

What are the niches of fund administration what can be performed out of Estonia?

FinanceEstonia International Forum
June 2013

Forces @ work: global

Clear segregation of value chain

Investment Management

Administration

Distribution

Consolidation and globalisation of industry

- Automotive, Aviation, Pharmacy @ t-10

EU directives providing base for pan-European development

- Adoption of UCITS IV
- Introduction of AIFMD
- Europe as a favoured hub for global business (Asia)

Increased post-crisis pressure on industry

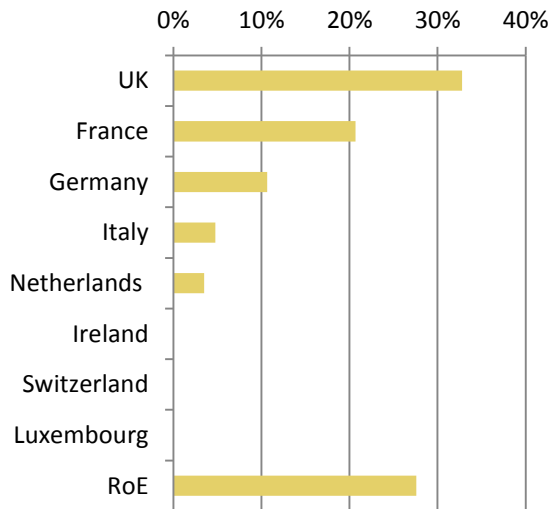
- Regulation
- Efficiency
- Restructuring of administration

Luxembourg gaining as European / global fund centre

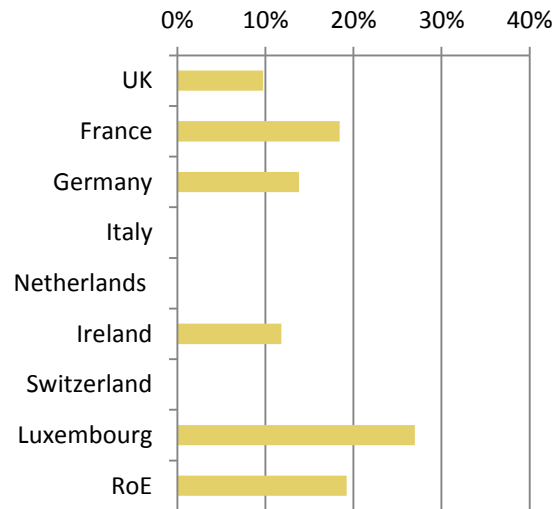
- Competing with Ireland, Netherlands, Malta

Structure of European Fund Industry

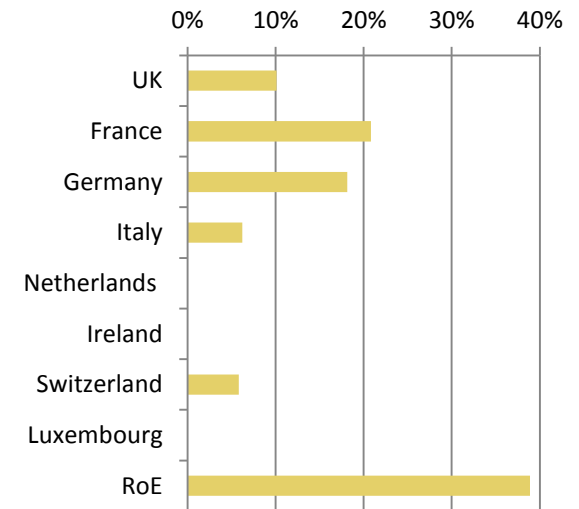
Investment management



Funds by domicile

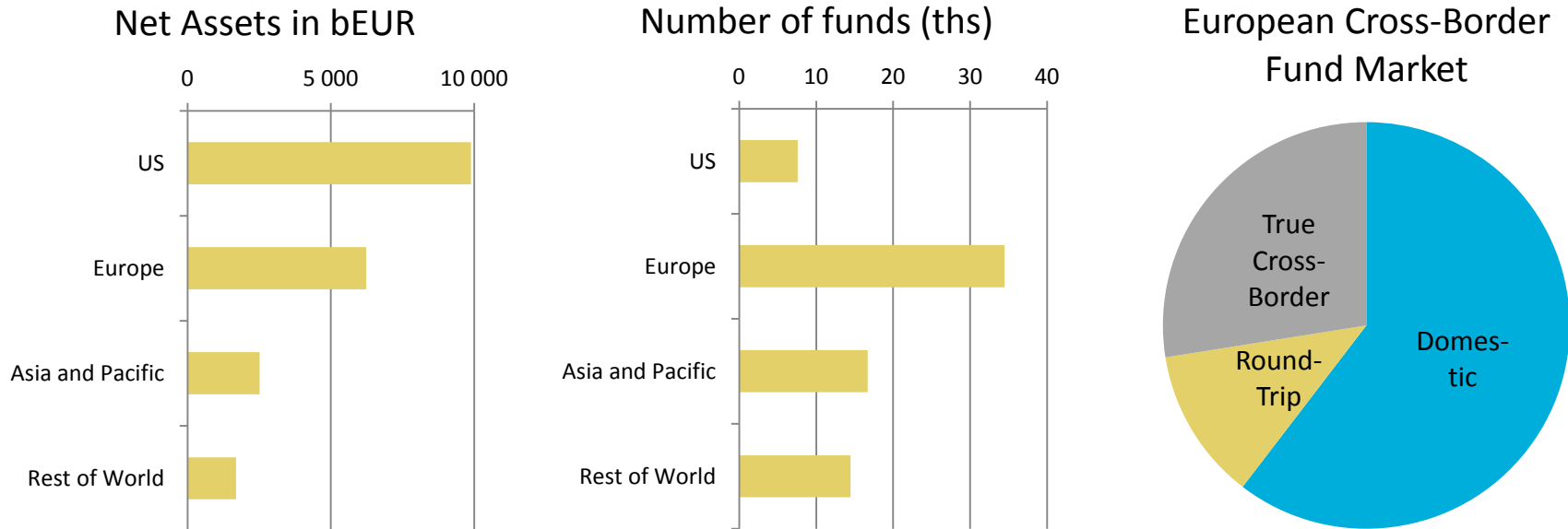


Funds by sales



- Data is based on EFAMA statistics for yearend 2010.
- Investment Management data is based on EFAMA member questionnaire and represents about 76% of total market. Data include also institutional mandates.
- Excl. Institutional mandates UK has 20% of the fund related investment management compared to total at 33%. France has 23% (21%), Germany 17% (11%), Italy 4% (5%) and Netherland 1% (4%)
- Funds by domicile and Funds by sales data including UCITS and non-UCITS funds. Total size of the fund market is EUR 8.15 trillion of which EUR 6 trillion is in UCITS structures. Germany has biggest non-UCITS market with EUR 0.9 trillion

Structure of European Fund Industry



- Data is based on EFAMA statistics for yearend 2011.
- Average net assets per fund in US is 1 300 mEUR when it is just 180 mEUR in Europe
- Round-Trip funds are funds managed and sold in a same specific country, but domiciled in different location.
- According to EFAMA 46% of the funds managed in Turkey are domiciled out of Turkey.

Forces @ work: regional

Highly consolidated fund industry in Estonia

- Owned by foreign capital
- Highly integrated into (banking) groups
- High degree of pan-Baltic harmonisation

Focus on pension and distribution

- Funded pension system is major contributor to local fund management

Scandinavia enters into pan-European consolidation

- SEB centred fund administration into Luxembourg
- East Capital is centring operations into Luxembourg

Nordic 2nd tier players to follow

- Currently in-house operations
- No visible service providers on market

Status of CIS fund market is undefined

- Market is in early development phase
- Pension is driving the market

Industry consolidation examples in Estonia

- SEB Fund Management -> knowledge centre for CEE investments
- Hansabank, consolidation of pan-Baltic fund management.
- Sampo and Evli, used Tallinn as knowledge centre for CEE IM
- Avaron and Limestone, internationally oriented, independent, CEE focused fund managers

- Reached 1.5bEUR under advisory at 2010
- Reached 1bEUR under guidance at 2007
- Knowledge centre is moved to Stockholm
- Business is moved back to main offices
- Avaron stays independent
- Limestone is restructured as operational hub of wider *multi-boutique* fund manager

Positioning: Country profile

Small country

- Flexibility, swiftness, easy access
- Limited workforce, limited capital

Strong IT, open and transparent public sector

- Openness to modern solutions
- Easy access

Cost level

- Favorable cost level compared to neighbouring EU countries
- EURO

Simple and transparent tax system

- Well defined corporate tax system supporting business development
- Predictable, low need for advisory

At border of current EU and former SU

- Implementation of UCITS and AIMFD framework
- (historical) linguistic and cultural proximity of Russian speaking market

Positioning: Industry value chain

Focus on investment management side of administration

Investment Management

Focus area

Administration

Distribution

Country profile

➤ Not a strategic distribution market

Pension system

➤ Pension system based on UCITS compliant structures

Experience

➤ Existing investment management related knowledge

Barriers of entry

➤ Lower need for existing infrastructure

Target business profiles for Estonia

Base for regional cross-border business development

- For fund managers in neighbouring EU countries when opening up their value chain for cross-border business development
- Consolidating full or part of the administration function in Estonia
- Existing business models: SAS, Finnair, StoraEnso, PK Cables

Base for building UCITS structures for Non-EU businesses

- For fund managers in neighbouring non-EU members targeting to launch a UCITS structure
- Estonia can be used as a base for UCITS compliant fund structure
- Existing business models: Turkey

Transfer destination for specific / small scale administration functions

- Small scale businesses transferring their (full) administration into Estonia.
- For bigger organisations transferring specific services (AIMFD / UCITS related)
- Example: Alpcot

Thank You!