CVM Seminar: Strategic Issues and Challenges of the CIS Industry

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Pablo Anabitarte;
Head of FIL
Investimentos Brasil Ltda

Agenda:
Role of Service Providers and Gatekeepers and the Treatments of Conflicts of Interest

1. Customer Choice: Access to products

2. International Experience

3. Dealing with Conflicts of Interest

4. Conclusions

1. Customer Choice / Access to products

1. Customer Choice / Access to products

** Background*

- Globalization of markets, complexity and sophistication of products together with increased regulations brings a challenging situation for the distribution of financial products

** Key considerations*

- OA: We define open architecture as the offering of third party solutions by a financial institution

- Parties involved: Generally we find 4 parties involved in the OA process:

1. Manufacturer (Asset Manager)
2. Intermediary (Financial Institution / IFA)
3. Path (Platforms)
4. Customer

- Non product related items: Aspects like tax treatment on CIS, operational and regulatory requirements and transparency can have key impacts of the development of customer choice

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Access to Choice: The Three Pillars

Channel Access

- DIRECT ACCESS
  - Purchase of the product through a platform and with no intermediaries
- FINANCIAL INSTITUTION
  - Can be a bank, insurance company or other form of regulated entity
- INDEPENDANT FINANCIAL ADVISOR
  - Through a certified and regulated IFA providing advice

Type of Product

- THROUGH A WRAPPER
  - Fund of Fund
  - Insurance Unit Linked
  - Retirement Solutions
  - Managed Fund Portfolio
  - Other…
- MUTUAL FUND
  - White labelling
  - 3P Branded Fund

Client Segmentation

- RETAIL CUSTOMERS
- AFFLUENT CLIENTS
- PRIVATE BANKING / HNW

Different conflicts of interest can arise, depending on the channel we use, type of product we buy or how we are segmented as client

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Access to Products by Distribution Channels Europe

Breakdown of Selected European Country Assets Under Management by Distribution Channel, 2007–2009 (€ billions)

Changes in regulation will challenge traditional distribution channels and open-up new opportunities.
Web-based direct to consumer propositions are likely to grow in importance across Europe.

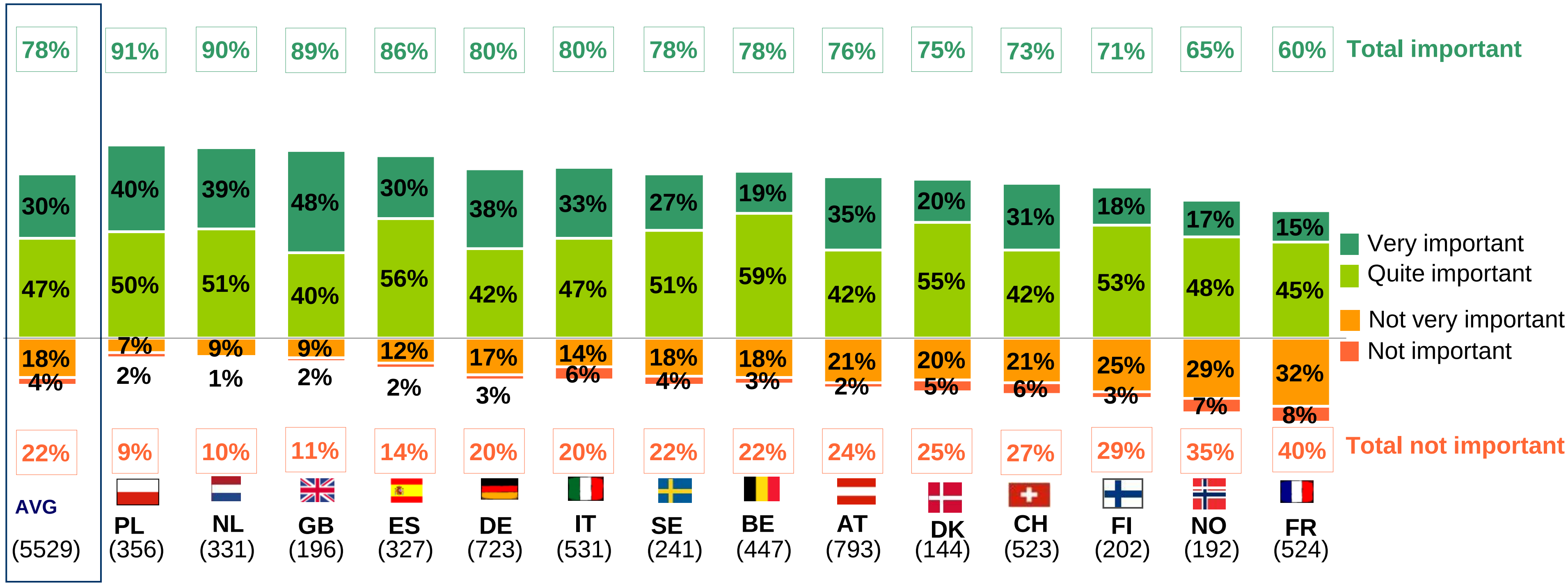
	France			Germany			Italy			Switzerland			United Kingdom		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
Assets (€ bn)	**€891.6**	**€670.4**	**€734.6**	**€626.2**	**€408.6**	**€454.4**	**€526.0**	**€320.4**	**€345.3**	**€167.0**	**€142.1**	**€211.7**	**€605.4**	**€359.1**	**€543.3**
Retail Bank	23.9%	23.3%	21.3%	47.3%	45.4%	44.4%	57.5%	56.2%	54.3%	17.0%	14.1%	11.6%	5.7%	4.3%	2.3%
Private Bank/ Discretionary	12.0	9.9	10.9	12.3	11.0	13.5	7.0	7.0	13.0	51.0	45.0	51.0	6.0	6.0	6.0
Pensions/Insurance Wrap	19.5	18.5	13.5	16.2	15.2	16.4	12.2	13.5	13.5	8.0	7.0	8.0	15.3	13.4	12.4
IFA Advisor	4.0	4.0	8.3	11.4	9.4	7.4	9.0	5.0	6.0	5.0	5.0	6.0	50.0	53.1	55.6
Supermarket	0.4	0.3	0.3	1.5	0.5	0.5	0.5	0.3	0.3	3.0	1.5	1.5	2.1	1.5	1.5
Direct	0.5	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.2	2.0	1.5	1.5	0.9	0.5	0.5
Fund of Funds	13.5	12.5	11.2	6.0	11.3	13.6	11.0	10.2	5.1	1.0	11.9	6.4	7.8	9.2	9.2
Institutional/ Corporation	26.0	31.0	34.0	5.0	7.0	4.0	2.5	7.6	7.6	13.0	14.0	14.0	12.0	12.0	12.5
Other	0.2	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0

Sources: Lipper FMI European Fund Market Data Digest, Cerulli Associates

Highlights

- **Retail Banks:**
  - Italy has a 54% weight as access channel
  - UK only 2.3%
- **Private Banks:**
  - Switzerland, with 51% leads in Europe in terms of access channel
- **IFA Channel:**
  - UK leads with 56% weight in distribution vs. a lower penetration in other European Countries

Access to Choice in Europe: Open architecture; importance of product offering



Sample: People with Mutual Funds or Life Insurance products
Question: ¿How important is it for you to receive diverse product offering from the market place ?

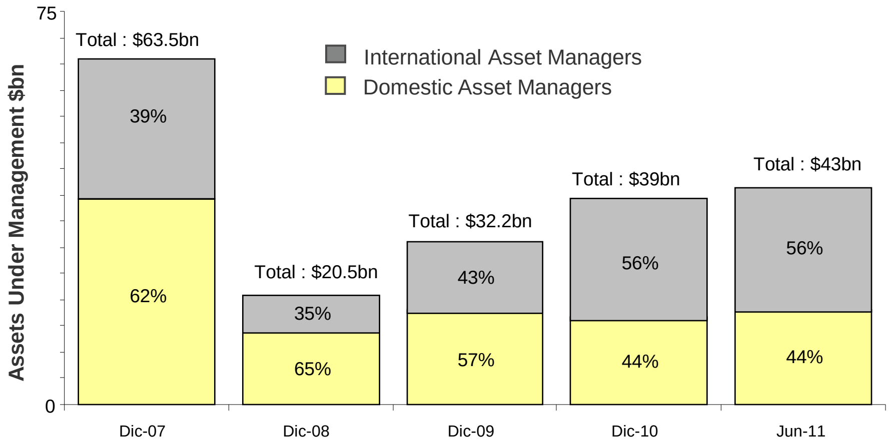
Almost 8 out of 10 European investors appreciate the openess and accessiblity to products and even 30% consider it VERY important

2. International Experience

International experience: Spain

Evolution of Equity Funds AUM

Domestic and International Asset Managers, Dec. 2007 - June 2011



- **Tax event triggered a re shape of the Mutual Fund Industry (Law 35/2003, Nov 4, Personal Tax Income Regime)**
- **New Landscape / More competition:**

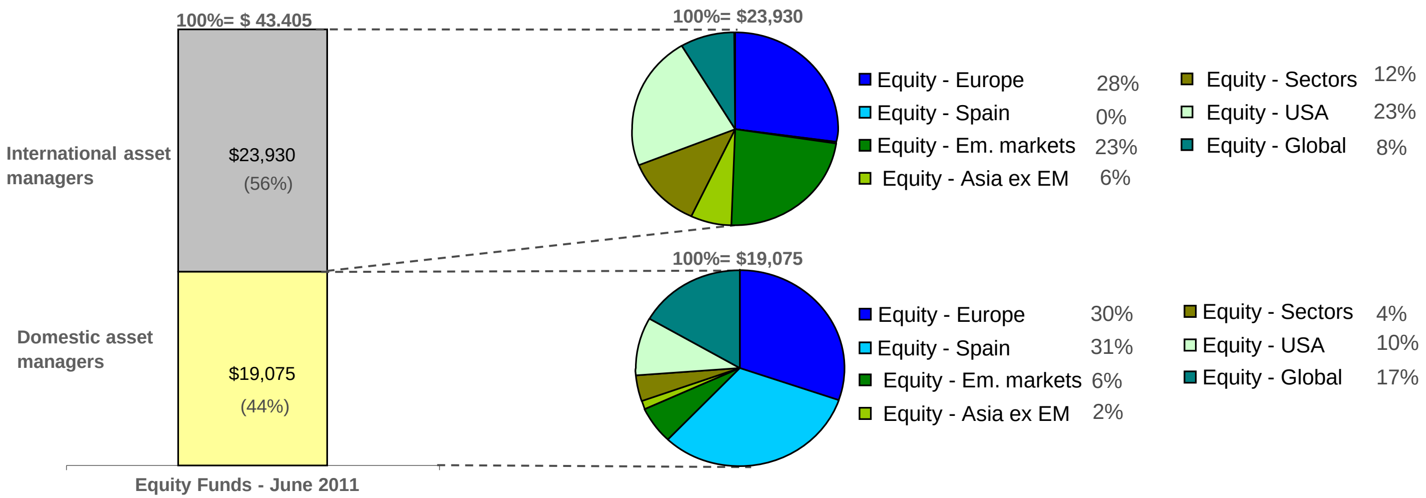
  *** Commissions**
  *** Returns on funds**
  *** Service levels**
  *** Increased visibility Fund data providers**

Breakdown by Asset manager

June 2011

Break down by asset class

June 2011

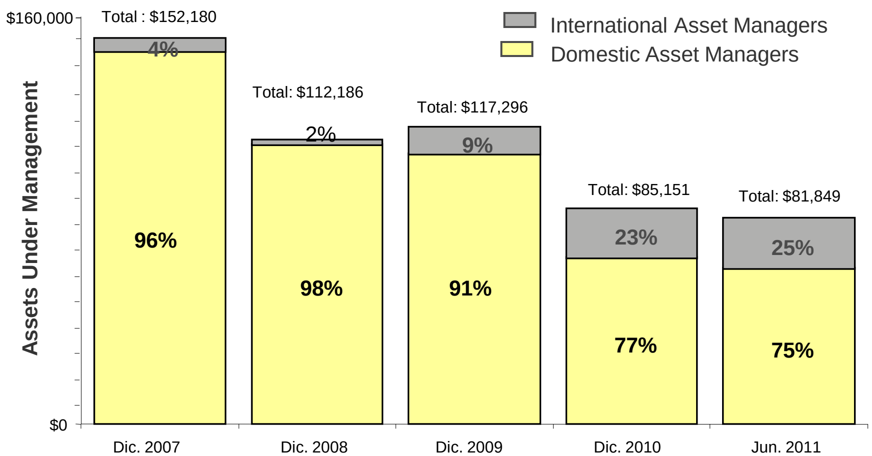


Source: Lipper FERI; IMF and AssetWatch

International experience: Spain

Evolution of AUM in Fixed Income Mutual Funds in Spain

Domestic and International Asset Managers Dec. 2007 – June 2011



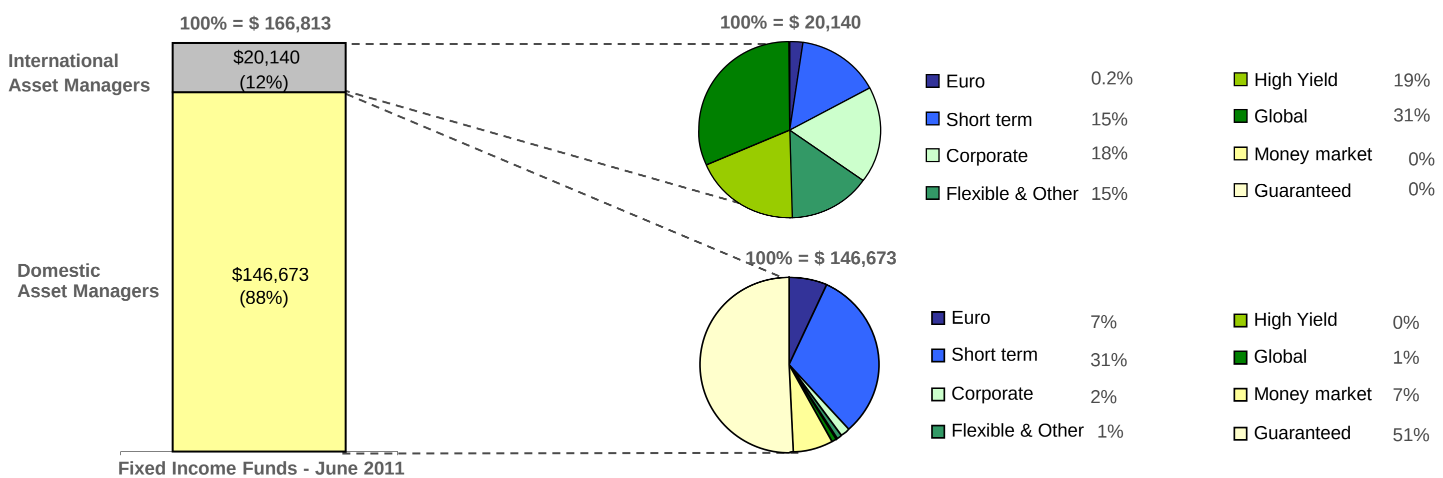
- **Fixed Income Third Party fund penetration has moved at a slower pace than equity**
- **OA is developing in complex Fixed Income disciplines such as High Yield and Credit**

Breakdown by Asset manager

June 2011

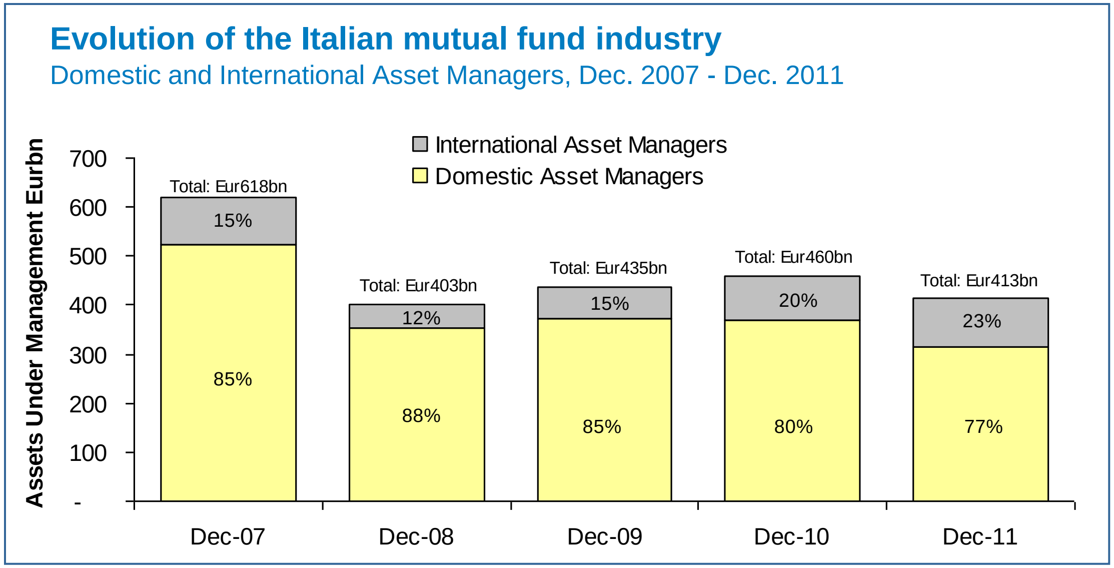
Break down by asset class

June 2011

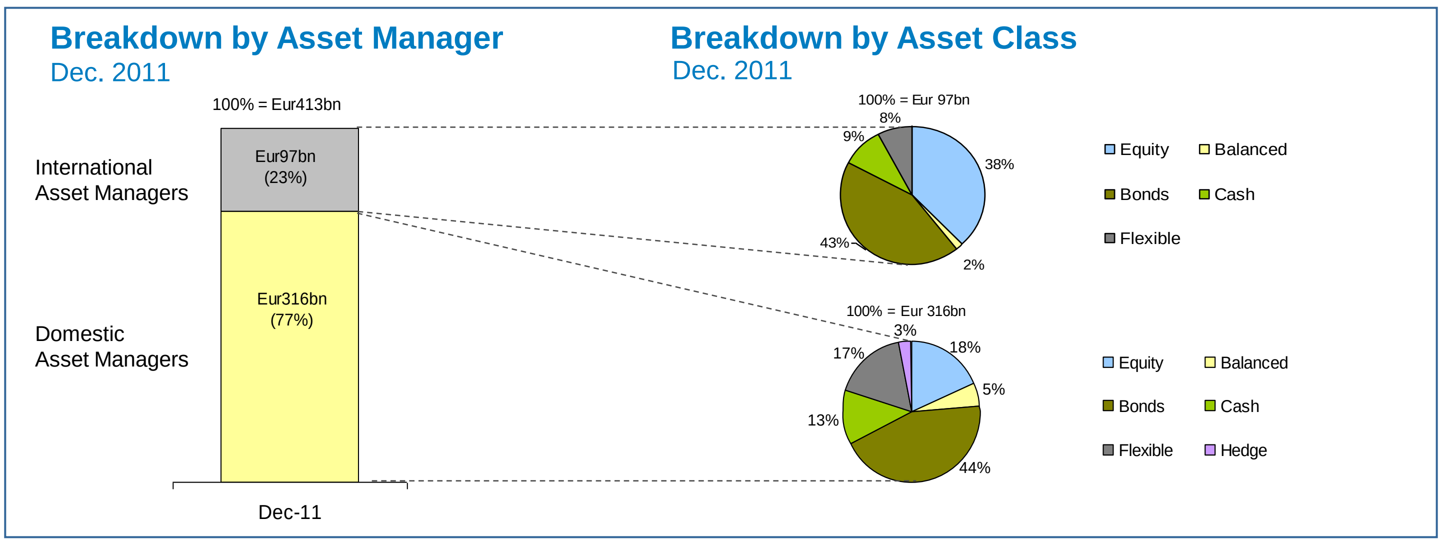


Source: INVERCO; Lipper FERI; IMF & AssetWatch

International experience: Italy

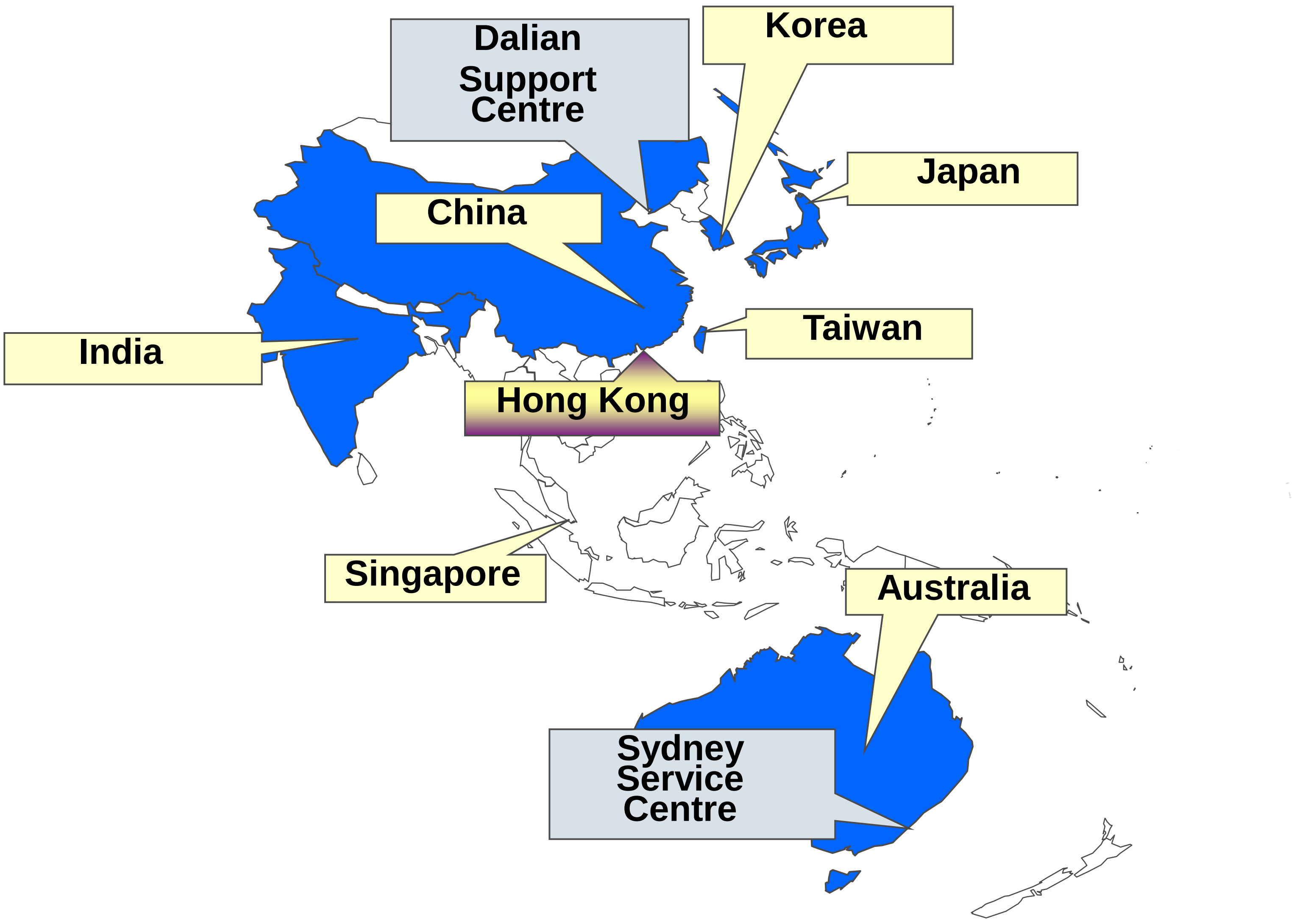


- **Penetration of International Asset Managers have increased steadily over the last few years*.**
- **While domestic companies show a higher diversification across various asset classes, overall International players are concentrated in Equity and Bonds.**



Source: Assogestioni. *Data do not include relevant players such as BlackRock, Carmignac and PIMCO. We estimate that the 23% penetration of Interntional players could be as high as c.a. 30% considering these assets as well

International Experience: Asia



Well diversified business and a deep presence in most of the countries that we operate

	Channel Access				Product Offering		
	Wholesale	Retail Direct	Inst. - DB	Inst. - DC	Local Funds	Offshore Funds (SICAV)	3rd Party Funds
Japan	X	X	X	X	X		X
Korea	X		X		X	X	
Australia	X		X		X		
Hong Kong	X	X	X	X	X	X	X
India	X	X			X		
Singapore	X		X			X	
Taiwan	X	X	X		X	X	X
China			X				

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3. Dealing with conflicts of Interest

4. Dealing with Conflicts of Interest

Fund Platform Business

- Fundsnetwork platform
- Fidelity Select List
  - 135 funds offered
  - 121 Non Fidelity from 29 different managers
  - 15 Fidelity Funds
- "Total Cost of Ownership Policy": complete transparency with regards to rebates and costs

Institutional Business

- Segregated Mandates in equal treatment as other products
- Disclosure policy rules
- Fidelity offering Pension Schemes on our platform
  - Fidelity Select List

Putting customer FIRST

- Correct use of share classes
- Investor protection measures
  - Fair Value pricing
  - Swing pricing
  - Dealing cutt off times
  - Disclosure policy
  - Hot money policy
- Lowering commissions on Cash Funds
- Inducements

Reputational Risk

- Strict Code of Ethics
- Gift and Hospitality Policy
- Data Protection
- AML Policies
- Other

Full Transparency Policy when dealing with potential conflicts of interest

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Dealing with Conflicts of Interest

Bad advice, narrow restricted product offering and expensive commissions are the main reasons to change intermediary

Sample: All Question, ¿Out of the options listed below, which ones can influence you to change your relationship with your main intermediary?	Media	AT	BE	CH	DK	FI	FR	DE	IT	NL	NO	POL	ES	SE	GB
	6468	*390*	*481*	*464*	*276*	*292*	*520*	*511*	*627*	*549*	*318*	*511*	*640*	*306*	*583*
Commissions are too high	41%	60%	36%	49%	40%	51%	37%	48%	43%	31%	31%	47%	30%	47%	38%
Bad advise over my investments	30%	49%	14%	39%	36%	39%	18%	50%	23%	14%	28%	35%	28%	33%	30%
Negative returns over one or various investments	24%	23%	19%	26%	30%	19%	22%	21%	27%	13%	22%	30%	29%	36%	27%
Lack of response	23%	44%	21%	29%	18%	23%	22%	30%	15%	13%	22%	29%	19%	23%	23%
Lack of attractiviness over competitors	23%	36%	19%	31%	17%	26%	21%	30%	29%	9%	16%	27%	23%	20%	15%
Lack of regular investment advice	19%	27%	19%	20%	15%	18%	23%	16%	15%	15%	16%	24%	24%	17%	18%
Problems in the relationship with my financial advisor	19%	32%	13%	24%	20%	24%	21%	20%	22%	10%	11%	20%	18%	23%	13%
Competitors offer a wider range of products	14%	23%	9%	13%	13%	16%	5%	16%	13%	6%	16%	19%	13%	18%	15%
Investments and ideas are too standarized No differentiation	13%	19%	13%	18%	11%	15%	17%	18%	8%	10%	5%	14%	12%	13%	9%
Change of Financial advisor	12%	18%	14%	16%	13%	18%	21%	12%	11%	7%	10%	7%	9%	7%	10%
None of the above	16%	5%	19%	13%	18%	11%	16%	15%	10%	35%	25%	8%	11%	18%	24%
Promedio	*2,35*	*3,34*	*1,97*	*2,77*	*2,32*	*2,61*	*2,23*	*2,76*	*2,16*	*1,65*	*2,01*	*2,58*	*2,16*	*2,56*	*2,22*

4. Conclusions

Highlights

INTERMEDIARIES: Banks continue to be the preferred intermediary but:

- Its influence has decreased
- Other channels are gaining importance: IFA and Internet

CUSTOMERS: Investors look for better information

- It is still unclear to them if they need to pay for investment advice
- Reasons to change Intermediary:
  - **Quality of Advice**
  - **Lack of Open Architecture**
  - **Commissions**

ASSET MANAGERS: Find positionning and value proposition

- The trend is to offer better risk adjusted, simple and easy to understand products
- Increase in non Invesment management related costs such as Marketing

CONFLICTS OF INTEREST: Identify them in advance, prevent them and always be transparent informing the involved parties

Regulatory risk warnings / important notes / compliance

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