

***European fund distribution already experienced significant changes in 2019. Now, due to obvious force majeure, change accelerates in an unprecedented manner. Yet among so many changes, one thing is certain: Post lockdown, fund distribution in Europe will never be the same again. Video meetings and remote work will last, at least in significant parts. The digitalization of fund research gains further pace and fund distribution models need to be redesigned.***

We have reported in various publications on some rather tectonic shifts in European fund distribution experienced in 2019. In our view, this was just the beginning of a major sector transformation. Major distributors like banks have started to reassess the number of fund houses and funds they work with and - just as importantly - the way in which they want to work with fund houses. This has led to a complete reshuffling of the cards. Analyzing 2019 as well as 2020 YTD fund flows in Europe provides strong evidence to back up this observation. Many well established asset managers with substantial European cross-border fund distribution footprints are suffering, while a few others are doing extremely well indeed. Also, and very importantly, we find many much smaller, best-of-breed managers with remarkable net inflows - largely against the odds of widespread industry assumptions.

The current coronavirus crisis, as well as associated split operations and remote work models, are accelerating further change in fund research and fund distribution models. Asset managers and their sales teams have already been fighting for diminishing tier one fund selector face-time and shelf space for a while. Now, physical face-time has obviously moved to zero. Within the remote work environment, fund selectors tend to pick up the phone even less, which significantly increases the challenge of getting through to them. Digital campaigns, which until recently were at best sales and marketing add-ons, are suddenly of prime importance and video meetings have become the standard to replace meetings as we used to know them. But how are fund buyers and asset managers experiencing this new environment? We have spoken to a number of large, tier one fund selectors across Europe, as well as to fund sales leaders, to catch up on their experiences and observations.

The potentially most overriding observation is that the industry has adapted to the new environment and digital communication channels very quickly. Of course, it has involved major technological and related cost burdens for many asset managers, in particular for the very large ones with massive back office operations across the globe. Nonetheless, this rather short period proves that we all work in an industry privileged to be able to fully operate on a remote basis.

More interestingly, even hardcore defenders of physical meetings - on the buy and the sell side – are starting to get comfortable with video meetings in a way which was simply unthinkable for many just a few months ago. The same applies to people who haven't been opposed to video meetings or online conferences, but haven't really made any use of them until now. In this context, earlier this month the UK publication Investment Week quoted Storm Uru, a fund manager at Liontrust, as stating "After many years of failing to completely adopt video and remote access technology, I found myself embracing these key technologies overnight and now could not function without them." Iain Evans, global head of distribution at Polar Capital added that "the majority of our staff already had the capability to work remotely at any time of the week, month, year or market cycle. What is different now has been getting used to everyone else working remotely as well." In summary, we are experiencing in live modus a major trigger for long anticipated change in work and communication models.

There are a number of very encouraging examples of how fast the industry has adapted. One of our clients managed to switch a fully booked multi-day tier one fund selector roadshow in Europe to individual video meetings without losing a single appointment. Another client reports a record number of fund manager interviews and updates - obviously all via video.

We also observe broadly stated benefits of video meetings versus the physical meeting culture deeply embedded in the asset management industry. At the beginning of this month Omar Gadsby, head of fixed income fund selection at Credit Suisse, stated in Citywire Selector that efficiency is the element he values most about the remote working environment, adding "I recognised we have too many physical meetings. Technology works as a suitable replacement for a lot." In addition, video meetings tend to be more focused and time disciplined, according to literally all buy and sell-side conversations we have had very recently.

In terms of fund manager interviews, Ignites Europe quoted us in an article summarizing some of our observations this month as saying that "fund buyers are also more comfortable raising unpleasant, pressing questions digitally than when in the same room."

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The same article also quoted Matthew Weisser, head of European wholesale at US asset manager MFS Investment Management, as stating that “feedback has been that the online meetings are a lot more intimate and personal.” This last statement may be surprising at first sight, but makes a great deal of sense when thinking it through. The lockdown is a collective experience, also forcing most of us to show a little bit more of ourselves.

Coming back to the sales and fund manager side, the elimination of travel time and the associated complexity in road-show scheduling leads to much more flexibility in terms of matching agendas as well as to more ad-hoc video meetings, as we were told by various people we have spoken to. We have also witnessed that workflow output on a very broad basis and in a number of cases client interaction has increased due to the absence of daily commuting and notorious business travel time. This experience will without doubt have a lasting effect.

We mentioned above that European fund distribution is experiencing major change, with new winners emerging in terms of fund selector traction and resulting fund flows. This trend will further accelerate. The remote and video driven environment is democratizing fund selector face-time - in particular for managers with limited road-show capacity or managers without or with a limited number of local representatives. This effect will also last post corona crisis - at least in institutional and tier one wholesale channels, which represents a major opportunity for smart, agile and adaptive asset managers. It is all about combining investment alpha with true service alpha - well beyond current industry standards. As said, the fund distribution cards are being reshuffled. Now is the time to thoroughly rethink distribution focus points and to re-design client service models, also considering the broadly anticipated shift in skill and mindsets. Or in the words of Winston Churchill: “never let a good crisis go to waste.”

Once we have passed the time of lockdowns and restrictions, the industry will certainly return to many old habits. There will again be conferences, on-ground roadshows and sales meetings, but much less often than we are used to. People will enjoy the buzz, the vibe and the human interaction in company life again, but most likely at a reduced level. Remote work, at least on a part-time basis, and the associated benefits, will become a standard for many.

In an environment of more thorough cost considerations across the entire industry, the current experiences will certainly have a longer term impact on office and travel cost planning. As a side effect, asset managers, who are used to pushing out ESG marketing, can certainly improve their carbon footprint.

Obviously, these are all assumptions. Yet in spite of the many unknowns ahead, there is one thing which appears certain to us: the acceleration of the digitalization of fund research, manager interviews and in consequence fund distribution, is here to stay.

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