



INTERNATIONAL DISTRIBUTION: SWEDEN'S FUND INDUSTRY THINKS BIG

When investors think of global centers of fund management expertise, New York, London, Paris and the rising Asian hubs tend to dominate. Perhaps unfairly, Copenhagen, Helsinki, Oslo and Stockholm are not front of mind. But while the Nordic region may have a lower profile, it has developed appreciable expertise thanks to its substantial occupational pensions and sovereign fund ecosystems.

Building on the industry's captive investor base, the region's asset managers are now looking to extend their reach beyond existing business by developing strategies to expand into markets abroad, drawing on the appropriate fund structures, jurisdictions and service platforms.

Sweden is an example of deep fund management expertise that up to now has been closely attuned to the requirements of its domestic market. When Sweden's fund association was founded in 1979, the industry's assets under management totaled [SEK1 billion](#); 40 years later the figure is well in excess of SEK4 trillion (around €380 billion).

Domestic roots

As in other countries across Europe, early Swedish funds were domiciled at home and geared to the needs of local investors. In the 1970s and 1980s, they invested largely in Swedish equities because holding foreign shares was subject to restrictions.

Today, Sweden-only funds represent just a [third](#) of the number of funds in the market, but they still account for 80% of total assets. Many of the biggest funds remain targeted at domestic investors, typically with a single krona share class. For that reason too, Swedish asset managers have tended to carry out administration functions, such as NAV calculations and reporting, in-house. However, some Swedish industry members are beginning to rethink their approach as the sector

expands and targets new markets. That's in part because their home market is changing too - foreign-domiciled funds are growing in terms of numbers and assets under management, especially in certain sectors such as mainstream balanced funds. This in turn has prompted some Swedish fund houses to take a more global view, building on their added value in particular asset classes and strategies.

Alternative expertise

Among the Nordic countries, Sweden has gained a reputation for expertise in alternative asset classes and quantitative investment. For example, the country is home to Europe's [second largest private equity pool](#). While some global institutions may be willing to invest in a krona-denominated Swedish-domiciled fund, others are likely to prefer an international vehicle that draws up its accounts in a currency they are familiar with, and that does not represent an additional risk factor.

As fund selectors play an increased role in allocation, managers need to be more pro-active than simply ensuring their funds' performance data is included in widely consulted databases. Gatekeepers will also be looking for governance, costs, specific reporting, or valuations before they consider progressing any further.

The gatekeeper model of fund distribution may help to explain why Swedish fund vehicles currently account for just [2.2%](#) of Europe's total assets under management. If the country's asset managers are to expand their AUM and investor base, they need to enlarge their horizons when it comes to fund structures, domicile choices and support ecosystems.

Strategic step

International distribution is a big step up and not a decision to be taken lightly. Moving beyond the comfort



INTERNATIONAL DISTRIBUTION: SWEDEN'S FUND INDUSTRY THINKS BIG



of a national market often costs more and takes longer than many industry members think. Even when all the preparations and administrative formalities are complete, it can take time to attract new investors.

As a European Union member state, Sweden and its investment industry are familiar with the legal regime and benefits of UCITS and alternative investment funds. But adopting different legal structures, or launching funds with multi-currency options and multiple share classes designed to meet MiFID investor classification requirements, is a big task for compliance, administration and technology teams. Firms also need to consider tax rules in the new jurisdictions where they are aiming to sell their funds.

In contrast to a single-currency, stand-alone funds, the diversity of options that an international offering will entail is likely to increase the appeal of outsourced administration. As such, a specialist provider such as EFA, familiar with the requirements of different markets, customer segments, organizing the production of Key Information Documents for different markets, familiarity with MiFID distribution requirements, facilitates international expansion in an efficient way whilst adhering to highest compliance and governance standards.

Luxembourg is an obvious choice for the Nordic and Swedish industry given its pivotal role in the fund industry across Europe but also overseas into markets in Latin America or Asia. At the same time, Swedish managers may consider the benefits of bringing their domestic fund offerings into the same Luxembourg operating structure to avoid duplication of tasks and unnecessary complexity.

Sustainable Component

The Nordic fund industry is already recognised as a trail-blazer in terms of its high governance and transparency standards and the industry-wide commitment of asset managers and investors to environmental, social responsibility and governance standards, which are now working their way into the investment industry mainstream.

As the European Commission leads [initiatives to encourage the adoption of sustainability criteria by the financial services industry](#) and regulators demand that firms begin measuring ESG risks, investors are increasingly insisting that funds reflect their intensifying focus on curbing climate change and upholding broader responsibility standards.

ESG investment criteria are one area where Swedish asset managers may hope to find a ready audience in other countries for their established areas of expertise, especially on the back of their strong historic credentials, as investors grow suspicious of 'greenwashing' accusations and institutions' attempts to jump on the bandwagon.

Ensuring their entire fund manufacturing and administration chain is ESG-compliant too – through the EFA's [EcoVadis gold](#) label for example – will help to bring those green credentials to a much broader international audience at a time when environmental and other sustainability considerations are more important than ever.

Discover our Fund Services for nordic Asset Managers on our Website : www.efa.eu/Nordic

CONTACTS



HEADQUARTERS

European Fund Administration S.A.
2, rue d'Alsace
P.O. Box 1725
L-1017 Luxembourg
Contact@efa.eu



JAN VANDENDRIESSCHE
Head of Business Development
Jan.Vandendriessche@efa.eu



BART SPEYBROUCK
Business Development Manager
Bart.Speybrouck@efa.eu

This document is intended for general information only and may be subject to change at any time without notice. No information contained within this document constitutes legal advice and should not be relied upon as a substitute for legal advice, business advice or consulting services. July 2020