

New horizons for distribution support

CLEARSTREAM, THE POST-TRADE DIVISION OF DEUTSCHE BÖRSE GROUP, HAS FINALISED ITS ACQUISITION OF A MAJORITY STAKE IN THE FONDCENTER B2B FUND PLATFORM FROM UBS. CEO OF CLEARSTREAM BANKING S.A. PHILIPPE SEYLL, HEAD OF INVESTMENT FUND SERVICES PRODUCT BERNARD TANCRÉ, AND GLOBAL HEAD OF SALES FOR INVESTMENT FUND SERVICES NEIL WISE, DISCUSS THE ADVANTAGES THIS WILL DELIVER ACROSS THE FUNDS VALUE CHAIN.

THE COMPLETION, on 30 September, of Clearstream's purchase of a majority stake in UBS's fund distribution platform Fondcenter provides evidence of the restructuring that is taking place across the collective investments value chain, driven by demand from customers to source fund execution, distribution support services and asset servicing through a 'one stop' approach.

This concludes a deal announced in January 2020, through which Clearstream has taken ownership of a 51% stake in Fondcenter. UBS Asset Management holds a minority 49% share in the company and, under long-term cooperation arrangements established through the deal, Clearstream will provide services to Fondcenter clients of UBS Global Wealth Management and UBS Asset Management.

This builds on Clearstream's earlier steps into the fund distribution services landscape established through its purchase of Swisscanto Fund Centre London (SFCL), announced publicly in April 2018 and completed six months later, which added distribution contract management and trailer fee processing to its well-established execution and fund custody expertise.

With completion of this transaction with UBS, Clearstream will migrate its Fund Desk business (created following its purchase of SCFL) into Fondcenter, establishing the latter as its excellence



centre for fund distribution services within Deutsche Börse Group.

This combined entity has just short of €300 billion in assets under administration and links together approximately 340 distributors with more than 450 fund manufacturers which collectively manage more than 75,000 investment funds and share classes.

Clearstream Fund Centre

Commenting on Clearstream's motivation for the deal, CEO of Clearstream Banking S.A. Philippe Seyll explains that Clearstream has offered long standing expertise in fund order routing, execution and custody, representing the largest global player

in this market segment through its Vestima platform. However, clients were increasingly seeking a solution where they could source these services, along with distribution support, through a single supplier.

"This deal enables Clearstream to deliver economies of scale across each of these sectors, while offering high standards of operational performance and a commitment that we are in this business for the long term," says Seyll.

For Clearstream's Head of Investment Fund Services Product, Bernard Tancré, who heads the new Fund Centre operation, this builds on the strengths that Clearstream has established through its Fund Desk service. Developed through links with

TOP TEAM - From left, Clearstream's Neil Wise, Philippe Seyll and Bernard Tancré.

UBS Global Wealth Management, the world's largest wealth manager with around €2.0 trillion assets under management, the Fondcenter entity enables distributor clients to negotiate high-quality contracts with a large pool of fund providers and to benefit from the additional negotiating power offered through a mutualised platform. "This consolidated service, named Clearstream Fund Centre, offers wide product coverage combined with operational simplicity, shielding the distributor from the complexity of managing connectivity with the transfer agent," says Tancre.

Philippe Seyll tells *Funds Europe* that, behind the scenes, Clearstream has been weighing up opportunities to enter the distribution support arena for a decade or longer. "We made inquiries in the past, but we did not wish to compete with clients that still had business interests in this area," he says.

Developing this point, Neil Wise, Global Head of Sales for Investment Fund Services at Clearstream, explains that, for many years, distributor firms have generated strong revenue from managing distributor fee payments on funds sales and they did not want an external provider to challenge this income stream. However, as regulatory changes (particularly MiFID II) have driven sales volume from commission-paying to clean share classes, in many cases forcing distributors to pass back the trailer fees, many distributors no longer believe that they receive adequate compensation from managing this processing in-house.

"Distributors found themselves doing trailer fee calculations, administering rebate payments but then passing much of this commission flow through to sales intermediaries further down the distributor network," he says. "As this business has become less attractive, distributors have been exploring opportunities to outsource this operational activity and several

approached us requesting that we establish a commission and contract management service."

Growth strategy

In building on this foundation, Tancre says that Clearstream's strategy will be to promote the Fund Centre platform services across its Vestima franchise, while enabling all clients to contract this

"THIS DEAL ENABLES CLEARSTREAM TO DELIVER ECONOMIES OF SCALE WHILE OFFERING HIGH STANDARDS OF OPERATIONAL PERFORMANCE AND A COMMITMENT THAT WE ARE IN THIS BUSINESS FOR THE LONG TERM."

Philippe Seyll

service through Clearstream Banking S.A. so they only need to sign legal agreements with a single counterparty.

Within this framework, the importance of asset safety and operational efficiency should not be underestimated as part of an integrated fund services package. "While high commission rates can be compelling when selecting a distribution support partner, customers recognise how important it is to have high standards of safekeeping and low rates of settlement failure," says Wise. As an AA-rated bank, Clearstream has a long tradition in fund custody and more than 15 years of investment in its Vestima platform, providing surety that client assets are safe and that subscriptions, redemptions and income collection are processed without error or delay.

Reflecting on its plans to expand its B2B fund services business, and

how this fits into Deutsche Börse Group's "Roadmap 2020" programme for growth, Seyll highlights a four-dimensional strategy based on fund execution, fund distribution, innovation and data services.

The fund execution component is well established through Vestima, which represents the world's largest order routing and fund execution platform, processing more than 24 million transactions annually valued at close to €2.6 trillion. Clearstream will continue to build transaction volume on this platform, while also targeting growth through its fund distribution support business, now embracing the world's second-largest distribution platform with finalisation of the Fondcenter acquisition.

In the realm of innovation, Clearstream is a shareholder in the FundsDLT platform, the Ethereum-based distribution ledger technology co-owned by the Luxembourg Stock Exchange, Clearstream, Credit Suisse Asset Management and Natixis Investment Managers. Through this investment, Clearstream is taking steps to accommodate potential changes in how fund shares are issued – particularly as fund promoters experiment with issuing tokenised assets on blockchain.

Clearstream also identifies opportunities to assist asset managers and their distribution partners through extension of its data services. "This includes static data for 230,000 funds and a large number of ISINs, along with fund information, performance data for each product and distribution data across an asset manager's sales network," says Seyll. "This provides essential insights for fund promoters regarding who is buying their funds and where they can reap competitive advantage through new product launches and extension into new markets – while also delivering the data services required to meet reporting requirements under MiFID II and other regulations."