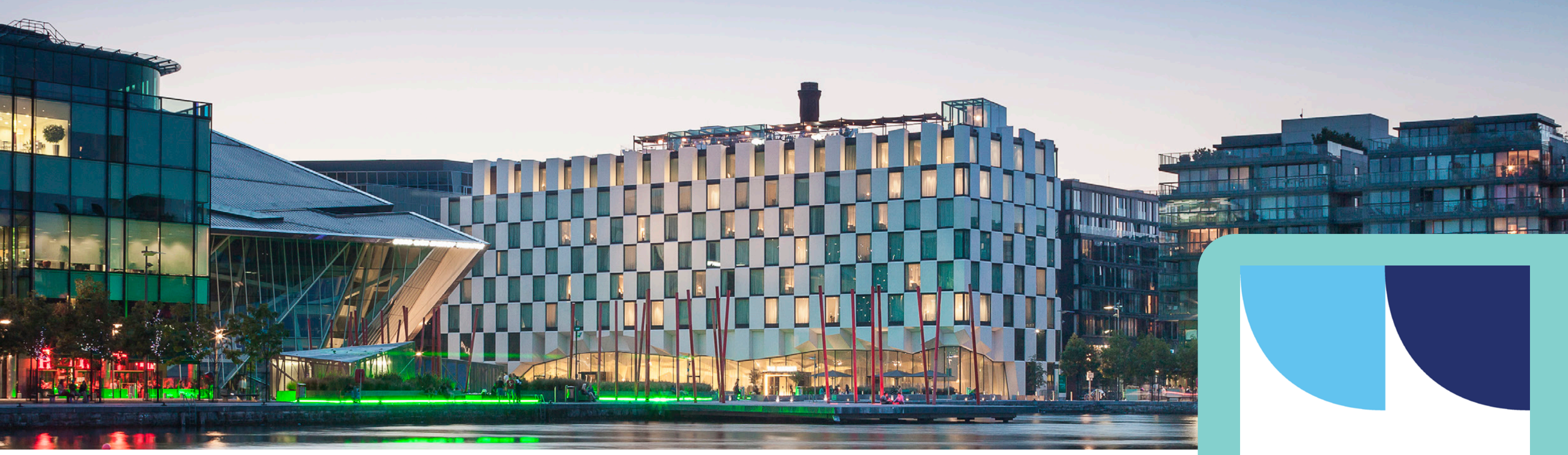

Exclusive to Event Attendees

Assessing Key Drivers of Investor Value: Mediolanum International Funds MedMe Event Highlights

9 September 2024, Dublin, Ireland - Mediolanum International Funds hosted its fourth annual *MedMe* event on 9 October 2024, bringing together industry leaders and experts from across Europe to explore key drivers of investor value, with a particular focus on the theme of *Value for Money (VFM)*. The gathering provided an in-depth analysis of how the asset management industry is responding to regulatory changes and evolving investor expectations in Europe.

Key event highlights:

Overview of the Irish regulatory landscape:

Kicking off the day, **Gerry Cross, Director of Financial Regulation - Policy and Risk** at the **Central Bank of Ireland (CBI)**, spoke about how the CBI must support the well-being of both Irish and European citizens, underlining the financial system's role in delivering outcomes that support resilient and efficient capital allocation. Cross emphasised that the financial sector must be well-run and reputable to foster trust and stability.

The CBI's evolving strategy:

Cross outlined the CBI's evolving strategy, which revolves around four key themes: safeguarding the financial system, future-focused regulation, openness and engagement, and transformative actions. Cross highlighted the need for future-proof regulation that not only addresses today's challenges but anticipates those of tomorrow.

In the context of current geopolitical tensions, Cross discussed Ireland and the European Union's challenge in navigating these complex dynamics and the fragmentation of global trade, noting the significance of the incoming European Commission and its focus on competitiveness, productivity, and the functioning of a single European market.

Looking ahead, Cross outlined five strategic priorities for the CBI and the broader European financial landscape:

1. **Resilience:** Lessons from recent bank failures like SVB and Credit Suisse point to the need for enhanced resilience in banks and the digital economy.
2. **Completion:** Efforts to complete projects such as the banking union, capital markets union, and European deposit insurance scheme are crucial to ensuring the stability and integration of the financial system.

3. **Implementation:** The quality and timeliness of implementing regulations are as important as the regulations themselves. Cooperation with stakeholders will be key to ensuring high standards in this area.
4. **Climate & Transition:** The transition to a sustainable economy, including the importance of climate risk and the Sustainable Finance Disclosure Regulation (SFDR), was highlighted as a major priority.
5. **Innovation & Payments:** The evolving landscape of payments including the potential for a Digital Euro, could place fiat currency on par with emerging technologies like blockchain. Cross encouraged the funds sector to explore the benefits of tokenisation and other innovations.

Cross addressed the macro-prudential framework for investment firms, emphasising the need for international cooperation and not necessarily centralisation. With respect to supervisory authorities collaboration Cross mentioned as an example when CBI escalated with ESMA about the risk around leverage in line with Article 25 of the AIFMD, raising concerns about excessive leverage in property funds and in LDI management during the market turbulence following the Liz Truss/Kwasi Kwarteng budget in the UK.

Lastly, governance and delegation were highlighted as critical areas of focus. Cross pointed to CP 86, which introduced stricter oversight requirements for fund management companies, ensuring effective governance even when activities are delegated or outsourced.

Emerging Risks and Opportunities in the Irish Funds Sector:

Brian Corr from the Department of Finance delivered a forward-looking presentation on the evolving landscape of Ireland's fund sector, underscoring the significant role that asset management plays in Ireland's economy and noting that the current Funds Review 2030 review highlights the Irish government's recognition of the sector's importance.

The Funds Review:

The review process saw 194 submissions in just a few months in 2023, with 140 submissions from retail investors - particularly notable for the high level of engagement . This response, coupled with an extended consultation phase during which the government met with over 100 firms and industry bodies and attended more than 30 industry events, has led to a period of deeper reflection. Corr emphasised that this engagement is not only shaping the government's current priorities but the future outlook of the industry, including its interactions with regulators and customers.

Ireland as a global player:

Corr highlighted Ireland's emergence as a global centre of excellence for asset management and fund servicing, noting that the country is a key distribution hub for funds across Europe and the world. He pointed to companies like Mediolanum as a prime example of Ireland's success in this space. Ireland's role as a significant player in the ETF and money markets was also noted due to its scalability and efficiency of these low-cost financial products and the significant numbers of European ETFs and money market funds that are domiciled in Ireland.

The growing role of retail investors:

One of the most discussed aspects of the review was Ireland's tax regime for retail investors. Corr explained that this is becoming a hot topic across Europe having received the high levels of attention from both retail investors and the media, with the newly appointed

European Commissioner specifically focused on creating a "savings and investments union". Corr touched on the complexity of the tax system and the importance of building on the financial literacy strategy to encourage savers to move from bank deposits to more liquid elements of the financial markets.

The evolving nature of Ireland's funds industry:

Corr concluded by emphasising the importance of Ireland's global role in asset management and fund servicing. He noted that, while retail investors are increasingly focused on liquidity, real assets investment will likely continue to be driven by institutional investors, particularly as the government continues to work on financial literacy initiatives and investment strategies.

Another key point in Corr's presentation was the importance of the funds sector as an employer in Ireland, with 50% of employment in the sector being outside of Dublin. This highlights the sector's broad contribution to regional economies across the country.

Understanding Value for Money:

Hugues Gillibert, CEO of Fitz Partners, delivered a key presentation on the evolving concept of Value for Money (VFM) in the fund industry, addressing how it has become a central topic in both regulatory discussions and investor evaluations.

Gillibert noted, "Over the last few years, 'value' has become a key topic in the fund industry," emphasising that VFM, now commonly referred to as Value for Money in Europe, is being publicly discussed but often with the focus only on costs. He challenged this narrow perspective, arguing that costs alone should not be seen as the primary driver of value. Instead, when comparing like-for-like fund products, including fees and performance, the data clearly shows that significant value is being offered. "There is clear evidence that value is on offer," Gillibert stated, highlighting that the industry continues to provide substantial net positive outcomes for investors, often independent of distribution models or cost structures.

Assessment of Value:

Gillibert traced the UK's regulatory journey from a quantitative focus on Value for Money to a more comprehensive assessment of value. This approach evaluates the overall outcomes for investors and not only costs, but service quality and performance on top of asset manager costs and the economies of scale. He explained how this shift towards qualitative reviews in the UK has set a broader regulatory precedent across Europe.

Measuring Relative Value:

Fitz Partners has developed a proprietary methodology to assess relative value. This involves strict like-for-like comparisons of fund strategies, share classes, and markets, ensuring that any evaluation of value is fair and accurate. By benchmarking fund fees against performance, Gillibert demonstrated how this method does not provide a clearer picture of the true value that asset managers deliver to their clients.

The Industry's Value Proposition:

Gillibert presented quantitative evidence from both global equities and global bonds, showing how different share classes—often those with higher management fees—can still outperform peer groups when performance is factored into the evaluation. On the other side many low cost share classes systematically underperformed. He stressed the importance of peer group construction and data quality in these assessments, he also emphasised that the outcome of this exercise proves that the asset management industry is capable of delivering both relative and absolute value.

In conclusion, Gillibert reinforced that Value for Money should be seen in a broader context that goes beyond cost alone, encouraging the industry and regulators to focus on the overall outcomes and benefits that fund managers deliver to investors.

Active Management in Focus:

Giorgio Carlino, Head of Multi Management at Mediolanum International Funds, delivered an insightful presentation on how investors can extract value and benefit from active management with today's financial markets. He emphasised that active management is not only fundamental to market efficiency and capital allocation but is a core element of the broader economy.

Why Active Management Matters:

Carlino opened by underscoring that active management is critical for the proper functioning of financial markets. It contributes to market efficiency and the optimal allocation of capital, laying the foundation for economic growth.

Can Active Management Deliver on its Promises?

Addressing the question of whether active management delivers value, Carlino first looked at outcome of the categories of different strategies in the equity markets over the past 10 years, highlighting the significant alpha generated, especially in more volatile and less efficient markets like emerging markets and Asia. These markets provide more opportunities for active managers to outperform. In contrast, in more mature markets like the US alpha is still very positive, but somewhat lower. He also emphasised the volatility of alpha in the short term and how such alpha stabilised over the longer time period, suggesting that investors time horizon was very critical.

Looking at the historical returns of different strategies in the fixed income categories, Carlino explained that while the alpha generally is lower compared to equity, active management delivered value also in shorter time horizon than equities, but not in the short term, in fact annual alpha remained volatile. He stressed the importance of having the right time horizon, from the research, it appears evident, active management in equity strategies need at least 7 years, but ideally 10 years to deliver substantial alpha, while in the case of fixed income they tend to perform well already at the 3 year mark.

The Importance of Selecting the Right Active Managers:

Carlino acknowledged that not all active managers consistently generate value at the same time in all strategies. He emphasised that successful outcomes depend on selecting the right active managers and strategies. Diversification across managers and strategies is key, as alpha generation varies depending on market conditions and specific investment approaches. He noted that no single active manager or strategy did outperform across all market environments, and this is why diversification was crucial.

In conclusion, Carlino reinforced the notion that active management can generate significant value for investors and stressed that achieving this depends on having the right time horizon, selecting capable active managers, and ensuring diversification across strategies.

How boutique firms create value:

Rich Dell, Head of Equity Research at Mercer, delivered a compelling presentation on the unique role that boutique asset management firms play in the financial industry. Backed by Mercer's extensive data—gathered through their *MercerInsight* platform, which tracks nearly 7,000 managers and over 33,000 strategies—Dell highlighted how boutique firms often bring innovation and specialised expertise that larger firms may lack.

Support for Active Management:

Dell reaffirmed Mercer's strong support for active management, stating that their data consistently shows the value it can create. He pointed out that boutique firms, in particular, are often well-positioned to deliver strong performance and innovation. By focusing on niche strategies, these firms are able to generate value for investors through specialisation.

Defining a Boutique Firm:

Mercer defines boutique firms as those that are typically smaller in size, often employee-owned or operating with long-term incentive structures. They tend to focus on niche products, strategies, or asset classes, frequently limiting their operations to a single sub-asset class. Dell noted that most boutiques have only one or two investment teams, which allows for focused expertise but can also present certain risks.

Challenges Faced by Boutiques:

While boutique firms offer potential for high performance, Dell acknowledged the risks associated with their smaller size. These include governance challenges, concentrated assets under management (AUM) in one strategy or market, and inter-generational succession issues. Furthermore, boutiques may struggle with distribution and marketing, and their smaller scale can limit their ability to fully manage risk, especially over shorter time horizons. Key person risk and regulatory scrutiny also pose significant challenges. For these reasons, a comprehensive due diligence and the correct selection are critical for the final outcome of investors.

Performance and Mercer's Evaluation Criteria:

Despite the risks, Mercer's 20 years of data shows that boutiques can often outperform their larger peers. However, boutiques' performance tends to vary widely across firms. Mercer evaluates managers based on four key areas: idea generation, portfolio construction, implementation, and business management. Dell emphasised that business management is critical for boutiques, noting that the firm's environment and culture, as well as the alignment of portfolio managers remuneration to investors' outcome, are essential for sustained success.

Boutique Strengths in Innovation:

Dell highlighted that boutique firms excel in three core areas: diversifying alpha, capacity-constrained strategies, and specialist areas. By focusing on specific, often underrepresented, niches in the market, boutiques are able to create innovative solutions that meet the needs of sophisticated investors.

Collaboration with Larger Firms:

Finally, Dell discussed how boutique firms often collaborate with larger investment firms and institutions. This balance of economics and control dynamics can be highly effective, particularly when risks and rewards are shared under a mutually beneficial structure. He noted that these partnerships allow boutiques to scale their operations while still retaining their specialised focus, ultimately benefiting both parties.

In conclusion, Dell underscored that while boutique firms face unique challenges, their ability to innovate and specialise allows them to offer significant value to investors in today's complex financial markets.

Closing Remarks from Furio Pietribiasi:

Furio Pietribiasi, CEO of Mediolanum International Funds, wrapped up the event by emphasising the importance that the asset management industry provided to local and global economies from a holistic perspective and how important was focusing and emphasising the value that the industry was actually generating to the investors. Pietribiasi reaffirmed Mediolanum's commitment to delivering sustainable and transparent value to its clients and the wider economy, positioning the firm at the forefront of the industry's evolving approach to value for money.

Furio spoke about the importance of financial literacy to build trust between financial institutions, and retail investors, echoing the early comments from the Central Bank of Ireland and the Department of Finance.

How active management delivers for clients long-term

Furio outlined the benefits of active management in delivering value for investors in the right time horizon, as well as the value of diversification among managers and strategies, which was underpinning the Mediolanum's longstanding decision to embrace multi-management, and the critical positive contribution of boutiques specialisation to investors outcome.

Furio presented an analysis demonstrating how investors' market timing behaviours have systematically eroded value over the past 10 and 20 years. He shared the Mediolanum approach to delivering value to investors, emphasizing that client outcomes must start with education on harnessing the volatility of financial markets. He stressed the importance of aligning investment time horizons with investors' financial objectives. Furio argued that cost were not the primary driver of client satisfaction; rather, outcomes were. He concluded that a comprehensive view of value creation must encompass the broader range of services accessible to clients when investing in a products, such as financial education, professional financial planning and investment services features.