

COVID-19 BREXIT & TECHNOLOGY

current threats and opportunities in the world of Funds and Asset Management.

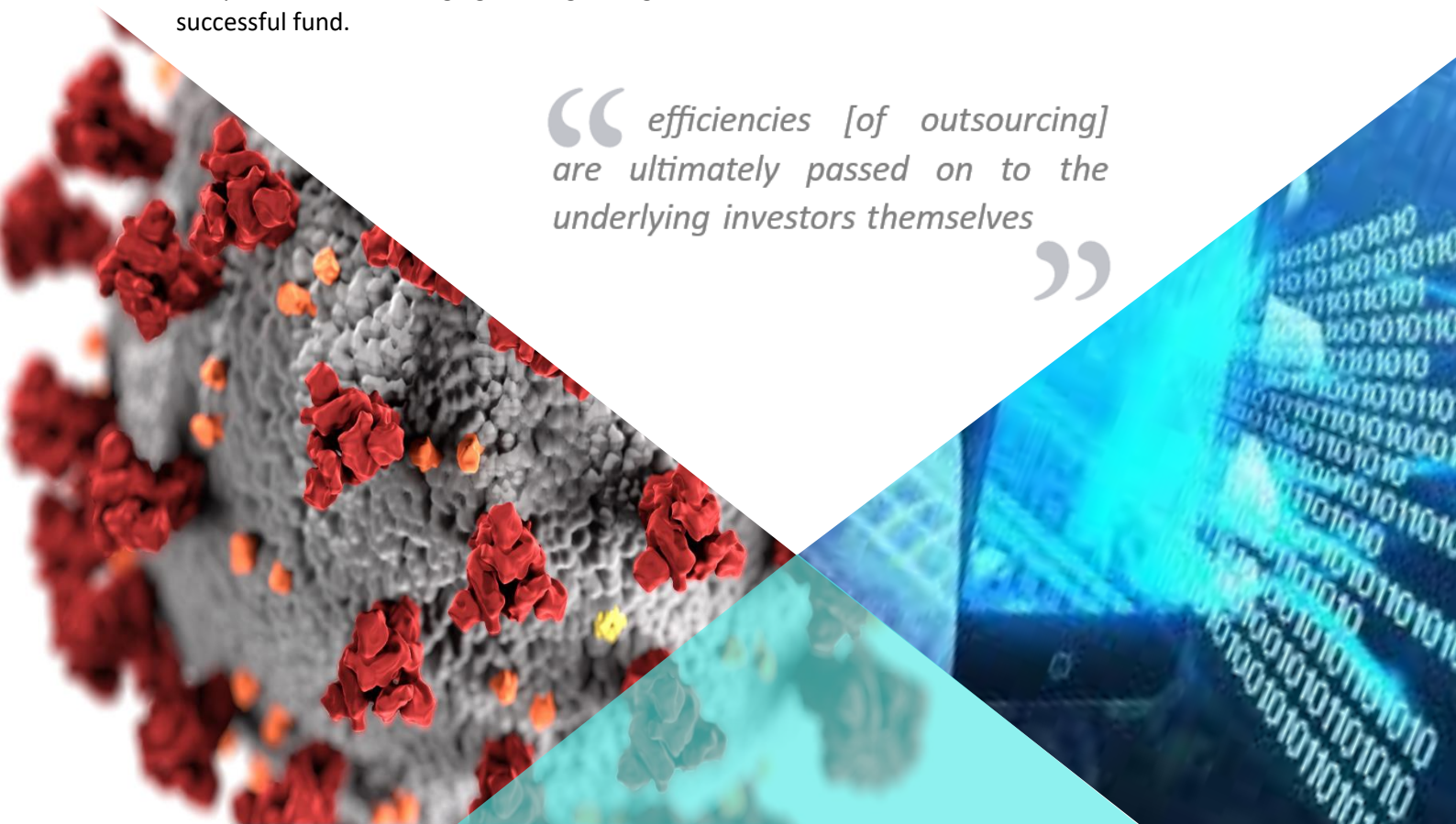
BOV Fund Services, Malta's leading fund services provider, explores the potential threats and opportunities and presents the Malta solution within the context of the various challenges facing funds and asset management industry players today.

COVID-19 Pandemic

Among the many lessons being learnt throughout the pandemic, COVID-19 has continued to further emphasise the importance of data operations and communication transparency. With the ever-increasing demands brought about by regulation and also by investors themselves during these unprecedented times, asset servicing and fund administration have now grown to play an even more pivotal role within the funds and asset management industry. Whereas previously a number of fund managers would opt to carry out the role in-house, recent developments have rendered this set-up even more challenging. Many such players are therefore increasingly opting to outsource this role, thereby allowing managers to focus exclusively on their core business and competences in managing and growing a successful fund.

Investment managers remain under pressure especially in today's challenging circumstances, with many facing unexpected performance due to the highly volatile markets, and pressure to keep costs as efficient as possible, which can be quite challenging in light of regulatory obligations and investor expectations. This has also further contributed to an increase of fund managers outsourcing fund administration to companies such as BOV Fund Services that benefits from both economies of scope and scale on this front and is thus able to pass on these efficiencies to its clients, which efficiencies are ultimately passed on to the underlying investors themselves.

“ *efficiencies [of outsourcing]
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As a key fund domicile, the Maltese jurisdiction, apart from offering a variety of unique fund typologies, particularly within the alternative space, also boasts one of the strongest economies that is proving relatively resistant to the negative effects of Coronavirus, especially when compared to other countries within Europe. The International Monetary Fund (IMF) recently published the updated World Economic Outlook growth forecasts for 2019-21 and the projections for the year to come are, as expected, not so bright, with a -3.0% world average and only a handful of countries expected to have positive growth. However, when one looks at the projections for 2021, growth rates are seen to increase with some countries even expected to surpass economic growth of previous years.

In particular, Malta is expected to register a -2.8% growth for 2020 however the IMF estimates a 7% increase for 2021, compared to a Euro Area estimated average of -7.5% for 2020 and 4.7% growth for 2021.

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Brexit

Since the outcome of the referendum back in 2016, we have seen many asset managers taking quick decisions and planning for what, at the time, seemed likely to be a hard Brexit. A substantial number of asset management companies have set up operations within EU member states that present themselves as ideal fund management domiciles, as is the case for Malta.

After Britain's formal exit on 31st January 2020, the 11-month transition period kicked in during which we expected to see the entities who had previously adopted a 'wait-and-see' approach put into motion their Brexit strategies, although it was unclear what deal would be reached during the transition period.

The outbreak of the Coronavirus pandemic only continued to add further pressure to the already ambitious end-of-year deal, providing more reason for Britain to request an extension of the transition period of up to two years. Such request must however be made in only a few weeks' time, by 1st July 2020, but so far (at the time of writing) it remains unclear whether this extension will be considered.

Nonetheless, with or without an extension, the fact of the matter remains that the UK's withdrawal from the EU has already happened. The way in which things will change depends largely on the agreements reached over the coming months, but in any case the UK will not enjoy the same level of freedom in the EU market.

For the financial services sector in particular, Malta has been considered as a particularly attractive alternative EU member state in Brexit planning, due to the pro-business environment, economic stability and regulatory robustness that characterise the jurisdiction. In fact, for funds and asset management specifically, Malta is being increasingly featured as the domicile of choice, particularly for the smaller-to-medium sized managers. Malta presents a number of solutions and efficiencies to such players in terms of costs, the presence of well qualified professionals, unique flexible structures such as the Professional Investor Funds which are available to managers with an AUM of less than €100 million, fast-track solutions such as the Notified AIF which enables AIFMs to set up an AIF within less than 10 days, and more.

Furthermore, the bond between the Maltese and the British goes back many years with the Maltese Islands enjoying British presence for a couple of centuries, being a part of the British Empire until 1964. As a former British colony, Malta thus adopted English as one of its official languages, alongside the Maltese language, and the country's administrative and legal systems also reflect many similarities clearly influenced by this history. One may even find remnants of the British presence in other parts of everyday life including the traditional red

telephone booths and post office boxes as well as the fact that Malta and the UK are two of the only four countries in Europe which drive on the left side of the road.

The relationship between the two countries does not stop there. With the UK having exited the EU, the Malta-UK relationship is still set to thrive due to a number of bilateral agreements between the two countries. In fact, there are currently an estimated 13,000 British nationals living in Malta, of which 5,000 are active in the labour market, and over 600,000 tourist arrivals from the UK each year, representing over a quarter of tourist visits annually. The environment for business is also a very positive one evidenced by presence of a number of UK firms on the Island across various sectors.

Technology

In terms of technology, thanks to the continuous and rapid advancements, we are seeing more and more processes becoming increasingly digitalised within funds and asset management. As with most industries, technology presents both an opportunity, providing a lifeline to asset managers in building lasting relationships with a newer generation of investors, and a threat in increasing competition.

In the funds industry, where competition is rather high, it is therefore important to take the decision on whether to be a leader in times of change or simply a follower. Online retailers and big techs are viewed by some asset managers to be potentially disruptive to their business models. Digitisation is forcing costs down, while improving the user experience and quality and so it is important for industry players to adapt quickly to the changing technologies to maintain market share and keep up with the demands of the newer generation of investors.

Of course, service providers must also adapt their offerings to remain able to provide an efficient solution to their asset management clients. As pioneers in the local funds industry,

BOV Fund Services has always been considered a leader and has invested significantly in digital platforms to ensure high quality, accurate and timely results for its clients.

The Malta Solution

There are a number of advantages that Malta has to offer as an alternative jurisdiction of choice within the context of the points discussed above. From the strategic geographic location of the Island, to economic stability, innovation in the robust legal and regulatory framework, time-to-market and cost efficiencies, Malta clearly ticks all the boxes as an alternative European fund domicile. With around 600 investment funds currently based on the island, Malta has firmly established itself as the EU alternative fund domicile of choice, being particularly attractive to small- and medium-sized managers who often find setting up in the more traditionally established jurisdictions such as Luxembourg and Ireland, somewhat more challenging. It is therefore no wonder that the Island is becoming an increasingly popular choice among fund promoters and managers from all over Europe, and some other parts of the world too, with redomiciliations of offshore funds to Malta also generating increased interest over the years.

Within this context, BOV Fund Services, Malta's leading fund administrator, and a fully-owned subsidiary of the country's largest banking group, Bank of Valletta plc, is well-positioned to provide its suite of services to fund managers seeking to set up and/or redomicile their funds or fund management companies in/to Malta. BOV Fund Services currently services \$3.5bn in assets under administration, representing over 22% of the local market. Being local pioneers in fund administration, BOV Fund Services has the necessary skills and experience to be able to provide the necessary support funds by way of a myriad of specialised services, allowing fund managers to focus on their core business ■