treasurytodaygroup

Talking Treasury Forum

Understanding the road ahead:

short-term investing in an era of unprecedented change

After nearly a decade of debate, the new rules governing European Money Market Funds will come into effect on 29th January 2019. This follows the implementation of new regulation in the United States in late 2016. The new rules bring about a host of challenges and opportunities for investors and asset managers alike. To find out what these are, and offer you, the corporate treasurer, some practical advice on what to do next, the Treasury Today Group brought together senior representatives from the world's leading asset managers to discuss the impact of regulatory reform and a number of other factors on corporate short-term investment strategies.

Participants

Anthony Callcott

Head of Pan-European Liquidity

AVIVA INVESTORS

Beccy Milchem

Head of International Cash Corporate Sales

BLACKROCK

Laurie Brignac

Managing Director, Head of Global Liquidity Portfolio Management

Invesco

Paul Przybylski

Head of Product Strategy and Development, Global Liquidity

J.P.Morgan Asset Management

Gunjan Chauhan

Senior Managing Director, Head of EMEA and APAC Cash Business, Global Cash

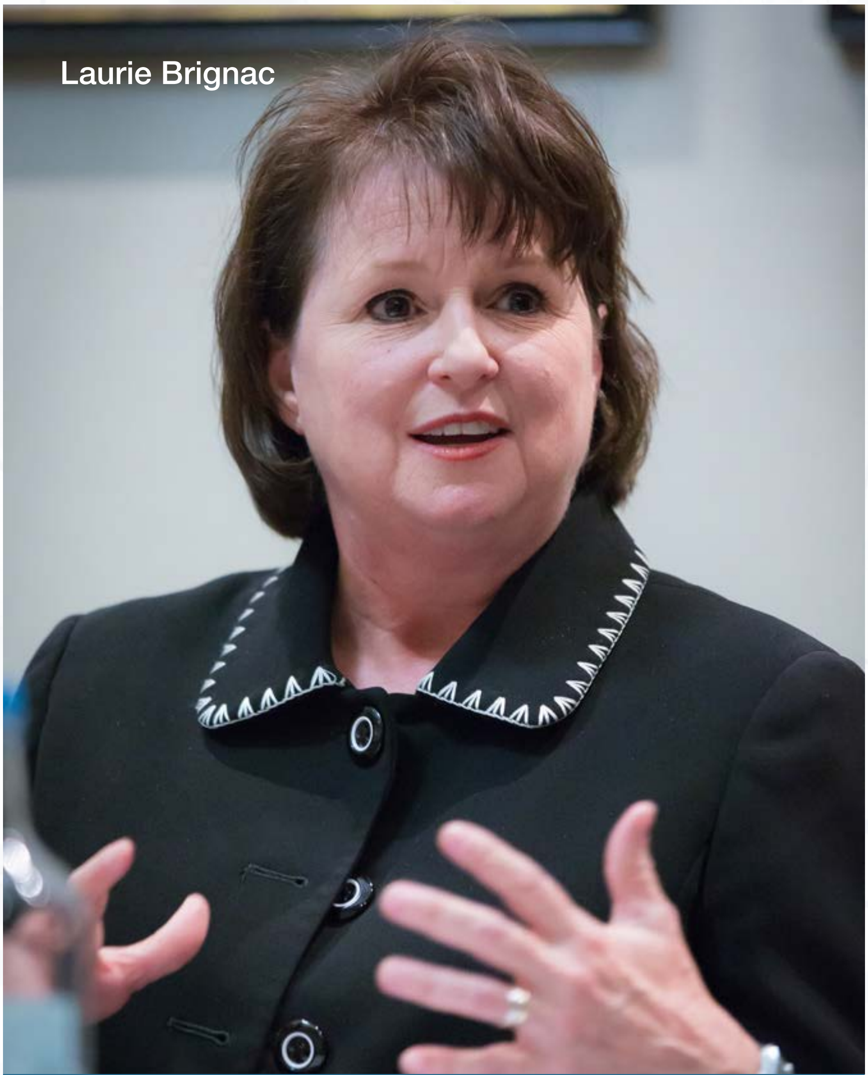
STATE STREET GLOBAL ADVISORS

Moderator

Richard Parkinson

Chairperson

treasurytodaygroup



> Once you scratch below the surface of LVNAV funds and look at how they will operate in practice, you can make a strong argument that the experience for investors using LVNAV products will be near identical to what they currently have using CNAV products.

Welcome all. Can we start with a brief overview of the key changes that are coming in the European money market fund (MMF) industry as a result of recent reform?

Laurie Brignac, Managing Director, Head of Global Liquidity Portfolio Management, Invesco: The European MMF reforms focus on four primary areas: product structure, portfolio liquidity, portfolio credit and transparency. Whilst these are all important, what is crucial for investors is the different product structures that have been introduced.

Beccy Milchem, Head of International Cash Corporate Sales, BlackRock: To expand on this, from 21st January 2019, asset managers will be able to offer clients different fund structures. There are three short-term MMFs: a government constant net asset value (CNAV) fund, a government low volatility NAV (LVNAV) fund, and prime and government variable net asset value (VNAV) funds. Then there is a separate VNAV fund type for standard MMFs.

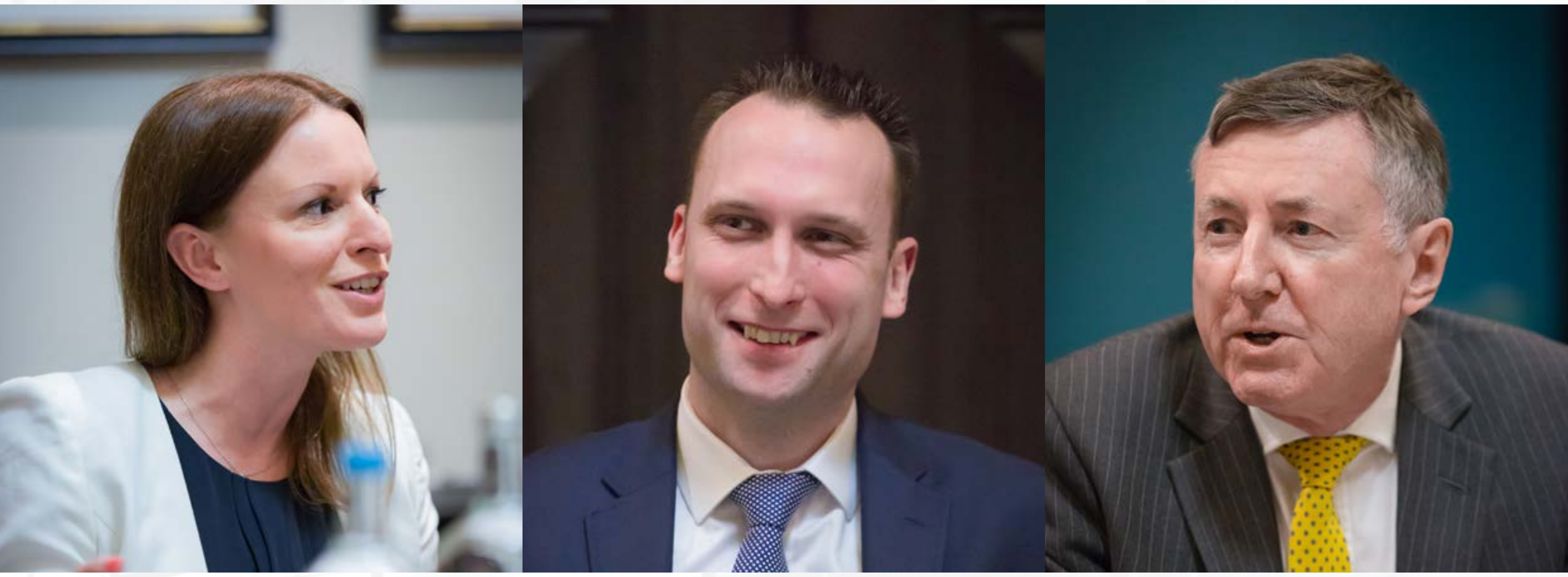
What is disappearing is the prime CNAV fund structure that many corporates utilise today. Asset managers will be replacing these with either LVNAV or short-term VNAV products and we will all be deciding which in the next few months.

So, the product that investors know and love is not going to exist any more?

Laurie Brignac, Invesco: I think that's a fair statement as prime CNAV funds will be no more, although once you scratch below the surface of LVNAV funds and look at how they will operate in practice, you can make a strong argument that the experience for investors using LVNAV products will be near identical to what they currently have using CNAV products. It is true, however, that the legal structure of the fund will be different.

Paul Przybylski, Head of Product Strategy and Development, Global Liquidity, J.P. Morgan Asset Management (JPMAM): It is worth pointing out that LVNAV products will be managed tighter than the existing CNAV product, as the threshold (outside of which the fund must be mark-to-market) will be reducing from 50 basis points in the CNAV construct to 20 basis points in the LVNAV construct. I agree with Laurie on the whole though: the client experience investing in LVNAV funds should be very similar as investing in CNAV funds currently. Based on ongoing conversations with many of our clients, we anticipate to transition to this fund structure by the transition deadline.

Laurie Brignac, Invesco: Paul makes a good point: LVNAV funds will be managed tighter because the reform is designed to make money funds more resilient. Although all of us at the table currently manage funds that are AAA rated, so to a certain extent we were already managing to tighter construct than the regulations prescribe today. In that sense, regulation is simply catching up with market best practice.



> **We're hearing from clients that LVNAV is the closest thing to what they have today and that is probably where many of them will be heading. But their due diligence is to assess their investment policies and ensure they are flexible and able to change quickly if need be.**
>
> Paul Przybylski, Head of Product Strategy and Development, Global Liquidity, J.P. Morgan Asset Management

Anthony Callcott, Head of Pan-European Liquidity, Aviva Investors: True, but the new rules are putting less of an onus on the rating agencies and more of a focus on the fund managers. The way I see it is that it is a constructive, not destructive, move by the regulators. If we think back to why this is happening, it is ultimately to prevent another financial crisis. In addition, it is also aiming to increase transparency, improve liquidity and improve security.

Gunjan Chauhan, Senior Managing Director, Head of EMEA and APAC Cash Business, Global Cash, State Street Global Advisors (SSGA): And that can only be helpful for the end investor. Everyone will benefit from greater transparency and more clarity in the market.

Laurie Brignac, Invesco: Transparency is probably one of my favourite components of the reform. When we look and see what happened in the United States with its own recent reform, the increased transparency has made a huge difference in the way we interact with our clients. It also means that clients know exactly what they are investing in and are able to easily compare fund A with fund B.

Can we now dive into the new product structures in a little more detail to ensure that the corporate investor understands the options? Most crucially, could you please explain the differences between an LVNAV and VNAV product?

Paul Przybylski, JPMAM: In an LVNAV fund, asset managers can use amortised cost accounting to price all instruments shorter than 75 days, and can round to two decimal places, so that the fund largely resembles current CNAV funds. VNAV funds are priced mark-to-market and rounded to four decimal places.

The other differences are around liquidity. In an LVNAV structure, the minimum liquid assets that the fund must hold are 10% and 30% respectively. This compares to 7.5% and 15% in a VNAV construct. That gives the portfolio managers a bit more flexibility managing the VNAV vis-a-vis the LVNAV fund. Theoretically, this means that VNAV funds may offer investors greater yield.

Gunjan Chauhan, SSGA: I think the fact that VNAV funds are rounded to four decimal places, while LVNAV funds can be rounded to two decimal places, is important and something that investors need to be mindful of. This is because even under normal market conditions, that fourth decimal place may fluctuate. We have seen this in the US.

You stopped your CNAV fund some time ago but are you going to introduce an LVNAV fund?

Anthony Callcott, Aviva Investors: Yes, we are. We are planning to launch the LVNAV fund on 1st September. Although in reality, we are just adding the 'L' to the marketing brochures of our government and short-term VNAV funds because there are minimal changes that we have to make.

> **I would argue the added benefit of money funds – whichever format you decide is appropriate for you – is that they are a sustainable solution that provides same-day access to cash. No matter what, money funds remain a hugely beneficial tool for corporates to have in their toolbox.**
>
> Gunjan Chauhan, Senior Managing Director, Head of EMEA and APAC Cash Business, Global Cash, State Street Global Advisors

It is worth pointing out though that our euro fund will remain VNAV due to the difficulties in offering an LVNAV fund managing in a negative yield environment.

Yes, we will come to that a little later.

Beccy Milchem, BlackRock: VNAV can be a slightly confusing construct for investors, particularly because there are short-term VNAV funds and standard VNAV funds. Should a treasury department decide to invest in a VNAV product, they need to consider which category they are actually looking at for their policy purposes.

It is also interesting to note just how important that AAA rating is for investors, especially when it comes to seeking board approval of their investment policy. Given this investor focus, I suspect that most fund managers will maintain a rating for their short-term MMF funds, whether they are VNAV or LVNAV. This will bring a certain degree of consistency into how these funds are managed and might mean that LVNAV and VNAV funds end up looking quite alike in many respects.

Does this mean they will yield the same?

Beccy Milchem, BlackRock: There could be a marginal yield difference between an LVNAV fund and short-term VNAV fund. As Paul mentioned earlier, there is a different liquidity threshold, which could allow for some extra yield pick up to be generated. However, the need to meet the requirements of an external rating agency may reduce the difference due to the more conservative liquidity requirements of the rating agencies. It remains to be seen.

Laurie Brignac, Invesco: Another item to mention here is gates and fees. These exist in LVNAV funds and may be triggered if the level of weekly liquid assets falls below 30% and net redemptions from the fund exceed 10% in one day. Given this trigger point, most LVNAV funds will be running north of 30% when it comes to liquid assets, so I think you will see an additional yield pick up when using a VNAV product – even when you consider the external rating.

Paul Przybylski, JPMAM: To add to this point, in the US, product managers were running their funds with a much higher level of liquid assets than necessary prior to the reform – some were running at almost 100% in the weekly cash because they knew significant outflows were coming in anticipation of the US reform conversion date. This is one of the key statistics for clients and they will react if a fund is lower than 40% because it is below industry average.

I expect that we will see the same behaviour in Europe and liquidity will be increased in excess of the 30% threshold. This is going to be a detractor of the yield differential because even though the reform lets you go down to 15%, the reality is that that number is going to be north of that. This will compress the spread between LVNAV and VNAV funds.

Every single survey I have seen says that investors don't like fees and gates. What is your view on this?

Paul Przybylski, JPMAM: Fees and gates are not a new concept in the international space; clients have been investing in products with fees and gates for a long period of time. What is new is that the reform has defined when these mechanisms will be activated – before it was at the discretion of the fund manager and the fund's board. We are currently spending a lot of time talking to our clients about this to ensure they are comfortable and understand the fees and gates triggers because, as you rightly said, there is some concern in the market about fees and gates.

Is this because we never talked about fees and gates before?

Paul Przybylski, JPMAM: Previously the use of fees and gates was essentially the same as 'breaking the buck' (fund no longer able to redeem at par) so hopefully we will never have to use them.

Laurie Brignac, Invesco: Hopefully going forward none of us will have to use them either!

One element of the reform that is very interesting is that the regulators have said that fund managers can transact a stable NAV until they go out of the 20 basis point collar. When this happens, the fund can convert to VNAV and round to four decimal places and then revert to LVNAV once the market has calmed down.

Yet despite this, I think if your transactional NAV moves from two decimal places stable to a four decimal place variable, you really probably ought to consider putting up gates, because I have a feeling clients are not going to forgive you and allow you the opportunity to go back to two decimal places. It might just be my personal opinion, but I don't see that really happening.

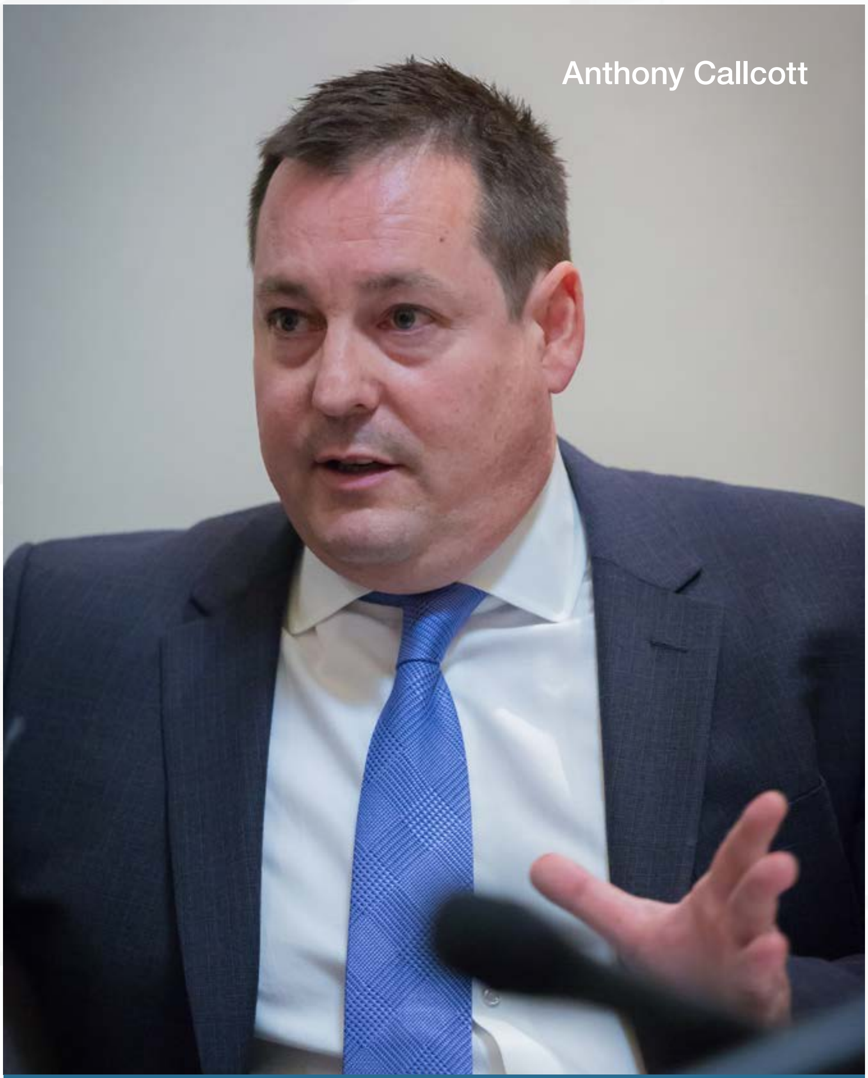
Gunjan Chauhan, SSGA: I think those investors who are going into a stable NAV investment on day one, are going in expecting a stable NAV investment.

Laurie Brignac, Invesco: At all times.

Beccy Milchem, BlackRock: Ultimately, the purpose of fees and gates are to protect the end investor and to ensure we are all acting as a fiduciary by treating investors fairly.

Gunjan Chauhan, SSGA: Yes, that point is not emphasised enough. As we have said, fees and gates exist today. The new rules simply provide additional clarity on when fees and gates around liquidity or redemptions may well come into play.

And in stressed market conditions, if any of those factors or triggers do get breached where redemptional liquidity fees or gates need to be imposed, it's again transparent and clear for any investor in that fund to understand what is happening and what is going on. So, it really is actually a helpful mechanism for them in a stressed market environment.



Anthony Callcott

> Many large corporates take a blended approach, looking for low volatility investment options for their day-to-day operational cash and liquidity requirements and then investing some stickier cash in products that make it work a bit harder.

OK. So LVNAV provides that stability that corporates are looking for – albeit with gates and fees. Why then would I as an investor use VNAV? Is it just to pick up that bit more yield?

Anthony Callcott, Aviva Investors: There is a growing trend for corporates to want to make their cash work harder for them. There is also a growing acceptance that if you are chasing that yield, there might be a little bit more volatility.

You might not ever see that volatility though, correct?

Anthony Callcott, Aviva Investors: Correct, but investors need to understand that it could exist. Because of this, many large corporates take a blended approach, looking for low volatility investment options for their day-to-day operational cash and liquidity requirements and then investing some stickier cash in products that make it work a bit harder.

Laurie Brignac, Invesco: True, but we have talked to some large global corporates that you would have thought might be aggressive with their investment options who still don't want to see that NAV move at all. They want two decimal places and certainty.

Paul Przybylski, JPMAM: Yes, it depends on whether the investment policy dictates that you can't book any losses on your money fund investments.

This is where we suggest that corporates do their due diligence because each decision will be unique. We're hearing from clients that LVNAV is the closest thing to what they have today and that is probably where many of them will be heading. But their due diligence is to assess their investment policies and ensure they are flexible and able to change quickly if need be.

Beccy Milchem

> I would encourage treasurers to look at their investment policies sooner rather than later. Top of mind should be creating something that is future proof. It is about being a bit more open-minded about what tools you can use now and ensure this is reflected in the policy.

Anthony Callcott, Aviva Investors: I think the majority of investors in this space have changed policies now or are very close to doing so. That's certainly been happening for quite some time, but I think in the last six months we're seeing it more and more. Treasurers are getting themselves ready.

And they are adopting LVNAV?

Anthony Callcott, Aviva Investors: Yes, on the whole. Some of our European investors that have US parent companies are more interested in government CNAV funds because that's what their investment policies in the US dictate they can invest in. But the European investors and the UK investors are ready for the change to either LVNAV or VNAV or both.

Our job is really to make sure that we are fully educating investors, making sure we are transparent about our plans and meeting our clients face to face, and giving them that comfort. It is about trust: that is the one thing you must have from your client base.

Now, if I am going to think about VNAV in addition to LVNAV, what do I need to think about? We've got the regulatory differences but is there anything else I should be considering?

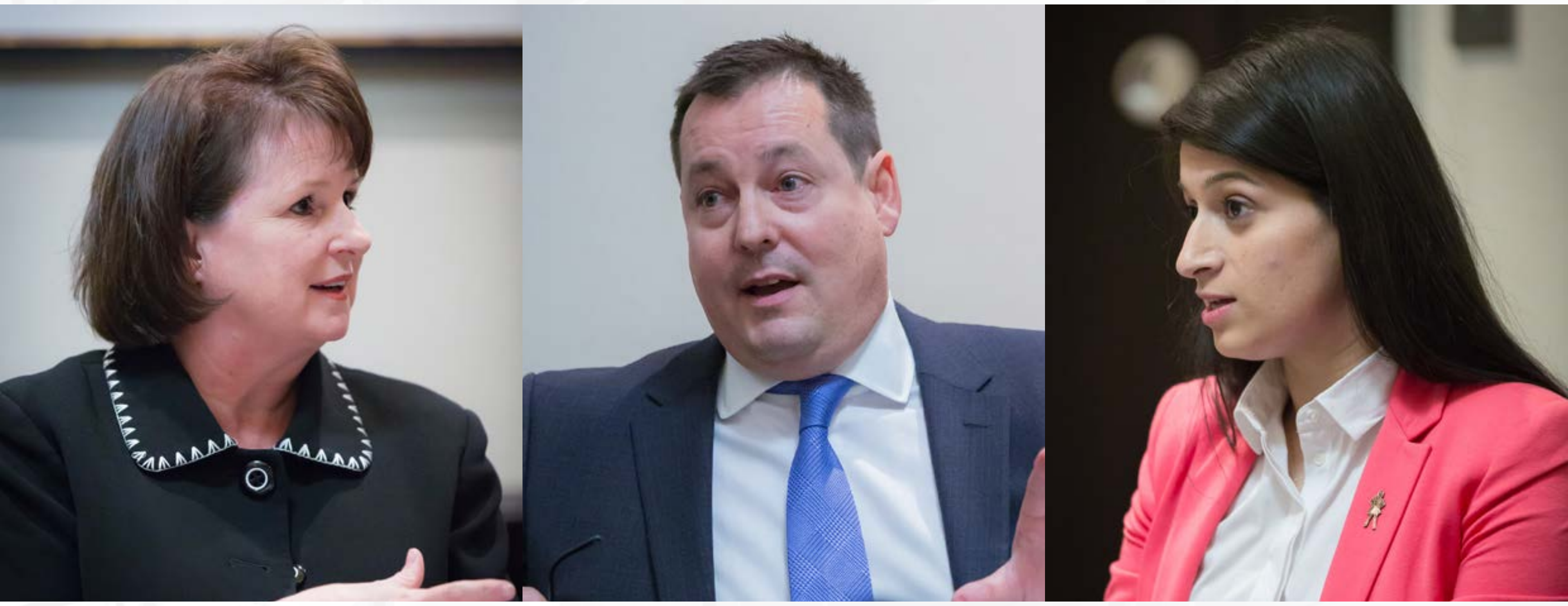
Gunjan Chauhan, SSGA: Absolutely. I would suggest you carefully consider your investment objectives. As touched upon earlier there are two types of VNAV fund structure: there is the short-term VNAV, which is considerably shorter in duration, and I would argue would have a portfolio make up similar to an LVNAV fund. And then you have standard VNAV where you are potentially exposing yourself to additional duration risk, but then also may well see a pick up in yield for doing so. Corporates will need to decide which of these they are comfortable with.

It is actually quite exciting for investors to be able to take a fresh look at their investment guidelines, ensuring that their systems are fit for purpose to be able to handle the various scenarios. We would like to hope everything always remains under normal market conditions, but experience tells us that it is prudent to plan for the unexpected.

Are you all transitioning your funds at the same time?

Paul Przybylski, JPMAM: No and I think the dates of conversion are going to be an interesting storyline to follow when it comes to the reform in Europe. This is because in the US everyone converted within a two-week period, whereas in Europe we are all going at different times. For example, at J.P. Morgan Asset Management we are transitioning over the weekend that starts after the funds close on Friday 30th November. Spacing between managers converting will allow clients to see how the industry shapes and provide insight to client behaviour that could influence their own.

Laurie Brignac, Invesco: We're moving in January 2019.



> **I think pre-financial crisis, all money funds were deemed to be exactly the same, and we always knew there were differences. And that is why it's so critical to make sure that our products are being properly sold and that the clients know what they're buying.**
>
> Laurie Brignac, Managing Director, Head of Global Liquidity Portfolio Management, Invesco

Paul Przybylski, JPMAM: It will be interesting to see how clients behave as a result. And that's something we can't predict because they don't really know what the fund sizes and structures will look like in the future and I think they're going to pay attention to that. Clients do ask what size funds they should expect and we do provide estimates on our own fund line-up.

Laurie Brignac, Invesco: But if you choose to stay in an LVNAV and your CNAV fund is converting into an LVNAV, really for all intents and purposes it shouldn't matter.

Paul Przybylski, JPMAM: Yes, but if you are the first fund to transition you need to get it right because if you convert and your systems don't work, that's not going to be a good experience for clients. This is a really big risk for whatever fund manager makes the move first.

Laurie Brignac, Invesco: You're bringing up a good point. I know we mentioned earlier that a lot of treasurers use different investment platforms. So, something else to highlight is to make sure that they are talking to their platform provider and making sure that they're going to be ready. I know it shouldn't be as big of an issue here, depending on how the funds transition and what they're converting into, but I know in the US, being forced into a floating NAV was prohibitive for certain platforms. I would encourage treasurers to make sure that how they transact today will be the same in the post-reform world.

Is it important that I get into the investment policies of the fund manager as an investor? If so, how far do I have to dig?

Anthony Callcott, Aviva Investors: I think you dig all the way. Choosing your fund provider is an important decision and you have to ensure that they fit your criteria.

Beccy Milchem, BlackRock: In terms of approving an investment manager, most corporates that I work with will not only look at whether the fund has external ratings, but also have a look through into the individual holdings of the funds and make sure that the manager's investment process sits comfortably with them.

Our clients have a long list of questions for us. Quite frequently, we hold due diligence days with our investors to walk them through exactly how we manage the portfolio, how our credit process works and how our risk process works. This homework certainly needs to be done by the investment community.

Laurie Brignac, Invesco: Most definitely. As we know, a big part of the reform is to remove the reliance on the credit rating agencies. Therefore, even though our funds are externally rated, investors should still have their own robust credit processes. The transparency created by the regulation is going to help greatly here because investors will be able to quite easily compare two funds side by side.

> **The new rules are putting less of an onus on the rating agencies and more of a focus on the fund managers. The way I see it is that it is a constructive, not destructive, move by the regulators.**
>
> Anthony Callcott, Head of Pan-European Liquidity, Aviva Investors

Gunjan Chauhan, SSGA: We are seeing the same thing. Investors want to know the details of our funds, they want to understand our internal processes and risk and credit appetite. The fact they are asking for this level of detail evidences that they are carrying out diligent analysis to ensure that they make the right investment decision between one money fund and another. They are looking beyond just the ratings as the regulators hoped they would.

Anthony Callcott, Aviva Investors: Some investors are even insisting on meeting the credit analysts themselves. This is something that is happening more and more.

Laurie Brignac, Invesco: That is a tremendous change. I think pre-financial crisis, all money funds were deemed to be exactly the same, and we always knew there were differences. And that is why it's so critical to make sure that our products are being properly sold and that the clients know what they're buying. That is where the additional transparency is going to make a really big difference.

Paul Przybylski, JPMAM: I would add that it is about scale; the size of your fund matters as much as everything we just talked about here. To investors, a percentage allocation of the fund that they represent matters, and they will not feel comfortable if their investment is north of 10% of the total fund's values. This is something that we are thinking about carefully when constructing our future fund line-up.

On the subject of transparency, how easy is it for corporates to get a report of the fund's holdings?

Anthony Callcott, Aviva Investors: When I look back to some years ago in a meeting with a client and I said, 'What are you most nervous about in these products?' He said, 'I'm nervous because I can't see what I'm in, and the information is never accurate, and I'm nervous my CFO's going to tap me on the shoulder one day and ask what we are exposed to – and I won't be able to tell him.'

Now corporates can get all that information very easily. There are many different portals that customers are using which aggregate information and have reporting tools that allow treasurers to drill down into the geographical locations of investments and asset classes. The information is all there at the press of a button.

Paul Przybylski, JPMAM: If we compare Europe to the US, I believe that the US has a more transparent system when it comes to reporting. Fund managers in the US are subject to monthly and quarterly reporting of the complete underlying portfolio of investments mandated by the regulator. In Europe, policy makers have started to move towards this by introducing requirements to make a weekly disclosure of the top ten holdings in the portfolio, the credit profile and the maturity profile.

The timing of the data is the critical component. For example, currently in Europe, one fund house might report on a monthly lag versus a weekly lag or bi-weekly lag, so the information the treasury has might not be current or accurate. With more information being disclosed weekly, this should improve under the new rules.

Laurie Brignac, Invesco: Although the regulations in Europe don't require us to report in the same way as the US, many of our clients are invested in both European and US funds and they want consistency. To that end, we have ensured that we are offering the same level of transparency to European investors as we do to US investors.

Paul Przybylski, JPMAM: At J.P. Morgan Asset Management, currently our reporting on our website is consistent on a monthly basis. This means that in Europe, we provide a greater deal of information versus most of our peers, simply because our clients require consistency when they invest here and in the US. This is crucial when you are dealing with multinationals.

Let's talk about negative interest rates, which obviously operate particularly in the euro at the moment. I wanted to understand how you deal with that now and how that might change in the future under the reform.

Laurie Brignac, Invesco: We are sort of in our 'new normal' when it comes to negative interest rates. Initially, there was a lot of fear of the unknown and everybody was asking, 'Who's going to go negative first? How is this going to work?' Now that we're comfortably negative I think it's a more normalised environment – it's just negative from an investment perspective.

How does it work today if I am invested in a euro fund with a negative return?

Laurie Brignac, Invesco: There are a few different options. If you're in a distributing share class, then there is a technique called share cancellation. This is when an investor's shareholdings in the fund are reduced the longer they are invested in the fund to reflect the negative interest rates.

Or investors can use an accumulating share class fund. This will see the investor's number of shares stay the same, but the price is going to change every day. It's effectively the same as VNAV. You'll see that price slowly drop to reflect the negative interest rate.

Anthony Callcott, Aviva Investors: It was also a challenge to manage clients' expectations through the process of going negative. But the narrative has certainly now shifted from treasurers saying, 'How dare you charge me for looking after my money?' to accepting that it has to be this way and being proactive and working with it.

Laurie Brignac, Invesco: From my experience, corporates were quite taken aback when we started to charge them for investments. But once the banks started as well, the conversations changed as our negative rate looks a little bit better than the banks' negative rate.

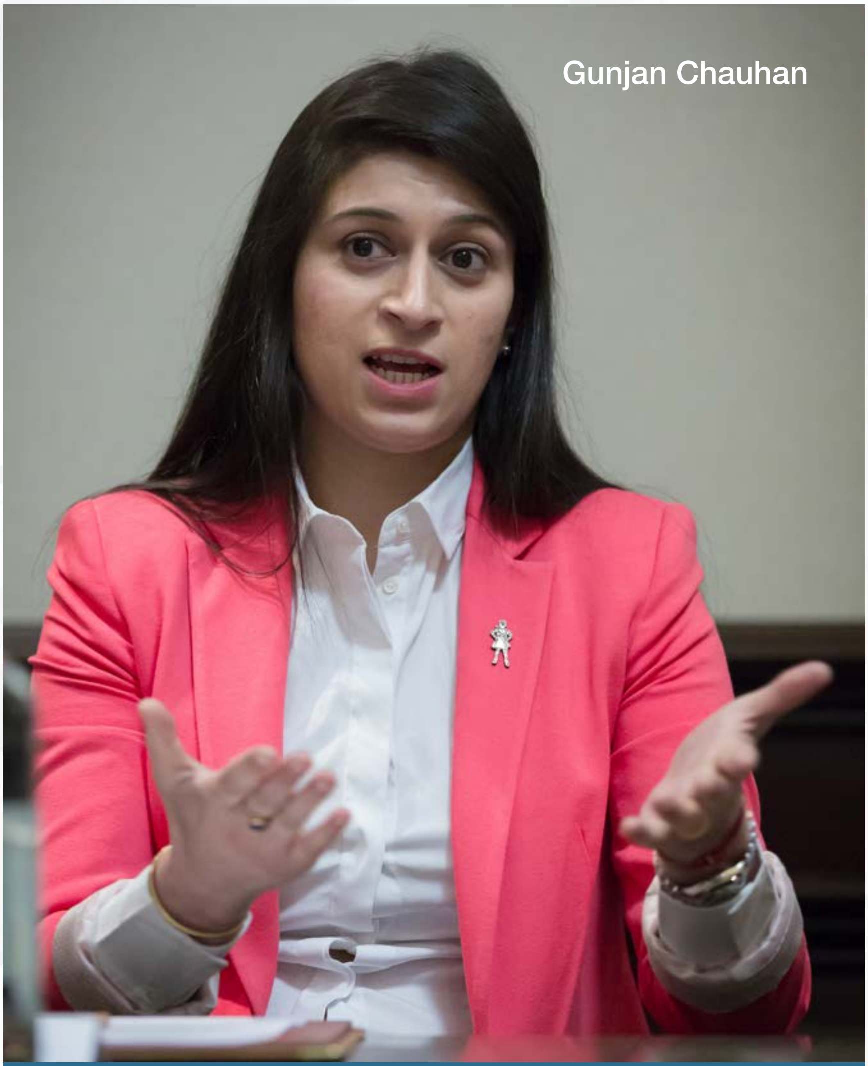
Gunjan Chauhan, SSGA: That is a really important point. Negative interest rates are not unique to the money fund industry.

And is there a predominance of the way it is treated, is it generally treated by the cancellation of shares or is it generally treated by changing the value of the shares?

Beccy Milchem, BlackRock: If you are running a constant euro NAV fund today, the majority of investors, particularly corporates, are in the distributing share class that Laurie mentioned, using share class cancellation, otherwise known as reverse distribution. And so yes, we're predominantly using reverse distribution which is the reverse of the positive income distribution process, whereby shareholdings are reduced to reflect the negative income distribution.

You do also have VNAV products where the share price moves to account for the negative rate.

Anthony Callcott, Aviva Investors: Which is how we run our euro funds.



> **"It is actually quite exciting for investors to be able to take a fresh look at their investment guidelines, ensuring that their systems are fit for purpose to be able to handle the various scenarios. We would like to hope everything always remains under normal market conditions, but experience tells us that you sometimes also need to plan for the unexpected.**

And going forward?

Gunjan Chauhan, SSGA: There is still a considerable amount of discussion across the industry, as well as with the regulators, around the treatment of the reverse distribution mechanism that essentially enables fund managers to maintain a stable NAV for a euro investor today. So that's still out there being discussed, and we are all eagerly anticipating clarity around that point.

Beccy Milchem, BlackRock: Without clarity from regulators over how they view reverse distribution, it's difficult to say exactly what solutions might be possible moving forward, and therefore, what the impact on product offerings in euro might be.

Gunjan Chauhan, SSGA: The main point here is that euro investors looking to achieve a stable NAV must be mindful. As

Paul Przybylski

> **Fees and gates are not a new concept in the international space; clients have been investing in products with fees and gates for a long period of time. What is new is that the reform has defined when these mechanisms will be activated – before it was at the discretion of the fund manager and the fund's board.**

mentioned, without the ability to cancel shares it will not be possible to achieve a stable NAV in a negative interest rate environment. For investors that don't have that flexibility in their policy, it will become very challenging for them to find suitable products to invest in.

Beccy Milchem, BlackRock: I would add that euro investors have gotten used to negative rates on the whole. We have been in this situation for quite some time now and they have become used to the way that the reverse distribution mechanism works. Perhaps further education around how it will work in a VNAV world with that daily adjustment in the NAV is still needed.

It comes back to the point: where does the money go? There won't be other options and as Laurie mentioned, euro MMFs are often the best option out there these days. Banks tend to have threshold limits for euros, particularly with the corporates: they might allow them to put five million in their deposit account before they start going deeply, deeply negative – but the negative yields available from the banks are often much worse than the money funds.

Gunjan Chauhan, SSGA: And I would argue the added benefit of money funds – whichever format you decide is appropriate for you – is that they are a sustainable solution that provides same-day access to cash. No matter what, money funds remain a hugely beneficial tool for corporates to have in their toolbox.

Laurie Brignac, Invesco: Of course, there remains some uncertainty around this topic, but I think that no matter what the outcome is, we need to be working with our clients to make sure they are drafting flexibility into their policies. We don't want them to say they can only invest in a stable NAV and then have them forced into investing in a product that doesn't suit them.

Anthony Callcott, Aviva Investors: Corporates have the opportunity to affect change now and they need to get to work on this. And when they do it, they need to ensure that they can use LVNAV and VNAV funds going forward.

Is there still competition in fees? There was a time when very large investors were getting fee reimbursements. What's happening to fees today?

Anthony Callcott, Aviva Investors: It is competitive. It will continue to be competitive. We all charge fees, because we need to earn money. We're not in this to give a free service. Customers understand that.

Gunjan Chauhan, SSGA: I would argue that in the money funds space, management fees are incredibly transparent for end investors. This isn't the case if you are investing in any other short duration instrument where the pricing can maybe be more ambiguous.

> Ultimately, the purpose of fees and gates are to protect the end investor and to ensure we are all acting as a fiduciary by treating investors fairly.
>
> Beccy Milchem, Head of International Cash Corporate Sales, BlackRock

Paul Przybylski, JPMAM: Compression of fees is inevitable. We have seen it for years; this is happening more and more across not only liquidity products but more broadly across the mutual fund industry.

Are you expecting further consolidation of fund managers in the industry?

Anthony Callcott, Aviva Investors: There has been consolidation and there will always be consolidation. The desire to acquire will continue going forward. But I think what we can look forward to is good growth in this business over the coming three to five years.

Paul Przybylski, JPMAM: Yes, if you look at the league tables, ten names account for approximately 80% of the market today; it's already fairly consolidated at the top. Regulatory reforms are going to push more players out, simply because of the cost. It's quite expensive to build the infrastructure for regulatory reform. So, we'll probably see smaller players consolidated a bit further down, but you probably won't expect the top ten to start merging together, at least not yet.

Briefly, what impact will Brexit have on the business?

Laurie Brignac, Invesco: I think it's too soon to say. At this point, we are cautiously optimistic that we'll still be able to offer our UCITS products. But again, until you get clarity around what the final rules are, it's hard to know, and that's at least part of it. Even with reform, it's hard to navigate something when you don't have clarity.

Anthony Callcott, Aviva Investors: Yes, until we know the terms of trade then we don't know the landscape.

Gunjan Chauhan, SSGA: The devil is really going to be in the detail. And until we have that detail we aren't really going to be able to guide investors in an appropriate fashion around the impact, the consequences, what they need to be mindful and thoughtful around.

The issue is selling what will be a European regulated product into the UK market – that's the major area of potential impact, is it?

Paul Przybylski, JPMAM: Correct. We may have to set up a brand-new construct of products. But as Gunjan said, the devil will be in the detail. Another component is how much time we will have to implement. That's going to be a huge factor in deciding what we can actually bring to our clients.

Because you can imagine the body of work that would be required to launch a sterling product – we have clients that would like to see euros and dollars in the same space – so you're talking about potentially duplicating our offering. As mentioned before, that will take time and effort – and costs will again be part of that equation.

Beccy Milchem, BlackRock: There is also the impact from the investment perspective and the potential volatility in sterling, or cautious views on UK credit.

Gunjan Chauhan, SSGA: It is interesting that we have EU MMF reform and Brexit happening at the same time.

Paul Przybylski, JPMAM: It's perfect!

Laurie Brignac, Invesco: A perfect storm!

Paul Przybylski, JPMAM: Investors certainly have reform fatigue. They have had to go through reform in the US and they are now dealing with everything that is happening in Europe. I think they're tired, to say the least!

As a result, when we speak to our clients about these trends, their eyes glaze over. But there is not a lot of time left, and we implore that treasurers push one last time and ensure they are ready to invest in the new regulatory landscape.

Anthony Callcott, Aviva Investors: I think you're right, there is fatigue on the client side. I had a client recently that I booked a meeting with who said, 'You can come and see me – but if you mention reform, you're leaving!'

Gunjan Chauhan, SSGA: It means that more than ever, investors should be very close to their investment managers and vice versa, uncertainty calls for partnerships, and guiding our clients through all these changes is a responsibility that we take incredibly seriously.

We should be mindful of the priority list that our investors have. One of the reasons why investors in the US really were not indicating what they were going to be doing until the eleventh hour may be a reflection of where it's stacked in their priority list. Sometimes investors or clients will not do anything until they absolutely have to. So, I think that's where you need to just be ready to support them when they start working on it.

That really brings us to a close. I'd like to go around the table to hear your closing thoughts.

Anthony Callcott, Aviva Investors: From a client perspective, I believe the reforms are positive and create opportunities. The rules also give clients more comfort in the way they invest and what they are invested in. Creating that transparency, giving them enhanced liquidity and more security of capital, can only be a positive outcome for clients and also for fund managers going forward.

Paul Przybylski, JPMAM: Broadly speaking, I would say that reform is positive for our clients and the overall industry. My advice to treasurers would be to think, plan and act with regards to the upcoming reform. Treasurers need to think about what their investment portfolio will look like in the future and ensure they understand the new structures to build a policy that will enable them to achieve this. Plan accordingly within their organisations with respect to the new product offerings and act when the time comes by selecting the products that best suit their needs by the defined conversion dates.

Beccy Milchem, BlackRock: Like Anthony and Paul, I also agree that the reforms are positive, bringing in a lot more transparency and choice for investors.

I would also encourage treasurers to look at their investment policies sooner rather than later. Top of mind should be creating something that is future proof. It is about being a bit more open-minded about what tools you can use now and ensure this is reflected in the policy.

Laurie Brignac, Invesco: I would echo all these points. I would also encourage treasurers to be close to their fund managers and know exactly when they are transitioning. We're all going to be transitioning at different times, in different timescales. So it's probably time to start gathering that information and asking when the conversion dates are, so you can work your way back if you haven't updated your investment guidelines already.

Gunjan Chauhan, SSGA: My advice for investors is to take the time to stay close to your investment managers and ensure that you are getting up to speed with what the different product choices will be post-reform. And take the time to take it one step further and actually look at the operational mechanisms around how each of those product types will function.

Thank you very much.

AVIVA INVESTORS | BLACKROCK | Invesco | J.P.Morgan Asset Management | STATE STREET GLOBAL ADVISORS