, asset class or region with lower fees compared to mutual funds.

In 2017, many investment management companies have strengthened their position in ETFs compared to previous years. As a result the ETF trading has been spurred and it now accounts for c.30% of US trading by value and c.23% by share volume.

Smart-beta funds have become very popular in 2017 and they now account for c.14% of the global ETFs value. Many investment management companies rushed to launch such funds to meet the growing demand from investors. Noteworthy, during the first quarter of 2017, the new money allocated to smart-beta fund strategies rose by around 24 times compared to the first quarter of 2016 (from c.$1bln:Q12016 to c.$24bln:Q12017).

On the down side, the momentum of European equity and bond funds are now exhibiting signs of weakening, following the asset class’s strongest money inflow since 2015. As per EPFR, in July 2017, c.$480mln have been pulled off by investors from funds that were investing in European securities.

Following the recent financial crisis, investment in AIFs is becoming even more complex and challenging for AIF managers. Along with technological advancements, investors have become more sophisticated and more well-informed.

The investment appetite has therefore changed and a greater diversification in terms of non-traditional asset classes is demanded. As a result, investments in hedge funds have become more demanding, whereby most of the investors require a customisation of their investment plan according to their needs.

Increased cross-border competition, never ending pressures and negotiations to reduce fees and at the same time maintain and constantly improve operational infrastructure has recently led to sophisticated robotics. Hedge fund managers are passing the reduction of fees onto the back-office departments and administration with the replacement of time and cost consuming operations with high-tech automated systems.

Cyprus funds industry

The Cyprus funds industry in recent years has undergone a significant transformation, with the regulatory framework being significantly upgraded both (i) to harmonise with EU directives – such as the AIFMD, UCITS IV and V, MiFID II; and (ii) to offer investment fund products that are competitive to those of other more established jurisdictions.

The major milestone of recent years was the enactment of the AIF Law in 2014, which replaced and repealed the existing ICIS Law initially enacted in 1999. These developments have assisted in growing our industry during the last two years, and in the efforts to establish Cyprus as a jurisdiction of choice for asset managers both within and outside the European Union. The Cyprus regulatory authorities are continuing to work on further enhancements of the regulatory framework, which will further boost the growth of the industry going forward.

The number of funds in Cyprus is increasing year-on-year at a compound rate of c.18% per annum since 2014, reaching a total of 21 home-domiciled UCITS and 148 home-domiciled AIFs as of year-end 2016.
The authorisation of UCITS in Cyprus only began in 2013. The share of UCITS remains small compared to the total funds in Cyprus in 2016, representing c.12% of the number of funds and c.5% of the total net assets. The net sales rose from c.€18,73mln in 2014, to c.€45.03mln in 2016 largely driven by equity funds which accounted for c.86%. The net assets of UCITS increased by 83% in 2016 to c.€0.11bln, evenly allocated to equity, bonds and multi-assets funds.

In 2016, AIFs represented 95% of total net assets of the Cyprus funds industry. In the same year, a significant number of new funds were authorised and activated. The new funds boosted the net sales of the AIFs in Cyprus reaching an all time high of c.€129,18mln largely driven by multi-asset funds.

Net assets of AIFs on the other hand remain at stable levels which in 2016 amounted to c.€2,07bln compared to c.€2,02bln in 2014 and c.€2,31 in 2015.

Overall, the funds industry has evolved over the last decade to become a vehicle of investing in selected sectors of the global economy with a well-diversified risk. Its popularity is increasing amongst investors who are continuously adding pressure to fund managers for cost reduction and access to more diversified investments. Cyprus is adapting to the transformation of the funds industry and it is expected that it will become a bigger player in EU, as evidenced by the encouraging net sales value in 2016. The harmonization of the legal framework governing the funds in Cyprus with the EU regulations, along with the transition brought by the AIF law enactment has played a significant role in the evolution of the funds industry in Cyprus.

Mr. Christoforos Stylianou joined Deloitte since 2016 as an Assistant Manager in Financial Advisory Services. Before joining Deloitte, he was providing assurance services to local and international companies both in Cyprus and abroad. He is a qualified Chartered Accountant and he holds a Bachelor degree in Accounting and Financial Management from the University of Hull.
The information contained in this newsletter is intended as a guide only and every reasonable effort shall be made to ensure the accuracy and the timeliness of the information. In no circumstances shall CIFA be legally bound by any information contained in this newsletter, and shall accept no liability whatsoever in respect of loss caused by reliance of a visitor on such information. The views and opinions expressed herein are those of the authors and do not necessarily represent the views and opinions of CIFA.

For information, please contact:

Mr. Marios Tannousis
Member of the Board, Secretary
E-mail: mtannousis@investcyprus.org.cy
Severis Bldg. 9 Makarios III Ave., 4th Floor
Nicosia 1065, Cyprus
PO Box 27032, Nicosia 1641, Cyprus
Tel: +357 22 44 11 33
Fax: +357 22 44 11 34
E-mail: info@cifacyprus.org

Copyright © 2017 Cyprus Investment Funds Association, an Association registered in accordance with the Associations and Foundations Law of 1972 (CIFA). All rights reserved.