

Mediolanum Media Event 2024:

*Assessing Key Drivers of Investor Value: A
European Perspective*



Plenary Session

Welcome and MedMe event introduction

Mariagrazia Briganti - Head of Marketing & Communications, Mediolanum
International Funds



Regulatory approach of the Central Bank of Ireland

*Insights into Ireland's unique regulatory
framework within the EU*

Gerry Cross – Central bank of Ireland, Mediolanum International Funds



Fund Sector 2030 in Ireland

*Review of the funds sector, identifying
emerging risks and opportunities*

Brian Corr– Department of Finance



VFM: a European perspective
*Asset management industry evaluation
in delivering value for investors*

Hugues Gillibert– CEO, Fitz Partner



Value for Money

Hugues Gillibert, CEO Fitz Partners

9th October 2024

FITZ PARTNERS Value for Money

About Fitz Partners

Fund Fees & Expenses, The Benchmarking Experts in Europe.



Fitz Partners has been providing unrivalled fund fees and charges data and benchmarking expertise to the European asset management industry for over 10 years.

We currently support over 60 European and global asset managers by delivering detailed and independent fund fee data and fund value reporting.

Our specialist team in London is dedicated to providing best-in-class client service and offering leading industry expertise in fund costs, peer group construction and fund value benchmarking.

Agenda

1. Assessment of Value

- The UK regulatory journey from “Value for Money” to “Assessment of Value”

2. How to Measure “Relative Value”

- Process: Fitz Partners’ Proprietary Methodology

3. How the Fund Industry Offers Relative and Absolute “Value”

- Quantitative evidence: Global Equities and Global Bonds

FITZ PARTNERS Value for Money

1. Assessment of Value

The UK regulatory journey from “Value for Money” to “Assessment of Value”

- **Quantitative to Qualitative reviews**
- **Scope of review: Quality of Service, Performance, AFM Costs, Economies of Scale, Comparable Market Rates, Comparable Services, Class of Units**
- **UK regulation moved from the quantitative definition to a qualitative measure:**
 - **Qualitative review: Quality of Service**
 - **Business review: Economies of Scale and Profitability**
 - **Fund reviews vs Asset Managers review (shared EoS, profitability)**
 - **Publication of findings (unproved marketing exercise)**
- **European quantitative review of value:**
 - **Costs and charges review**
 - **Retail Investment Strategy**

value

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noun

UK  /væljuː/ US  /væljuː/

value noun (MONEY)

 [C or U]

the amount of money that can be received for something

FITZ PARTNERS Value for Money

2. Value for Money – How to Measure “Relative Value”

Process: Fitz Partners Proprietary Methodology

- Fee vs Performance
- Strict like for like comparisons (strategies, share classes, markets)
- **Benchmarking fund fees & performance:**
 - Share class reviews (like for like only, no proxy should pass regulatory tests)
 - Importance of the peer group construction (mind the classifications gap)
 - Independence and data quality

This screenshot shows a 'Fee For Review' report for a fund. It contains a large table with columns for various metrics such as 'Fund Name', 'Share Class', 'Assets Under Management', 'Expense Ratio', and 'Performance'. The data is presented in a structured, grid-like format with alternating row colors for readability.



It is for asset managers, their executives and their board of directors to make a judgement on the adequate level of value offered or not by their specific share classes based on qualitative evidence in a given time period.

FITZ PARTNERS Value for Money

3. Value for Money – How the Fund Industry offers “Value” - Relative (1 of 2)

Quantitative evidence: Global Equities and Global Bonds

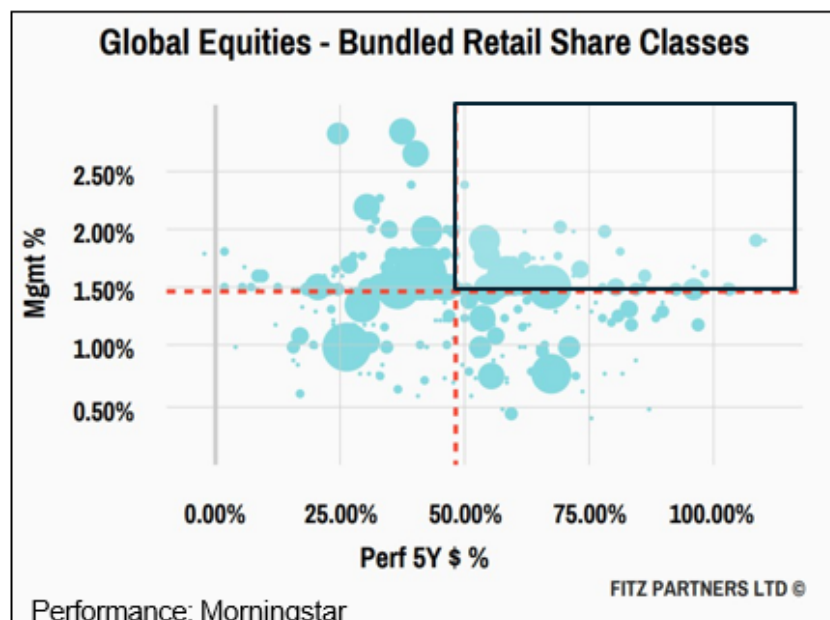
- Revisiting the share class costs vs performance relationship:
 - Distribution of cross-border share classes' performance, management fees & size

value
noun
UK /væl.ju/ US /væl.ju/

value noun (MONEY)

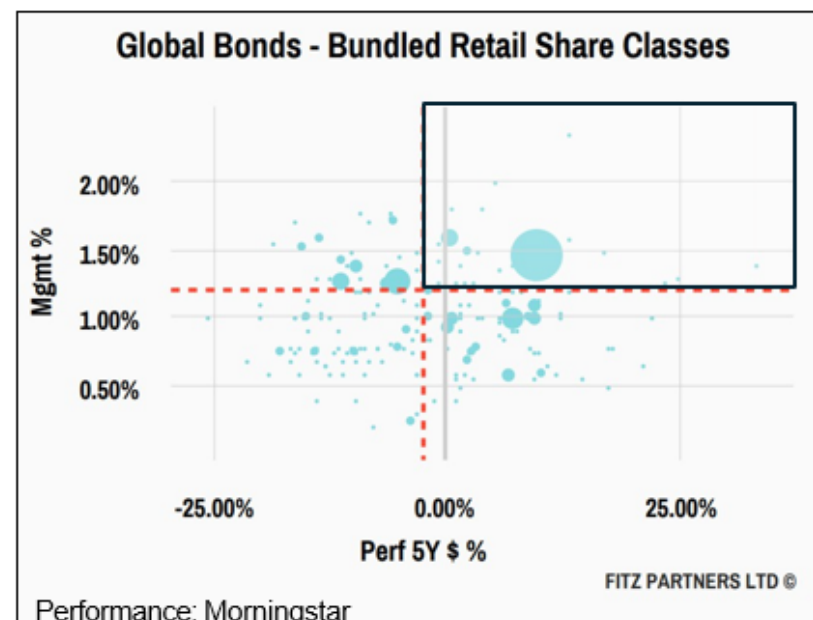
the amount of money that can be received for something

© Cambridge University Press & Assessment 2024



In the highlighted corner we find the share classes carrying the highest management fees and outperforming the overall peer group average.

NB: Not all management fees charged to the funds cover exactly the same services to investors: distribution costs, advice, platform fees...

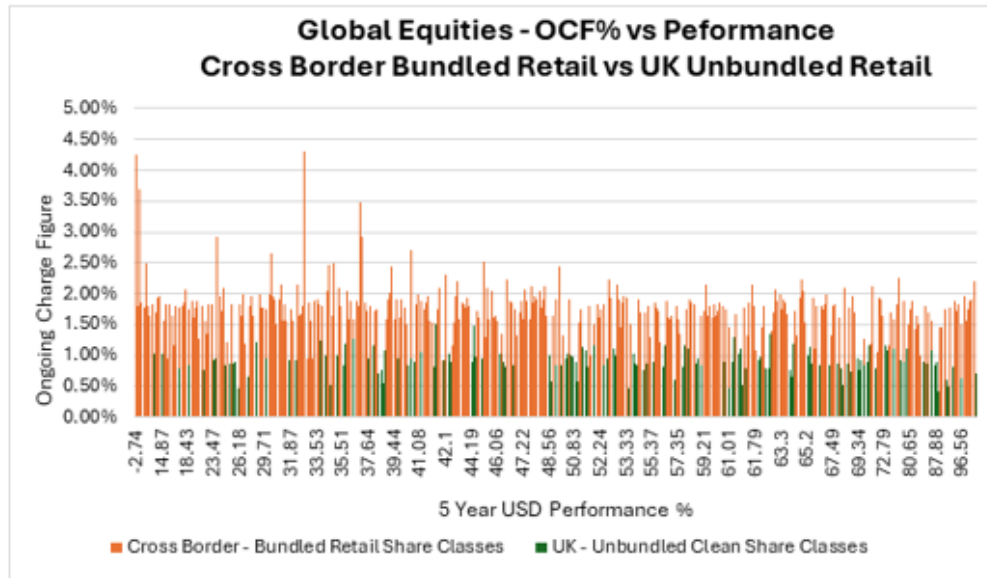


FITZ PARTNERS Value for Money

3. Value for Money – How the Fund Industry offers “Value” - Absolute (2 of 2)

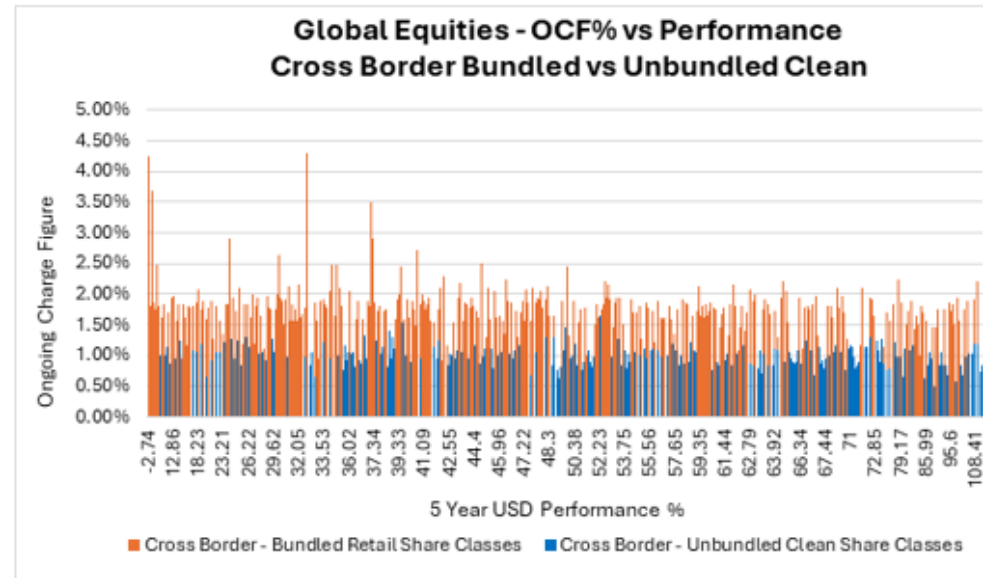
Quantitative evidence: Global Equities

- Revisiting the share class total costs vs performance relationship:
 - Cross-border share classes (inc. inducement) & UK share classes (clean of inducement)
 - Cross-border share classes (bundled: inc. inducement) vs unbundled (clean of inducement)



Performance: Morningstar

FITZ PARTNERS LTD ©



Performance: Morningstar

FITZ PARTNERS LTD ©

In orange: X-border fully loaded share classes
In green: UK clean classes.
In blue: X-Border Clean classes.
We can see a slight drag on performance but still a large number of fully loaded share classes are positioned toward the high end of performance distribution.

Thank You



Active Management and Multi Manager Approach

*Mediolanum analysis of active management
value across different market cycles*

Giorgio Carlino – Head of Multi Management, Mediolanum International Funds



Active Management and Multi-Manager Approach

Mediolanum analysis of active management value
across market cycles

Giorgio Carlino

MedMe

October 2024

Active management

Price Discovery

- **Research and Analysis:** Conducting in-depth research on companies, industries, and economic conditions to assess the intrinsic value of stocks and other assets.
- **Market Efficiency:** By buying undervalued securities and selling overvalued ones, active managers help ensure that prices reflect all available information, contributing to market efficiency.

Capital Allocation

- **Investment Decisions:** Allocating capital to companies and sectors with the highest growth potential, thereby supporting innovation and economic development.
- **Resource Optimization:** Ensuring that financial resources are directed towards the most productive uses, which can lead to better overall economic outcomes.



Passive investing

- **Market Replication:** The goal is to replicate the performance of a specific market index, such as the S&P 500.
- **Diversification:** By investing in a broad market index, passive investors achieve diversification, spreading risk across various sectors and asset classes and a minimal cost.
- **Simplicity:** Passive investing is straightforward.
- **Reduced Risk of Underperformance?:** this is usually a mis nomen, with passive investing you are guaranteed a small underperformance over an index, simply due to the fees that the Index won't incur.



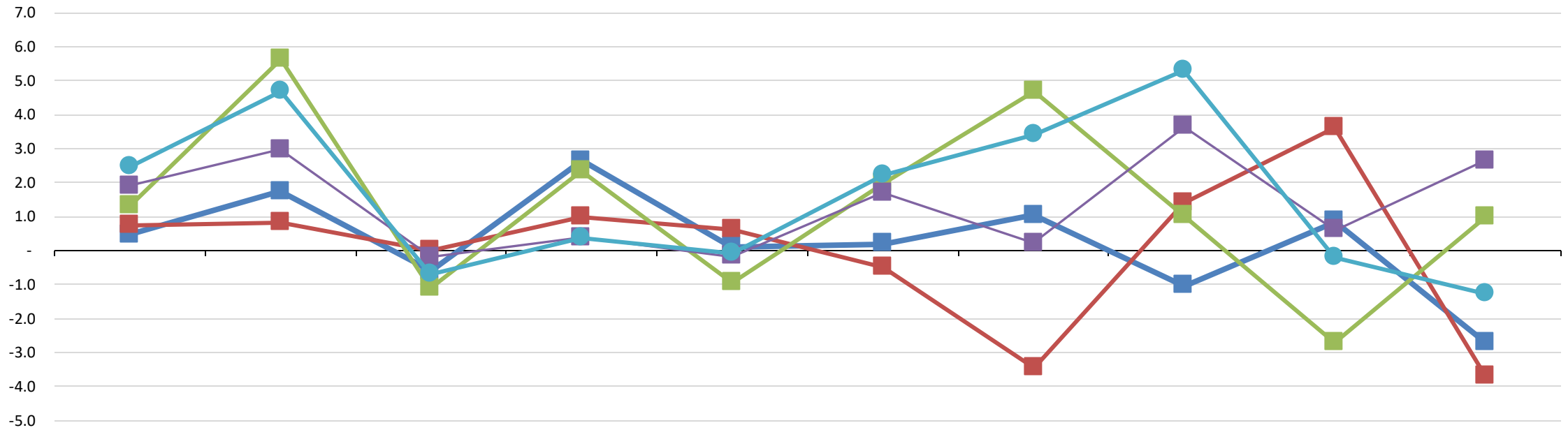
Active Management Can it deliver on its promises? The case for Equity



Active performance

different among strategies over the time - Equity

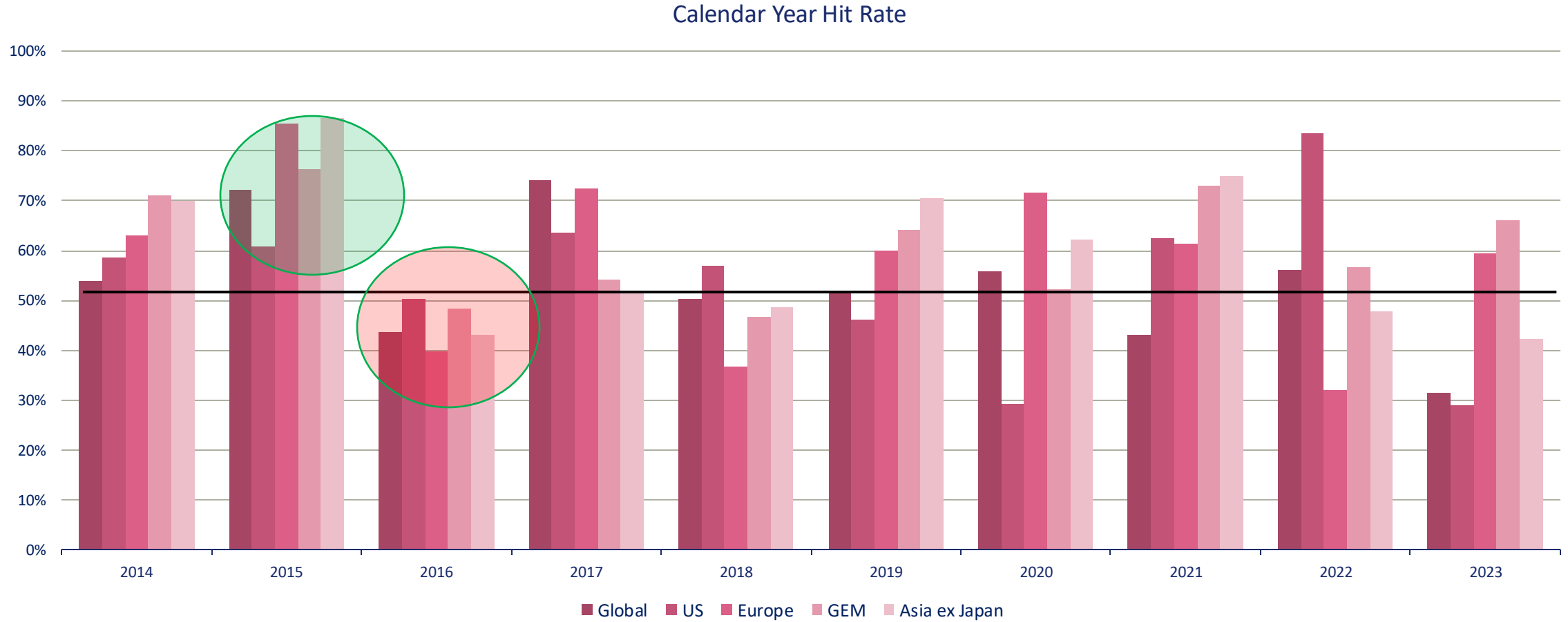
Median Calendar Year Alpha - Equity



| | | | | | | | | | | |
|---------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Global | 439 | 485 | 520 | 563 | 603 | 652 | 700 | 743 | 786 | 799 |
| US | 315 | 327 | 341 | 360 | 382 | 392 | 401 | 404 | 406 | 391 |
| Europe | 89 | 90 | 93 | 94 | 98 | 100 | 106 | 106 | 103 | 106 |
| GEM | 332 | 356 | 384 | 408 | 442 | 470 | 490 | 510 | 538 | 537 |
| Asia ex Japan | 103 | 112 | 116 | 119 | 121 | 125 | 127 | 132 | 132 | 130 |

Source: Evestment – Timeline 2013 - 2023 – Gross

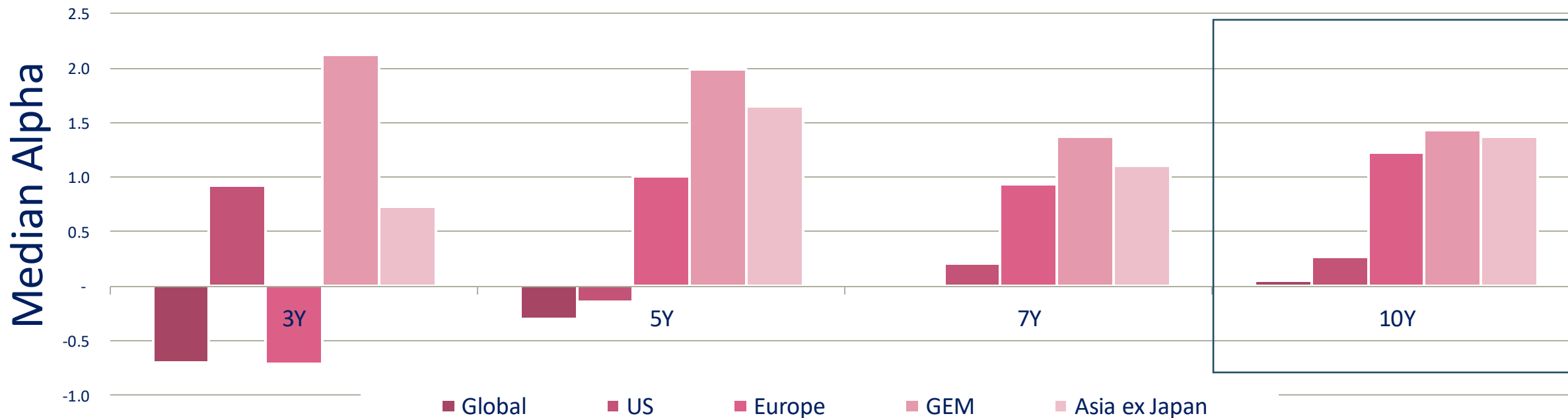
Short term success of active can be volatile - Equity



Source: Evestment – Timeline 2013 - 2023 – Gross

Active delivers Alpha the right time horizon

Long term



Number of strategies

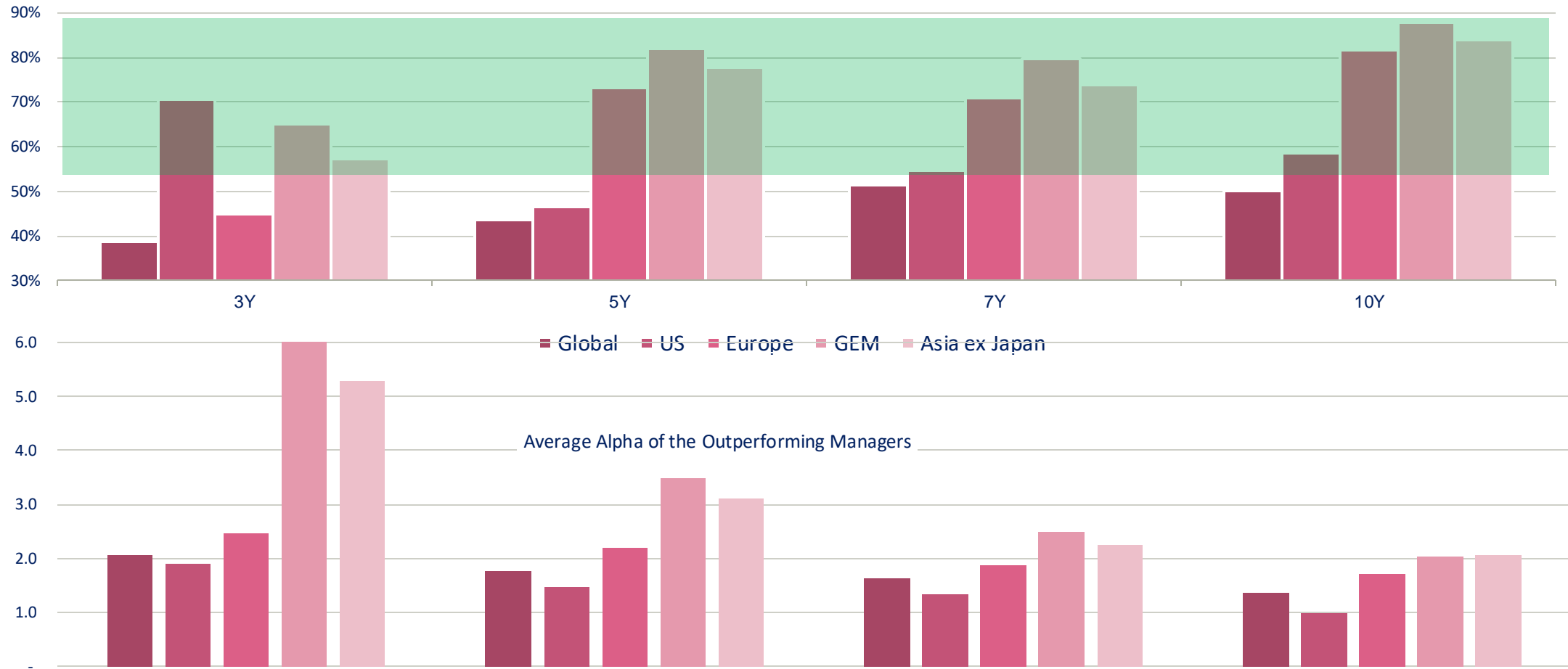
| | | | | |
|---------------|-----|-----|-----|-----|
| Global | 719 | 620 | 534 | 421 |
| US | 380 | 360 | 330 | 291 |
| Europe | 100 | 93 | 86 | 82 |
| GEM | 494 | 447 | 387 | 317 |
| Asia ex Japan | 129 | 122 | 115 | 100 |



Source: Evestment – Timeline 2013 - 2023 – Gross

Alpha is not the same among equity strategies

Hit Ratio



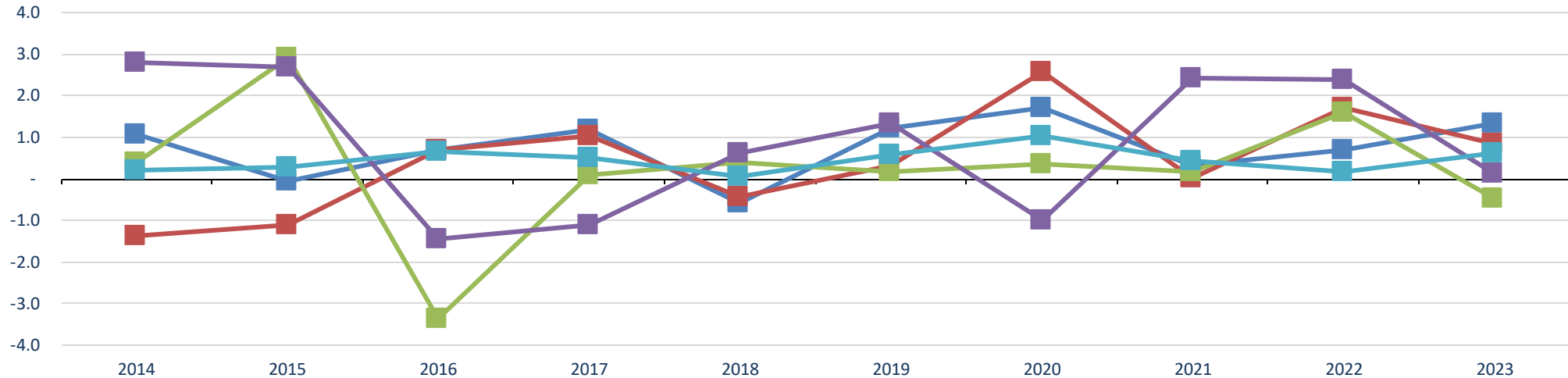
Source: Evestment – Timeline 2013 - 2023 – Gross

Does Active Management
deliver also on Fixed Income?



Active performance different among strategies over time also in Fixed Income

Median Calendar Year Alpha - FI



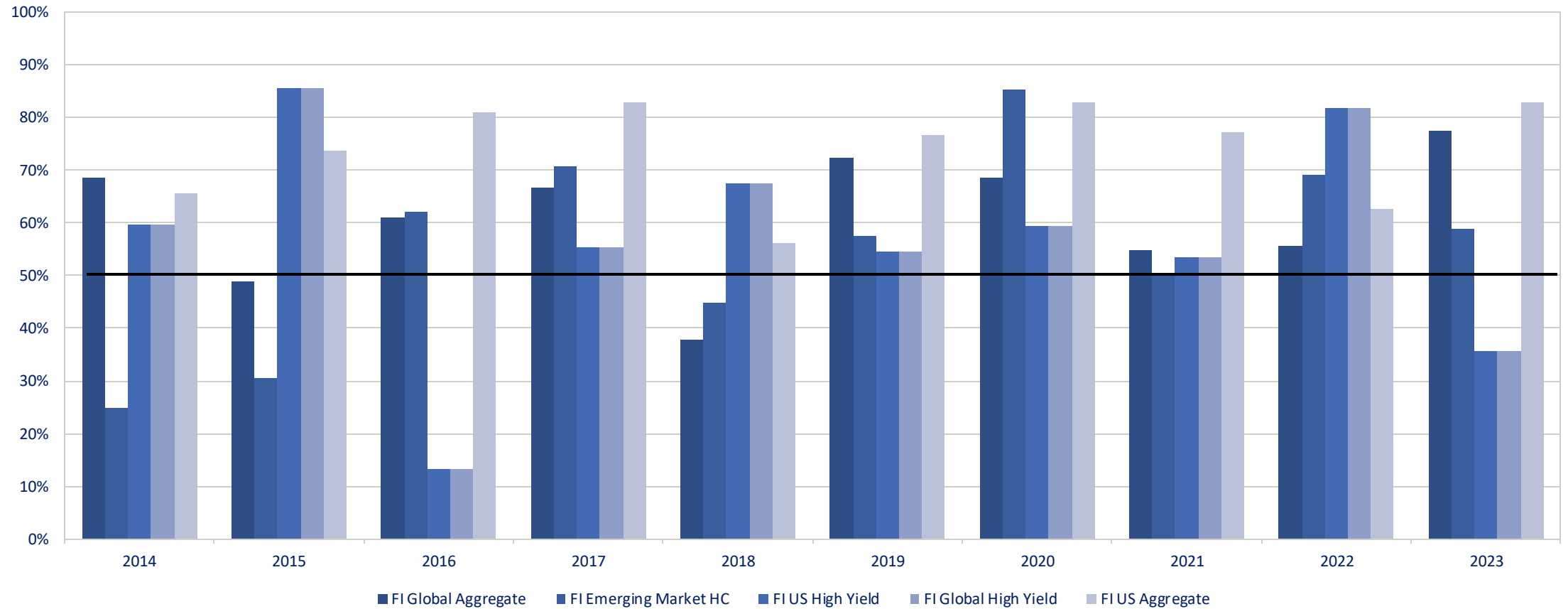
| | | | | | | | | | | |
|-----------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| FI Global Aggregate | 92 | 98 | 105 | 111 | 114 | 119 | 121 | 122 | 124 | 124 |
| FI Emerging Market HC | 88 | 92 | 98 | 109 | 114 | 120 | 122 | 125 | 130 | 131 |
| FI US High Yield | 184 | 196 | 203 | 208 | 218 | 223 | 229 | 234 | 242 | 244 |
| FI Global High Yield | 61 | 64 | 70 | 78 | 88 | 93 | 102 | 104 | 107 | 107 |
| FI US Aggregate | 219 | 229 | 231 | 235 | 238 | 241 | 244 | 246 | 249 | 241 |



Source: Evestment – Timeline 2013 - 2023 – Gross

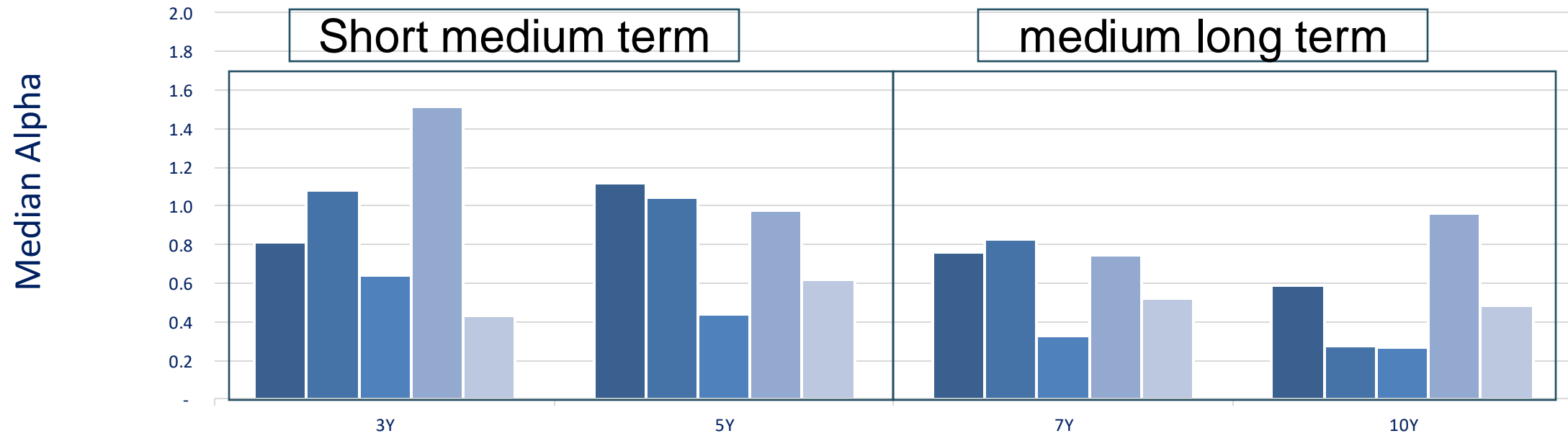
Short term success of active can be volatile also for Fixed Income

Calendar year Hit Rates



Source: Evestment – Timeline 2013 - 2023 – Gross

Active delivers Alpha with the right time horizon – Short/Medium 3-5 years and Medium/Long 7-10 years

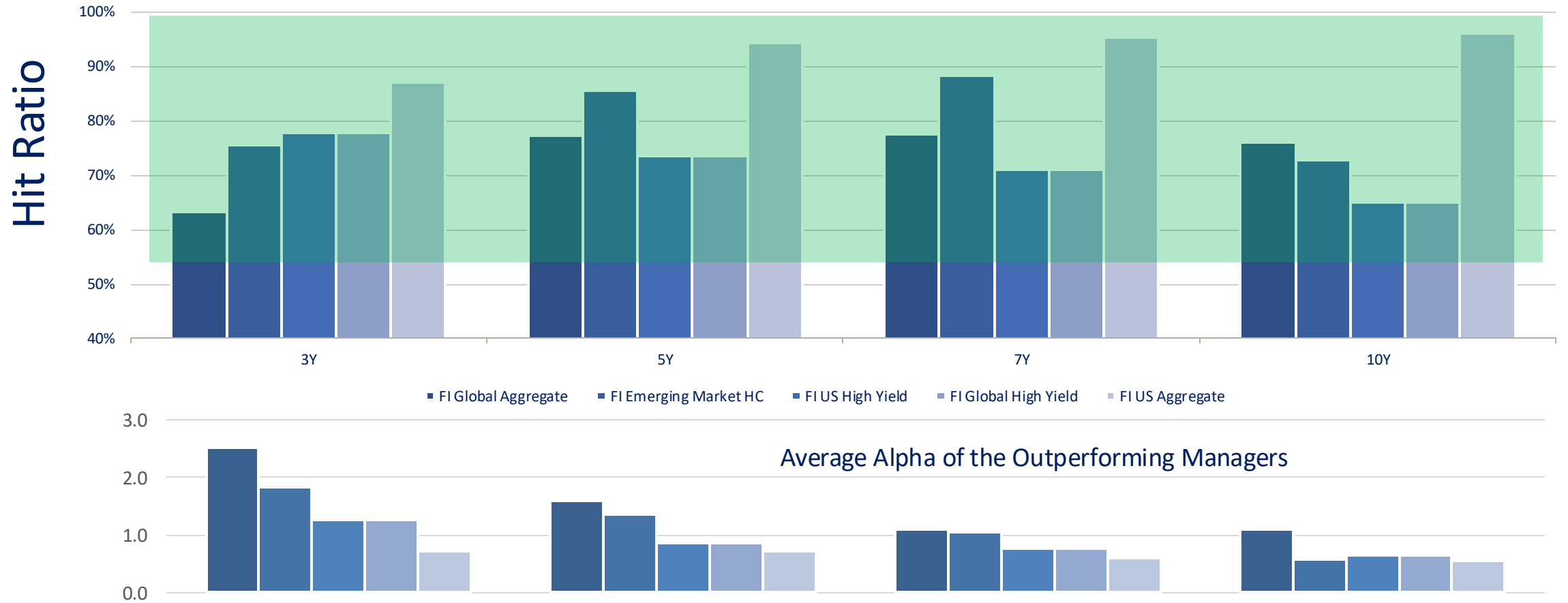


| | | | | |
|-------------------------|-----|-----|-----|-----|
| ■ FI Global Aggregate | 120 | 114 | 107 | 88 |
| ■ FI Emerging Market HC | 118 | 111 | 102 | 81 |
| ■ FI US High Yield | 230 | 219 | 204 | 180 |
| ■ FI Global High Yield | 99 | 87 | 73 | 57 |
| ■ FI US Aggregate | 234 | 225 | 219 | 206 |



Success rate of Active is higher in fixed income than equity

Alpha is smaller and not the same among strategies



Source: Evestment – Timeline 2013 - 2023 – Gross

Conclusions

- Active Management generates value: **only with the right time horizon**
- Not all active managers generate value: **only selection makes the difference**
- Alpha is always different among strategies and active managers are not all successful at the same time: **only diversification among managers and strategies makes a difference**

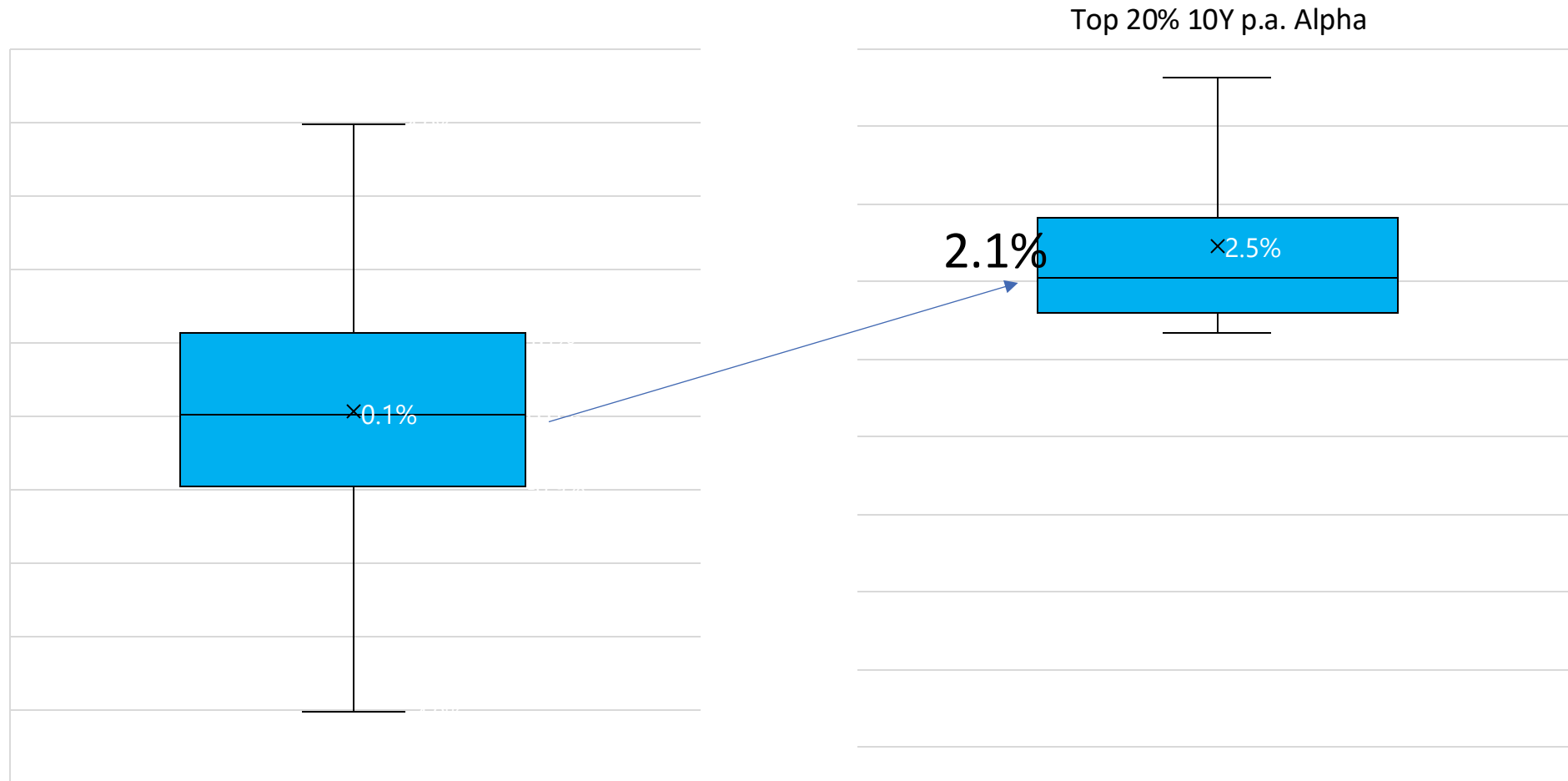


Additional content



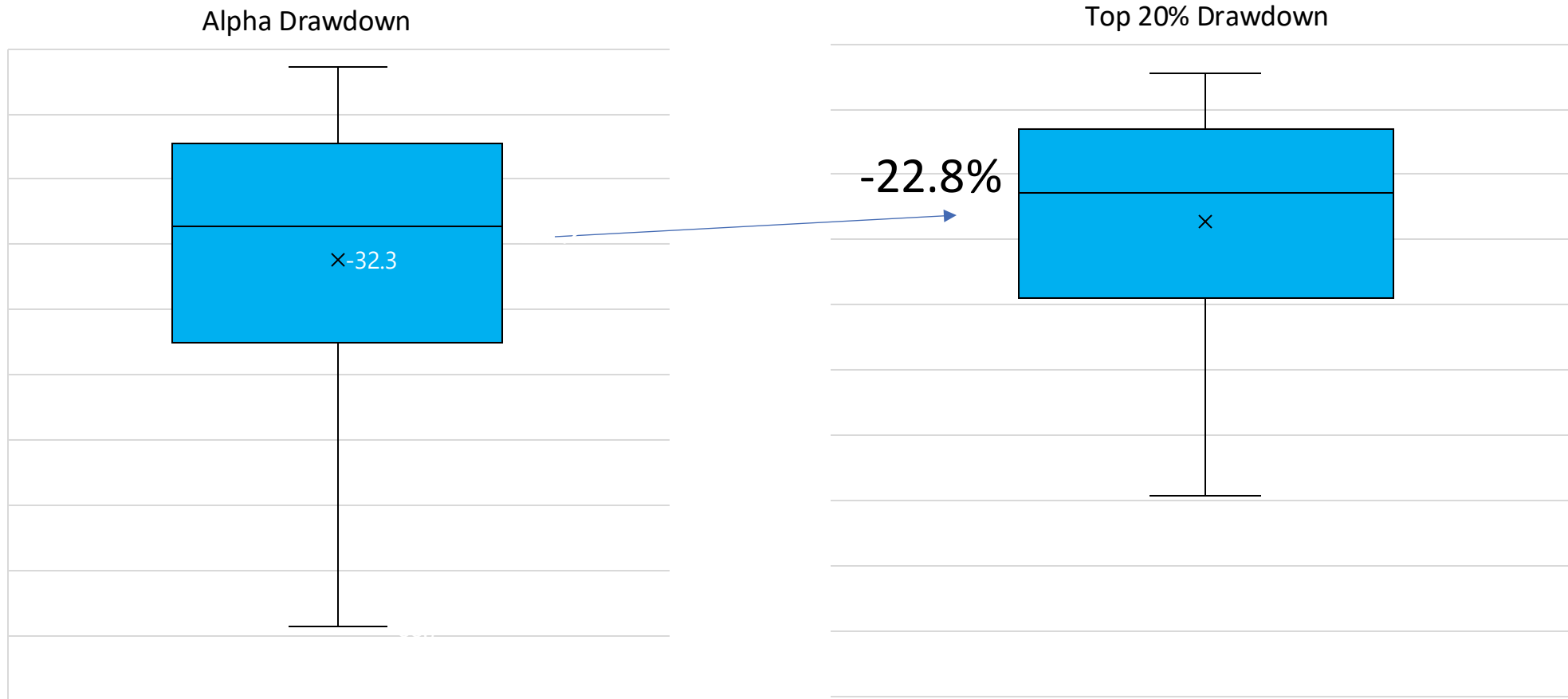
Multi Manager Approach - Portfolio Construction

Global Equity Group (417 strategies)



Multi Manager Approach - Portfolio Construction

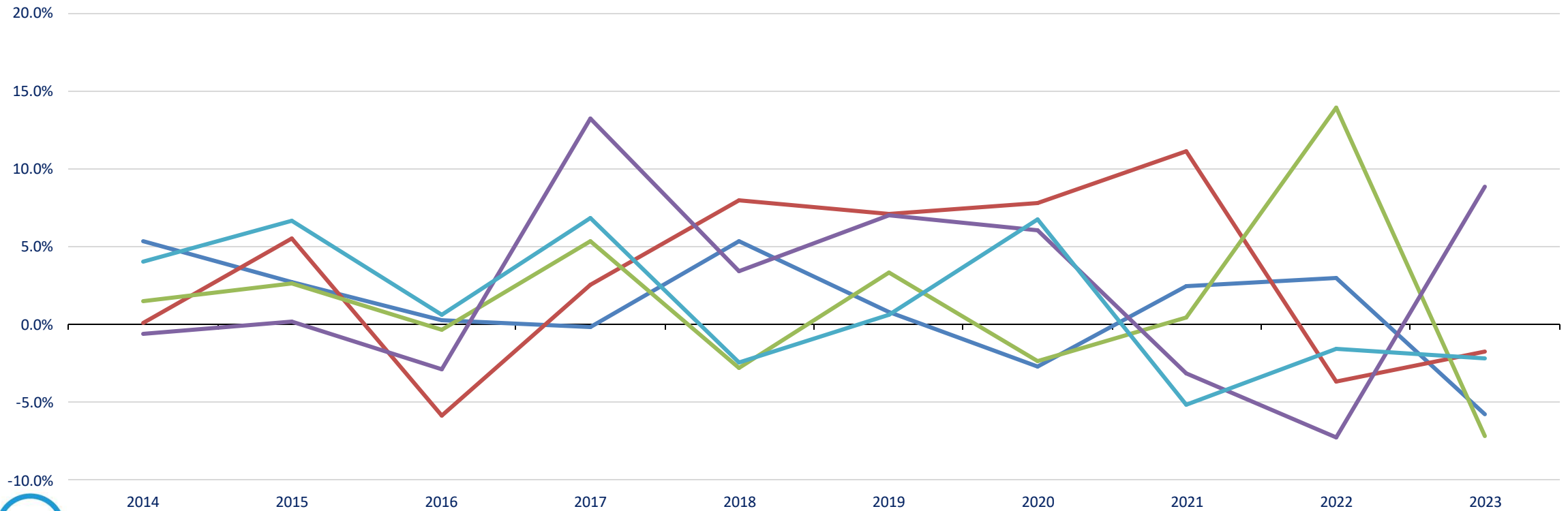
Global Equity Group (417 strategies)



Multi Manager Approach - Portfolio Construction

Selecting random 5 managers between the top 20% (around 80 Managers) performer at 10 years

Calendar Year Alpha of each manager

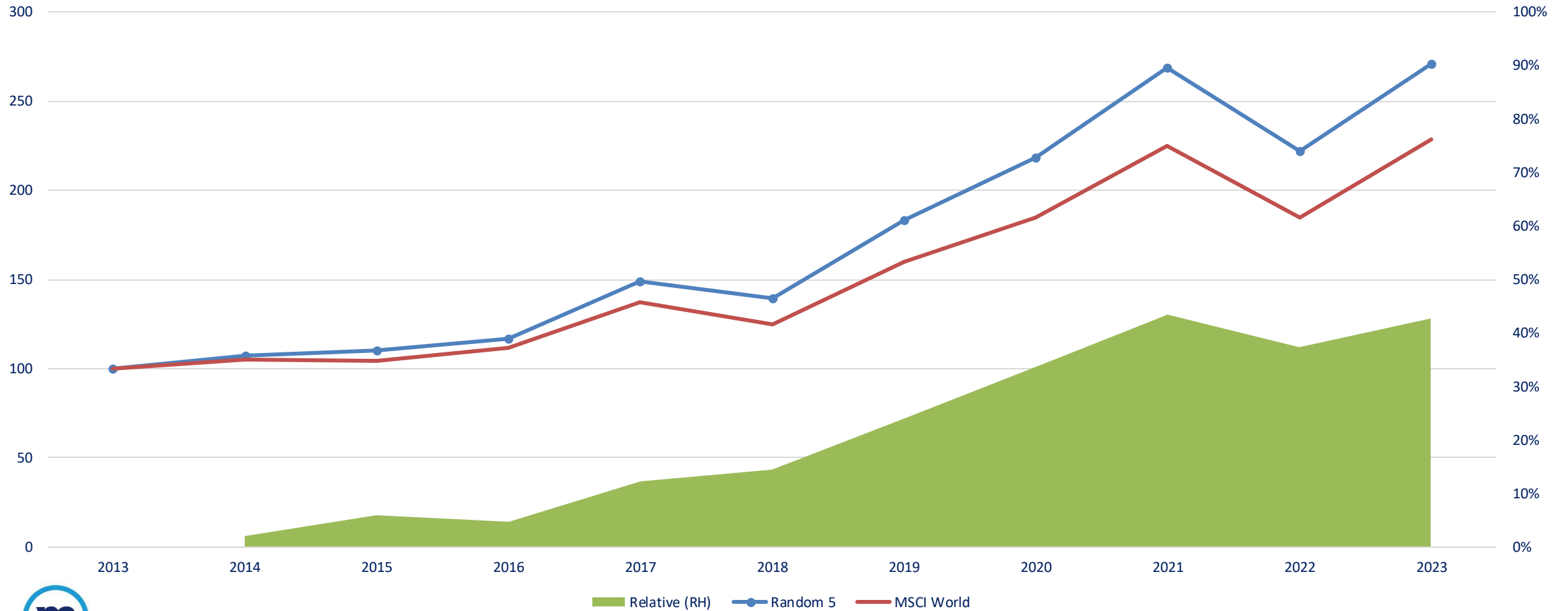


Multi Manager Approach - Portfolio Construction



Multi Manager Approach - Portfolio Construction

5 Random portfolio Performance



Multi Manager Approach - Portfolio Construction

Drawdown Analysis – 10 Years – Global Equity

Average drawdown of full sample -32.3%

Drawdown of top 20% -27.1%

Average of the 5 managers -23.9%

Multi manager portfolio with the 5 managers -11.4%



Identifying manager “edge”



Manager “edge” is what **differentiates** one manager from another, and it comes from **expertise in manager selection**

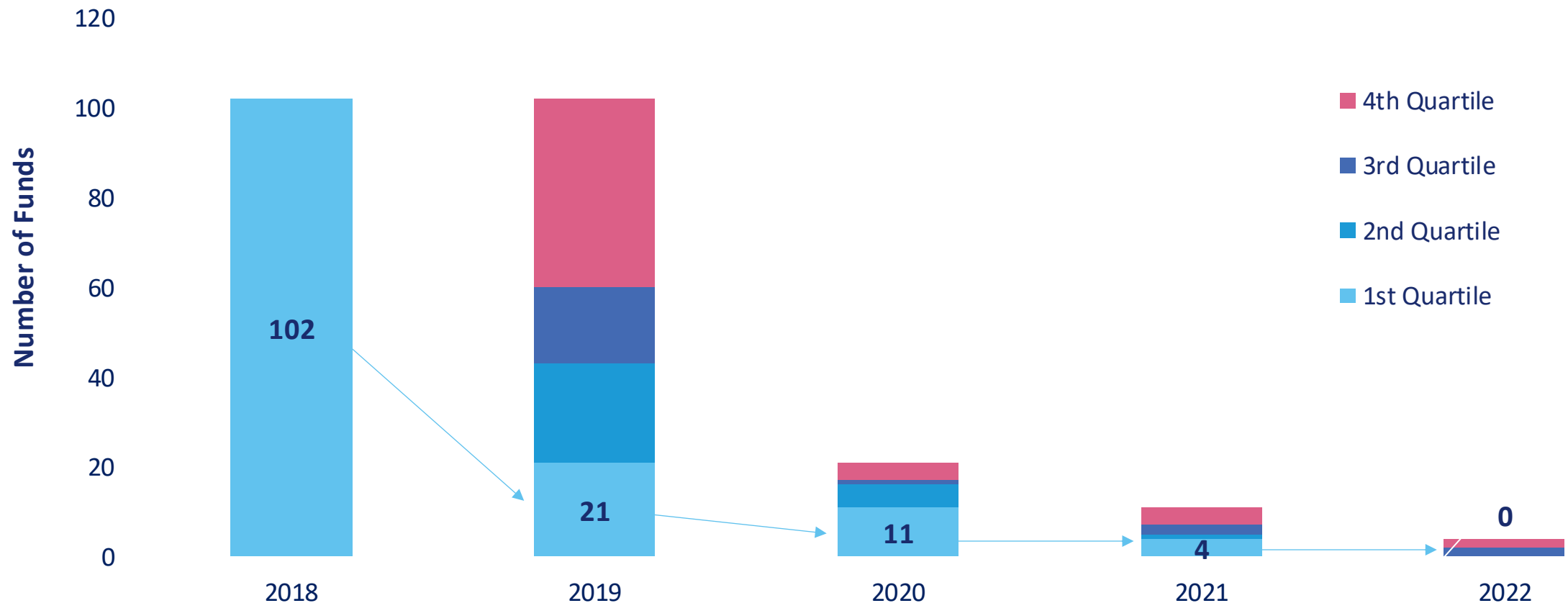


Alpha comes from **people** and their **investment ideas**, not the manager's historical returns

Why do we not simply screen on performance?

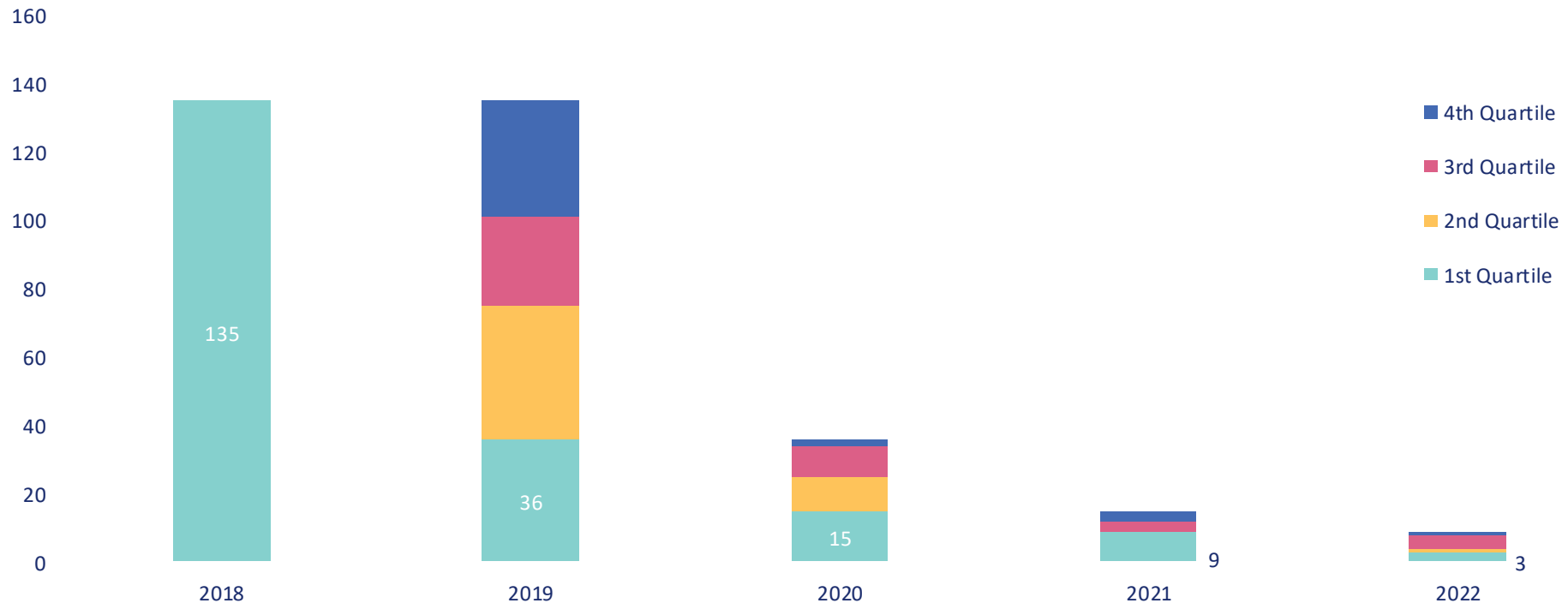
Alpha comes from people and their investment ideas, not the manager's historical returns

Consecutive Year-on-Year 1st Quartile Performance:
Morningstar Global Emerging Markets Equity Last 5 Years (2018-2022)



Why do we not simply screen on performance? (1/2)

Consecutive 1st Quartile performance for EAA Global Large-Cap Blend Equity Category* since 2018



Alpha comes from people and their **investment ideas**, not the manager's historical returns

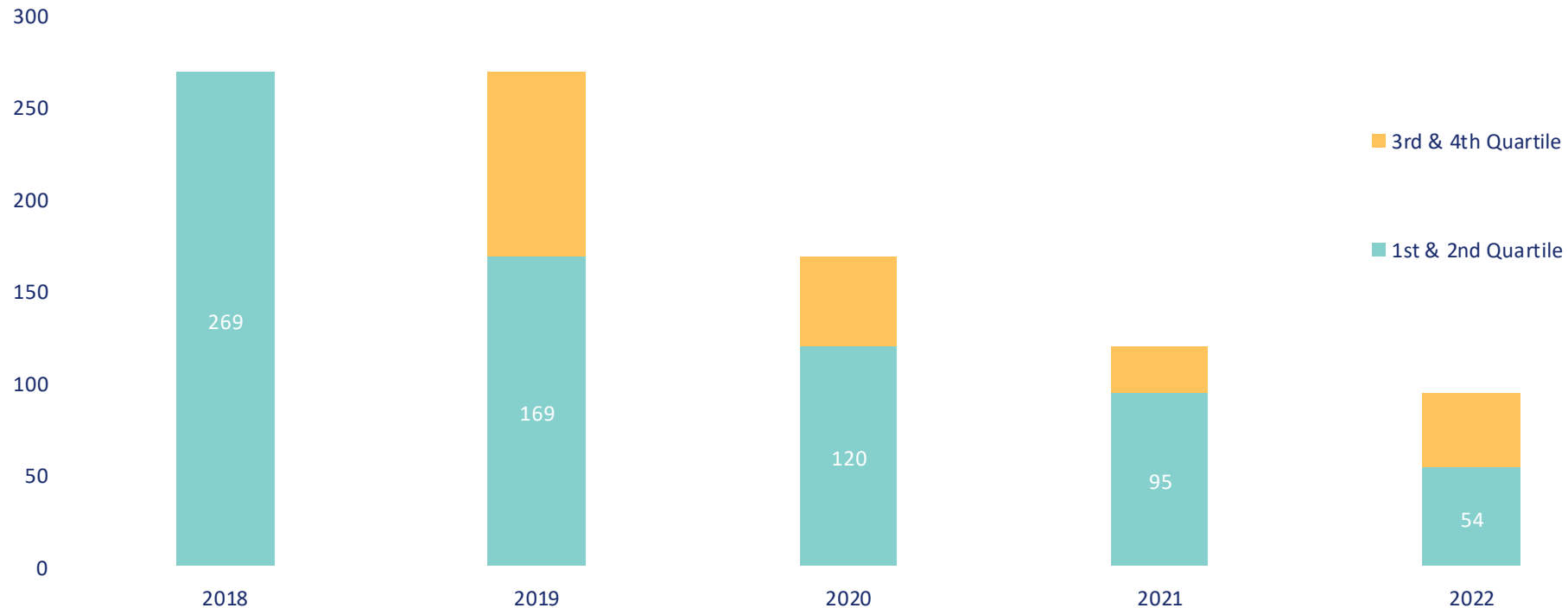


Source: Morningstar as of February 2023.

*EAA Global Large-Cap Blend Equity Category, including only UCITS funds, the oldest share class for each fund, and funds with Assets under management greater than \$100M. Total 759 funds from the category.

Why do we not simply screen on performance? (2/2)

Consecutive 1st and 2nd Quartiles for EAA Global Large-Cap Blend Equity Category* since 2018



Even top 2 Quartiles are volatile



Source: Morningstar as of February 2023.

*EAA Global Large-Cap Blend Equity Category, including only UCITS funds, the oldest share class for each fund, and funds with Assets under management greater than \$100M. Total 759 funds from the category.

Historical returns & future performance (1/3)

Best and worst performing managers on the EAA Global Large-Cap Blend Equity Category*

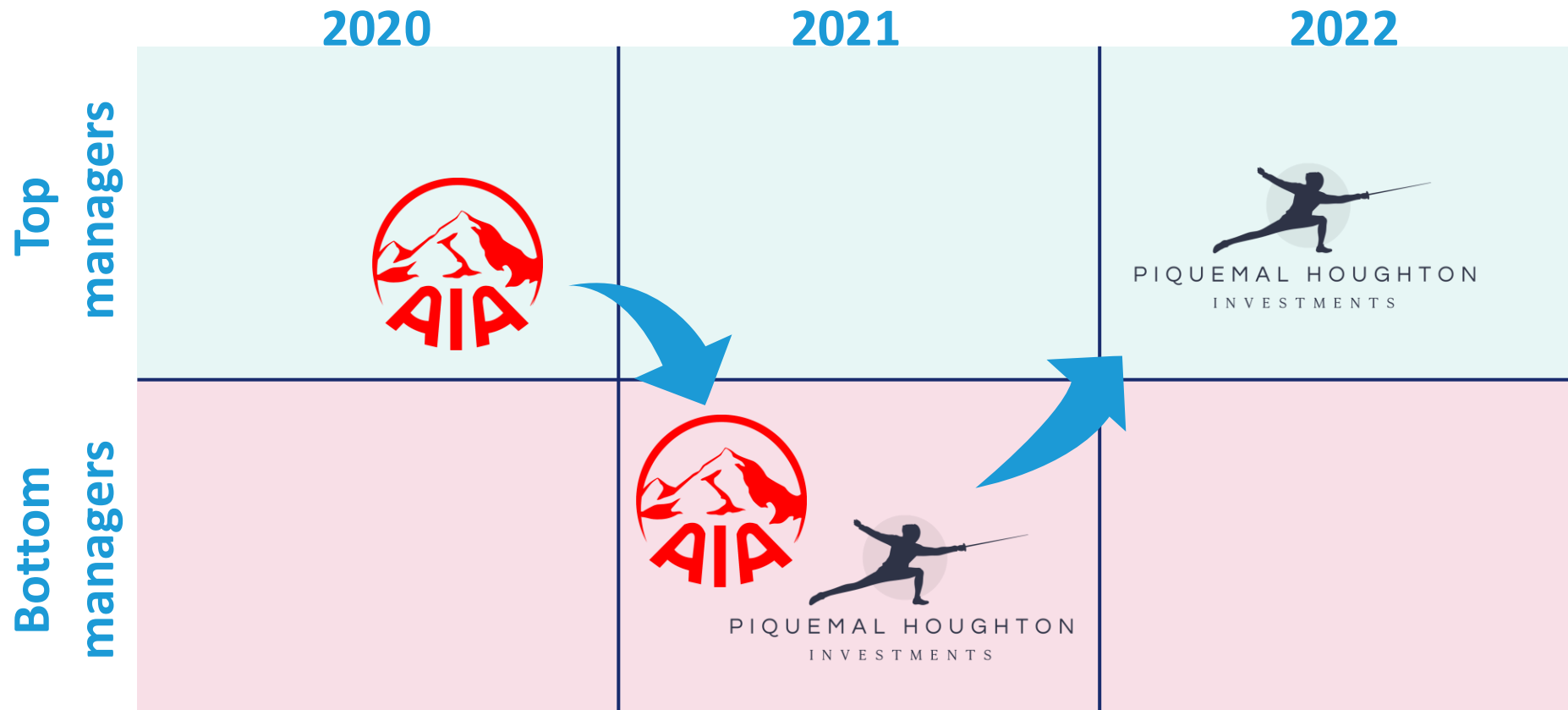
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------|---|--|--|---|--|--|
| Top 3 managers |  |  CARNEGIE FONDER |  |  |  |  PIQUEMAL HOUGHTON INVESTMENTS |
| |  |  DEGROOF PETERCAM ASSET MANAGEMENT |  WARBURG INVEST |  |  |  |
| |  |  |  Wealth Management Foyer Group |  |  |  |
| Bottom 3 managers |  |  |  |  |  PIQUEMAL HOUGHTON INVESTMENTS |  |
| |  |  |  |  |  |  |
| |  |  |  |  CAPTOR |  |  |

Source: Morningstar as of February 2023.

*Top 3 and Bottom 3 Managers in the EAA Global Large-Cap Blend Equity Category, including only UCITS funds, the oldest share class for each fund, and funds with Assets under management greater than \$100M.

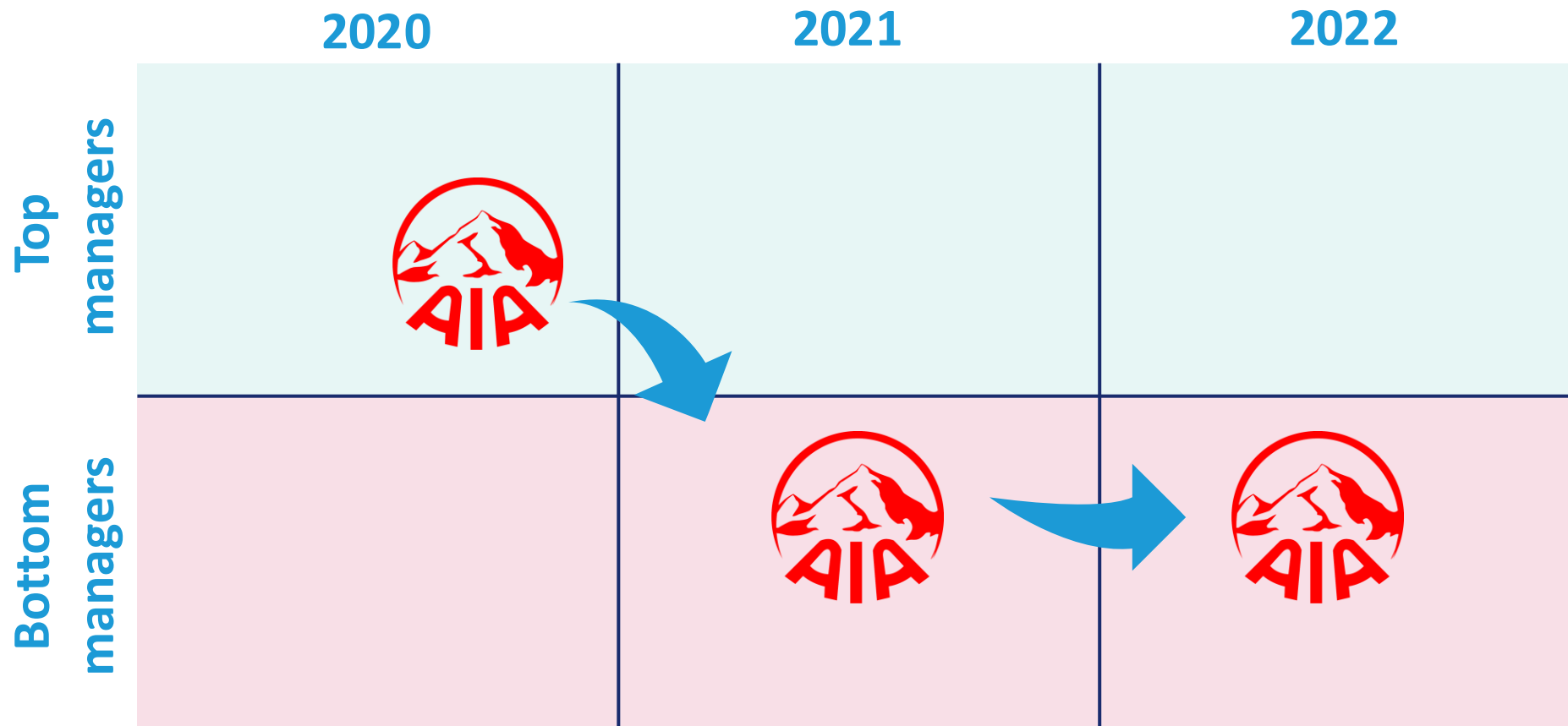
Historical returns & future performance (2/3)

Best and worst performing managers on the EAA Global Large-Cap Blend Equity Category:
Peer group performance is **no guarantee of future results.**



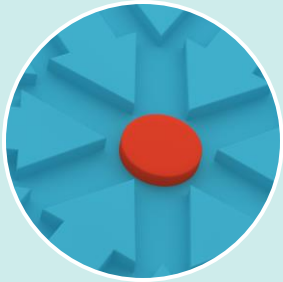
Historical returns & future performance (3/3)

Best and worst performing managers on the EAA Global Large-Cap Blend Equity Category:
And underperformance of previously high performers **can be sustained**



Diversificación: Uso de boutiques y grandes gestores

Boutique managers are **smaller**, **specialized** asset managers with **unique expertise** within a specific **sector** or **region**.



Specialization

Boutiques tend to focus on a smaller number of strategies, allowing MIFL to access their specific know-how and expertise



Ownership

Portfolio Managers have usually direct ownership of boutiques, leading to better long-term performances for MIFL



Performance

MIFL takes advantage of boutiques specialization and flexibility to obtain better performance over the long-run



Differentiation

Partnering with boutiques helps MIFL creating a unique value selling proposition in a particularly competitive market



Rentabilidades de los estilos de Renta Variable

Últimos 3 años

2022

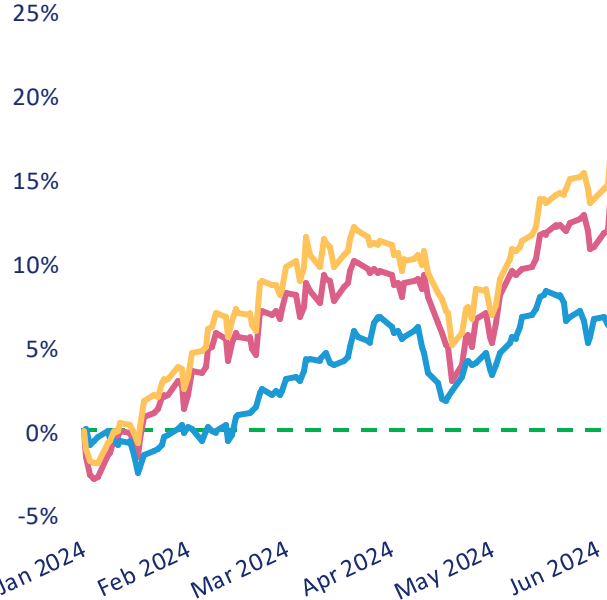
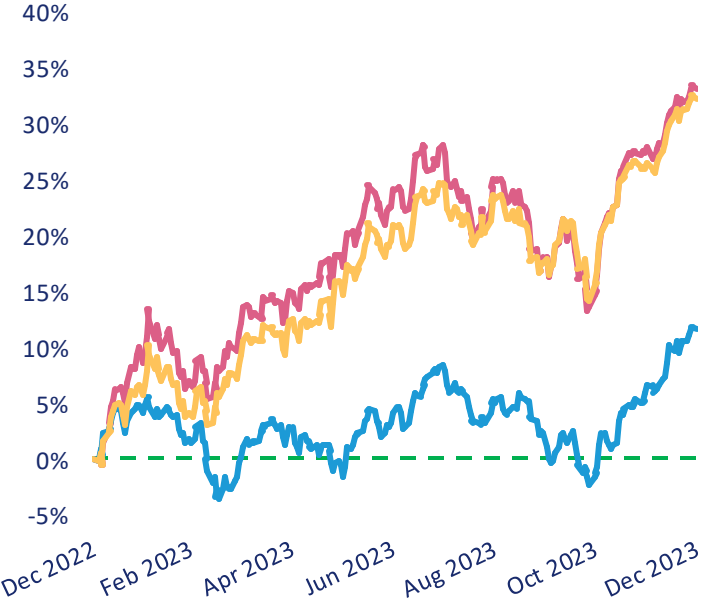
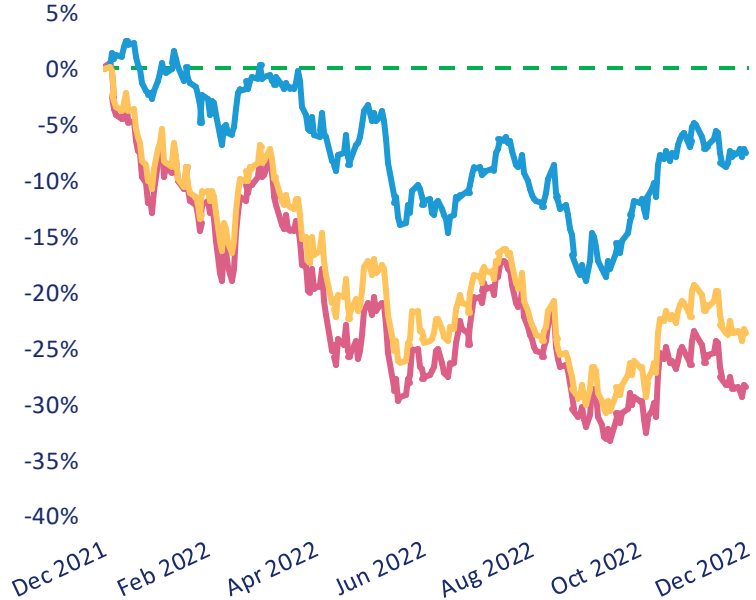
Value
Quality
Growth

2023

Growth
Quality
Value

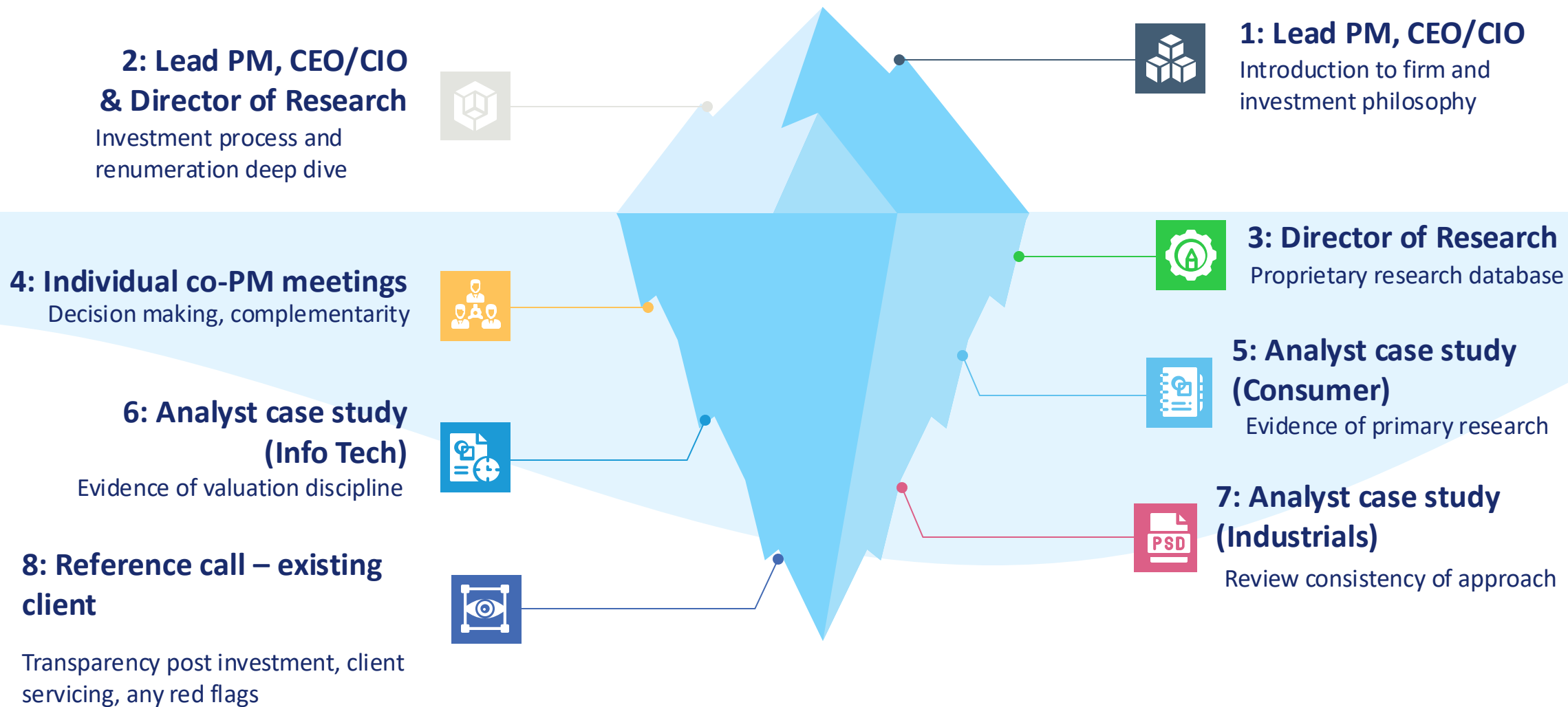
2024

Quality
Growth
Value

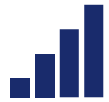


Fuente: Bloomberg. Datos en divisa local (USD).
Las rentabilidades pasadas no son indicativas de rentabilidades futuras

Depth of research: Axiom Investors



Manager Selection in action



We expanded the buy **Buylist** (150 funds, doubled from 5y ago)



Keep track of the good managers with more than **700 meetings a year**



Leveraging on an extensive manager research database covering more than **600 Asset Managers**



Keep launching interesting new products (18 new funds in the last 5 years)
And 10 funds - Article 8 & 9



Identifying manager “edge”

Manager “edge” is what **differentiate** a manager from the other, and it comes from MIFL **expertise in manager selection**.



Analysis



Behaviour



Organization



Experience



Information

Combining different investing approaches

Selecting **different managers** mean also having exposure to **different investment approaches**, that might benefit the over all strategy constructed by MIFL. Here some examples...



Quant

is an investment approach that uses advanced mathematical modelling (via computer systems) to calculate the optimal probability of executing a profitable trade.



Fundamentals

is an investment approach that examines a company's financial statements to determine the intrinsic value of a stock, to estimate its future growth and results in different scenarios.



Momentum

is an investment approach aimed at purchasing securities that show an upward trend, or short-selling securities that show a downward trend, based on the assumption that once a trend is established will continue.

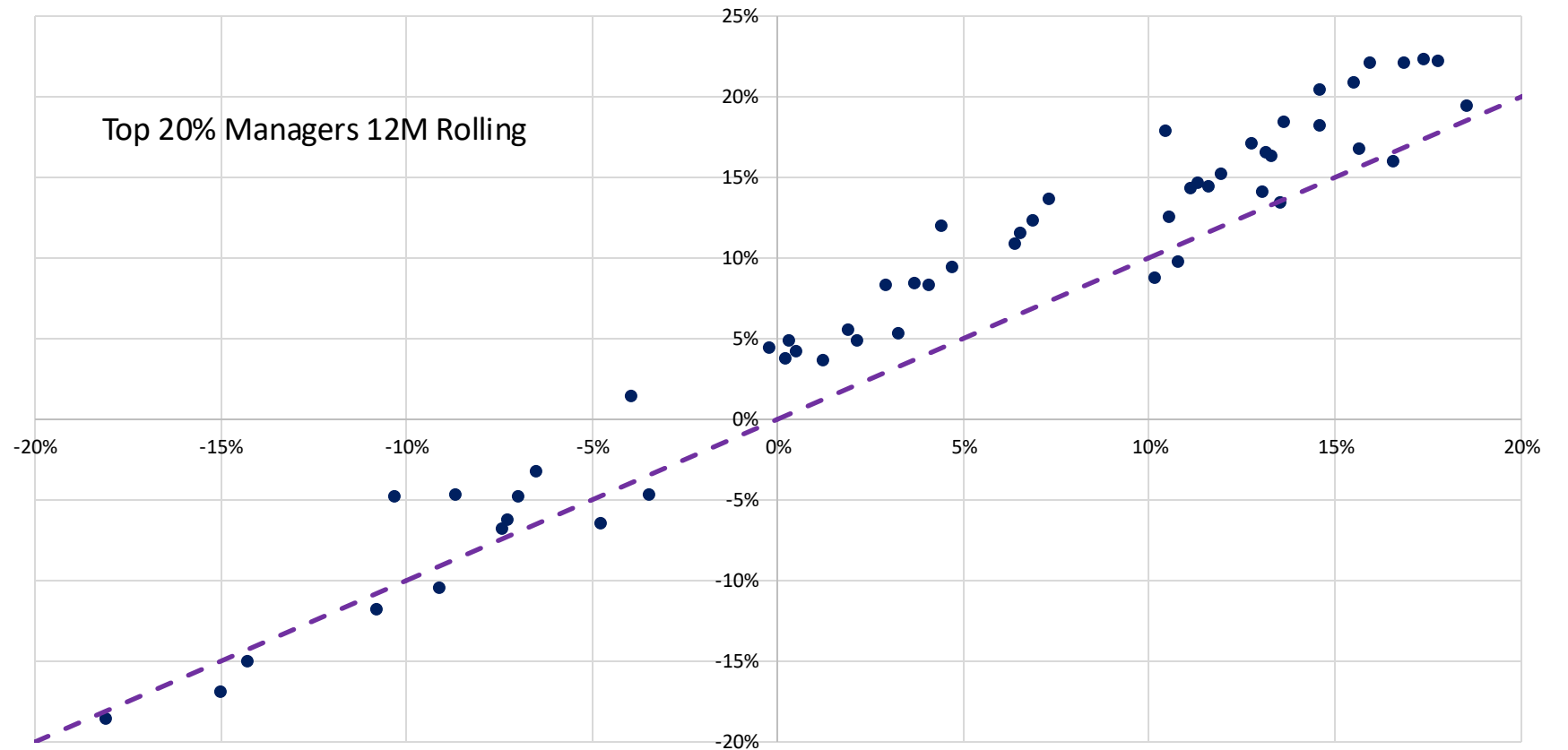


Event driven

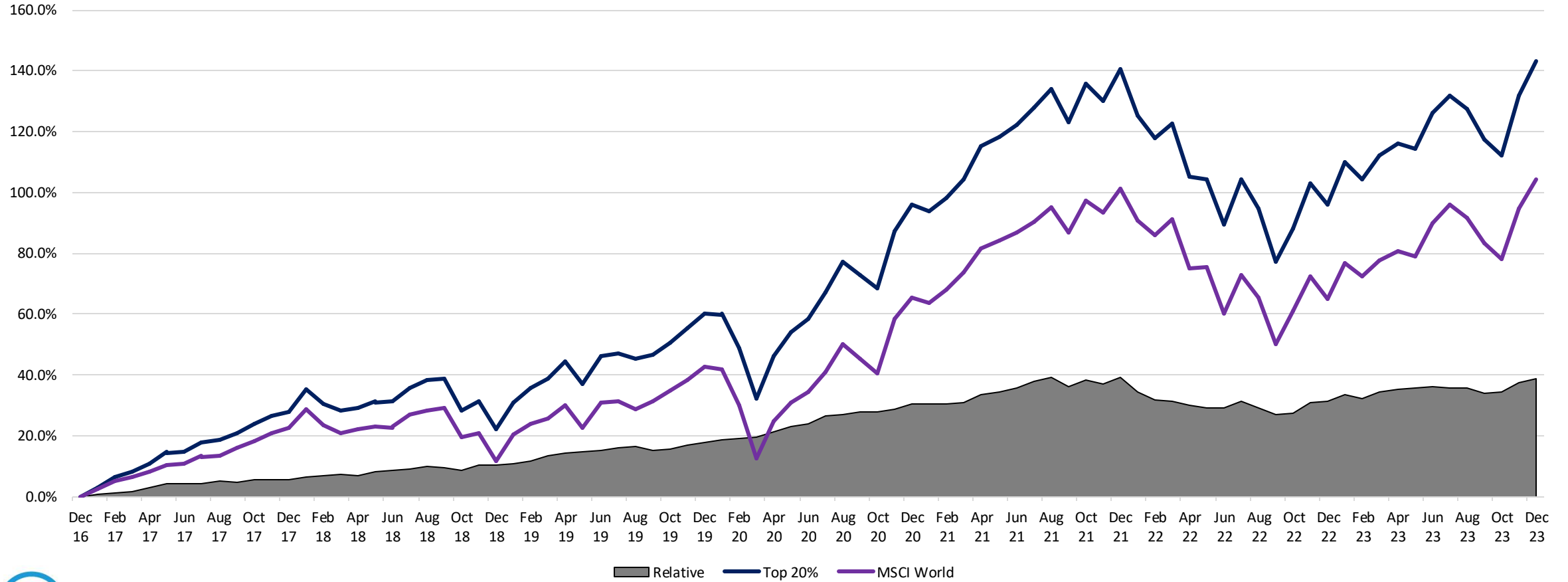
is an investment approach that aims to identify undervalued stocks in the market, based on the principle that markets can sometimes misprice securities, leading to opportunities to buy at discount.

Even with perfect hindsight...

You wouldn't always win



Combining the top 20% can produce positive alpha with a lower drawdown (12%)



Boutique value

Boutique firms innovation by providing unique strategies and generating alpha

Rich Dell – Head of Equity Research, Mercer



Boutique Asset Management

Role in generating value for investors

Rich Dell – Head of Equities, Mercer

October 2024

A business of Marsh McLennan



Mercer: global research coverage

6,870

Managers on MercerInsight®

33,159

Strategies on MercerInsight®

11,107

Strategies rated

3,491

Strategies rated A

5,700

ESG rated strategies

2,000

ESG 1&2 rated strategies

North America

300+ Investment Professionals FTE

105 Research Specialists

Growth Markets

(Asia, Middle East, and Latin America)

60+ Investment Professionals FTE

16 Research Specialists

Europe

450+ Investment Professionals FTE

76 Research Specialists

Pacific

70+ Investment Professionals FTE

13 Research Specialists

Manager and Strategy Statistics as of June 30, 2024, includes sub-advised strategies.

Investment Professionals exclude Financial Services and are FTE (not count of employees). Research Specialists exclude 6 central support/admin staff.

Please see Mercer's Guide to ESG ratings <https://www.mercer.com/our-thinking/mercer-esg-ratings.html>

Please see the Guide to Mercer's Investment Strategy Ratings https://www.mercer.com/assets/us/en_us/shared-assets/local/attachments/pdf-wealth-guide-to-mercers-investment-strategy-research-ratings-mercer-2023.pdf

What is a boutique?

Noun.

A small shop or a small specialty department within a larger store, especially one that sells fashionable clothes and accessories or a special selection of other merchandise.

Any small, exclusive business offering customized service.

collinsdictionary.com

Defining a boutique: asset management firms

1. Alignment

Employee Ownership

Long Term Incentives

Economic benefit

2. Size

Assets Under Management

Investment Professionals

Employees

3. Focus

Products / Strategies

Asset Classes

Teams

Benefits

1. Alignment / long-term incentives
2. Investment Leadership
3. Focus
4. Limited corporate distraction
5. Culture


Risks

1. Governance / challenge
2. AUM concentration (strategy/client/market)
3. Inter-generational challenges
4. Distribution / marketing
5. Risk awareness

Supporting Research



- Affiliated Manager Group
- 2015 (updated 2018)
- 20 years and 11 universes
 - >10% “principle” ownership
 - Investments “sole business”
 - <\$100bn
- **62bps “boutique premium”**

 City Research Online

City, University of London Institutional Repository

Citation: Clare, A. (2022). Is there a boutique asset management premium? Evidence from the European fund management industry. *Journal of Asset Management*, 23(1), pp. 19-32. doi: 10.1057/n41280-021-00245-x

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Link to published version: <https://doi.org/10.1057/n41280-021-00245-x>

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- City University of London
- “Mega Funds” vs. “Boutiques”
- 2007 to 2019
- **Boutiques outperform by 0.5% (0.2% net of fees)**
- Strongest in Small Cap and Emerging Markets


FT ADVISER

Home Pensions Investments Mortgages Protection Regulation Tax Your In

Long Read Jan 24 2024

What is the outlook for boutique fund managers?

X f in @



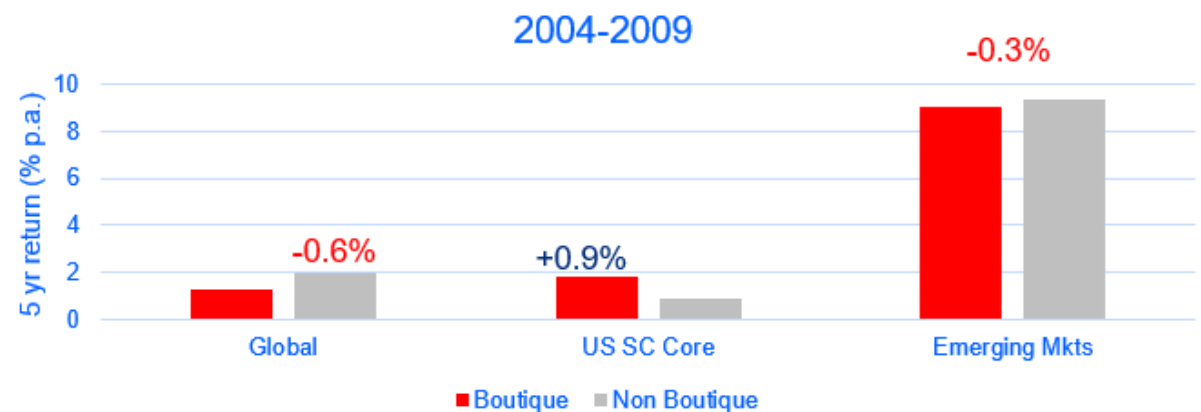
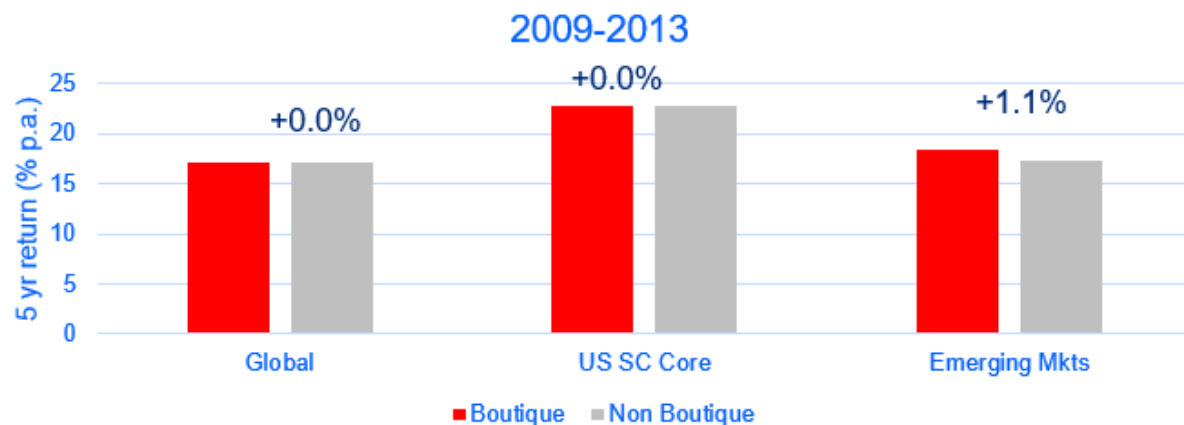
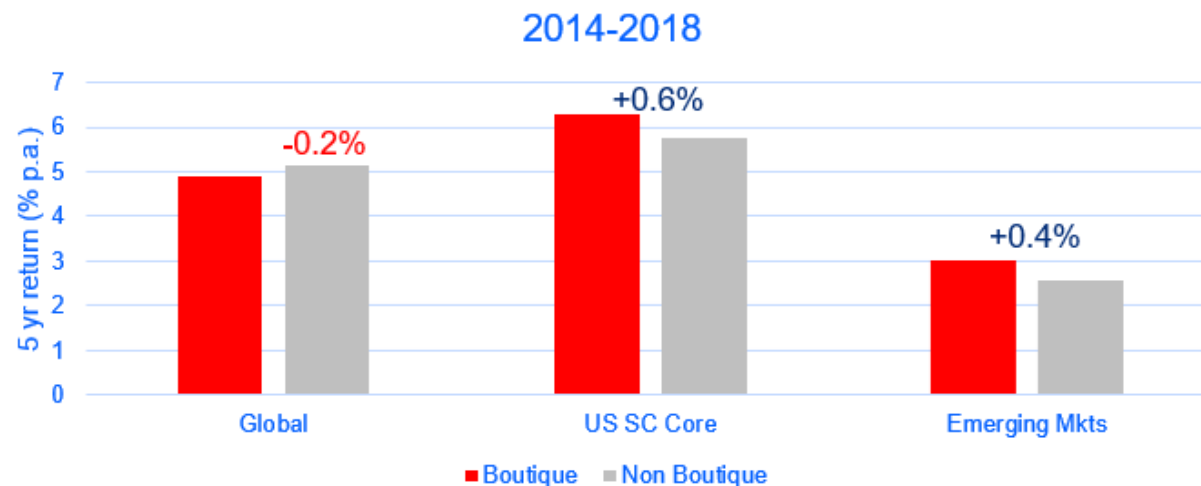
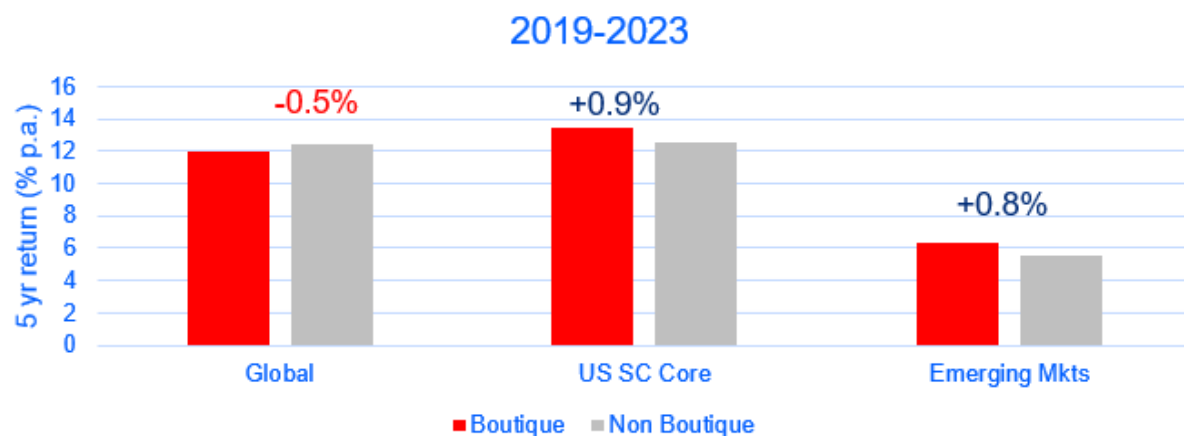
While regulation poses a challenge for boutique fund houses, it may also present an opportunity (Nathan Laine/Bloomberg)

- FT Advisor - January 2024
- **“The peak may have passed’ for boutiques....** on top of the market turmoil and key person risk have come challenges from increased regulatory scrutiny”

Mercer Data: performance of “Boutiques” vs. “Non-Boutique”

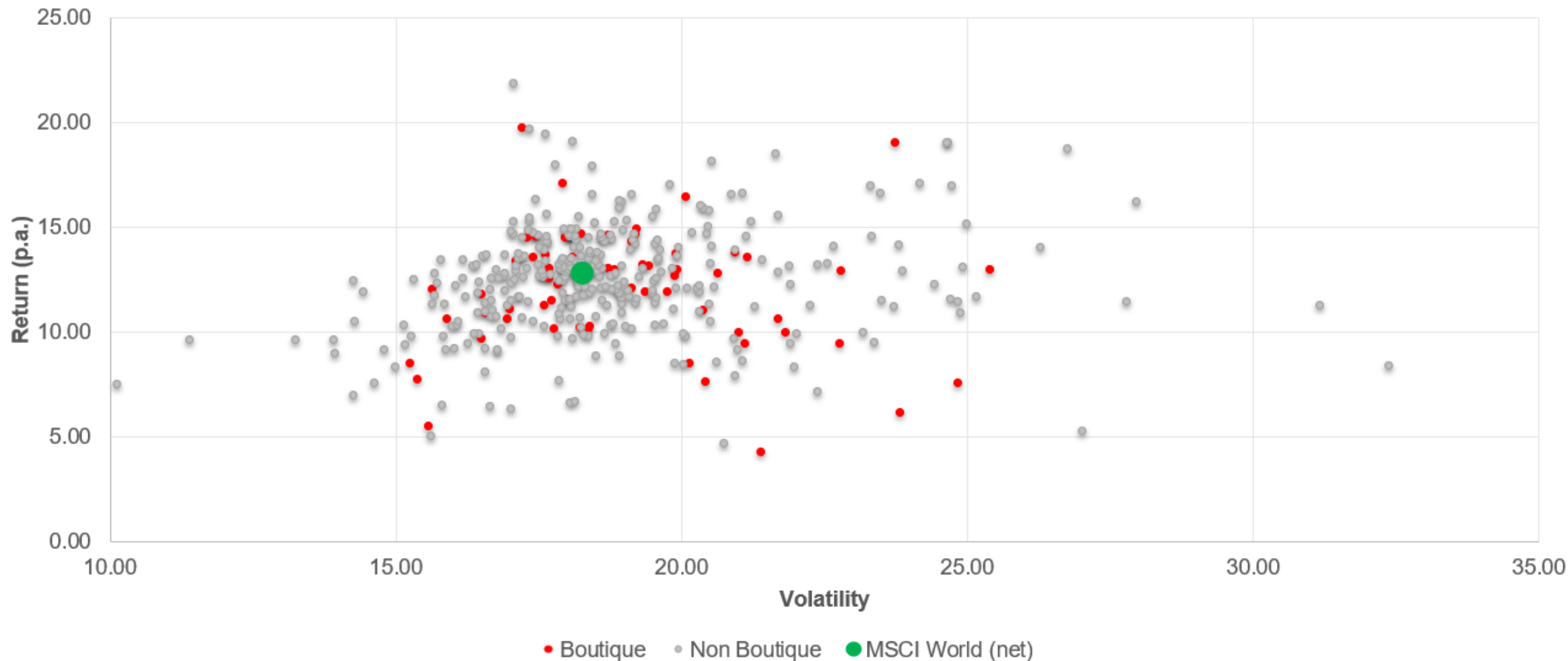
Three Criteria

1. > 20% employee ownership
2. < \$50bn AUM
3. < 100 employees



Mercer Data: performance of “Boutiques” vs. “Non-Boutique”

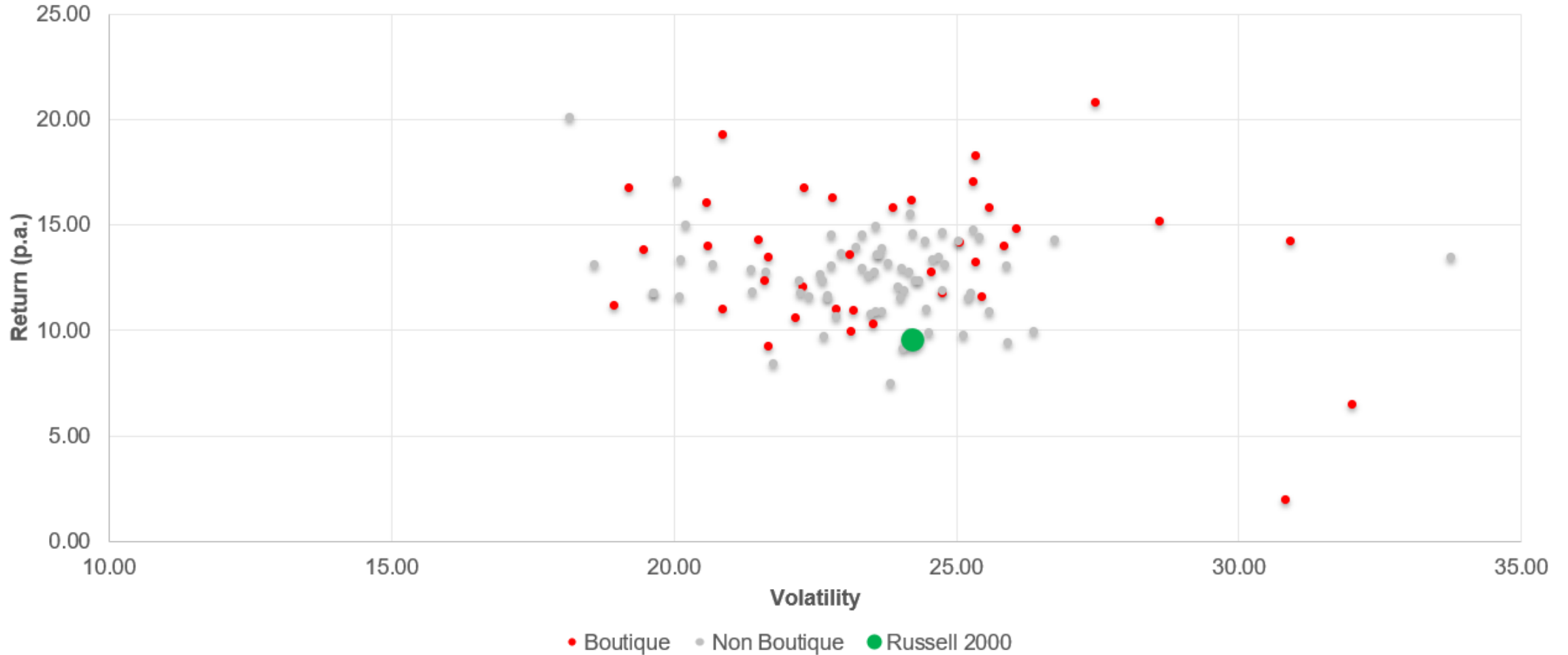
Risk Return – Global Equities: 2019-2023



Source: MercerInsight. All data gross of fees in USD. Performance data as at 30 September 2024. Return and volatility data from 01 January 2019 to 31 December 2023 relative to MSCI World (net).

Mercer Data: performance of “Boutiques” vs. “Non-Boutique”

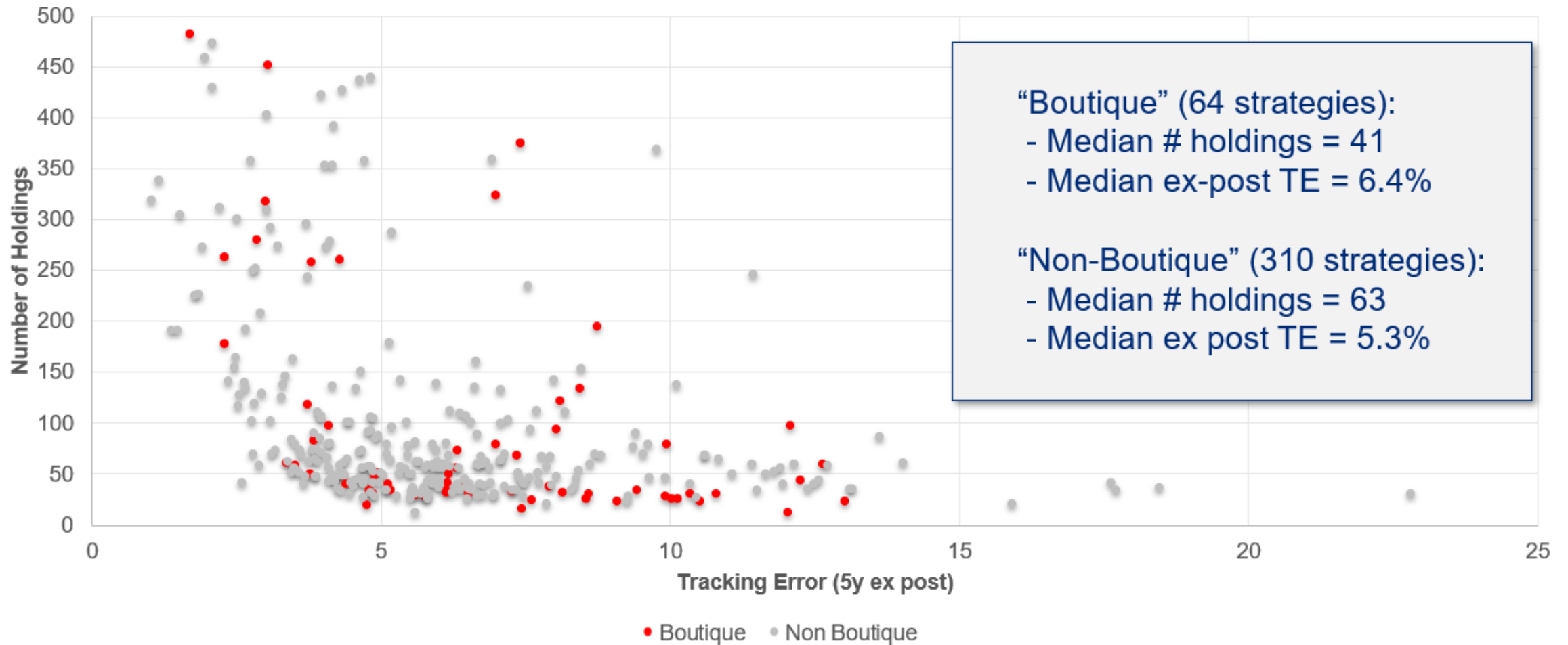
Risk Return - US Small Cap Core Equities: 2019-2023



Source: MercerInsight. All data gross of fees in USD. Performance data as at 30 September 2024. Return and volatility data to 31 December 2023 relative to MSCI World (net).

Concentration and specialism

Global Equity



Source: MercerInsight. All data gross of fees in USD. Performance data as at 30 September 2024. Tracking error to 30 December 2023 relative to MSCI World (net). Portfolio holdings as at 30 June 2024. Strategies within Mercer's global equity universe included with 5 year of performance history and where Mercer collects holdings data. Y axis is capped at 500.

What Matters...



Idea generation

- Philosophy
- Investment process
- Competitive advantage
- Resources



Portfolio construction

- Guidelines
- Style
- Risk
- Monitoring



Implementation

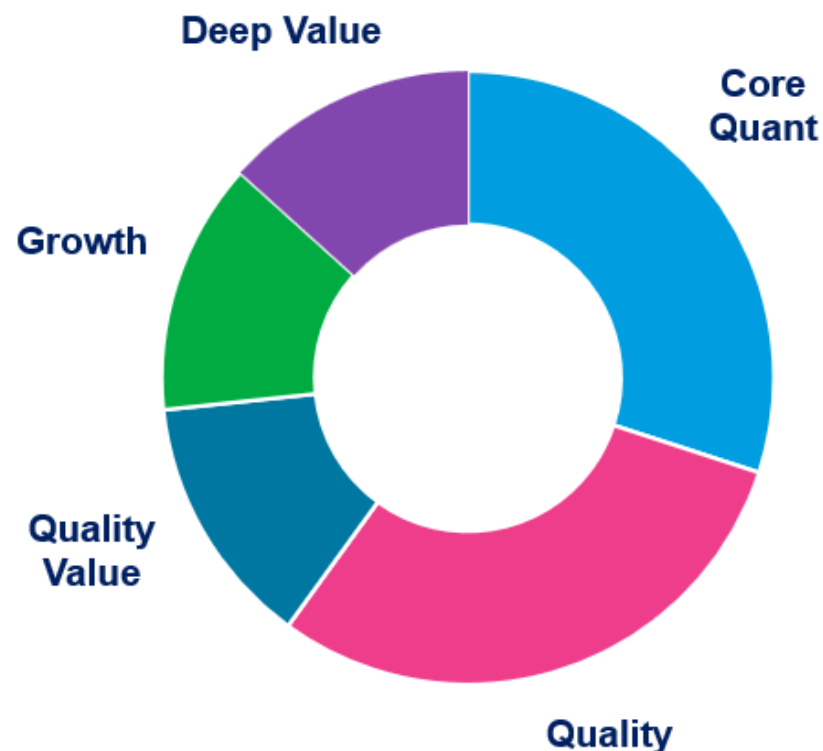
- Trading
- Turnover
- Capacity
- Fees



Business management

- Business structure
- Business environment/culture
- Remuneration
- Non-investment distraction
- Diversity and inclusion

Case Study: Example Global Equity Portfolio



| | Employee Ownership | AUM (\$US bn) | Investment Professionals | Strategies |
|------------|--------------------|---------------|--------------------------|------------|
| Core | >50% | \$200-500 | 20-50 | 10-20 |
| Quality | >50% | \$50-100 | 100-200 | 20-50 |
| Qual-Value | >50% | \$0-20 | 0-10 | 0-10 |
| Deep Value | >50% | \$20-50 | 20-50 | 10-20 |
| Growth | >50% | \$200-500 | 200-500 | 20-50 |

Charts are illustrative

Innovation and specialism



Diversifying
Alpha



Capacity
Constrained



Specialist
Areas

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Closing remarks

Value assessment by looking at outcomes for investors

Furio Pietribiasi– CEO, Mediolanum International Funds



Assessment of value for investors looking at their outcomes

What are the most influencing factors

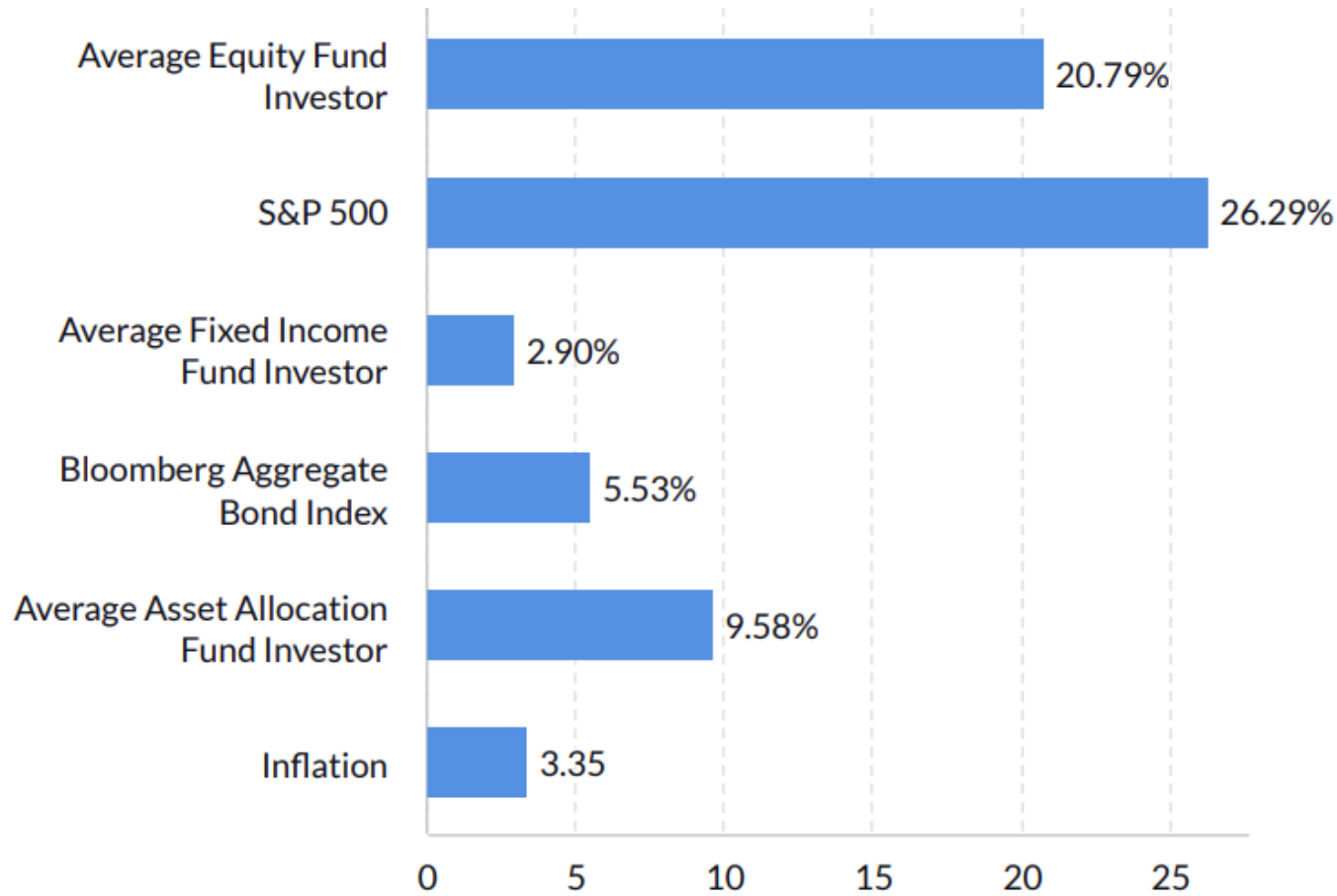
Furio Pietribiasi

MedMe

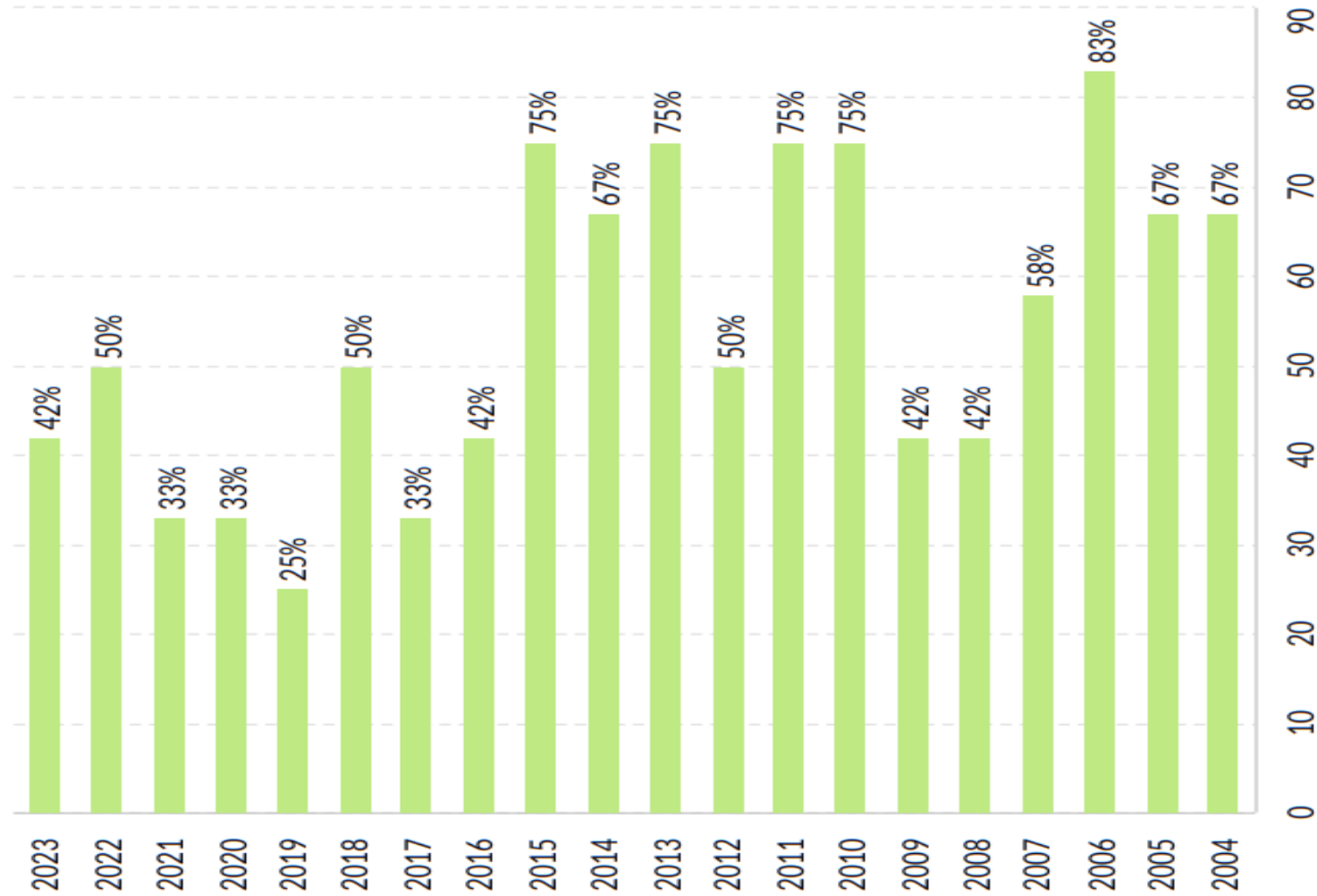
October 2024

2023 Average Investor Returns in US

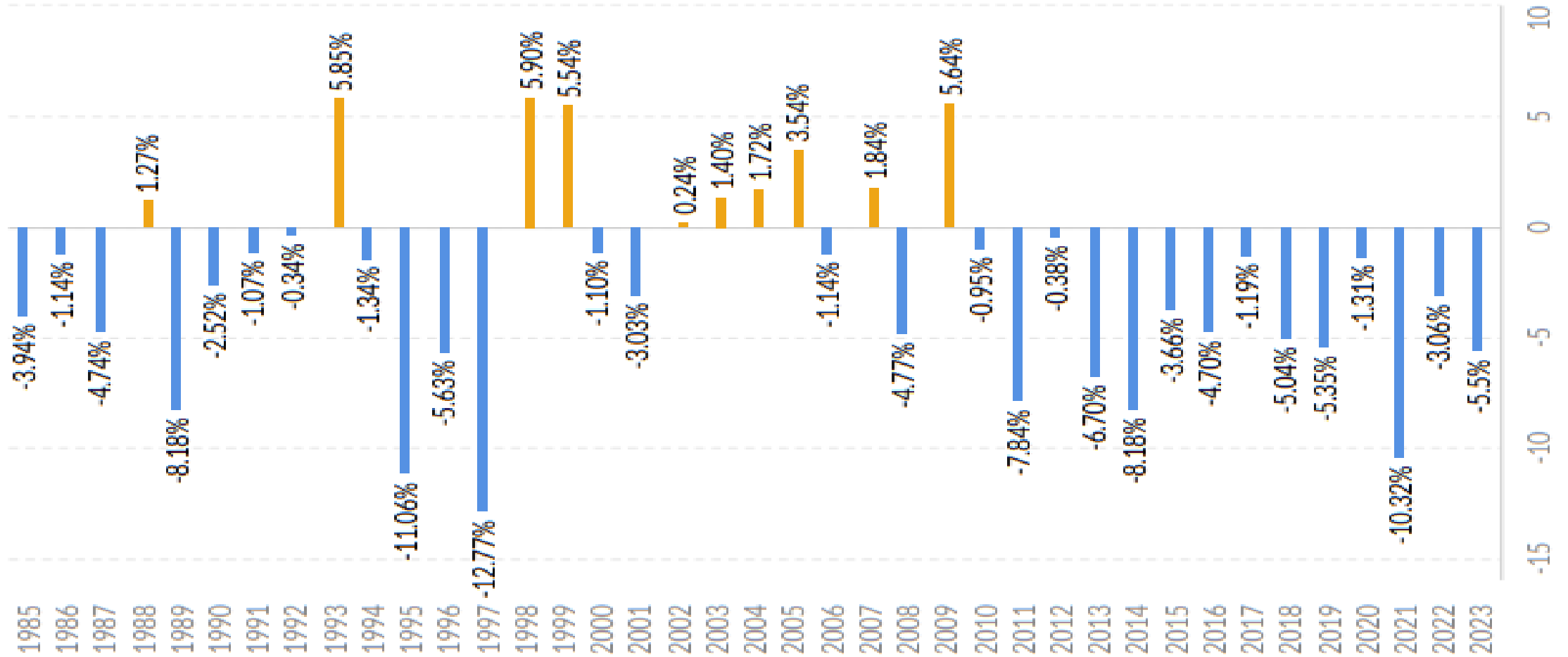
01/01/2023 - 12/31/2023



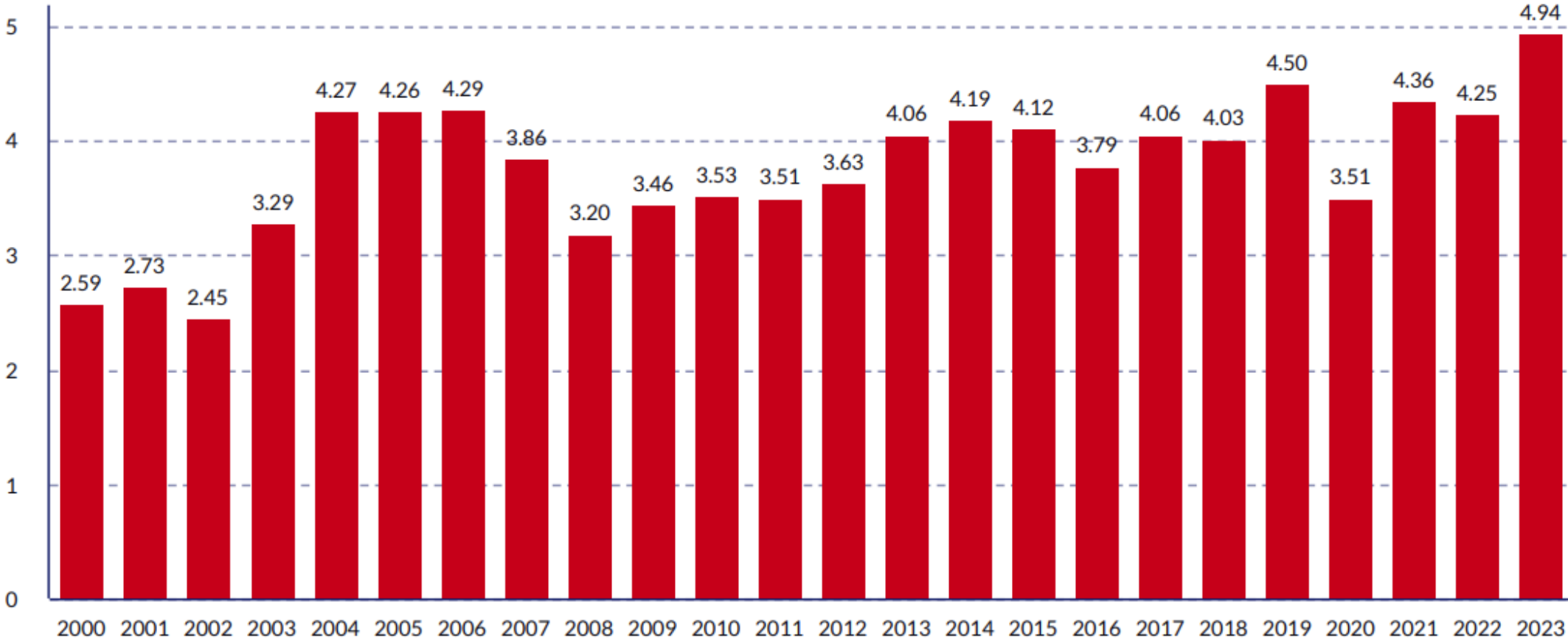
US Investors Market Timing Success



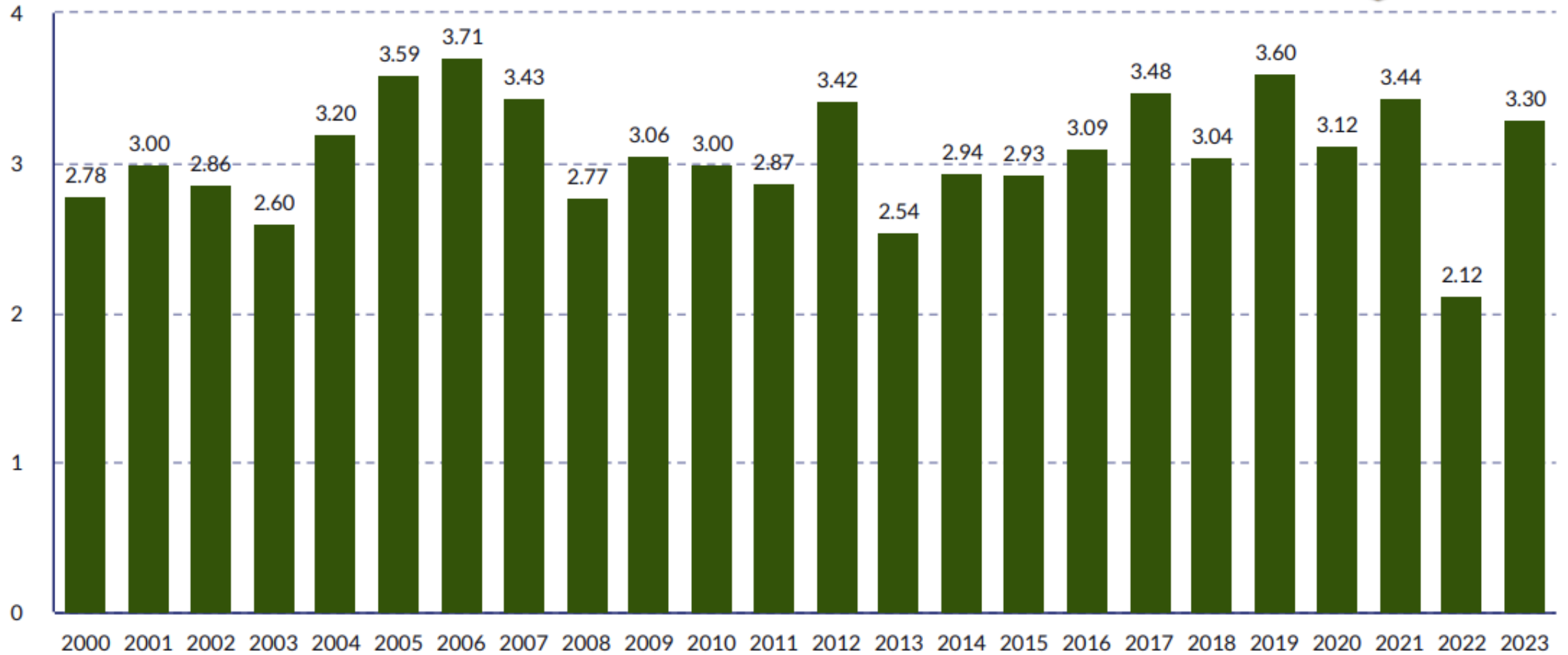
Average Equity Fund US Investor Outperformance/Underperformance 1985-202



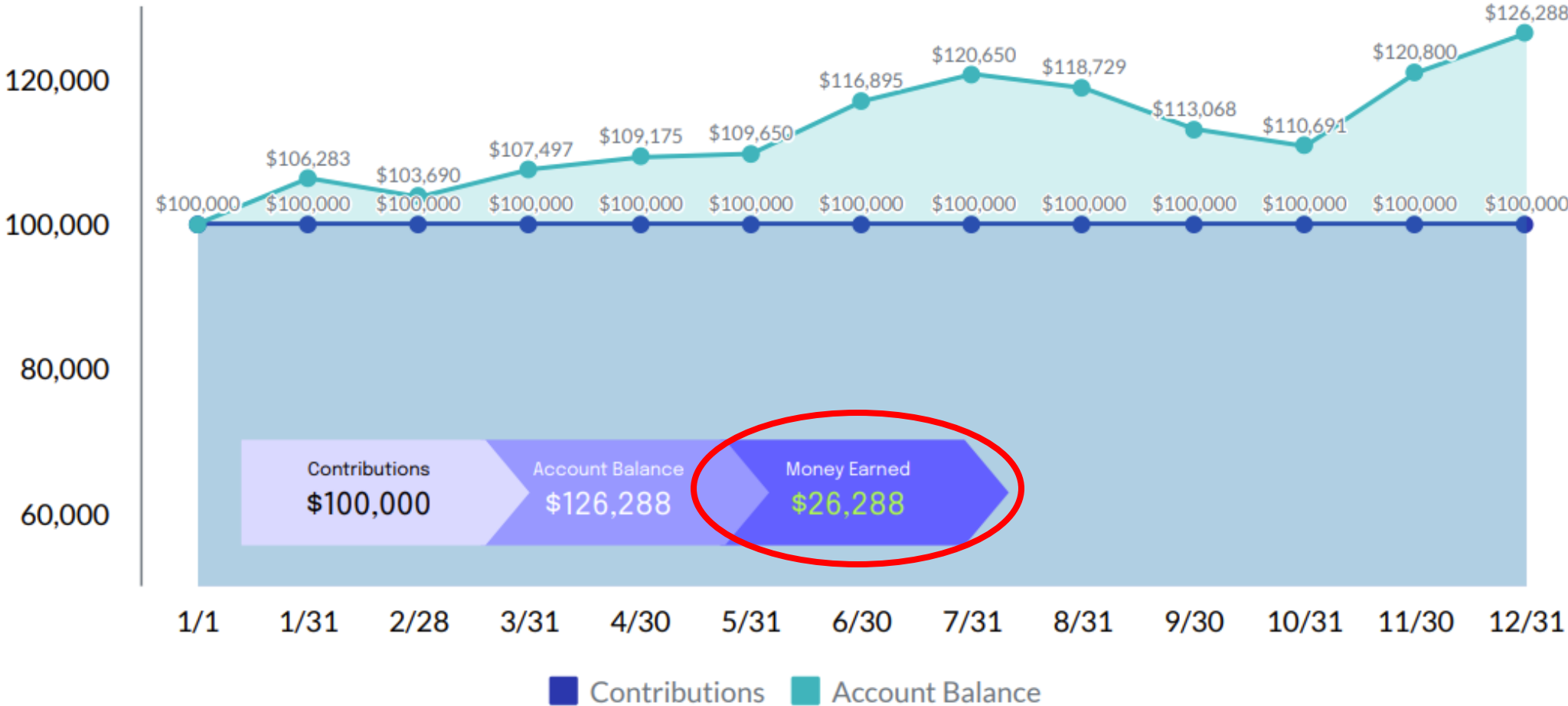
Equity Fund US Investor Holding period 2000-2023



Fixed Income Fund US Investor Holding period 2000-2023

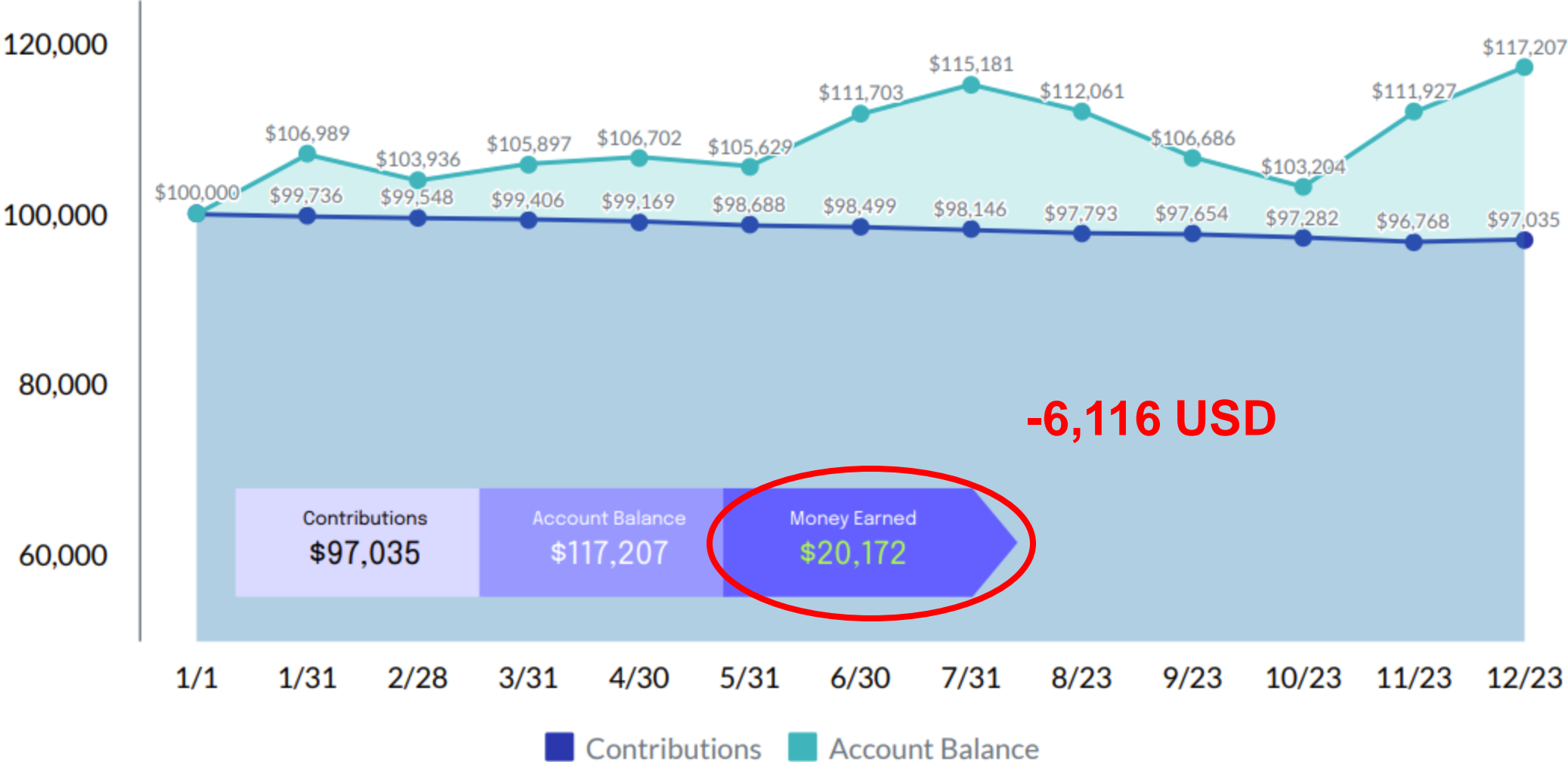


Buy and Hold Investor (at S&P Return) \$100,000 Equity Portfolio -Jan 1, 2023 – Dec 31, 2023

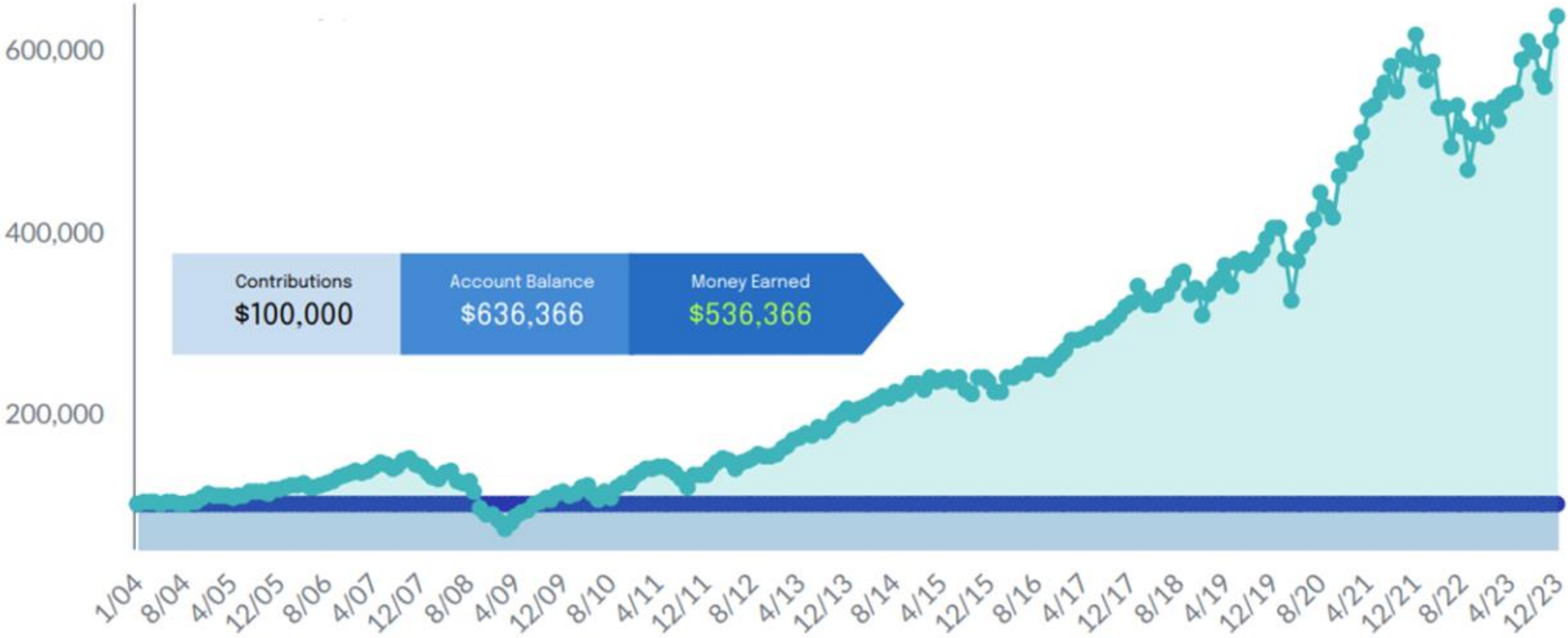


Average Equity Fund Investor

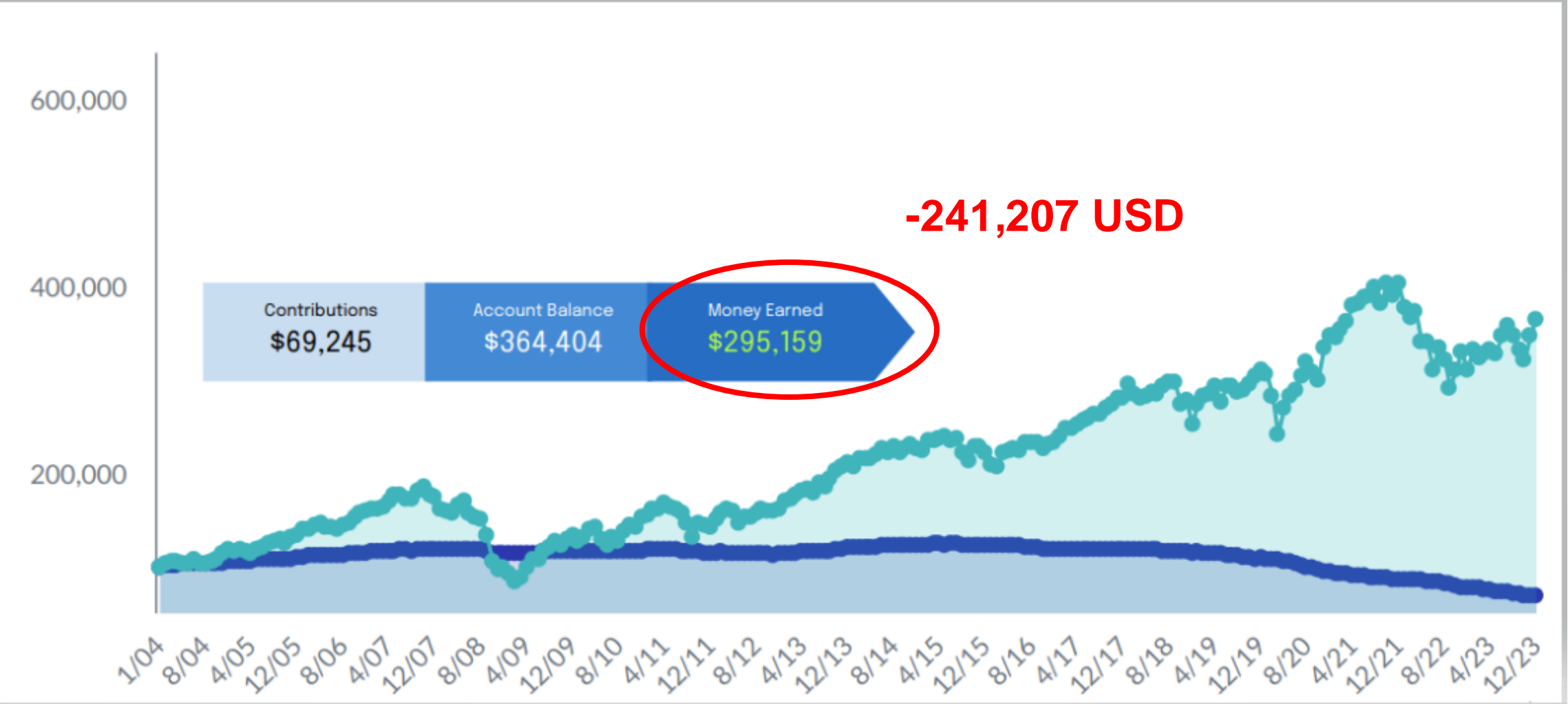
\$100,000 Equity Portfolio -Jan 1, 2023 – Dec 31, 2023



Buy and Hold Investor (at S&P Return) 20 years \$100,000 Equity Portfolio -Jan 1, 2004 – Dec 31, 2023



Average Equity Fund Investor 20 years \$100,000 Equity Portfolio -Jan 1, 2004 – Dec 31, 2023



Client Outcome main driver is coming from investors' Behavior



Source IG Wealth Management/MacKanzie Asset Management

Mediolanum Services to guide virtuous Investors Behaviour for better outcomes

● **Big Chance (2001)**

- Capital is initially invested in money market fund
- A portion of the assets is switched twice monthly into equity funds, investing the entire amount over 3/12-month period

● **Intelligent Investment Strategy (2016)**

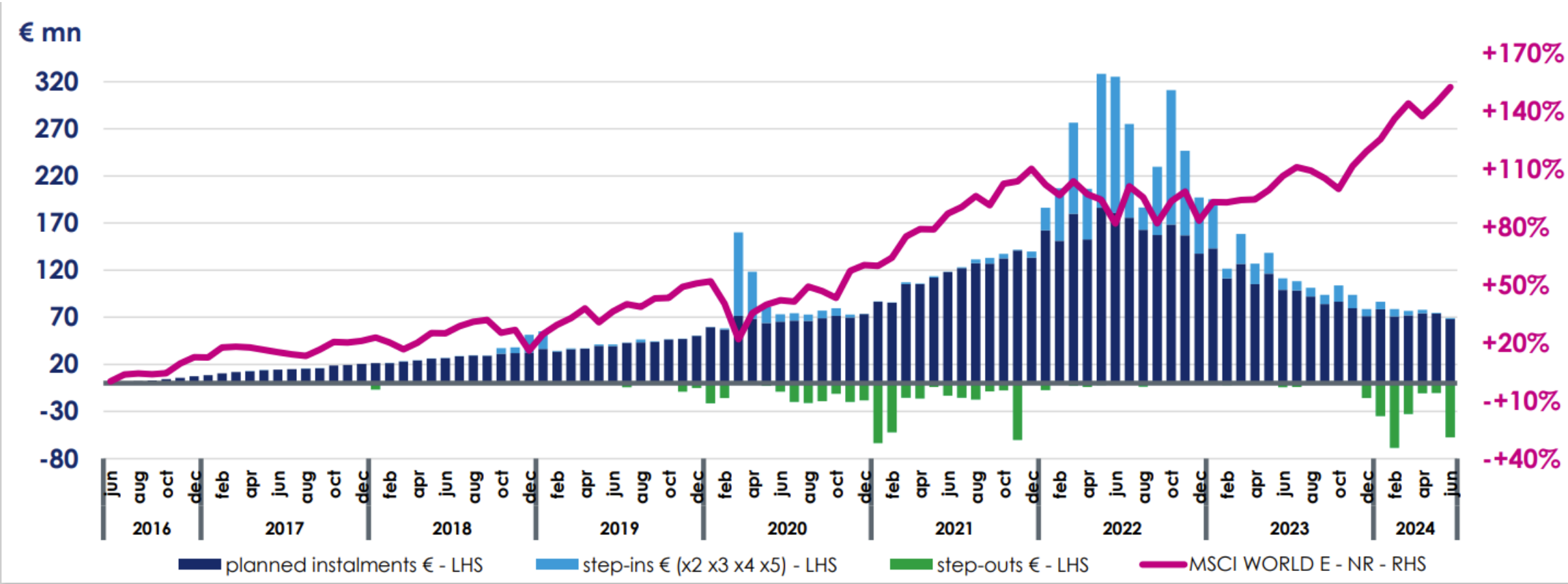
- Capital is initially invested in money market fund
- A portion of the assets is switched once or twice monthly into equity funds or U-L policy, investing the entire amount over 3/5-year period
- Instalment amount automatically increases if equity fund value drops. Capital gains on equity >10% are switched back into money market fund to be reinvested over time

● **Intelligent Accumulation Plan (2020)**

- Long-term instalment plan that shifts small amount of savings from current account to mutual funds monthly
- Allows customers to gradually enter BMED equity & fixed-income funds
- Instalment amount automatically doubled each month the fund unit price is 5% below the avg unit price of a customer



The 'IIS' service at work: Market crises are buying opportunities



Conclusions

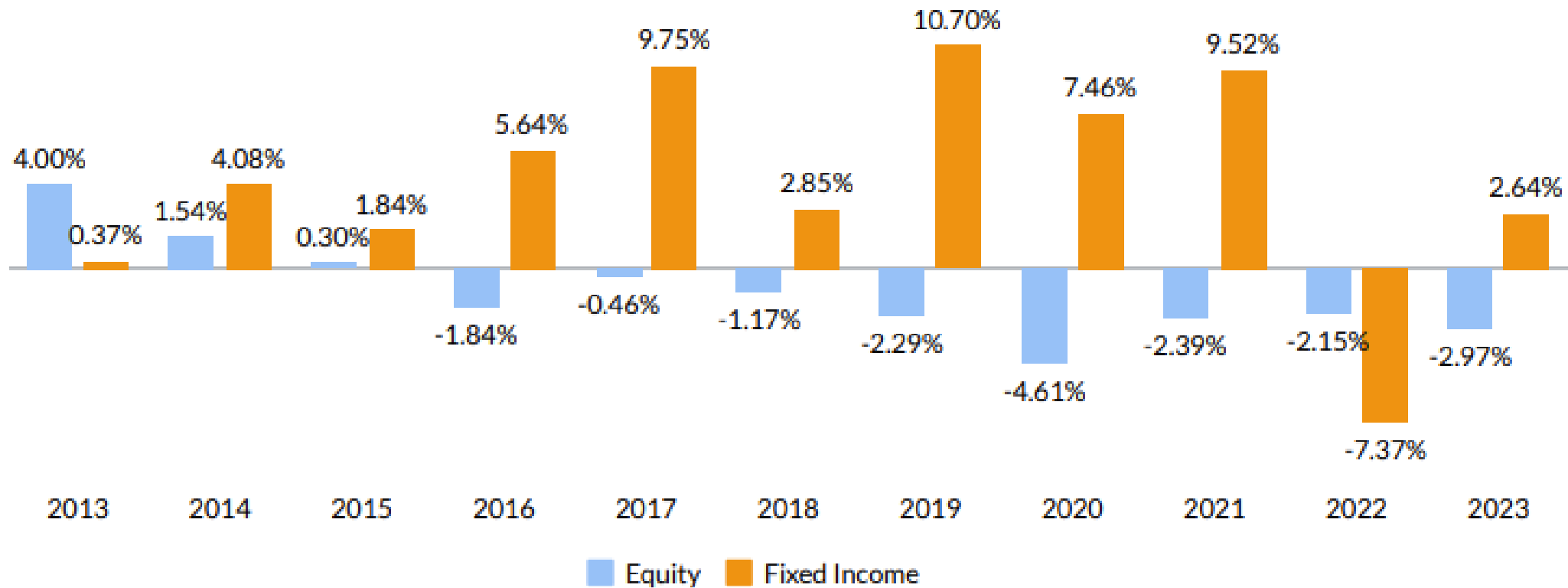
- **Clients' outcomes begin with education on harnessing the volatility of financial markets.**
- **Clients' outcomes depend on the alignment between investment product strategies and investors' needs.**
- **The best-performing products alone don't generate the best outcomes; virtuous investor behaviors do!**
- **The right time horizon is critical for optimal outcomes. For equities, this means 10 years or more.**
- **Cost is secondary and not the main driver of client satisfaction.**



Additional content



Net Contributions/Withdrawals as a % of Assets



Drivers of Investors Behaviour



Thanks!

Lunch will be served in the Marker Hotel – Forbes Street Restaurant

