



Spotlight On Germany: What Is The Significance Of Domestic And Foreign Fund Boutiques?

Observations On Market Entry And Manager
Selection

(Institutional Fund Forum International,
Amsterdam, 23 February 2009)

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- Market overview: Boutiques & Private Label Funds
 - Target client behaviour and manager selection procedures
 - Marketing / Distribution – Myths and Reality
 - Entering the market: Are there any secrets to success in the German market?



1. Market overview: Boutiques & Private Label Funds

Definition: Private Label Funds

- Mutual funds being launched by an investment company in cooperation with an external partner are called „Private Label Funds (PLF)“.
- As a general rule the name of such a fund beside the name of the investment company includes the (corporation´s) name – the „label“ - of the external partner (e.g. „investment boutique“).
- „Private Label Funds“ are sometimes also called **Third-** or **White-Label-Funds**

Funds in Germany I

More than 5,900 Mutual Funds with AUM of EUR 700 bn

Strong Fund Growth in Germany

- Current AUM in mutual funds: EUR 700 bn
- „PLF“ as of now account for some EUR 40bn thereof according to „VuV“- estimates.
- In 2007 and 2008 due to a special boom fund of funds and mixed funds experienced strong growth
- Actively managed approaches gain ground („investment boutique strength“)

Mutual Fund AUM development / trends (30.06.2005 – 30.06.2008)

- Between 30.06.2005 and 30.06.2008 AUM in „mutual funds“ (in total) increased from EUR 541 bn to EUR 703 bn (+ 30 %)
- Fund of Funds: AUM grew from EUR 33 bn to EUR 55 bn (+ 62 %)
- Mixed Funds: AUM increased from EUR 28 bn to EUR 60 bn (+ 114 %)

Funds in Germany II

PLF Opportunity: Trend „net flows BVI“

- Trends in „Fund Launches“ from 30.06.2005 – 30.06.2008 (numbers, % increase)

	30.06.2005	30.06.2008	%
Mutual Funds (in total)	2833	5927	109
Fund of Funds	393	680	73
Mixed Funds	320	895	180

(including open end real estate funds, source BVI as of 30.06.2008)

Assumption: current stock market environment will slow down growth short term. It remains to be seen if measures taken by the US government will succeed. Many actively managed approaches applied by investment boutiques are under severe scrutiny by the market. The trend towards launching fund of funds and mixed funds (withholding tax!) will continue (slower rate).

History: „Driver“ PLF-Market

- Bafin regulations
- UCITS III
- Enhanced opportunities „investment company business models “
- Outsourcing / IT-infrastructure investments
- Market entrance by foreign asset managers
- Discretionary portfolio managers (dpm / „private asset managers“) become accepted in the market
- Demand: behaviour of target group „institutional investors“ – mutual funds for institutional investors (mutual funds as „show case“, instrument of transparency / reputation)

PLF:

Assumptions about current Market Conditions I

- „proprietary products“ of established investment companies come under pressure; active client demand also within client segment „Independent Financial Advisors (IFAs)“
- Increased pressure for providers of multi management approaches (fund of funds / fund based portfolio management)
- PLF: journalists / media topic (sexy / up-to-date)
- „whip of transparency“ through established rankings / ratings
- Product launch: withholding tax and potential „run on product wrapper fund of funds“ (assumption: 2010 „death of funds“ due to too many small funds)
- Investment boutiques become „accepted“ by institutional investors (professionalisation, attractiveness for new target groups: mutual funds for institutional investors!)
- Professionalisation (fund analysts and „fund manager“ wanted!)

PLF:

Assumptions about current Market Conditions II

- In-house products vs. investment boutiques OR as „investment boutique shelve“ (PLF launches, „spill-over-effect“)
- Superfunds and „dpm“ approaches (competition of concepts, „hedging“, „130-30“)
- Cost argument: fee-split regarding allocation of responsibilities (quality, pros and cons)
- Investment boutiques / PLF: lower market entrance hurdles (production - pipeline)
- „perpetual“ bottleneck „marketing / sales / pr“ (top-ranking-issue, „initiator-parsimony-phenomenon“ for marketing expenses esp. true for „dpm“)
- Consultants: increase of interest in concepts
- Impulse for „institutional clients “ by „retail“: no one-way street!
- Foreigners entering the market (Constantia Privatbank, Bankinvest, Liechtenstein etc.)

Possible Criteria for Investment / Service Company Selection I

Selection Criteria regarding choice of investment company by the fund initiator :

- Operational Stability (number of employees / experience / business model)
- Fund administration (master investment company or „investment company-light“)
- IT-structure (sustainability)
- Know-how (market knowledge)
- Conflict of interest (neutral vs. political business model)
- Client base (know-how „institutional clients“)

Possible Criteria for Investment / Service Company Selection II

Continued:

- Service (service, reporting and tax concepts)
- Risk-controlling (constructions of funds)
- Market access for initiators (marketing / sales within B2B)
- Location (constructions of funds)
- Security / trust (current market sentiment!)
- Multi management / institutional clients: master investment company, investment company expertise

conclusion: marketing opportunity - „size, experience, IT“

Initially fund initiators often focus on pricing

PLF: Providers / Users

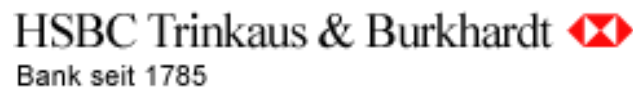
Selection (example partner):

- Universal (Acatis / Dr. Leber, Gebser & Partner / Wolfgang Schuhmann, WMF / Wolfgang Mayr)
- Hauck & Aufhäuser (Trendkonzept, Acatis / Dr. Leber)
- LRI Invest (Bernd Greisinger, Luca Pesarini)
- IP-Concept (DJE, Sauren, Huber, Acatis / Dr. Leber)
- AmpegaGerling (Frank Lingohr, Conrad Mattern)
- LBB-Invest (Frank Lingohr, Keppler)
- Constantia (C-Quadrat-“family of funds“)
- Alceda (Merkur AM)

DPM / „Private Asset Managers“ (Providers & Users)

Tied DPM: app. 100

Independent DPM: app. 350



Boutiques: PLF Initiators (international)

- Boutique with „figurehead“
e.g. Frank Lingohr, Dr. Jens Ehrhardt
- Boutique with specialty knowledge about regions / market segments
e.g. Tiberius, Craton Capital
- Boutique part of a bigger group
e.g. Rosenberg, Mellon (including cooperations etc.)
- Boutique as „asset allocator“ – core competency (Markus Hill)
- dpm approaches, expertise of VuV-members
- „conflict“ or complement to specialisation definition!

Peter E. Huber
*Der antizyklische
Dynamisierer und
Generalist*



Tobias Klein
Der Fundamentale



Winfried Walter
*Der Ertragswert-
Bedachte Visionär*



Michael Keppler
Der Quantitative



Dr. Hendrik Leber
*Der Rosinen-Picker
auf dem Value-Feld*



Example „German fund boutiques“ (fof):

German Masters

Manfred Piontke
Der Stockpicker



Dr. Klaus-Dieter Wild
*Die Spinne im
neuronalen Netz*



Anko Beldsnijder
*Der Quality-Growth-
Manager*



Heinrich Morgen
Der Trendspezialist



Elisabeth Weisenhorn
Die Freiheitsliebende



Dr. Jens Ehrhardt
*Der Substanz-Bewußte
Generalist*



Frank Lingohr
Der Systematiker



VuV:

PLF Supply / Demand Opportunity in Germany

- **About 60 out of 200 VuV*- members manage / advise „own“ funds:**
 - ❖ 67 equity funds
(global, Europe, Germany, US, Asia, Emerging Markets, sector, certificates)
 - ❖ 45 mixed funds
 - ❖ 16 bond funds
 - ❖ 51 fund of funds / „Superfunds“
 - ❖ 2 Fund of hedge funds
 - ❖ 1 real estate fund

AUM of all VuV-funds: app. € 40 bn
(*association of independent portfolio managers)



Asset-Classes of PLF

Equity Funds

Focus on regions, market cap, themes or styles.

Bond Funds

Focus on specific regions, markets or durations.
Applying different allocation models.

Mixed Funds

Flexible or max. equity allocation possible.

Fund of Funds

Different risk levels available:
Income – Balanced – Growth.

Money Market Funds

Using traditional money market instruments or
derivatives in addition.

PLF: Ratings / Rankings

Examples:

- Feri
- Fondsconsult / Sauren
- Morningstar / Standard & Poor's
- Lipper
- Citywire

Assumption: provide transparency within mutual fund universe. Basis for marketing approaches / differentiating strategies. Offer first approach to discussions with consultants and investors about products / fund advisors that are not „mainstream“. Aggregate fund information for B2B and B2C target groups.

4.3 Investment Boutiques: Product Quality / Awards

Ratings (31.05.2005 – 31.05.2008)

- DWS Investment
- Universal-Investment
- M&G Investments
- Allianz Global Investors
- Invesco
- SEB
- JP Morgan

Group Total number of rated managers

13
12
6
5
4
4
2

source: Citywire, 2008

4.4 Example „Investment Boutiques“ (general / global equities)

Fonds	KAG	Perf. lfd. J.	Perf. 1J	Perf. 3J (p.a.)	Perf. 5J (p.a.)	Volatilität	Max. Verl. 6M
M&G Global Basics A Euro Acc	M&G Securities Limited	-7,61%	-6,99%	10,36%	17,67%	16,73%	-14,46%
Astra-Fonds	DWS Investment GmbH	-11,58%	-6,80%	8,72%	14,60%	12,68%	-10,02%
FMM-Fonds	FRANKFURT-TRUST	-10,11%	-6,90%	9,04%	13,52%	12,70%	-9,96%
DJE - Dividende & Substanz P	DJE Investment SA	-12,21%	-10,79%	7,12%	12,83%	11,47%	-10,61%
Carmignac Investissement A	Carmignac Gestion SA	-12,08%	-3,48%	11,68%	12,78%	17,54%	-15,16%
M&G International Growth A Euro Acc	M&G Securities Limited	-9,00%	-11,80%	5,16%	12,62%	14,04%	-15,80%
GLG Performance D	GLG Investments plc	-15,22%	-9,22%	6,55%	11,96%	14,48%	-17,01%
Portfolio Vermögensverwalter (11 VV-Fonds)	Diverse*	-14,37%	-13,04%	7,30%	11,34%	14,37%	-16,23%
DWS Top Dividende	DWS Investment GmbH	-9,63%	-7,00%	6,38%	11,24%	12,10%	-14,20%
DWS Global Value	DWS Investment SA	-11,84%	-11,56%	3,79%	11,16%	13,19%	-16,90%
FIVV-Aktien-Global-Select-UI	Universal-Investment-	-6,96%	-10,39%	8,54%	10,49%	11,74%	-16,83%
Vontobel Fund Global Value Eq (ex US) B USD	Vontobel Management	-19,05%	-15,48%	3,69%	10,34%	14,55%	-21,15%
StarCap SICAV - Starpoint A - EUR	StarCap SICAV	-15,69%	-16,22%	5,73%	10,08%	14,78%	-17,66%
C-Quadrat ARTS Best Momentum EUR	C-Quadrat	-16,57%	-14,35%	5,78%	10,03%	16,46%	-16,50%
STARCAP - Priamos A - EUR	StarCapital SA	-22,15%	-27,75%	3,82%	9,96%	16,92%	-23,19%
Klassik MegaTrends T	Raiffeisen Salzburg I	-19,95%	-13,43%	8,51%	9,92%	19,12%	-24,39%
Carnegie Fund - Worldwide	Banque Carnegie LU	-16,69%	-11,68%	6,50%	9,89%	14,29%	-16,76%
M&G Global Leaders A Euro Acc	M&G Securities Limited	-15,59%	-20,09%	3,09%	9,75%	14,82%	-22,71%
FvS Portfolio Aktien Global A -R-	Oppenheim	-7,48%	-7,23%	7,28%	9,73%	10,73%	-9,95%
Portfolio Flaggschiffe (Uni Gl., Temp. Grwth; DWS Verm. I)	Diverse*	-13,88%	-17,06%	0,64%	4,43%	12,58%	-20,13%

Source: Feri Euro Rating Services AG

As of: 31.08.2008

Peer: global equities

Sorted by: perf. 5y. (p.a.),

*Diverse: average, funds equally balanced



2. Target client behaviour and manager selection procedures

PLF:

target groups B2B and B2C

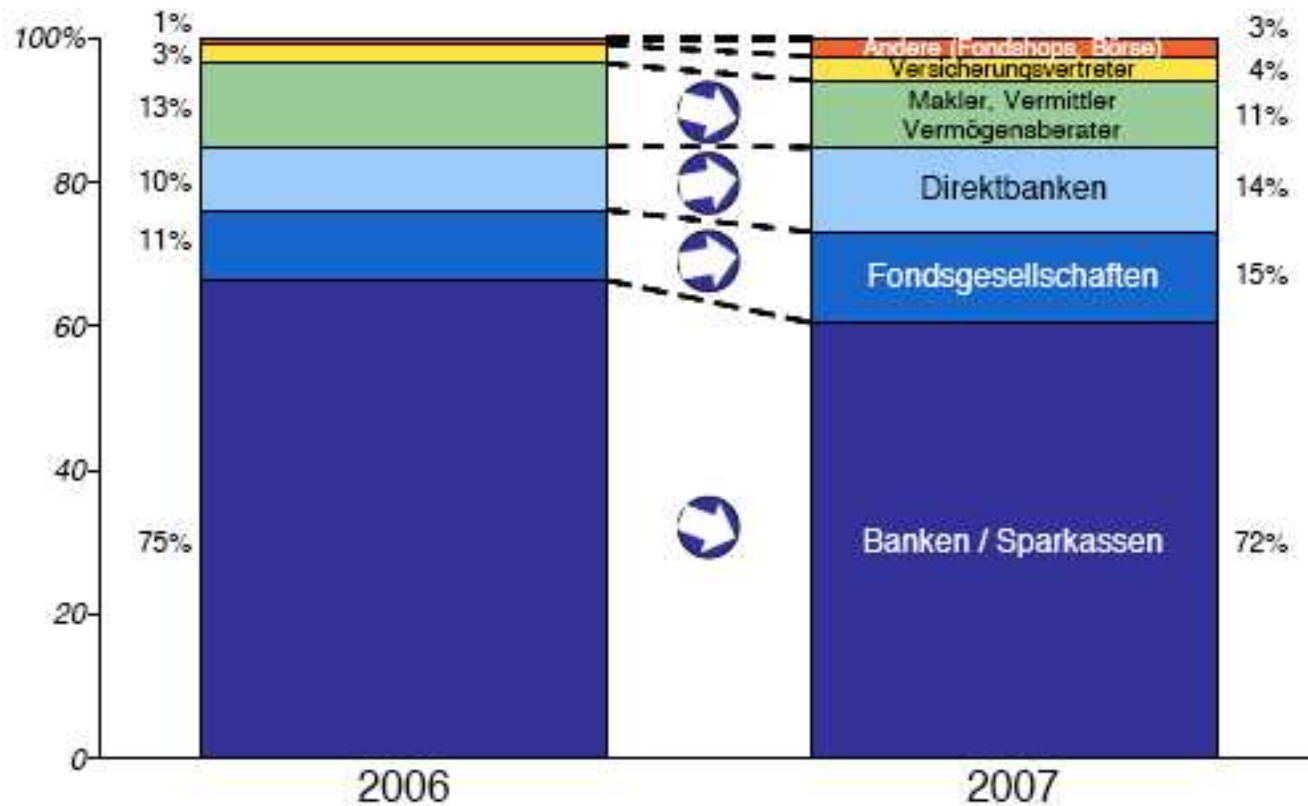
Users of PLF:

- banks (large commercial banks, private banks, cooperative banks, savings banks)
- Fund of fund managers
- Family Offices
- endowments (institutional, often „semi-professional“ selection process)
- insurances (retail: unit-linked / direct sales)
- DPM / CFP (Certified Financial Planner)
- Pyramid sales organisations (premium partner „product quality)
- Broker Pools / Independent Financial Advisors (IFA)

Distribution Channels for Mutual Funds

Advance for asset management companies and online banks

Distribution Channels for Mutual Funds in Germany
(%, 2006 and 2007, multiple answers are permitted)



PLF for Institutional Investors I

Examples: Endowments / Pension Funds / Insurances / Corporates

- PLF fund advisors are of interest due to their degree of specialisation / market knowledge „specialisation segment“ / investment style / performance (!)
- Track record and size are becoming more and more attractive for investors
- Trend: mutual funds for institutional investors (i-shares / master-segment-funds)
- Advance: foreign providers tend to be perceived as international specialists / advisors (Carmignac, Comgest, M & G etc.)
- Market opportunity: boutiques with PLF or individual mandates for german speaking managers / providers (?) (example: Frank Lingohr, BB Invest or DJE)
- Critical success factor: risk management / committee decisions

PLF for Institutional Investors II

- Opportunity / „gateway“ for PLF
- Generation of strong net flows
- Net flows are a trigger for semi-institutional investors (fund of fund managers)
- PLF often important for satellite allocation
- catalyst: IFRS implementation / accounting principles
- Consultants: development of mutual fund expertise though not core competency
- Possible driver for evolution (side effect): PR for ETFs supports acceptance of product wrapper mutual fund

PLF:

Consultants - National and International

Examples:

- Feri
- Faros
- Mercer
- Watson Wyatt
- Fondsconsult

Assumption: investment boutiques will be screened, often even rated (in some cases paid for by the boutique). Important for generating critical size within institutional arena. Issue: differentiation between degree of specialisation by domestic and foreign investment boutiques as well as the decision making process of institutional investors.

Furthermore consultants apply a rigorous risk management.

Target Groups: Selection Process

- Very often instruments like ratings and rankings will be used as an initial step.
- Database research is the bottleneck at the first level. Many PLF will be deselected due to lack of size.
- Many PLF do not focus on distribution. Result: very low sales and marketing budget; applies to external partners, too. Lack of reputation / brand awareness with investors. Even paid for ratings are only slowly accepted as a marketing tool.
- Distribution partners that require greater presence by the product provider cannot be supported by the single PLF provider.
- Important differentiation for successful distribution: „old bull“ (see „Top-Ten“ in Germany) or newcomer within the PLF or investment boutique market.

PLF Argument „Consistency“

- Factors like consistency in fund management / retention of managers are often critical issues with investors
- Fund advisors of PLF are entrepreneurs / have a share in the success of the business
- Loyalty to own company often critical for deepening the degree of specialisation
- Risk of losing a talented manager much higher with a „payroll“ fund manager / fund advisor (Morningstar research 2004, trend is continueing)
- Institutional / semi-institutional investors appreciate this pro-boutiques-factor when making investment decisions

Trends I


- New entrants: domestic / foreign
(pull and push effect: PLF-industry / manager)
- Withholding tax: „booster“ for fund of fund boutiques
- Competition: trend towards pressure on margins / specialisation
(impact „professional portfolio management “?)
- Improving performance (blending effect)
- „pro cyclical fund launches“ will be growing
- Expansion of internal /external fund research / „management“ (hiring and / or „freelancer“, Feri etc.)

6.1 Trends II

- Flight to boutiques
(former employee becomes entrepreneurs, e.g. Loys)
- Talent hotel Germany
(Citywire, road shows abroad by investment boutiques)
- Marketing / Sales / PR: services- & boutiques consulting
(Universal-Vertriebs-Service / UVS, LRI Invest etc.)
- Alliances: boutique looks for boutique, boutique „buys“ manager
(„multi boutiques“)
- Pressure on costs
(market entrance by foreign investment companies, e.g. Constantia KAG)
- Mixed Special Asset Funds / Other Special Assets Funds / UCITS IV

Fund of Funds: Investment Boutique Allocation (HwV FlexConcept Select)

Nr.	KAG	Fund	WKN	S	%/NAV
1	CARM	Patrimoine	A0DPWO	MF	6,21%
2	Opp	4Q Blend	A0MP9E	A	3,05%
3	Fortis	L Opportunities USA	A0Q6WJ	A	3,31%
4	Axxion	Squad Value	A0B7ZX	A	1,92%
5	DJE	LuxTopic Aktien Europa	257546	A	5,46%
6	LRI	ETHNA Aktiv	764930	MF	3,22%
7	JPM	Highbridge Stat. Mk. Nt.	A0LHKQ	AI	2,18%
9	SG	Modulor LSE	A0DPKD	AI	2,20%
11	SEB	Asset Selection	A0J4TG	AI	2,03%
12	UI	Absolute Return Plus	A0M80V	AI	1,98%
13	UI	Athena UI	A0Q2SF	AI	2,20%



3. Marketing / Distribution – Myths and Reality

Myth „Fund Distribution“

- Standard: Marketing-Mix
- Relationship management also possible from abroad
- Broad target group („windfall profits“)
- Huge opportunity
- Quick and sustainable success

Reality „Fund Distribution“

- element length of time / point in time
- Know how about target group expandable
- Image problem: long term engagement?
- Performance issues
- Distribution channel structure „Germany“
- Quality of sales (qualification / reputation)

Foreign Investment Boutiques

- Asset classes / Themes
- Multi management (consultants etc.)
- Examples: Comgest, Carmignac, M & G
- Market entries
- Quality: appropriate for institutional investors
- Addition to ETF allocation

Market Entrance: Investment Boutique example

- Comgest
- Specialisation
- Clear view on target group
- Product quality
- Pro: hiring local expertise (sales)
- Existing „flagship“

Importance of Sales Quality I (internal support)

- „hot air type sales person“ is out
- Sales minded outgoing „solution provider“
- At arms length with investor (technical qualification)
- Headhunter have embraced issue
- Incentive structures (Fixed / Bonus / equity)

Importance of Sales Quality II (external support)

- Strategy (research, surveys, concepts)
- Sales („Placement Agent“)
- Products (manager selection)
- Marketing & Sales („hands on“)
- Fragmented Value Chain
- New Job Descriptions
- Intermediary Business Development

4. Entering the market: Are there any secrets to success in the German market?

Is there a secret of success for the German market?

Indications, no recipe:

- Product performance „outstanding“
- Long term view
- Local expertise (internal or external)
- language (company language „bad English“)
- element: go the extra mile

6.2 Summary I

- Ongoing dynamic evolution of PLF market for dpm, semi- institutional and institutional investors
- Tendency towards specialisation and rationalisation of business models of investment companies / asset managers continues
- Target group „institutional investors“ starts to become more receptive for PLF
- Increasing acceptance by institutional clients leads to growing acceptance by consultants („pull effect“)
- As a marketing tool well established investment companies take advantage of the investment boutiques` expertise
- Sales support measures for fund initiators will become more important as a differentiating factor for investment companies

6.2 Summary II

- Ratings and rankings will enhance the acceptance and brand awareness of fund initiators („testimonial effect“)
- „Withholding tax hype“ within fund of funds will diminish from 2009 onwards („fund exitus“ and fund mergers)
- UCITS regulations will trigger new product launches
- Momentum and pressure to innovate coming from Germany and Luxemburg as fund launch locations will grow
- Attractiveness of the german market for foreign asset managers increases because of growing professionalism regarding outsourcing activities at investment companies
- Investment companies more and more take on a roll as a „know how pool“ and network provider for fund initiators

Additional information

Articles (PDF) available per mail or print (European Fund Manager 2007/2008):

- Implementation of mutual funds in institutional business
- Fondboutiques and institutional business
- Ratings / rankings „mutual funds“ (institutional business)
- Private Label Funds (Germany)
- Myths & reality „Sales“ (Letter from Germany)
- Trends „Products“ (Letter from Germany)

(partly source of presentation, also slides from Hill/2007 and Frohne/Hill 2008)

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Profile Markus Hill



Since mid 2005 Markus Hill has been working as an independent asset management consultant. Before that he worked for SEB Bank and Credit Suisse Asset Management amongst others. His services for clients include marketing, sales and pr. In addition to that and due to his special area of interest in „investment boutiques / usage of mutual funds by institutional clients“ he is covering the topic „selection of target funds within multi manager concepts“. Because of his close cooperation with the leading provider of „PLF / Master KAG“ (Universal Investment GmbH, Frankfurt) combined with the „initiation“ of well known research studies (amongst others the first questionnaire in Germany amongst consultants in cooperation with Telos) he is a renowned industry expert. Individual publications in Germany and abroad underpin his „industry network“. (source: DPI-Gipfel, Montreux, 2006)

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