

Regulated Funds & Fund Managers

A two-day case study based workshop offering a structured approach to the analysis of both local and international regulated funds (including mutual funds and UCITS), pension funds and investment managers.

TARGET AUDIENCE

Commercial and investment banking professionals responsible for credit risk management and origination. The workshop is also appropriate for a wider audience of risk managers, consultants, bankers, regulators and other professionals who need to understand the key risk issues of the asset management industry.

COURSE OBJECTIVES

The goal of the workshop is to equip participants with a structured analytic framework for the analysis of regulated mutual funds and pension funds and fund managers. Specifically, participants will be equipped to:

- Distinguish key fund types and structures
- Evaluate the risk profile of a fund's investment strategy, structure, leverage and liquidity
- Identify the roles of key parties: fund manager, trustee, custodian, administrator etc. and the due diligence required to assess risk management and controls
- Use key performance indicators to benchmark performance and credit standing of both funds and fund managers
- Understand the importance of the regulatory and supervisory framework (e.g. 1940 Act and UCITS) and the impact of changing regulations on both mutual and pension funds
- Structure exposures to funds and fund managers in order to minimise credit risks.

CONTENT

ANALYTIC OVERVIEW

This goal of this section is to introduce a structured approach to analysis.

- Structured approach to analysis
- Purpose of transaction and sources of payback - Who is the counterparty? What assets or derivatives are being financed? How will the transaction be settled or the repaid at maturity?
- Risk analysis - operating environment, financial fundamentals and management
- Structure - risks and mitigants of the transaction
- Perspectives on analysis
- Fund ratings - rating agencies, Morningstar and other ratings
- Information sources - prospectus, financial & portfolio statements.

INDUSTRY OVERVIEW

This section differentiates funds by their legal, structural, jurisdictional features and their investment strategies..

Orientation

- Types of fund - mutual funds (incl. UCITS and SICAVs), pension funds, managed accounts, closed-end funds and investment trusts, private equity, tracker and exchange traded funds (ETFs), fund of funds, umbrellas, master feeders, REITs
- Structure and legal status of funds and managed accounts
- Jurisdiction: offshore registrations, listings, manager domicile
- *Case study:* fund structure and risk profile.

Investment strategies

- Investment strategies - risk profile of strategy and policies
- Traditional strategies - fixed income (money market, bond, municipals) equity and specialist funds; growth, value and balanced strategies; capital guaranteed structures
- Alternative strategies: use of derivatives and leverage
- *Case study:* fund strategy assessment.

RISK ANALYSIS

I. Operating Environment

The goal of this section is to review the macro, competitive and regulatory drivers of the fund management industry

- Competitive drivers in sub-sectors of the industry - institutional, retail, wealth management
- Regulation and supervision
- Regulation and supervision by region (focus varies - US: 1940 Act; EU: UCITS; Asia: various)
- Mutual funds - investment and leverage limits, disclosure
- Pension fund regulation - funded status; investment limitations
- Fund manager regulation; capital adequacy, licensing, business practices
- *Exercise:* comparing regulatory regimes.

II. Financial Fundamentals

This section offers a structured approach to the financial analysis of funds.

- "S": Size - reviewing size, diversification and market position of fund
- "M": Market risk - volatility measures e.g. standard deviation, VaR
- "A": Asset quality - liquidity and valuation of assets, haircuts
- "L": Liquidity - redemption risk on open-end funds
- "L": Leverage - use of financial and derivative leverage; funded status for pension funds
- "P": Performance - bench marking performance - NAV measures, information and Sharpe ratios
- *Case study:* assessing the risk profile, the performance and financial strength of a fund.

III. Fund Manager

This section reviews the analysis required when completing the due diligence of a fund manager when exposed to the fund and also the analysis required when the manager is the direct counterparty.

Key parties

- Roles and responsibilities of various key parties: manager, trustee, directors, administrator, custodian etcetera
- *Exercise:* differentiating roles and responsibilities of different parties.

Due diligence fund manager

- Business structure - staff and organisation - experience levels; size, affiliation
- Independence and controls - affiliation; conflicts of interest
- Investment process - structure and implementation of portfolio management decision making
- Risk management - operational, market, credit and regulatory
- Communication - disclosure and client relationship management.

Fund manager as counterparty

- Purpose payback - Why do fund managers borrow and how do they service debt?
- Risk profiles of different business models
- Financial analysis: performance measurement, cash flow analysis, balance sheet strength
- *Case study*: assessing the financial strength and risk profile of a fund manager
- Early warning signals of deterioration or regulatory challenge.
- *Case study*: analysis of a defined benefit pension fund.

STRUCTURE

This section offers a systematic approach to the structuring of exposures to funds

- Structured approach - using the purpose payback model to evaluate challenging transactions
- Types of risk when dealing with funds - credit, market, operational, reputation
- Exposure profile - assessing the appropriateness of the structure in terms of amount, maturity etcetera
- Ranking - establishing and maintaining a senior position
- Safeguards - documentation (e.g. ISDA) and collateral
- *Exercise*: structuring exposures to different types of funds.

Learning Paths



CONTACT US

Worldwide: +44 20 3530 2330

E: enquiry@fitchtraining.com

US: 212 612 7799

Web: www.fitchtraining.com

Ref: 6

ASIA: +65 6796 7248

Fax: +44 20 3530 2325