MIFID II
What will be its impact on the investment fund distribution landscape?
Introduction

The European Union can trace its origins to 1958, and at the time of writing that is 57 years in which a concept has grown to be a reality for over 500 million people.

It has brought many successes and some frustrations in getting such a large group of peoples to live to a broad set of common criteria. Previously steady industries are challenged by new rules, competitors and marketplaces.

Fund management has had its fair share of European regulation with successes such as UCITS and other challenges such as AIFMD, which has brought some frustration to the industry. Now the third iteration of MiFID1 combined with competitive forces looks set to alter investment fund distribution in the 28 European Union member states.

Within this context it is perhaps useful, even essential, to pause to reflect not just on the immediate causal impacts of MiFID II on the investment funds industry, but also to consider the wider context. Who buys funds and why? How do they buy them? Are distribution methods efficient and finally are funds themselves fit for purpose when we are talking about something as essential as savings and retirement provision?

Investment fund distribution is likely to change with the primary and secondary impacts of MiFID II. The primary impacts include:

- The need for ‘retail2’ investors to seek advice in order to have access to any financial instrument deemed to be ‘complex3’;
- The cost of investment advice and the scope of considerations in order to render this advice sufficiently rigorous to meet the regulatory requirements
- Product design and coordination between manufacturers and distributors
- Transparency on fees
- The ban on inducements in the event of ‘independent advice’ and discretionary portfolio management.

Naturally, the secondary impacts are more difficult to predict, e.g. will there be new market entrants or market departures, new product embracing the spirit of the regulations or work-around solutions which deviate from the regulatory objective? We foresee that the retail investor market could be served by execution only platforms which combine generic (being non-specific) investment information and access to lower cost investment funds.

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2 Retail client as defined in Article 4.1 (11) within the meaning of the MiFID II Directive
3 Complex financial instrument within the meaning of Article 25.4. of the MiFID II Directive which describes non-complex instruments
Which areas of MiFID II to look at?

MiFID II is a dense, far reaching and multi-faceted directive that covers wide areas of the capital markets from trading venues to the distribution of financial products.

We have chosen to limit the considerations discussed within this paper to the following topics of MiFID II:

- Investment advice
- Suitability and appropriateness
- Complex / non-complex financial products
- Inducements

As is now almost always the case with regulation, there is an element of overlap with other legislation, enacted or proposed, and compatibility cannot always be assumed.

We shall also refer anecdotally *inter alia* to additional topics such as investor disclosure on costs and charges or the recent EU regulation - Key Information Documents for investment products and insurance-based investment products*. This is a rich environment from which to project future trends and development, although these additional considerations are likely to flavour rather than change the key theme of this reflection. That is and will remain what distribution may look like tomorrow and the place for investment funds in the post MiFID II world.

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4 The Key Information Documents for Packages Retail and Insurance-based Investment Products (PRIIPs), Regulation (EU) No 1286/2014
5 Extract from MiFID II recital 73
**No advice – execution only**

MiFID II will leave EU investors with the possibility to self-advise. However, somewhat patronisingly, this option of execution only is limited to non-complex products. Complex products are deemed too risky for retail and professional clients. Unfortunately for the EU’s investment fund industry, some UCITS (those with a three page Key Investor Information Document) and based on the current ESMA Technical Advice - all Alternative Investment Funds are deemed complex. Retail clients hoping to allocate savings to complex products must first seek professional financial advice and bear the cost that it may entail.

The millions of European individuals who allocate their savings to lottery tickets do so without advice, those wishing to invest in a structured/capital protected UCITS will need to seek professional opinion. Here the regulation appears to seek to play the role of deciding for investors what they are able or unable to understand, and commits the cardinal fallacy of confusing complexity with risk. Those products that may be sold on an execution only basis of course include bonds and equity funds with the investor taking full market risk which may or may not be fully understood.

**Independent advice and the consequences**

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+-----------------+-----------------+-----------------+-----------------+-----------------+
| Inducements     | Disclosure       |
| Fees            | requirement      |
|-----------------+-----------------+-----------------+-----------------+-----------------+
| Y               | ✔               | ✔               | ✔               | ✔               |
| N               | ✔               | ✔               | ✔               | ✔               |
| Y               | ✔               | ✔               | ✔               | ✔               |
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**MIFID II - What will be its impact on the investment fund distribution landscape?**
Retail and professional investors can continue to invest in non-complex financial instruments on an execution only basis

1.2 Suitability or appropriateness checks⁶
MiFID firms which provide investment advice are obliged to make suitability checks on behalf of the investor. The requirements around suitability have been extended under MiFID II and include:

- Information regarding the client’s or potential client’s knowledge and experience in the investment field relevant to the specific type of product or service,
- That persons financial situation including their ability to bear losses,
- The persons investment objectives including their risk tolerance so as to enable the investment firm to recommend to the client or potential client the investment services and financial instruments that are suitable and in accordance with their risk tolerance and ability to bear losses.

MiFID firms which provide execution only services to investors are required to determine if the service and products available via the execution service are appropriate by asking the client or potential client.

- To provide information regarding their knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the investment firm to assess whether the investment service or product envisaged is appropriate for the client.

This need for appropriateness checks is relaxed for execution only services relating to:

“(i) shares admitted to trading on a regulated market or on an equivalent third-country market or on a MTF, where those are shares in companies, and excluding shares in non-UCITS collective investment undertakings and shares that embed a derivative
(ii) bonds or other forms of securitised debt admitted to trading on a regulated market or on an equivalent third country market or on a MTF, excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved
(iii) money-market instruments, excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved
(iv) shares or units in UCITS, excluding structured UCITS as referred to in the second subparagraph of Article 36(1) of Regulation (EU) No 583/2010
(v) structured deposits, excluding those that incorporate a structure which makes it difficult for the client to understand the risk of return or the cost of exiting the product before term
(vi) other non-complex financial instruments for the purpose of this paragraph⁷”

Therefore, execution only services without appropriateness checks are limited to non-structured UCITS.

⁶ Suitability and appropriateness within the meaning of Article 25. of the MiFID II Directive which describes the suitability and appropriateness assessments to be made by MiFID firms on clients.
⁷ Extract of Article 25.4 of the MiFID II
1.3 Complex / non-complex
Retail and professional investors can continue to invest in non-complex financial instruments on an execution only basis. At first glance this seems reasonable, however, unfortunately the definition of complex within the MiFID II Directive text and the current ESMA Technical Advice to the Commission dated 19 December deems any structured UCITS and all non-UCITS funds as complex.

Structured UCITS
Historically and at the present time many structured UCITS are designed exclusively for retail clients with the aim of providing within one well regulated and managed investment the combination of market exposure and capital protection. Intuitively this investment proposition and the UCITS fund it is contained within should be as easy to understand as a UCITS fund which does not have the capital protection structuring. The legislator, despite significant input from the industry, felt that these structures do not serve retail investors well and now places structured UCITS funds beyond the reach of investors who do not wish to have professional advice and prefer to make use of execution only services. The paradox of course is that while the average retail investor is probably incapable of formulating a judgement as to the value to be attributed to such a structure – participation rate, value of forgone income etc. – a structured UCITS is much easier to evaluate in terms of anticipated outcome than a direct market fund.

ESMA’s Technical advice to the Commission on MiFID II and MiFIR, dated 19 December 2014 (ESMA2014/1569) Section 2.18 Appropriateness, point 13
MiFID interfering with UCITS

Article 3 of the UCITS Directive requires that UCITS funds are marketed to the public. If MiFID deems that retail investors cannot invest directly into complex UCITS, then does it follow that the complex UCITS should not be marketed directly to retail investors, and therefore the complex UCITS themselves should cease to be UCITS? It is an interesting thought, however, no one will want to see this scenario. Instead, the market will live with the notion that UCITS can be marketed to the public, even though complex UCITS can only be acquired with professional financial advice. It is unfortunate that in seeking to make the real costs of advice transparent to investors, the legislator has effectively obliged investors to pay for advice if they want to access the full range of products currently offered.

Retail AIFs

The recent (December 2014) clarification by ESMA to automatically consider all non-UCITS funds as complex seems to oblige investment fund managers to convert all pre-existing non-UCITS which are targeting retail investors into UCITS funds. One of the weaknesses of AIFMD, which the industry has frequently pointed out, is that the legislator set out to legislate essentially for hedge funds, but with an imperfect understanding even of that asset class - ended up with a ‘catch all’ instrument that also covers funds that are not hedge funds.

Alternatively, the regulation drives investors who would be comfortable with execution only toward professional investment advisers who will charge a fee for their services. This seems counter to the perception that the professional investment adviser community had weaknesses and needed MiFID II to improve transparency.

1.4 Inducements

A high level estimate of the inducements paid by fund management companies to distributors of European domiciled funds would be around €33 billion per annum. In the eyes of the regulators, this has made wealth management and investment advice an attractive industry and has not best served the investor.

Regulatory reaction

During the drafting phase of MiFID II there was a proposal to move to a full ban on inducements. The fund management and fund distribution industry can be grateful that this proposition was not retained. As mentioned in the section on investment advice above, the new MiFID II regime prohibits inducements to be paid to independent investment advisers and when in relation to discretionary investment advice.

The cost of compliance for MiFID firms will not decrease under MiFID II - if anything it is likely to increase, and significantly - and the current revenues of independent investment advisers are likely to fall due to the ban on inducements.

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9 Source: Deloitte Luxembourg estimate
Either this results in losses at those incumbent firms or a change in the operating model to increase the top line and recover lost revenues by charging more fees to clients or reducing the expense base while investing in new technologies to meet the changing regulations.

This is a real squeeze for industry incumbents and perhaps creates an opportunity for new entrants who can design a business and supporting infrastructure without the need to support a legacy client base. A new model can be designed to directly meet the new regulatory paradigm. The inducement ban in the Netherlands has triggered some fund management companies, not their banking parent, to embark upon a direct to consumer web-based distribution model.

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The UK also has some direct to consumer web-based platforms hosted and owned by the fund managers. In addition the marketplace also has a number of platforms offering multiple fund management companies funds and other products, therefore an infrastructure exists already to reach investment funds at low cost.

The Netherlands have banned inducements between product manufacturers and distributors. This was stimulated following findings of inappropriate behaviour and mis-selling of some insurance and mortgage products. A recent study performed by TNS Nipo for Schroders has revealed that half the population do not intend to seek professional financial advice, largely (75%) because they feel confident enough to make their own decisions.

These results from both the UK and the Netherlands are harbingers of consumer buying behaviour across the EU. Arguably this was not the intended outcome of the MiFID review. It should be borne in mind that lobby groups that responded to the consultation papers may not be representative of the market or public opinion. Political aims and the legislative process are too focussed on minimising risk in a world by nature full of exogenous risks and shows an intriguing confusion between risk and complexity. Is this a period of paternalistic regulatory approach to investor preference without foreseeing alternative measures to ensure that investor choice is not severely restricted?

How have MiFID like measures modified distribution?

Pre-RDR advice model ~10-13% of UK Population

- HNW
- WM, Private banks, High-end IFAs
- Mass affluent
- WM, IFAs, Banks
- Retail
- IFAs, Banks

Post-RDR advice model ~7-10% of UK Population

- HNW
- WM, Private banks, High-end IFAs
- Mass affluent
- WM, Private banks, High-end IFAs
- Retail
- IFAs, Banks
- Nothing

Source: ALFI - Fundscape estimates
In Germany, investment fund distribution to retail clients is still dominated by the high street bank branches with the top five fund management companies representing 70% of the domestic fund market by assets under management being owned by banks or insurance companies. There is a small but active secondary marketplace for investment funds provided via the Hamburg and Hannover Stock Exchanges. These secondary market places for investment funds may be unintended casualties of MiFID II as they may struggle to demonstrate the product governance rules which require a thorough understanding of the product and information sharing between the product manufacturer and the distributor. In the case of funds, the manufactures have long been vexed by the secondary market which is operated without the consent of the fund management firm.

France has a low level of direct to retail investor infrastructure. Many investment funds are acquired via bank distribution or via insurance wrappers. The banks may be inclined to offer non-independent advice and limit their investors to bank sponsored products. There is talk that insurance firms will reduce investment in funds when the Key Investor Document PRIIPS Regulation comes into force, as the look through rules will make it too complicated to hold funds as the underlying portfolio assets. The overall customer investment allocation to certain insurance products is likely to remain due to the tax advantages they offer, however, the funds are likely to see reduction of their allocation.

Insurance Mediation Directive II
The European Commission considers prohibiting inducements on some insurance savings products. If this is retained, it would create a more level playing field for investment products and arguably better comparison for investors. The investment fund industry is lobbying for equal rules, but change is needed in the fund industry irrespective of the outcome.
The old model – funds were sold
Depending on the EU country, most retail investors were offered and accessed investment solutions by their bank, insurance company or perhaps a wealth manager. The incentive for this sales activity was the inducements paid by the product manufacturer. With that option disappearing with effect from 3 January 2017 for independent advice in the EU, investors will need to either have the motivation to be self-advised or seek non-independent advice which, while meeting the regulatory standards, might omit better suited investment products. There is a palpable risk that many investors will neither seek advice nor self-advice. These investors have recently been dubbed ‘advice orphans’, too small for the banks to service, too poor in terms of financial assets to merit independent advice.

There is no advantage to be gained by clinging to old practices. The fund management industry needs to get out and address a greater share of the savings needs of the 89% of EU households who have no investment funds. In Sweden 76% of people invest in mutual funds. In contrast, the penetration rate in the U.S. is 44%. The Eurozone average is a mere 11%, which alone is not a problem.

The issue is that when the alternative medium term investment choice made by retail investors is bank deposits, it is unlikely to yield real inflation based returns. Clearly, a situation in which interest rates are being driven by considerations other than market forces, such as the desperate need to re-stimulate the economy and achieve a modicum of growth in the Eurozone, does not help. Historically, in many European countries it has been the banks that sell investment funds to retail investors. This has been alongside travel insurance, pension plans, loans and mortgage insurance.

Will this now change? If so, what will come next?

Investment fund sweetheart Sweden has high levels of penetration and proportion of household wealth in funds. This is stimulated in part by the mandatory pension savings scheme, which ensures that the population take greater responsibility for their retire needs.

However, the story is different in Eurozone countries, where both the number of households and the percentage of financial assets still has room for growth. Similarly, investment outcomes can be improved for investors at least in part by providing reasonable cost products.

This clearly begs the question if divergent behaviour is cultural, a factor of availability or simply that investment funds are not fit for purpose.

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Source: ECB "The Eurosystem household finance and consumption survey; results from the first wave" April 2013
Whose interests are being served?
A report issued in November 2014 by the Financial Services User Group10, a group founded to advise the European Commission on policy issues, has highlighted a sobering finding. On average and over a 10 year holding period, active investment fund managers11 underperformed the benchmark (STOXX Europe TMI net Return) net of hypothetical annual management fees of an index fund. It should be noted that the index return was not adjusted for local stamp duties, registration fees and other unavoidable taxes and charges.

When multiplying the cumulative effect over 10 years underperformance, the result is a 23.6% underperformance at the end of 2012. The assets under management of all EU equity funds at the end of 2003 was approximated as €1,173 billion, therefore a theoretical loss of €277 billion by active asset managers. Somewhat close to the total amount of inducements paid to distributors over the same 10 year period. We do not know the actual returns obtained by investors with investment advice, it is possible that many enjoyed positive returns by having more favourable asset allocations.

The FSUG study goes on to mention a “lottery of outcomes for consumers” and that the fiduciary responsibility being “usually an illusion”. Many elements of the study invite debate, and there are several shortcomings in the analysis. However, populist or not, the central message resonates: active investment management, net of commercial fees and market charges is on average failing to beat market indexes.

The apparent correlation between inducements paid and under-performance is intriguing, but far from being a proven cause and effect. Even more dangerous is the snap decision that active investment management is of necessity less likely to yield additional returns over passive investing. (This argument has been made so forcibly that in some countries such as the UK there are even moves to legally prohibit local government entities entering into active asset management agreements – although it should be added to date the jury is still out on that debate).

The major risk here is the confusion between the notion of product and the notion of asset management in its broader sense. However, before that debate can be launched, a means to offer either product or asset management solutions to end investors is essential. As it has been discussed already, existing distribution channels will inevitably change with MiFID II – with or without gold-plating. So what comes next?

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<th>10 year average return 2003-2012</th>
<th>Theoretical index return minus average index fund fees</th>
<th>Relative performance of active funds</th>
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<tr>
<td>Equity fund returns</td>
<td>4.4%</td>
<td>5.6%</td>
<td>(1.2%)</td>
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<tr>
<td>Bond fund returns</td>
<td>3%</td>
<td>3.8%</td>
<td>(0.8%)</td>
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10 Asset Management: FSUG Position Paper, November 2014
11 EU domiciled funds with a European Equity investment focus
The next model for retail

There are success stories for the investment fund industry in Europe, most notably Sweden which has high levels of investment fund retail penetration combined with relatively high levels of assets allocated to investment funds. For investment funds to yield value to investors, the fees charged have to be low. Front end loads, typically 5% for retail share classes, are an instant turn-off to investors, even if they are not charged in practice, they should be removed from the fund’s charging structure. Annual management fees, or ongoing charges of more than 1%, should also ring alarm bells. Fund management is a very scalable business and there is no reason why a retail investor should pay higher fees to fund managers who lack these scale benefits.

There is an attractive market in Europe of affluent investors.

Global wealth - Percentage of adults who own $100,000 to $1,000,000 in assets, by region

Europe is the region with the highest proportion of adults in the $100,000 to $1,000,000 bracket, followed by Asia – Pacific

In Africa there are less than 3,000,000 adults who own between $100,000 to $1,000,000 representing approximately 0.8% of the world adults

Source: Credit Suisse, Global wealth databook, 2014
Combined with an aging population, the age group of people with the greatest savings pool, this looks like an excellent opportunity for fund managers to tackle the issues and win clients.

Given the hypothesis that investors are less inclined to seek advice from a professional adviser, the market is ripe for technology based execution systems which provide comparison tools, data analytics and some non-customised advice. This also tackles the issues that the incumbents have in dealing with suitability controls, reporting and periodic appraisal of investment advice given current market risks. High Net Worth clients can continue to receive these services, which are labour intensive, given the personalised nature of each client portfolio.

European households are sitting on large cash balances (41.6% of total financial wealth) representing twice the value of their direct allocation to the securities market (21% of total financial wealth), investment funds should seek to increase share of wallet. Fund managers like Vanguard have said that direct targeting of retail investors is a natural step for the firm1. This would mirror the approach of many fund houses in the U.S. where direct to retail is commonplace.

What technology support is required?
MiFID II and the ESMA’s Technical advice requires the product manufacturer and distributor to clearly identify a target market of investors. Can a website communicate this target market and can the website screen for investor types which do not meet or no longer meet the appropriate criteria?

Product governance obligations for distributors
Online platforms could foreseeably then need a periodic (annual or more frequent) confirmation of the investor followed by a review of their existing investment product portfolio (which may require ‘appropriate action’ should the distributor notice an event which alters the risk profile of the product) and the range of products which can be proposed. On the other hand, the regulatory prescriptions for product governance, suitability and appropriateness and disclosure on fees, are numerous and can be well administered with IT systems that help to ensure a consistent and exhaustive activity of information gathering, controls and disclosure. Relying on manual controls often proves to be unreliable, especially for retail clients where the number of client relationships is higher.

Proprietary platforms or platforms separate from fund managers
The need for robust internet based retail investment platforms seems evident. Should the web platform be proprietary to the fund manager or mutualised and closer to the investors, offering the benefits of comparison and reporting on a wider range of investments from multiple product manufacturers? In both cases the end distributor in the chain must maintain a sound knowledge of the financial product and the investor. This seems to offer an advantage to mutualise investor understanding and host a web platform allowing access to a broad range of financial products. Furthermore, the costs of client take-on would argue in favour of mutualising the effort of Anti-Money Laundering and Know Your Client controls.

Source: EFAMA, trends in European Investment Funds, 12th Edition

12 Source: Ignites 14 January 2015
This favours new entrants with consumer market competencies.

**B2B**
At the time of writing there are at least 58 open architecture platforms with an estimated €1,270 billion of assets under administration in B2B platforms alone. Within the 58 there are many differences in the approach taken. Some platforms offer only funds, such as UBS Fondcenter or MFEX, others offer a wide spectrum of financial instruments including cash, bonds, equities and funds such as Transact. Some platforms are there to serve fund managers, like Fund Channel, and some to serve financial advisers like Allfunds Bank.

**B2C**
Fund platforms targeting direct retail clients are a smaller population at this time. This is the area where we expect the greatest growth, however, it needs the support of the fund managers to provide simple product at an attractive price. Having identified this gap, some fund managers, such as ING Asset Management, have now launched direct to retail consumer internet platforms.

What is evident at the moment is that there is not one who is trying to launch or grow in all European countries, most are focussed on their home market. There is an opportunity to leverage the lessons learned in the home market across other European markets where the local industry has been slow to react.

However, it is not only fund platforms which are positioned to provide execution only services to retail investors. Securities brokers are also able to provide access to investments funds. Actors like E*Trade, Charles Schwab, Interactive Brokers all provide access to both listed securities and investment funds via their US platforms. So far the most present of these securities dealers active in Europe are TD Direct. Germany has its own community of brokers built around the Hannover and Hamburg Stock exchanges, however, international reach is limited.

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**Fund platforms - Market positioning**

![Diagram showing market positioning of fund platforms across different countries in Europe.](image-url)

*Source: The Platform “European platforms and open architecture 2014: A traveller’s guide to this galaxy”, March 2014*
On average European domiciled investment funds’ fees are not adequately compensated by positive investment performance for retail investors. Fund distribution is expensive, often representing 50% of the fund’s fees. MiFID II will increase reporting to investors on fees, and prohibit inducements paid from the fund manager to the financial intermediary in the case of independent investment advice. Allocating savings to the capital markets via passively managed index funds or actively managed funds are likely to generate better performance over an economic cycle than having the money in a bank account, which - it should be noted - is not risk free.

This is likely to lead to two outcomes:
- Some financial intermediaries are likely to opt to be non-independent which may leave non-bank owned fund management houses with less option to sell to retail clients, and
- Some retail investors will be unwilling to pay ex ante for investment advice. This is likely to create demand for web based, direct to retail, execution only investment platforms. This is underpinned by Europe’s large mass affluent investor base with high allocation to bank deposits. To get there, the retail investor needs a smart solution and funds at a significantly lower cost.

Conclusion on accessing retail client - the threat

1. Advisers don’t want to be independent
2. Increasingly difficult to manufacture investor solutions which are not deemed complex, which in turn increases the cost due to the need of advice.
3. Investors self invest
4. Need for smart execution only platforms

Little change for the consumer compared to MiFID I, except greater disclosure, and suitability checks which might increase cost of advice.

Complex funds only available with advice (which is more likely to be less independent)

Could be good and result in savings of 1 to 2% or better per annum. Could be bad and result in poor investment choices, tax consequences, … cost unknown

Could mitigate risks of poor investment choices and save costs. Provide a forum for discussion and transparency on good or poor service.
The future signals change. Many of these ideas have been tried and abandoned in the past. Regulatory change is something that firms now need to price into business projections. There are still many changes in the regulatory pipeline yet to hit the investment fund industry, and that is over and above usually competitive challenges.

Technology, mass media and even social media have a role to play in the new landscape of fund distribution. Of themselves they may not be enough, but if they can already provide a means of delivering product to investors in a cost effective and transparent way, the industry may then embark on the second leg of the journey which is to embed solutions into that product, rather than leaving the investor to necessarily look for those solutions in isolation. This, after all, is where the ‘value add’ of asset management should be found.

Conclusion on accessing retail client - the opportunity

Better investment outcomes, better consumer satisfaction ratings, increase the 11% of the European population using investment funds

Could create significant improvements in an important social and economic area of financial health.

1. If Universal banks cease to offer open architecture (in order to gain inducements), then there’s a need for a neutral point of sale for retail investors.

2. Fund Managers pay for distribution today and it adversely impacts investor outcomes. Fund Managers should embrace low cost distribution, but balance this with alienating the legacy milking cow of high cost distribution which provides asset flows at present. The first mouse doesn’t get the cheese.

3. Investors self invest

4. If well directed to risk, return and taxation benefits / threats, self investment could yield better financial outcomes.
MiFID II and its provisions on fund distribution is not in itself the answer. In some respects certain of those provisions may be considered as regressive. It has, however, obliged the industry to reflect seriously as to where it is going, what its ultimate objectives are, and how to achieve them.

It has also brought advances – if not transparency – in equitable treatment of investors with regard to opaque fees. Significant questions remain as to how a client may accurately assess the true cost and return of access to complex products, which may result in a more limited direct choice of products.

MiFID II has above all the great merit that it forces the debate, which in turn forces change.

The discrepancy in fund take-up for retirement and other investment purposes on the part of retail investors in North America versus Continental Europe is such that not all of it may be explained either by different cultures or dubious pricing practices.

The North American context demands of investors more personal responsibility for outcomes. Understanding the drivers that then contribute to final investment choices is a crucial step on the road to realising the potential of asset management via funds to making a significant contribution to wealth creation for an aging population. It is up to the industry to look beyond the difficulties that MiFID II throws up, to look beyond the simple logistics and economics of distributing product, to determine how it can best serve investors and therefore itself as an industry.

**Bold moves may be needed, however, opportunities are right here, right now in Europe**
Our Investment Management practice at a glance

The Deloitte member firms’ investment management practice provides global resources and global capabilities, but with a local presence and a clear understanding of the client’s market and way of doing business. Through this network, professionals around the world serve their clients locally while drawing upon the global network’s considerable worldwide resources. Our Luxembourg investment management practice shares information and best practices on an ongoing basis and ensures that our clients are kept up to date on domestic and international regulatory developments that impact their business.

Our approach
We proactively assist our clients via professionals with practical operational experience and expertise within the investment management or asset servicing industry. Deloitte is very actively involved in the development of new regulations, practices, and industry positions on a wide range of topics. We are represented in each of the main industry or regulatory working groups/committees, enabling us to be at the forefront of new developments.

Through our ongoing advice, our clients benefit from timely information, enabling them to anticipate future trends.

Our objectives
- Create added value and impact on each client audit, tax and consulting engagement measured by our client satisfaction
- Develop and maintain industry knowledge and research to create a centre of expertise and proactively participate in the evolution of the IM industry

Our team
Deloitte Luxembourg’s practice benefits from sound market knowledge, strong expertise and significant industry experience. The practice’s proven methodology can rely on a multidisciplinary approach capitalising on synergies between audit, tax and consulting experts.

Our clients
We serve investment funds, hedge funds, banks and other financial sector professionals with a wide range of services and work with a number of international promoters, advisers and service providers in the investment fund industry.
We offer a wide range of products and services and our goal is to become your preferred service provider.

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<td><strong>Strategy &amp; Operations</strong></td>
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MIFID II - What will be its impact on the investment fund distribution landscape?
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