

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 fund 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 fund 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

INDUSTRY OVERVIEW

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

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.

ANALYTIC OVERVIEW

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 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.

RISK ANALYSIS

I. Operating Environment

Macro and competitive drivers

- 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

II. Financial Fundamentals

- "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

III. Management

Key parties

- Roles and responsibilities of various parties: manager, trustee, directors, administrator, custodian etcetera

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
- Early warning signals of deterioration or regulatory challenge.

STRUCTURE

- 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.

