



# Nordic Fund Industry Outlook 2011

a report by Tell Media Group

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Cover photo by Christian Holmér. The inspiration to use a lighthouse as the illustration for the Nordic Fund Industry Outlook reports comes from one of the Seven Wonders of the Ancient World - the Lighthouse of Alexandria, also known as the Pharos of Alexandria. According to Wikipedia, the lighthouse was built between 280 and 247 BC on the island of Pharos at Alexandria, Egypt to guide sailors into the harbour at night. The Nordic Fund Industry Outlook may not be one of the Seven Wonders, but we certainly hope it helps guide the industry.

# Foreword

by Advent Software

Advent has been present in Scandinavia since 1998, and with offices in Stockholm, Copenhagen, Oslo and Stavanger, we have a very strong commitment to the region. We have developed specific local solutions, which, combined with Advent's world-class systems and our local teams' comprehensive understanding of regional investment management practices, enable us to serve over 50 Scandinavian clients each day.

It was therefore a natural step for Advent to sponsor this research led by Tell Media Group, helping to bring local players prime information and analysis on the most current trends, challenges and opportunities facing the industry. Today's Nordic market environment compels fund management firms, distributors and investors to keep a close eye on performance, compliance and communication, and keeping abreast of industry developments, evolving

competition and a fast-moving regulatory environment is key to maintaining and developing your competitive edge. This report is based on first-hand feedback from industry players, and we hope you will find it both useful and informative.



Håkan Valberg  
Senior Vice President & General Manager  
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PHOTO: CHRISTIAN HOLMÉR

# Acknowledgements

by Niklas Tell

The Nordic Fund Industry Outlook 2011 is the first in a series of annual reports from Tell Media Group. The ambition when initiating the research for this report was to gain high level insight on the future development of the Nordic asset management industry and to identify key challenges and opportunities in the coming 12 months. The findings in this report are based on the answers we received to an online survey performed with fund companies, distributors, institutional investors and consultants active in the Nordic region (Denmark, Finland, Norway and Sweden). We also performed in-depth interviews with leaders in the Nordic asset management industry to gain additional insight. Previous Tell Media Group research findings as well as external research and official sources have also been used in completing this report.

I would like to take this opportunity to thank all of those who helped make this report a reality. First of course a big thank you to all representatives from fund companies,

distributors and institutional investors who participated in our survey and to those who also set aside time to answer questions in our follow-up interviews. Their insights have been of great value in the production of this report. I would also like to extend my gratitude to Advent Software who not only sponsored this report, but also provided valuable feedback and insights.

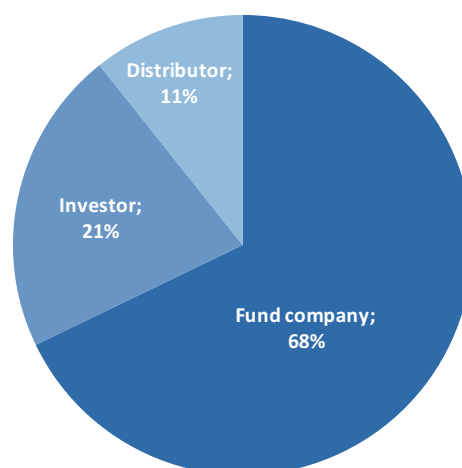
Any remaining errors or omissions are my own and I am confident knowledgeable readers will let me know. Please feel free to do so at [niklas.tell@tellmediagroup.se](mailto:niklas.tell@tellmediagroup.se).



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## Facts about the report

We had 84 respondents to our online survey, which was conducted in September and October. Out of the 84, we had 57 fund companies, 18 investors (pension funds and fund-of-fund managers/selectors) and 9 represented fund distributors. We received answers from 7 countries (Denmark, Finland, France, Germany, Norway, Sweden, Switzerland and United Kingdom), with a majority of answers originated from Swedish organisations. In addition to the survey we performed in-depth interviews with representatives from fund companies, distributors and pension funds in the Nordic region. External resources are outlined in footnotes throughout the report.



*Industry segments in our survey.*

**Fund companies in our survey:** 47 % have more than 100 employees, 51 % distribute their funds in more than three markets. **Investors in our survey:** 56 % have more than 100 employees, 76 % are based in Sweden. **Distributors in our survey:** 48 employees on average, 56 % work actively with less than 20 fund groups.

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# Executive Summary

**96**

of fund groups foresee net inflows in 2011

**84**

of survey participants say 2011 will be a better year than 2010

**60**

of fund groups say the main growth driver in 2011 will be new client segments

**69**

of investors will increase the share of assets managed externally

**21**

of investors will increase their allocation to equities in 2011

**29**

of investors will decrease their allocation to bonds in 2011

**23**

of investors will increase their allocation to real-estate in 2011

**72**

of fund groups see the introduction of UCITS IV mainly as an opportunity

The main challenges going forward are found in product development, distribution and regulation.

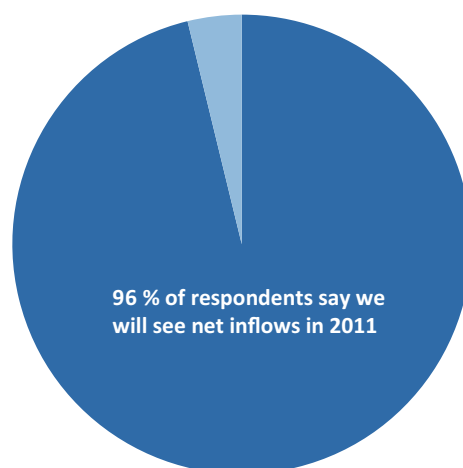
# 1. Introduction

## Nordic Fund Industry Outlook 2011

The Nordic region in general and Sweden in particular has been seen as something of a haven in Europe. Its economies are stable and growth has resumed following the financial crisis. In its latest report the IMF expects Sweden to show real GDP growth of 4.4 % this year. It will fall to 2.6 % in 2011 and rise to 3.4 % in 2015. That is higher than most advanced economies outlined in the IMF report. Other Nordic economies are expected to show average growth in the same time period.

The asset management industry in the Nordic region presents opportunities, but it should not be seen as one offering easy pickings for international fund groups looking to expand their reach. The competition is already here and the region requires dedicated resources and possibly even local presence. Large fund groups, such as Fidelity, Franklin Templeton, Schroders and JP Morgan Asset Management have been present in the region with local offices for more than ten years. Most have chosen Stockholm, Sweden as their Nordic hub, even if there are exceptions. Both T. Rowe Price and Schroders have for example placed their largest Nordic offices in Copenhagen, Denmark. Some keep offices in all Nordic countries, such as Aberdeen Asset Management, whereas several international groups service Nordic investors from London or other European locations. We have recently observed something of a second wave of international players establishing or expanding their local presence in the Nordic region in general and Sweden in particular. Northern Trust opened a Stockholm office in September 2009 and JP Morgan Securities Services opened offices in all Nordic capitals during the fall of 2009. Early in 2010 we saw Allianz Global Investor establish a Stockholm office with a staff of three and in March Goldman Sachs Asset Management hired Mårten Bäck, previously the head of manager research at SEB, to a new Stockholm outpost. Carmignac, the highly successful European boutique, registered their funds in Sweden in May 2010. We know of more fund groups who are in the process of registering their funds, some of which are considering opening local offices. The Nordic asset management industry was badly hit by the financial crisis in 2008, just as it was in other parts of the

world. The Nordic experience was however short lived and we have earlier described the development of the Nordic fund market in 2008 and 2009 with a line from the 1997 song Tubthumping by the British band Chumbawamba where they sing: "I get knocked down, but I get up again". A perfect description of what happened in the Nordics. In contrast to some other European markets, the combined fund markets of Denmark, Finland, Norway and Sweden makes a sizable fund market and its recovery has been quick following the massive outflows seen in the wake of the financial crisis. In Sweden, which is the largest fund market in the region, we saw record net inflows in 2009. According to statistics from the Swedish Investment Fund Association total net inflows amounted to SEK 135 billion in 2009, which include fund flows to the PPM (The Premium Pension System). Net inflows in Norway were also at a new record in 2009 at close to NOK 58 billion. Growth continued in 2010 and the Swedish fund market set a new record in October 2010 when total assets under management reached SEK 1 850 billion. This positive development is likely to continue in 2011 as some 96 percent of fund companies in survey say they expect to see net inflows to the industry in 2011.



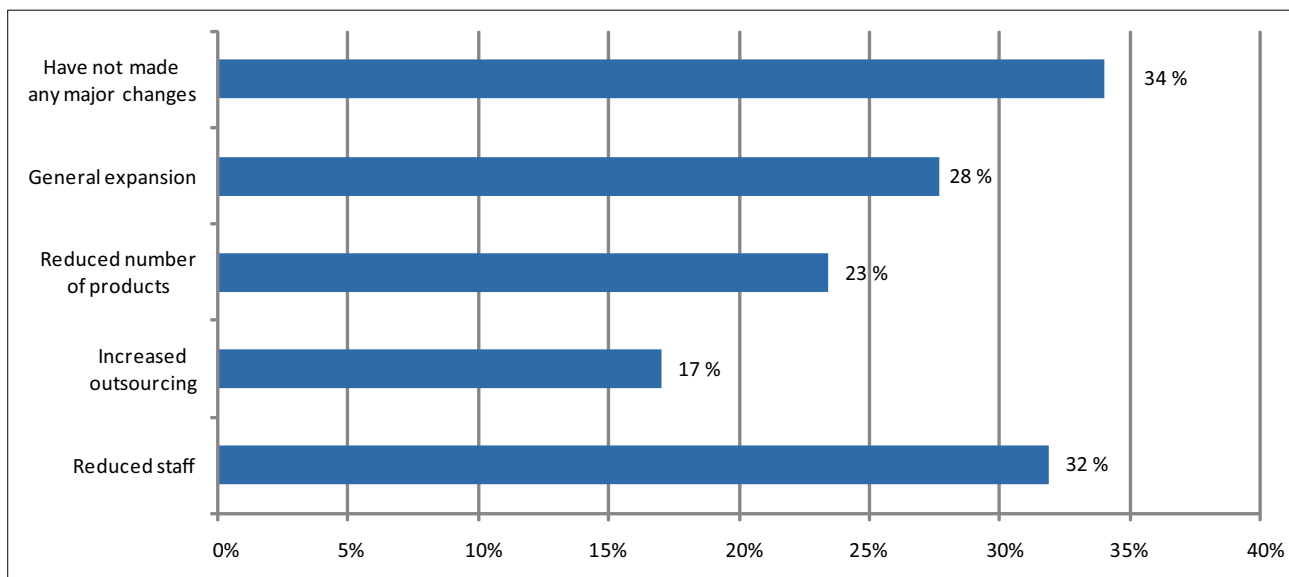
**Do you foresee overall net inflows to the industry in 2011?**

<sup>1</sup> World Economic Outlook, International Monetary Fund, October 2010.

Continued inflows will also be positive for the profitability of the industry. Tell Media Group has in the last two years performed research on the profitability of Swedish asset managers. The research based on 2008 results (published in the fall of 2009) confirmed the fact that this is a very profitable business.<sup>2</sup> 2008 was a tough year, with assets under management falling by some 24 percent and operating profits falling by 55 percent. The average operating margin however was still 15.8 percent, which must be seen as an indication of a healthy business. <sup>2</sup>The research was updated in the fall of 2010 (based on 2009 annual reports).<sup>3</sup> The new research showed that AUM increased by some 33 % in 2009. However, operating profits and margins only increased by some percentage points. We expect to see improved numbers when this research is conducted again on annual reports for 2010.

From the answers to our survey for this report it is clear that the response to the financial crisis varied among fund groups. In the research described above we saw that fund groups reduced their operating costs by some 19 percent in 2008. How this was achieved is outlined in the graph below, which shows that fund companies tackled the financial crisis with measures such as reduction of staff, increased outsourcing and streamlining of the product platform. However, close to 35 percent of respondents say they did not make any major changes and some 27 percent said they used this opportunity for general expansion. Those answers are in line with other research findings. In a recent report McKinsey state: "While the financial crisis caused firms to reassess their cost structures, the industry remains focused on the top line, with firms looking for growth in 2010 and beyond to help restore profitability"<sup>4</sup>

**Have you made any changes to your business following the financial crisis?**



Source: Tell Media Group Survey. Result based on responses from 52 fund companies.

<sup>2</sup>The research was based on 2008 annual reports from 19 Swedish fund groups with a combined market share of 86 percent of the Swedish market, according to market share data from MoneyMate.

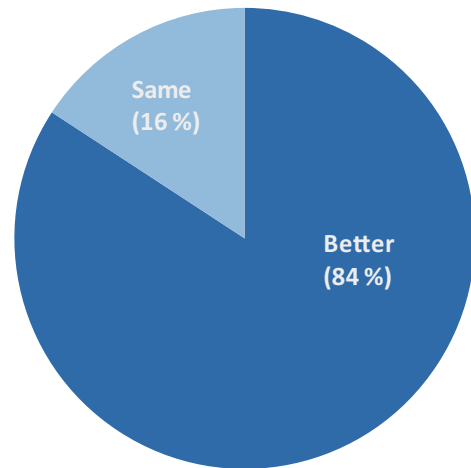
<sup>3</sup>The research was based on 2009 annual reports from 17 Swedish fund groups with a combined market share of some 75 % of the Swedish market, according to market share data from MoneyMate.

<sup>4</sup>"The Asset Management Industry: Now It's About Picking Your Spots", McKinsey, September 2010.

We asked investors the same question regarding changes in their business. Some 71 percent said they had not made any major changes. 29 percent said they used the crisis for general expansion. The industry as a whole is clearly taking a positive stance when looking forward towards 2011. Across all participants to our survey (fund companies, distributors and investors) some 84 % say they expect 2011 will be a better year than 2010. Despite this positive backdrop there are challenges, both specific to the Nordics or individual countries in the region as well as general challenges that are universal to the industry. The main challenges are outlined and discussed below.

Source: Tell Media Group Survey. Result based on responses from 57 fund companies, 16 investors and 9 distributors.

#### How will your business develop in 2011 (compared with 2010)?





## 2. On investors' minds right now

Nordic Fund Industry Outlook 2011

In our survey we asked investors to highlight the three most important issues for them at this point in time. While specific answers varied, we have been able to sort them into four overall groups; Products, Regulation, Macro and Research. If you have investors on your list of clients and have answers or insights on any of these issues you know what to discuss in your next meeting.

### **Product:**

- Inflation hedging
- Short duration bonds
- Downside protection strategies
- Corporate credit in emerging markets
- Emerging Markets
- Commodities
- Alternative asset classes
- Asset allocation
- Active management
- Real Estate

### **Regulation:**

- Fund tax
- Solvency II - QIS5
- UCITS IV
- The implications for hedge funds

### **Macro:**

- Trade tensions
- Economic outlook
- Macroeconomic statistics
- Global growth
- Currency

### **Research:**

- Reasons for correlation of excess return between managers
- Monitoring of external managers
- Variation in persistence in performance
- Alpha generation
- Risk management

## 3. On fund companies minds right now

Nordic Fund Industry Outlook 2011

In our survey we also asked representatives from fund companies to highlight the three most important issues for them at this point in time. When reviewing their answers we could see some clear clusters among the answers. The biggest focus right now is on regulation, distribution and operational issues. Here are some highlights;

### **Distribution:**

- Distribution and the need to be close to the customer
- Distribution Expansion
- Is open Architecture really whole-hearted at distributors?
- How to organize distribution outside of home market
- Increase third party business
- To get capital to new products

### **Regulation:**

- AIFM
- Compliance
- How to prepare for new regulations
- Impact of new regulations
- UCITS Hedge Funds
- UCITS IV
- Risk control
- Tax - Swedish taxes on fund savings
- Solvency II implications

### **Operations:**

- Build brand awareness in the Nordics
- Efficient operations and reporting to customers
- Name recognition
- Manager retention
- Outsourcing of back office

# 4. Industry Challenges

## Nordic Fund Industry Outlook 2011

The fund industry is still a profitable business, as outlined above, and the industry itself has a positive outlook on 2011. This does not mean that the Nordic industry is without challenges especially in 2011. "The three main challenges in Sweden are 1. UCITS IV and how it will be implemented; 2. What the new tax treatment for funds in Sweden will look like and; 3. Basel III, which could mean that banks decide to focus more on attracting deposits rather than focusing on the distribution of funds", was the comment from a leading Swedish fund company CEO when interviewed for this research. We have divided the challenges in four main categories, spanning from product development and distribution to regulation and operations/communication. It should however be noted that some of these challenges cut across different categories.

*"Competition will continue to be intense in the Nordic region and regulation will become tougher going forward",* said one fund company representative in our interviews.

### PRODUCT DEVELOPMENT CHALLENGES

"Historically firms have benefited from pockets of opacity; returns of the past are over and firms must learn how to generate sustainable value". This was one of the conclusions in a recent research report published by the IBM Institute for Business Value.<sup>5</sup> It is a far reaching statement and one that is manifested in a couple of industry trends. One is that of alpha/beta separation, where investors, especially institutional investors, are looking to gain as efficient exposure as possible when executing their asset allocation strategies.

*"Product development is an important challenge for us as we spend a lot of time and resources on finding products that can produce alpha. We see an increasing need and demand for 'alpha adding satellites'. UCITS III, absolute return funds will gain more attention next year among private banks and fund-of-fund managers",* says one fund company representative.

**ETF's as the new benchmark:** This trend is one reason for the growth of ETF's, which is a highly efficient product for

tactical asset allocation and for gaining exposure to specific beta. The growth of ETF's is of course not new in a global context, but 2010 marked the year when it truly came to fruition in the Nordic region. Not only is it a new product, but its growing presence also gives investors a new benchmark when evaluating active managers and especially those with narrow and exotic strategies. These must now show they can beat the ETF and not only a generic MSCI World index.

**Investment bank competition:** Another result of the alpha/beta separation trend is the increased competition asset management firms meet from investment banks, who are happy to tailor more or less advanced solutions to institutional investors looking for specific exposures. In the retail arena this equates to the growth we saw in structured products, at least before many were burnt in the wake of the financial crisis.

**Unconstrained response:** Traditional fund managers have responded to this by launching more unconstrained funds, i.e. funds managed without keeping one eye on the benchmark. Successful as that might be, it is a challenge to push these products past gatekeepers at larger distributors as unconstrained funds are difficult to use in asset allocation and that is a job many distributors want to keep. The big question is: Who should be responsible for asset allocation – the fund manager or the distributor?

*"Distributors and advisors should be responsible for strategic asset allocation and let fund managers do the tactical asset allocation. Unconstrained funds, such as emerging market equity funds with the ability to move significantly into cash, would be a good fit in such a scenario",* says one representative from a larger international fund group.

Another challenge raised by fund groups is to get airtime for quant products. "It is a challenge to explain quant products, such as enhanced index, to investors. We want to show them that this is not a black-box, but investors are more hesitant following the financial crisis". Some fund

<sup>5</sup> "Toward transparency and sustainability: Building a new financial order", IBM Institute for Business Value, July 2010.

groups also say it is equally difficult to make distributors and selectors truly understand the benefits of UCITS III (Newcits) products.

**Capacity challenges:** To manage capacity in niche products is another challenge that was raised in our interviews with industry representatives. “Institutional investors are looking for cheap beta and outsource to niche products. I recently spoke to an institutional investor doing a search for a niche mandate. They received 60 replies after the summer. When calling all these managers again, 15 said they were no longer interested as they had closed their funds”.

**Our take on product development:** Fund companies are stuck between a rock and a hard place. On the one hand we will see fee pressure on traditional long only funds due to the increasing popularity of ETFs and due to competition from investment banks in the institutional space. The response to this has been for fund groups to launch more unconstrained funds or funds in the UCITS III space. When doing so they have faced difficulties in explaining the products to distributors and selectors. We think it will be easier to overcome that latter challenge than the competition from cheap beta products. Closet indexers should find it difficult in the years ahead.

## DISTRIBUTION CHALLENGES

Distribution is high on the agenda for fund companies and it is clearly a challenge. Both in terms of finding the right distribution partner, but also making sure your products are being selected and actively sold by the distributor. If it is a challenge in your home market, the challenge is even greater when fund groups are looking to organize distribution internationally. From our research we have learned that there are challenges both in the relationship between fund companies and the fund selection teams at distributors as well as internal challenges for fund selectors. “Fund selectors are not quick enough to take in new products and they are specifically bad at truly understanding UCITS III products. One reason could be that these new products fall between chairs internally as they are not covered by long-only research analysts and not by the alternatives teams”, says one fund company representative.

**Challenges in Sweden:** Specifically for the Swedish market there is currently a debate regarding the frequent trading of funds by asset allocators in the PPM system. Some fund groups have withdrawn funds from the platform and some, such as Skagen, are threatening to leave if nothing is done. “This must be handled. One long-term tail risk if nothing is done is that politicians decide to close the system and let AP7 run all the money”, says a Swedish fund company CEO.

*“This is not only a problem within the PPM and it is something that keeps me awake at night. The turnover of funds has increased significantly and allocators currently dominate the market. In some cases we have taken action to avoid getting these investors into our funds as we do not want momentum investors”,* says another fund company representative.

**Challenges in Norway:** With the introduction of Mifid and following the financial crisis there has been a shakeout in the Norwegian distribution community. In the past most of these focused on selling high risk products in general and products with high commissions in particular. That has changed now and many companies have left the industry. All distributors must be regulated by Finanstilsynet (the Norwegian FSA), and the authority is currently putting more focus on this area. “This shakeout is probably a good thing. Challenging, but good”, is how one representative from a Norwegian fund company commented on this change in the Norwegian distribution community. Norway has also seen a boost in private banking, with several banks now launching these services. This also means that banks in Norway are opening up to external managers in a bigger way than before. Another opportunity in Norway comes in the form of savings banks, which have started to offer fund distribution in the form of white labelling and fund-of-funds products.

**Challenges in Finland:** Distribution is currently a hot topic in the Finnish market as well. Due to new regulation (Lagen om långsiktigt sparande, regulation on long-term savings) in the spring of 2010 the monopoly held until then by pension funds was abolished. They were previously the only ones allowed to provide products with tax benefits, but today individuals can invest in anything (funds, indivi-

dual equity etc) and receive the same tax treatment. This has meant that insurance brokers, previously focused on pension products, have either closed or broadened their offerings. "We are seeing a consolidation in the industry. These companies are now both a distributor for us, but also a competitor as some have launched asset management services", says a representative for a fund company in Finland.

Access to and good relationship with distribution networks is clearly important for fund groups, especially as they expect new client segments and new markets to be a significant contributor to growth in 2011, as outlined in the graph below. One fund company CEO says that distribution is a challenge: "It is increasingly on their [distributors'] terms and as a fund management company we must strengthen our brand name".

**Challenges in Denmark:** The main challenge, for international fund groups, in Denmark is the unique set up of funds in the country where funds are traded like stocks on an exchange.

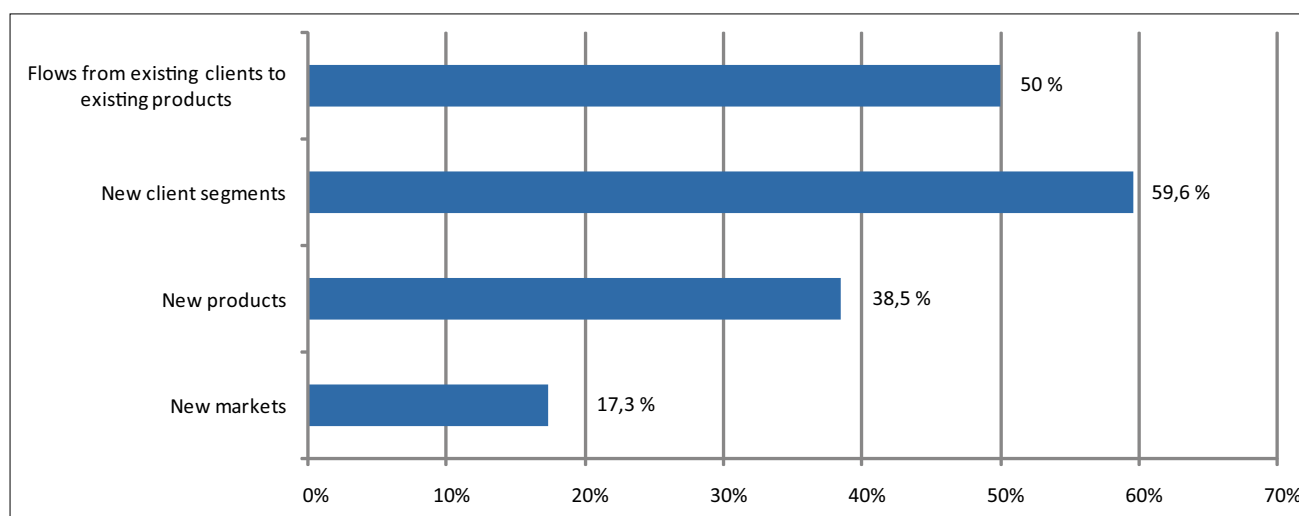
*"In Denmark it is still a benefit to have local funds",* says a representative for an international fund group.

**Open architecture:** Fund distributors and fund selectors have their own set of challenges. "Structurally we see a move to something that is between full open architecture and guided architecture. We need a larger platform – due to demand from clients and due to fund transfers from new clients. This creates challenges for admin, operational and legal and I foresee more investments in systems", says the head of a manager selection unit.

Some fund company representatives are not convinced. "Are distributors really embracing open architecture wholeheartedly?" asked one fund company representative in our survey.

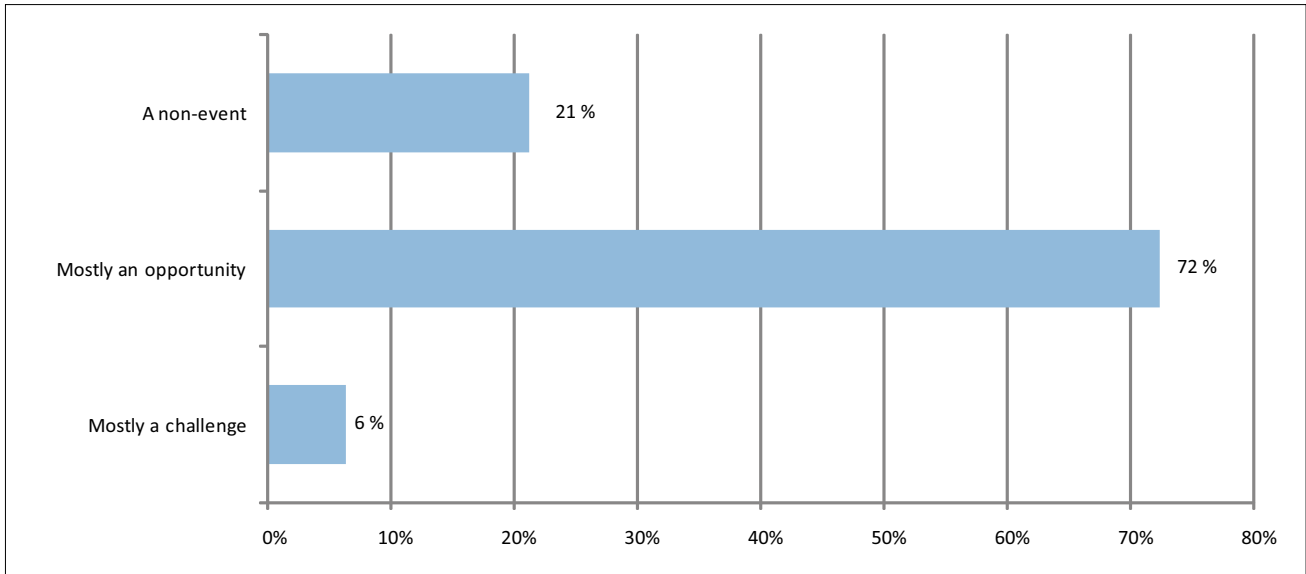
**Our take on distribution:** There is currently a vaguely masked tension between fund providers and distributors. Some of that tension is the natural tension between buyer and seller, but some of it also stems from a lack of understanding for each other. There is more work to be done and each party must improve its communication. For the benefit of the end client it is essential that fund providers and fund distributors find common ground on what each party should bring to the table and how the fee income should be split to reflect that. Distributors currently have the upper hand in that negotiation.

**What will be the main driver of growth for you in 2011?**



Source: Tell Media Group Survey. Result based on responses from 52 fund companies.

### How do you view the introduction of UCITS IV?



Source: Tell Media Group Survey. Result based on responses from 47 fund companies.

### REGULATORY CHALLENGES

Regulation can be both a challenge and opportunity for the industry. Fund companies do for example, as outlined in the graph above, see the introduction of UCITS IV mostly as an opportunity.

**UCITS IV:** This positive stance is understandable as UCITS IV brings obvious potential benefits to fund companies. We asked investors the same question and some 57 percent see the introduction of UCITS IV mostly as an opportunity. Only some 7 percent view it as a challenge. There is however still a question mark as to how this new directive will be implemented in the Nordic region. One fund company CEO in Sweden, working for an organisation with fund operations in several markets is genuinely worried: "The internal positioning has started and I am afraid that the implementation of UCITS IV in Sweden will not be good enough. Sweden must take a gigantic step to improve its reputation as a market for funds and even if I foresee improvements, I'm afraid it will not be enough".

**Solvency II:** For life insurance companies Solvency II is one potential challenge according to the people interviewed

for this report. "Traditional life products will be impossible to sell if the regulation becomes too tough. Solvency II is not only affecting our assets and liabilities, but it could also be a challenge from an administrative point of view. This probably means increased investments in IT/support systems", says one representative from a large life insurer.

**Basel III:** This banking regulation could create another challenge for the fund industry in the Nordic region. Banks have for a long time been important distributors, both of their own in-house funds as well as funds from external partners. New regulation for banks means they will need more capital on their balance sheets. It is therefore likely they will focus more on getting deposits rather than selling funds going forward. The result of this shift could mean two things, or a combination of the two. Either bank owned fund groups will lose market share, or the overall inflow to the market will decrease. Fund groups looking to increase their distribution in 2011 and beyond should probably not rely solely on banks for that.

**Our take on regulation:** Our general take is that the asset management industry has been unfairly bashed by new regulation due to the mismanagement of other parts of the financial industry before and during the financial crisis. The tsunami of new regulation is however a reality and as such it must be handled. For large groups the cost benefit analysis is likely to look better compared with the same analysis for smaller groups in general and smaller hedge fund groups in particular. The main reason is that larger groups have more to gain from the opportunities in UCITS IV. The main challenge from regulation on larger fund groups is likely to come in the form of operational challenges, such as the production, monitoring and distribution of the KID (Key Investor Documents) for all funds in all languages.

*"IT investment is of course a big issue going forward and I am just about to go into a meeting to discuss this. It is likely that investments in IT will increase more than the general increase in costs. One reason is the new regulation on long-term savings, which puts specific conditions on the investments. Support systems are becoming increasingly important";* says a fund company representative in Finland.

Operational challenges are however not only about systems, but also about processes. There are for example currently in-house discussions at fund selection teams regarding how they should handle operational due diligence in their research and how much operational due diligence they should perform on UCITS structures.

**Communication:** One example of the need for investments in new systems is risk management, which has become increasingly important following the financial crisis. Issues such as counterparty risk and frequently mentioned trends such as "back-to-basics" are examples we have heard since the fall of Lehman Brothers. We posted two questions to fund companies and two questions to investors on the issue of risk management. While a majority of fund companies have put more resources to risk management our survey indicates that investors think that fund companies have done more.

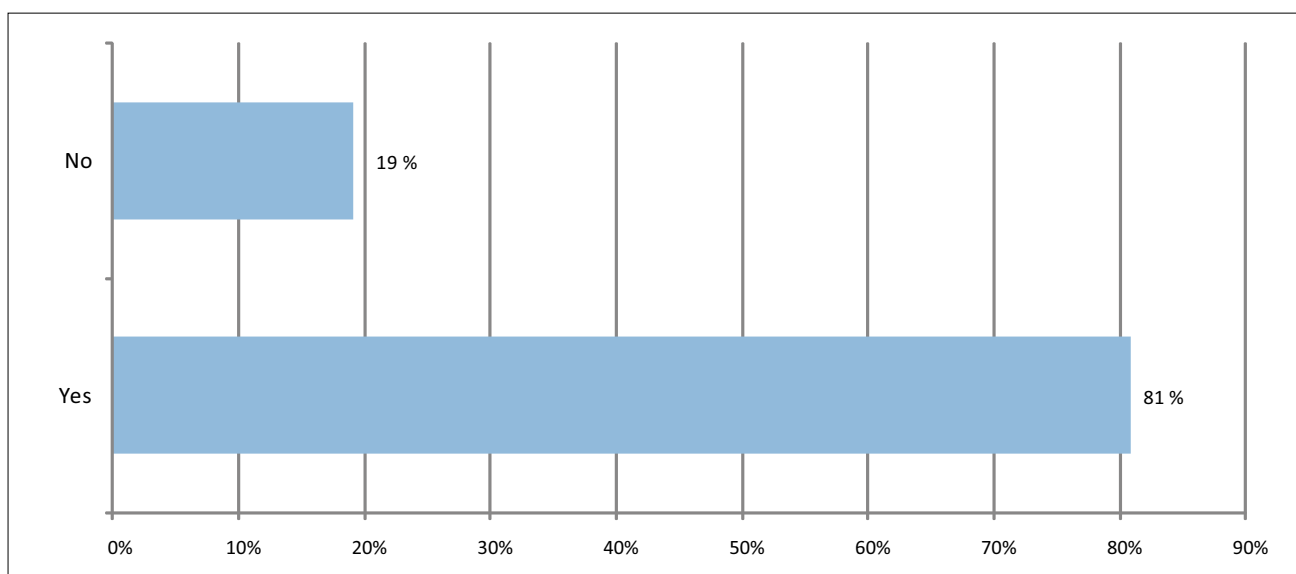
### OPERATIONAL CHALLENGES

The main focus in the Nordic fund industry is currently on handling upcoming regulations, on expanding their distribution and on product development. There are however good reasons to look at operational challenges as well, which includes process and technology challenges.

**IT:** Fund companies in our survey point to issues such as compatibility of data systems and a wish to implement or update current CRM (Client Relationship Management) systems as key challenges. Some also point to the financial crisis for lack of investments in this area.

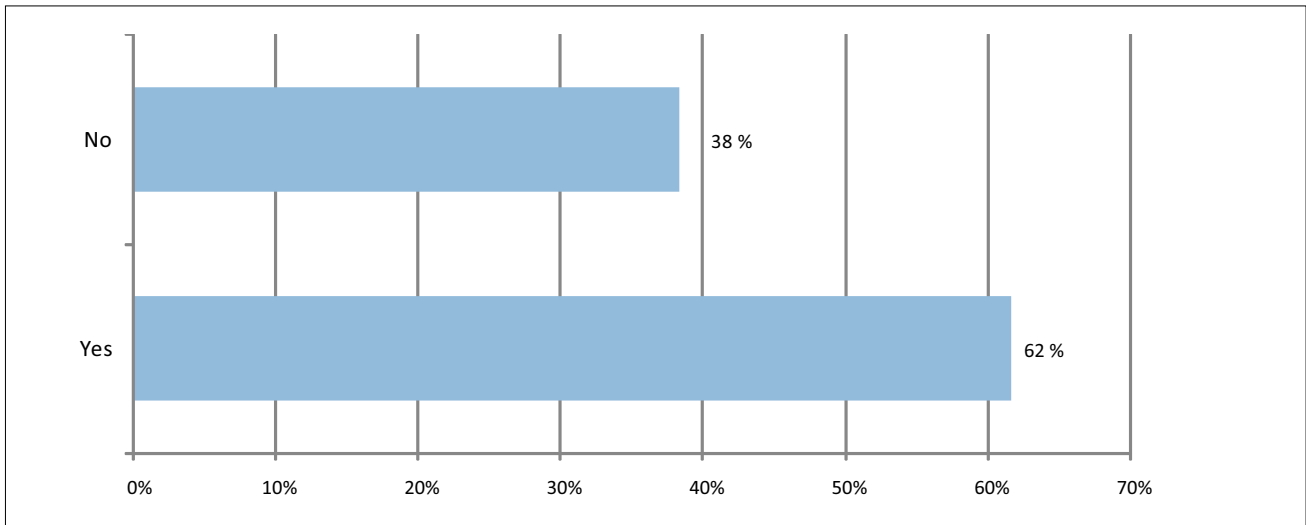
### Questions to fund companies:

**Do your clients put more emphasis on risk management following the recent crisis?**



Source: Tell Media Group Survey. Result based on responses from 47 fund companies.

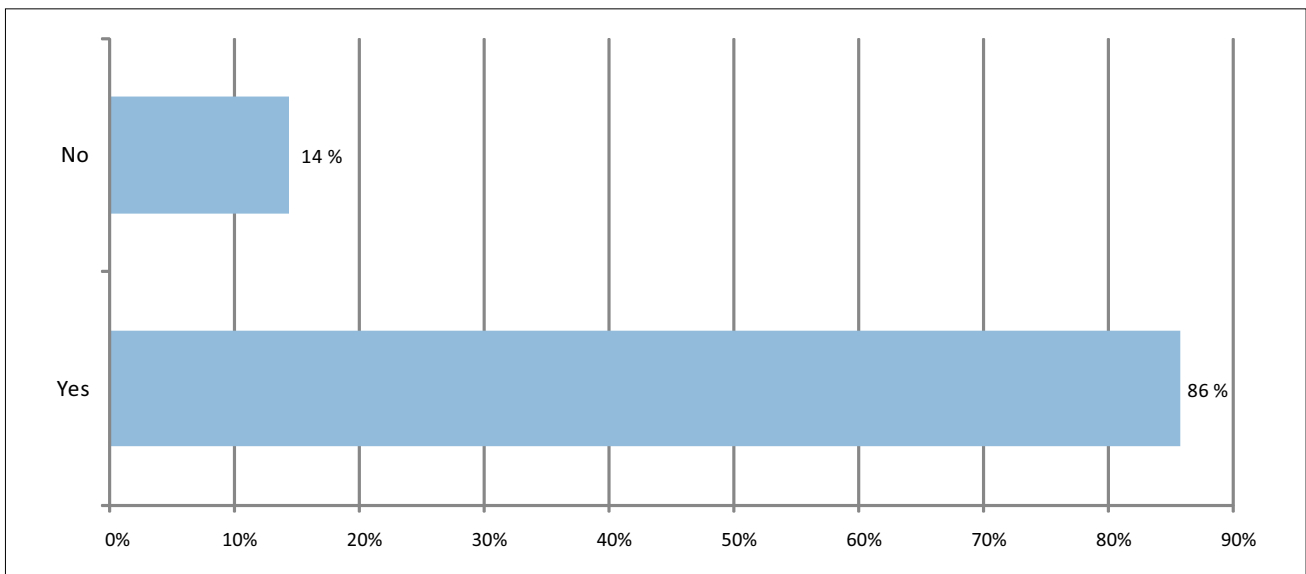
**Have you dedicated more resources to risk management following the recent crisis?**



Source: Tell Media Group Survey. Result based on responses from 47 fund companies.

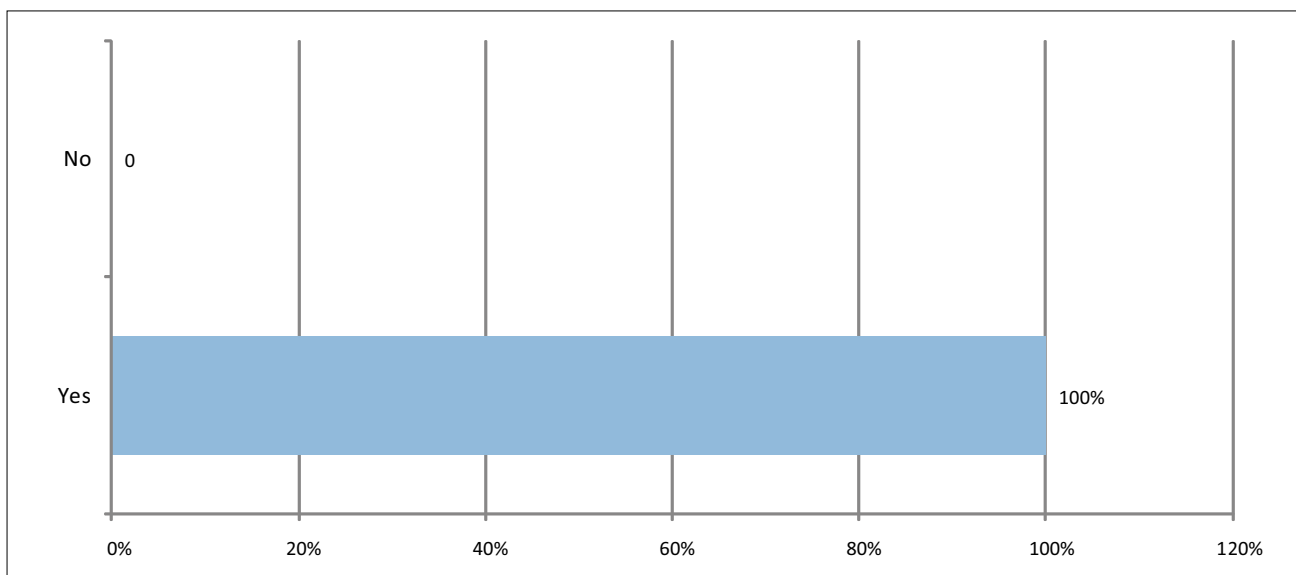
Questions to investors:

**Do you put more emphasis on risk management following the recent crisis?**



Source: Tell Media Group Survey. Result based on responses from 14 investors.

**Do you think fund companies have dedicated more resources to risk management following the recent crisis?**

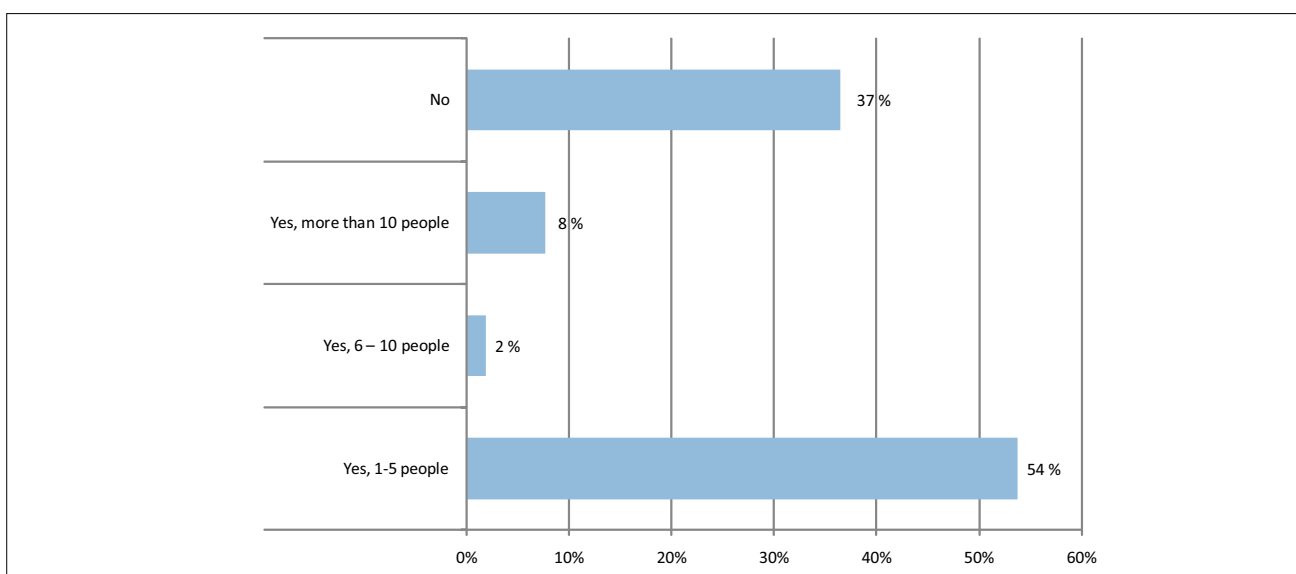


Source: Tell Media Group Survey. Result based on responses from 14 investors.

**Our take on operations:** The solution to many of the challenges outlined above boils down to investments in new systems and also in more people. Alternatively the industry will find solutions in the form of increased outsourcing. Our research show that fund companies see outsourcing opportunities across their operations. Examples highlighted in our survey are: Administration, Back office, Compliance, Portfolio management, Research and IT. 2011 should be a good year for companies providing solutions, in the form of systems and outsourcing, to many of the challenges highlighted in this report.

**Staff:** Another operational challenge includes the need to retain manager talent. It is also clear that future investments will not only be in systems, but also in people. Some 64 percent of fund companies in our survey say they will expand their staff in 2011. Among investors, only 44 percent say they will expand their staff in the coming year.

**Do you plan to expand your staff in 2011?**



Source: Tell Media Group Survey. Result based on responses from 52 fund companies.

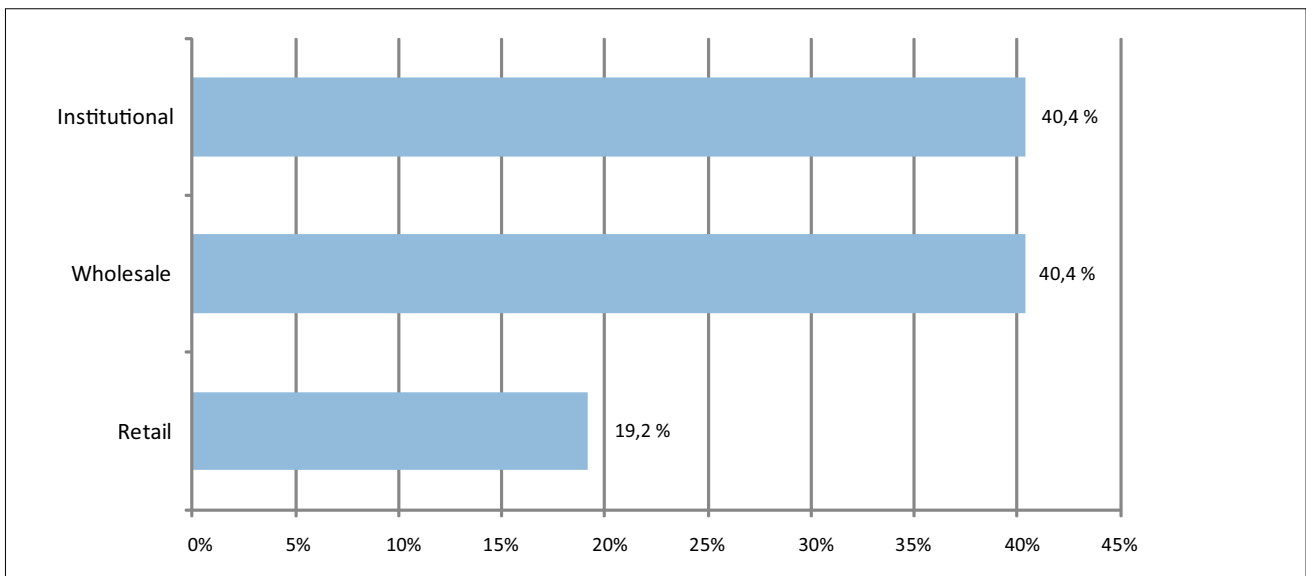
# 5. Industry Opportunities

## Nordic Fund Industry Outlook 2011

Even if the industry is facing some obvious challenges, as outlined above, there are of course opportunities as well. According to fund companies in our survey the biggest opportunities in 2011 will be found in the institutional and wholesale markets. Less than 20 percent see the biggest opportunities in the retail market. The focus on institutional and wholesale is in line with the trend of increased out-

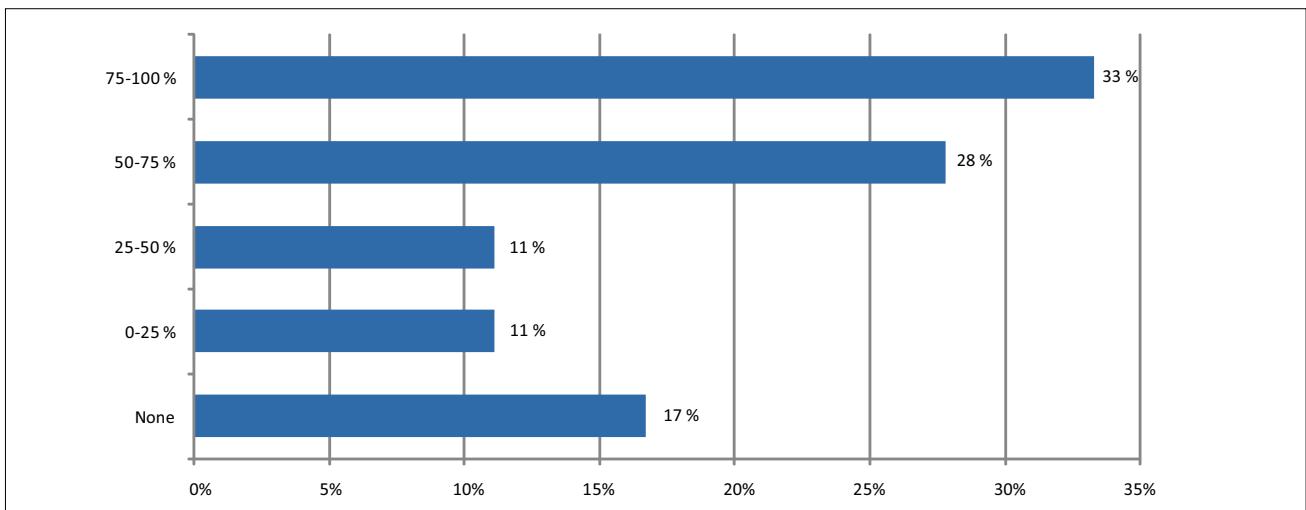
sourcing among institutional investors. Some 38 percent of investors in our survey use external managers for up to 50 percent of their assets. That creates opportunities in its own right, but the opportunity is about to grow going forward. Close to 70 percent of investors in our survey say that they will increase the share of assets that is managed externally.

**What client segment will offer most opportunities in 2011?**



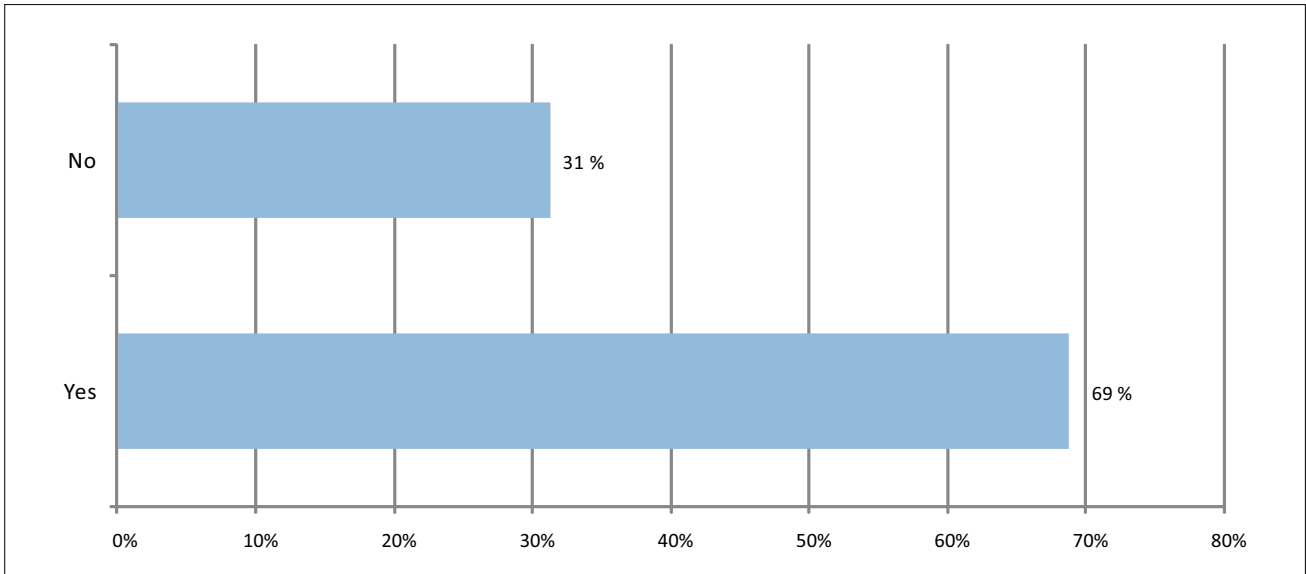
Source: Tell Media Group Survey. Result based on responses from 52 fund companies.

**What percentage of total assets is currently managed internally?**



Source: Tell Media Group Survey. Result based on responses from 18 investors.

### Do you plan to increase the share of assets managed externally?



Source: Tell Media Group Survey. Result based on responses from 16 investors.

Those fund groups with strong offerings in emerging market equity are in a good position to increase their AUM in 2011 as some 56 percent of investors say they will increase their investments in this area. Hedge funds are another area likely to see increased flows in 2011.

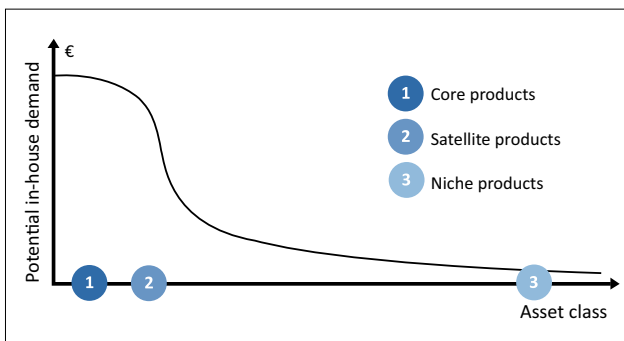
### Into which asset classes will you make the most new investments in 2011?

Asset Class	Investors (%)
Long-only equity (emerging markets)	56%
Hedge funds	44%
Long-only equity (developed markets)	38%
Fixed income (emerging markets)	31%
UCITS III hedge funds ("Newcits")	19%
Other (please specify)	19%
Fixed income (developed markets)	13%
Property	13%

Source: Tell Media Group Survey. Result based on responses from 16 investors.

## 6. Industry Consolidation?

### Nordic Fund Industry Outlook 2011



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Structural deals in the Nordic region among larger asset management firms, of which many are owned by banks and insurance companies, are likely to be driven by parent company activities rather than pure asset management considerations. There are however exceptions. Sparinvest, the Danish and pan-European fund management group, communicated on November 29 that the firm was to take over all mutual fund-related activities of the Danish asset manager EgnsINVEST. In a press release the firm stated: "The move reflects the synergy between these two independent asset managers. However, the move is also a reaction to the changes sweeping through the Danish banking sector, expected to spark off a wave of consolidation among the smaller players". Both Sparinvest and EgnsINVEST operate as independent asset managers and rely on banks for distribution. When the merger has been finalized, Sparinvest will manage assets worth around EUR 9.4bn, firmly establishing the Group as one of Denmark's leading asset managers.

One reason for structural deals in the Nordic asset management industry should be the strong trend of the separation of production and distribution within the asset management industry globally. That trend has also been manifest in the Nordics where most banks have opened their distribu-

tion network to external providers. However, we have so far not seen a separation of ownership. Going forward it would probably be beneficial for fund groups currently owned by organisations that are also big distributors [such as banks and insurance companies] to become more independent. Such a move would allow fund companies to strengthen their asset management brands. It would also be easier for such fund groups to gain access to the distribution networks of other banks and other insurance companies, i.e. getting access to the long tail (see graph).

The long-tail graph above highlights the difficulty for a fund company that relies on in-house distribution to get enough capital to niche products. However, if a fund company was able to offer these niche funds across different distribution platforms the overall assets would be sufficient. It is easier to gain access to these distribution platforms if you are an independent company.

All of these are arguments for banks to spin off their asset management subsidiaries. Such stand-alone fund companies would also be a welcome addition on NASDAQ OMX Nordic. In a recent report<sup>6</sup> from US investment bank Jefferies & Company its Financial Institutions Group says: "First, despite the recent market turbulence, public market pricing in the sector continues to be more favourable than private transaction multiples; while the pricing gap has closed a bit, asset managers are still more likely to command higher valuations in the public arena at today's multiples". In the same report Jefferies state that publicly traded US traditional asset managers traded at 13.9x 2010 forward earnings at June 30. Publicly traded UK traditional managers traded at 12.0x 2010 forward earnings. It is however unlikely that we will see any major development along these lines in 2011.

<sup>6</sup> "Turning Tides. First Half 2010 M&A Activity in the Asset Management Industry", Jefferies & Company, August 2010.

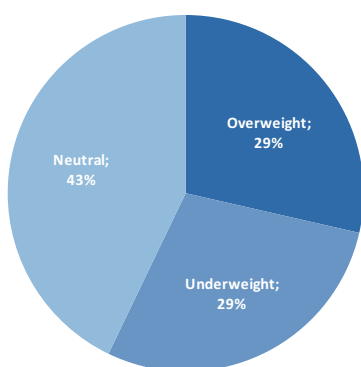
# 7. Current Asset Allocation and 2011 Outlook

## Nordic Fund Industry Outlook 2011

Asset allocation has been one of the main challenges in 2010. Not least for pension funds, where persistent low interest rates are negative for assets as well as for liabilities. "From an investment point of view it is the low interest rates that is the main challenge. Low interest rates mean that our liabilities grow and it implies lower future returns. We are looking more towards credits and mortgage backed bonds rather than government bonds", says one large institutional investor.

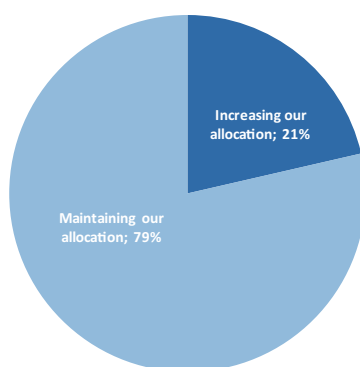
Low interest rates are likely to be a challenge in 2011 as well. Looking at the different asset classes, only 29 percent of investors are currently overweight (relative to their strategic allocation) in equities and 21 percent say they will increase their allocation in 2011. No investors are looking to increase their exposure to bonds in 2011 whereas 23 percent will increase their allocation to real estate, where none are overweight today.

**Relative to your strategic allocation, are you over- or underweight in equities today?**



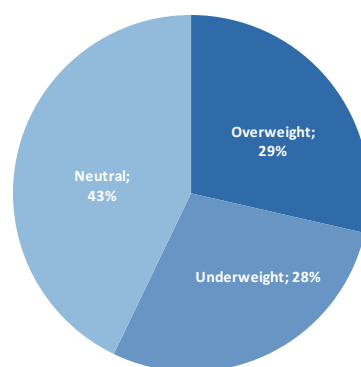
Source: Tell Media Group Survey. Result based on responses from 14 investors.

**What is the direction of your allocation to equities going into 2011?**



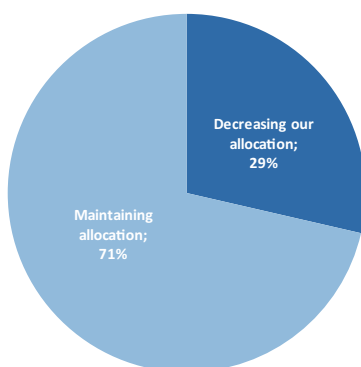
Source: Tell Media Group Survey. Result based on responses from 14 investors.

**Relative to your strategic allocation, are you over- or underweight in bonds today?**



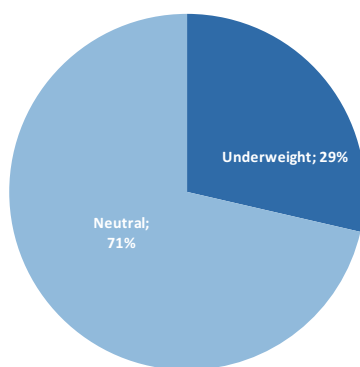
Source: Tell Media Group Survey. Result based on responses from 14 investors.

**What is the direction of your allocation to bonds going into 2011?**



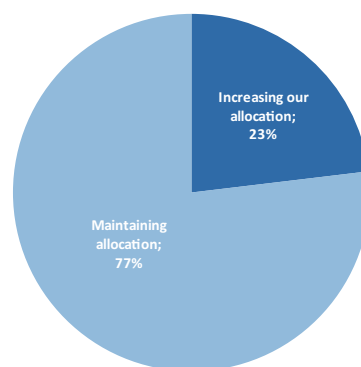
Source: Tell Media Group Survey. Result based on responses from 14 investors.

**Relative to your strategic allocation, are you over- or underweight in real-estate today?**



Source: Tell Media Group Survey. Result based on responses from 14 investors.

**What is the direction of your allocation to real-estate going into 2011?**



Source: Tell Media Group Survey. Result based on responses from 13 investors.

## 8. Conclusion

### Nordic Fund Industry Outlook 2011

Our research highlights a lot of opportunities and challenges for the Nordic fund industry as we enter 2011. There are however three topics that are top of mind for fund managers and investors alike. Combined, these increase the need for the industry to up their game in terms of their CRM, risk management and similar systems.

**Performance:** For fund managers, this means new investment ideas and products, and the capacity to manage and market them. For investors it means putting more resources towards due diligence and fund/manager research.

**Compliance & Regulation:** UCITS and Solvency II in particular will require additional administrative capabilities to manage and track products and their compliance.

**Distribution & Information:** Distributors will need to manage a growing number of funds on their platforms going forward. Fund managers on the other hand need a shorter time to market, to raise awareness for their brands, and a way to easily share the relevant information for investors' and fund pickers' due diligence processes. The growing share of institutional and wholesale investors, as well as these investors' intention to outsource more and more of their asset management, mean fund managers and distributors will need to provide ever faster, more accurate and more detailed information.

## About

### Advent Software

Advent Software, Inc., a global firm, has provided trusted solutions to the world's financial professionals since 1983. Firms in more than 60 countries rely on Advent technology to run their mission-critical operations. Advent's quality software, data, services and tools enable financial professionals to improve service and communication to their clients, allowing them to grow their business while controlling costs.

Advent has been present in Europe, the Middle East and Africa (EMEA), since 1998, and now has over 260 clients, more than 120 staff, and 9 offices in Sweden, Norway, Denmark, the United Kingdom, Dubai, the Netherlands, Switzerland and Greece. For more information on Advent products visit [www.advent.com](http://www.advent.com).

# About

## Tell Media Group

Tell Media Group offers a unique combination of expertise and specialisation on one hand and breadth of offerings on the other. With our knowledge of the Nordic asset management industry and with our expertise in research, publishing and events we are the leading investment communication boutique in the Nordic region. We offer products and services in three distinct areas; Research, Publishing and Events.

**Research:** Tell Media Group has long experience in performing research on the asset management industry. The company regularly initiates and performs in-house research projects on individual funds and fund companies as well as research on topical industry issues. We also provide bespoke research services to industry participants.

**Publishing:** Tell Media Group owns and develops highly specialized print and online media properties. Our flagship

publication is *Fondbranschen*, the first and only local language b2b print magazine for the Nordic asset management industry (see website at [www.fondbranschen.se](http://www.fondbranschen.se)). The company recently launched the *Nordic Fund Selection Journal*, a print publication focused on the Nordic fund selection industry distributed two times per year. We also cover the fund selection industry at [www.fundselection.org/blog](http://www.fundselection.org/blog)

**Events:** Tell Media Group has established a reputation for organising engaging and well executed events, such as the annual Nordic Fund Selection Forum and *Fondbar*, our regular networking event. We also provide bespoke event services. Our events are supported by the editorial expertise and reach of our publications.



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