



Malta Funds Industry Association



Annual Report 2015

Contents

The Malta Funds Industry Association	3
Committee Members	5
Chairman's Statement	6
New Framework for Alternative Investor Funds	9
The Packaged Retail and Insurance-based Investment Products (PRIIPs)	9
General overview of the investment fund assets in the International Fund Industry	10
Review of the Local Funds Industry	12
Revenue and Expenditure Account	17
Members' Directory	18
Contact Details	19

The Malta Funds Industry Association 'MFIA'



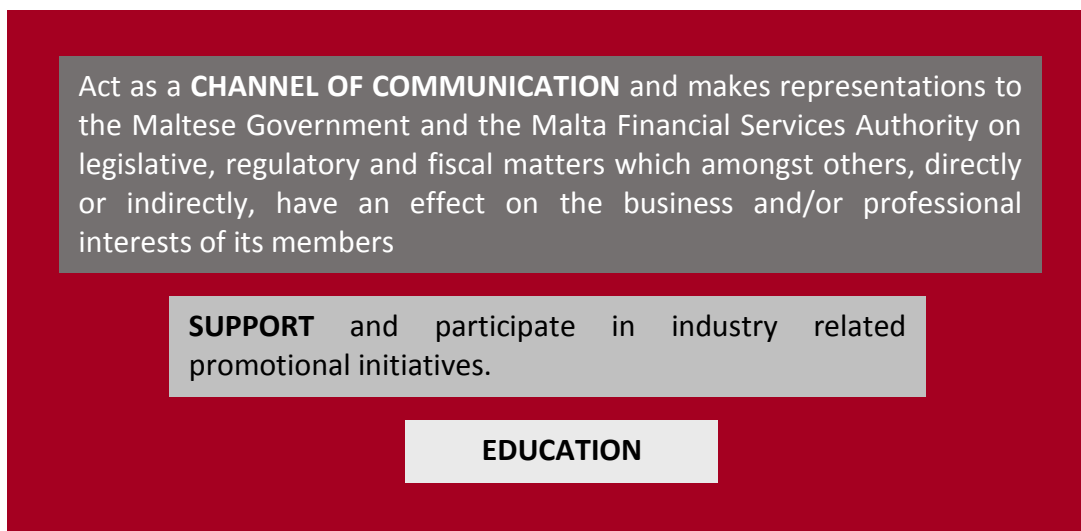
The genesis of the Malta Funds Industry Association, MFIA, dates back to 22 September 2003 where two of its current members, HSBC Global Asset Management (Malta) Limited and Valletta Fund Management Limited took the initiative to set up a representative body for the industry. At that time, the MFIA was known as the Malta Investment Management Association and, initially, it represented the common interests of fund managers.

Following Malta's accession to the European Union on 1 May 2004, the industry witnessed an increased interest by international fund promoters to domicile their funds in Malta. This was without doubt driven by a number of success factors which amongst others, included the presence of a comprehensive legal and regulatory framework, cost competitiveness and a professional business environment. As a result of these developments, the Association broadened its remit to represent the interest of fund administrators, following the initiative taken by the main market players at that time to set up specialist fund administration operations and with a clear distinction from fund management business. The strong growth of the industry in these last few years subsequently necessitated that the Association reviews its statute to encompass a wider spectrum of practitioners actively involved in the funds industry. Over the past years, the Association has also welcomed Custodians and members from legal, audit and advisory professions. In view of the ever increasing obligations of the fund Directors particularly emanating from the new regulations, the Association has last year widened its membership base to include Directors of Collective Investment Schemes.

Fund Managers	Fund Administrators	Depositaries
Compliance Officers	Directors	Money Laundering Reporting Officers
	Risk Managers	
Legal Firms	Audit Firms	Advisory Firms

The MFIA's primary objective is to act as a channel of communication and to make representations to the Maltese Government and the Malta Financial Services Authority on legislative, regulatory and fiscal matters which amongst others, directly or indirectly, have an effect on the business and/or professional interests of its members.

The Association's initiatives are led by three key objectives:



MFIA is also represented on the Board of Governors of FinanceMalta, a Foundation which was set up between the Industry and the Government of Malta with the core remit to promote Malta's financial services industry in and outside Malta. The MFIA is a full member of the European Fund and Asset Management Association (EFAMA) and sits on the EFAMA Board.



Committee Members who served in 2015

Mr Kenneth Farrugia (Chairman)

Chief Officer - Bank of Valletta plc

Mr Lawrence Buttigieg (Treasurer)

Chief Executive Officer - Alpine Group

Mr Anatoli Grech (Executive Secretary)

Head Strategy & Regulatory Affairs - Valletta Fund Management Ltd

Mr Mark Agius

Executive Head - Valletta Fund Management Ltd

Ms Sarah Camillieri

Director - KPMG

Mr Chris Casapinta

Country Executive Malta – AlterDomus

Mr Michael Galea

Calamatta Cuschieri Investment Management

Ms Muriel Micallef

Managing Director - HSBC Global Asset Management

Mr Andrew Zarb Mizzi

Senior Executive Officer - Swissquote Financial Services (Malta) Ltd



Chairman's Statement

A good year within a challenging backdrop



The global asset management industry continues to face significant challenges in balancing the ever increasing risk and compliance requirements of the evolving regulatory landscape and business goals. Malta's fund industry continued to sustain its growth where the total number of new funds (PIFs, AIFs, UCITS and Retail Non-UCITS) authorised by the MFSA over 2015 increasing by 122.

The Malta Funds Industry Association (MFIA) is cognizant of these significant regulatory developments and their considerable impact on the industry. In this respect, the Association has over the past years reviewed its statute and widened its membership base to include a wider universe of stakeholders to the industry to cover asset managers, investment advisors, administrators, custodian banks, law firms, auditors and accounting firms, compliance officers and Directors of Collective Investment Schemes. The Association regards this as an important development in view of the ever increasing regulatory obligations on all stakeholders within the industry. It is widely recognised that these new regulations are tougher and more comprehensive than past regulations, featuring in some cases complex new requirements and widening their scope to an increasing range of investment products. In tandem, national regulators have also stepped up their scrutiny and enforcement procedures.

One of the main thrusts of the MFIA is to represent the industry insofar as regulatory matters are concerned. In this respect, the Association regularly participates in consultations issued by the Malta Financial Services Authority (MFSA) concerning new regulations and also plays an active role in keeping its members updated with the implications of new regulations and the legislative enactments undertaken by the MFSA. The MFIA, as a full member of European Fund and Asset Management Association (EFAMA), has also participated on various working group and contributed significantly to consultation documents and positions papers issued by EFAMA in order to put forward the views and interests of the local industry. In this respect, the MFIA was actively involved in the consultation on the Undertakings for Collective Investment in Transferable Securities Directive (UCITS V), and in conjunction with FinanceMalta, held an educational clinic on the new requirements of the UCITS V Directive transposed on 18 March 2016.

On 8 May 2015, in conjunction with FinanceMalta and the HedgeFund Review, the Association held a Seminar titled 'AIFMD implementation - experiences, challenges and opportunities' at the Corinthia Hotel in London and discussed challenges in advising, authorising, supervising and launching AIFs in Malta and the opportunities and benefits of setting up AIFs and AIFMs in Malta. This event was very well attended and feedback from the participants was very positive. Following the success of this event and the high level of interest from industry professionals and operators based in London, the Association held another event on 5 November 2015 that focused on the opportunities for the setting up of regulated collective investment vehicles in Malta that include Professional Investor Funds, Alternative Investment Funds, Private Equity, Venture Capital Funds, Loan Funds, Shariah Funds and UCITS funds. This event, which was also organised in conjunction with FinanceMalta and the HedgeFund Review, equally attracted strong attendance.

On 17 November, the MFIA, in conjunction with FinanceMalta, held a seminar on Investment Management Services for Pension Schemes established in Malta which is currently a very topical subject and gaining a lot of interest from operators within the funds industry. A technical brief on this subject was also issued and circulated to the MFIA members.

On the educational front, the Association continued in its joint initiative with the Institute of Financial Services in Malta to hold an elective course on Fund Administration at the University of Malta for students reading for the Bachelor of Commerce degree with a specialisation in Banking and Finance. We are pleased to report that once again the take up was encouraging.

The Association continues to be represented on the Financial Intelligence Analysis Unit (FIAU) committee to pursue developments in this regard. Moreover, the Association has set-up a working group, made up of professionals within the industry, in order to draft Part 2 of the industry specific implementing procedures to the Prevention of Money Laundering and Funding of Terrorism Regulations. The Committee has also set-up a working group to draft industry guidelines on the interpretation of a number of regulatory rules with a view to provide clarity to the industry and encourage common interpretation. These guideline will be presented to the industry one finalised.

Over the course of the past months, the MFIA has sought recommendations from its members and industry practitioners on initiatives aimed at strengthening the growth of the funds industry. One of the recommendations that frequently was brought up related to the benefit of introducing a concise technical guide delineating the requirements applicable to the setting up of the various fund typologies enabled by the current fund regulatory regimes, the different legal forms enabled by the applicable legal framework and the requirements related to the setting up of asset servicing operations in Malta such as asset managers and investment advisors, fund administrators, custody, advisory and corporate service providers. As a result and

with the support of the industry practitioners, the Association has produced a 'Malta Fund and Asset Servicing Operations Guide' that is available in an electronic format.

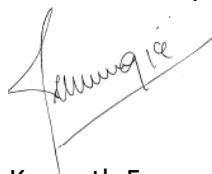
As at the time of writing this introduction, the Association has just organised a half day Funds Conference. This event was very well attended and addressed by the Hon. Professor Edward Scicluna, Minister for Finance, whilst Mr Peter de Proft, Director General of the European Fund and Asset Management Association, gave an overview of the trends and opportunities in the European asset management industry.

The Conference program also proceeded with three panel discussions. The first panel discussed the importance of the role of legal and regulatory led innovation in the funds industry as the driving catalysts that will ensure sustained business growth going forward. The discussion identified key innovations that may be introduced in Malta's Funds Industry within the context of the rapidly changing regulatory and operational environment as well as investor preferences. The second panel, debated the opportunities for Malta's fund industry in the alternative investment fund sector focusing on PE/VC structures, Loan funds and Infrastructure Funds within the context of the shift taking place in the market towards investments in alternative non-traditional asset classes. The panel also discussed the impact and opportunities presented by the new regulatory regimes such as the Notified AIF, EUVECA Regulations as well as highlight how typical PE and VC structures may be set up in Malta. On the other hand, the third panel discussed the challenges being experienced by depositories as well as the opportunities for new depositories considering setting up an operation in Malta.

I am also delighted to inform you that the Association has successfully managed to obtain the approval of the Board of Directors of EFAMA to hold this year's Annual General Meeting in Malta. This event will attract around 120 high profiles executives from international asset management and servicing firm, including, Aviva, Pioneer, JP Morgan, Nordea, Lyxor, AXA, Allianz, Blackrock, Fidelity as well as Europe's national Asset Management Associations to include those of Switzerland and Turkey. We consider this to be an excellent opportunity to significantly strengthen the visibility of Malta as an asset management centre.

On a final note, I would like to thank the Committee members who carry out their duties on a voluntary basis as well as the Association's members for their financial and other forms of support. The Association remains firmly committed to supporting the industry and to hold initiatives for the benefits of its members.

Yours sincerely



Kenneth Farrugia
Chairman

MFSA Launches New Framework for Alternative Investor Funds

On the 11 February 2016, the Malta Financial Services Authority (the “MFSA”) announced the launch of a new framework to be referred to as the Notified Alternative Investment Funds regime (the “Notified AIFs”). This new regime is expected to solve time to market issues being faced by a number of AIFMs wishing to launch AIFs and market them to investors in a tight time frame to meet market opportunities.

While the MFSA has issued a notice in relation to the proposed framework applicable to the Notified AIFs¹ setting out the key highlights of the new regime, the final MFSA rules in relation to the new framework are yet to be published.

The adoption of the Notified AIF regime necessitates changes in the current laws. Amendments to such laws are expected to be submitted to the Ministry for its approval in early April. Once these are approved, the MFSA will issue rules on this new framework. Together with the MFSA rules, the MFSA will also publish all pro-forma documentation which is to be submitted to the MFSA with the notification request by the AIFM. It is expected that requests for Notified AIFs will be accepted during Q2 of 2016.

The Packaged Retail and Insurance-based Investment Products (PRIIPs)

The Malta Funds Industry Association is fully supportive of the objective of the PRIIPS initiative, particularly the Key Investor Document (KID), which will enable retail investors to understand the products, compare easily with other products and thereby providing for a more informed investment decision.

The MFIA is cognisant of the considerable operational challenges faced by market participants to implement the PRIIP KID by 31 December 2016 particularly in view that the Regulatory Technical Standards will only be published by the third quarter of 2016. In this respect, the Association through its representation at EFAMA, and in conjunction with the European Banking Federation, Insurance Europe and the European Structured Investment Products Association has written to the European Commission requesting a one year delay in the introduction of the KID.

General overview of the investment fund assets in the International Fund Industry

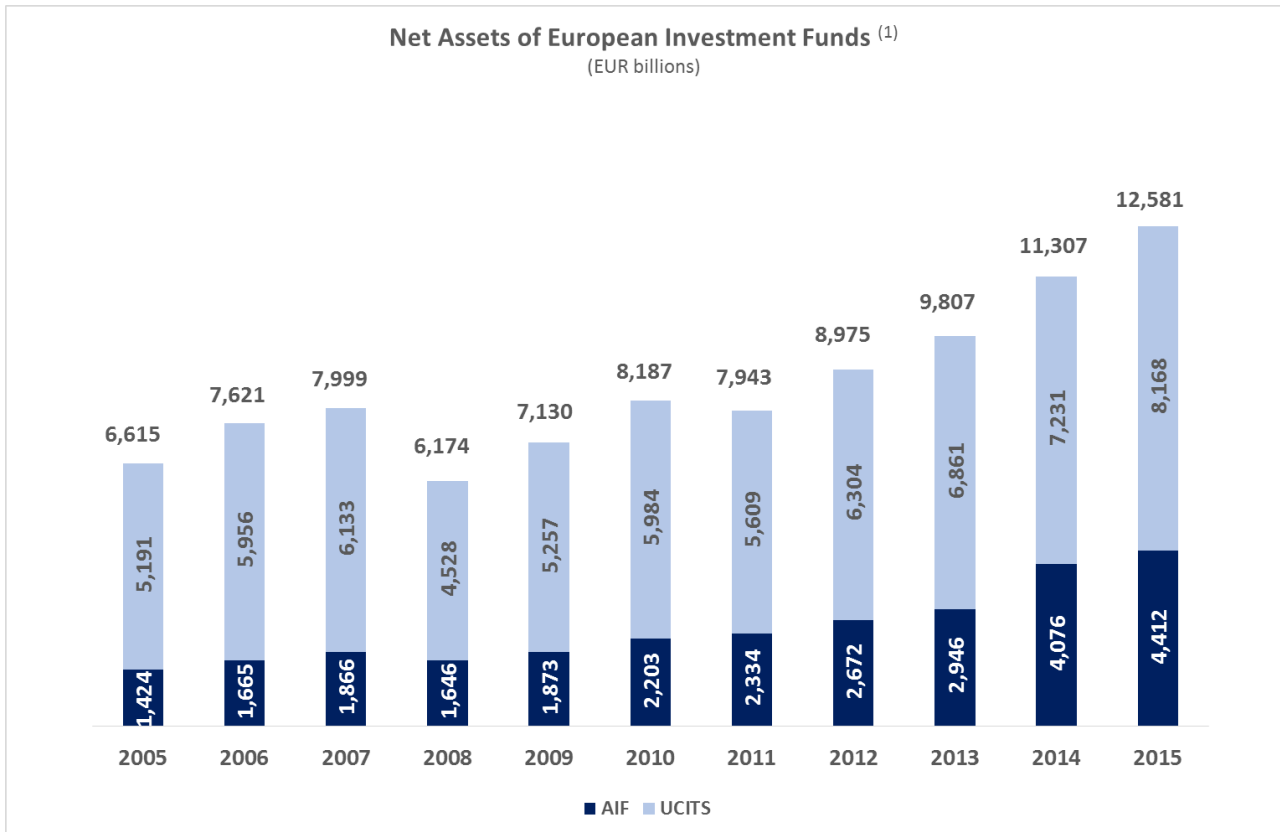
2015 was a record year for the European investment fund industry. Net sales of European investment funds rose to an all-time high of EUR 725 billion in 2015 and assets under management broke through to EUR 12 trillion thanks for a growth rate of 11%. The overall positive outcome can be explained by investor confidence which proved to be resilient despite periods of high volatility:

- The ECB's quantitative easing program announced in January 2015 and the expectation of stronger economic growth and lower interest rates increased investors' optimism, and thus boosted the demand for long-term UCITS for several months.
- Investor confidence took a hit following the sudden reversal in bond yields in April and the slowdown in major emerging market economies during the summer.
- However, despite the rise in uncertainty and market volatility, the net sales of long-term UCITS remained positive except in August when market turbulence intensified.

Further highlights on the developments in 2015 include:

- Investment fund assets in Europe increased by 11.3 percent to EUR 12,581 billion. Overall, net assets of UCITS increased by 13 percent to EUR 8,168 billion. Net assets of AIF increased by 8.3 percent to EUR 4,412 billion.
- Net sales of UCITS reached EUR 573 billion. Demand for UCITS reached its highest level ever in 2015.
- Long-term UCITS enjoyed a record year. Long-term UCITS recorded net inflows of EUR 496 billion, compared to EUR 479 billion in 2014.
 - Multi-asset funds attracted the largest net inflows (EUR 236 billion) as the broad market, asset class and sector diversification offered by balanced funds attract investors.
 - Equity funds recorded the best year for net sales since 2000 (EUR 134 billion) as investors remained overall confident in the economic outlook for Europe and the willingness of the ECB maintain its accommodative monetary stance to support activity.
 - Bond funds recorded lower net sales (EUR 83 billion) compared to 2014 against the background of a reversal in bond yields and the associated uncertainty concerning the evolution of the bond market.

- Money market funds saw a turnaround in net flows, ending the year with positive net inflows (EUR 77 billion) for the first time since 2008.
- Net sales of AIF reached EUR 152 billion, representing a slight increase from EUR 149 billion in 2014.



*All data and analyses presented exclude funds domiciled in the Netherlands for 2015.
Source EFAMA Quarterly Statistical Release N°64 (Fourth quarter of 2015).*

Review of the Local Funds Industry

Fact Statistics

- Total new funds (including sub-funds) licenced (2004 – 2015): 1,216
- Total funds (including sub-funds) surrendered (2004 – 2015): 640
- Net Asset Value of Malta domiciled Funds: €10.2 billion as at end December 2015
- Non-Malta domiciled funds (including sub-funds) administered in Malta: 134 as at end December 2015

Malta Based Collective Investment Schemes

The net asset value of Malta-domiciled funds totalled over €10.2 billion at the end of 2015, an increase of €0.5 billion (or over five per cent) when compared to the net asset value reported at the end of 2014. Diversified funds held the largest share with almost 40 per cent of the total December 2015 NAV, indicating that diversified funds remained the most popular type of funds with investors. Equity funds and bond funds followed with almost 25 per cent and 16 per cent respectively.

Over the period December 2014 – December 2015, mixed funds registered a sharp rise of €0.49 billion in net assets, followed by equity funds with €0.36 billion. In contrast, diversified funds experienced the largest drop in net assets with a decline of €0.45 billion. Hedge funds saw their net asset value dropping by €0.1 billion while money market funds experienced a fall of €0.08 billion.

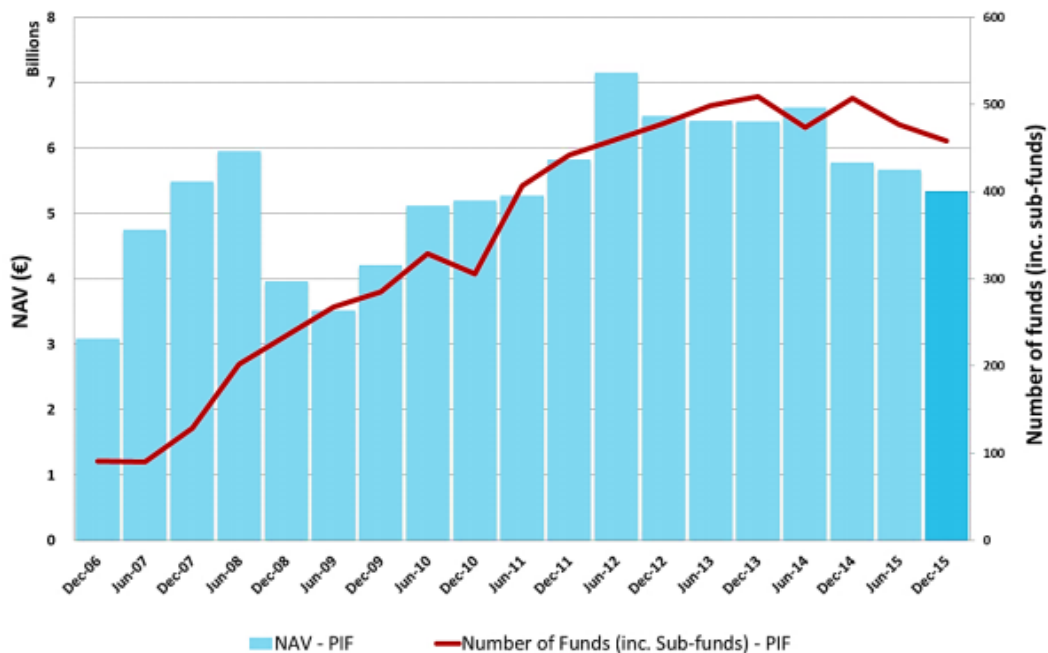
During 2015, Malta-domiciled investment funds reported sales amounting to €4.32 billion while redemptions reached €4.05 billion. Additionally, net revaluation adjustments accounted to €0.26 billion on the positive side.



Professional Investor Funds

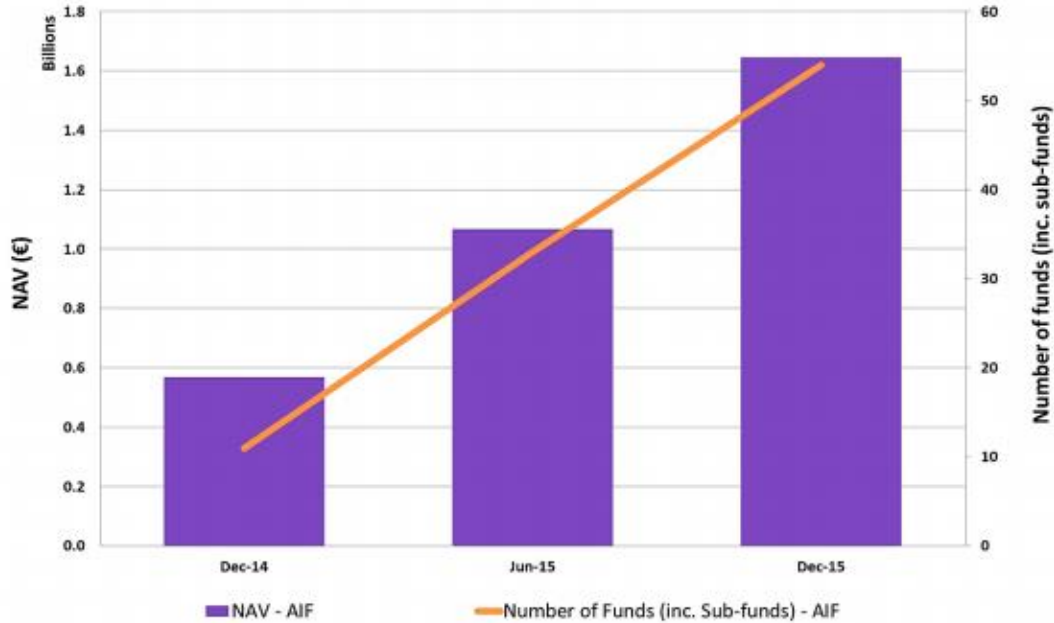
At the end of December 2015, there were 458 Professional Investor Funds licenced with the Authority. The net asset value of Professional Investor Funds stood at €5.3 billion at the end of 2015, representing a decline of €0.5 billion when compared to €5.8 billion reported at the end of 2014.

The chart below represents the net asset value of Professional Investor Funds against the number of licensed PIFs for the period 2006 – 2015.



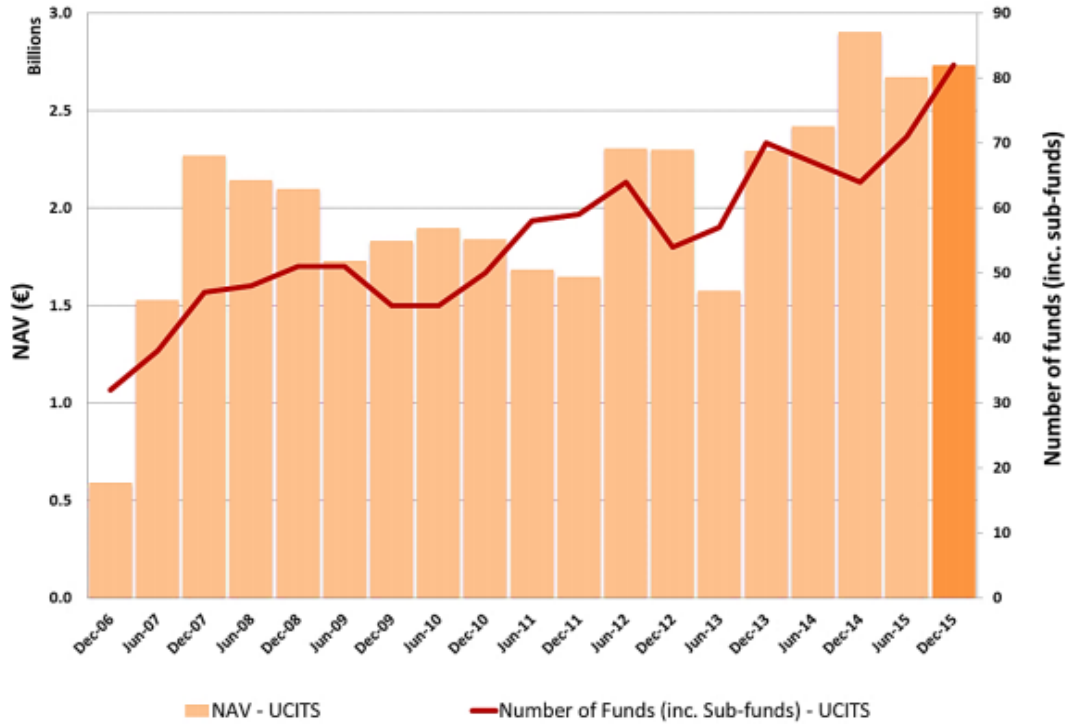
Alternative Investment Funds

Alternative Investment Funds increased from 11 in 2014 to 54 at the end of 2015. The net asset value reached €1.65 billion at the end of 2015, representing an increase of €1.08 billion when compared to the previous year. The chart below shows represents the net asset value of Alternative Investment Funds against the number of licensed AIFs for the period 2014 – 2015.



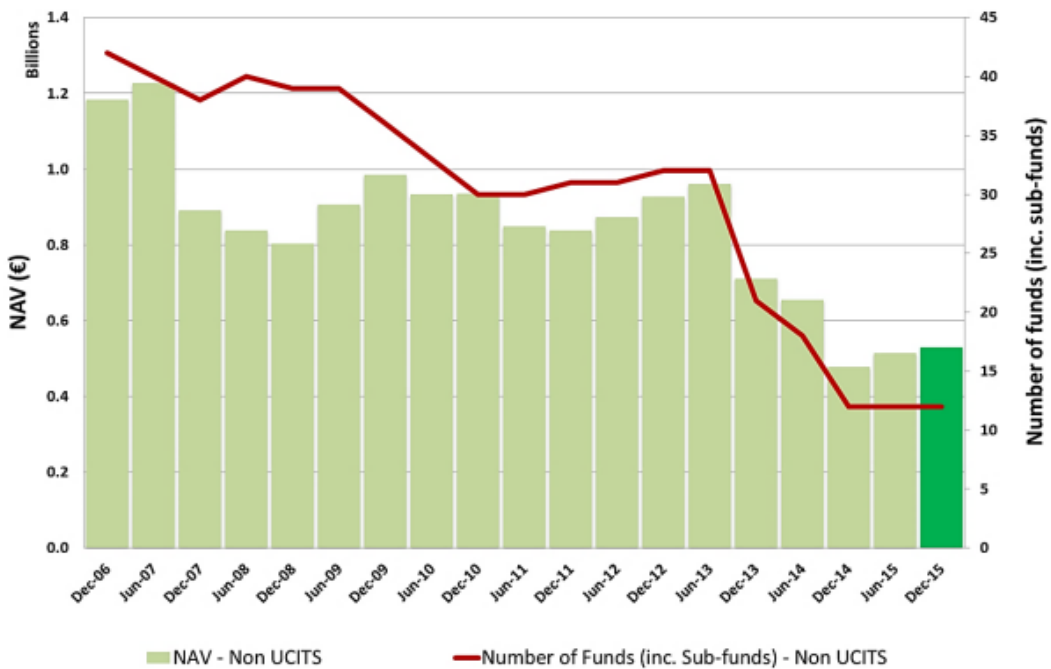
UCITS Funds

There were 82 UCITS funds licensed in Malta in 2015, up by 18 licences from the previous year. Despite the increase in the number of licences, net assets of UCITS funds declined by €0.17 billion when compared to the previous year to stand at €2.73 billion at the end of 2015. The chart below illustrates the net asset value and the number of licensed UCITS funds for the period 2006 – 2015.



Retail Non-UCITS Funds

As at end December 2015, Retail Non-UCITS funds remained unchanged at 12 when compared to the previous end year. Net assets increased to €0.53 billion at the end of 2015, a surge of €0.05 billion when compared to the preceding year. The next figure represents the net asset value and number of licensed Retail Non-UCITS funds for the period 2006 – 2015.



Management of funds

As at end 2015, 31.8 per cent of the funds were managed in Malta while 35.5 per cent were managed from outside Malta. Self-managed funds continued to expand during 2015, accounting for 32.7 per cent of the number of funds (including sub-funds) licenced in Malta as at end 2015. This represents an increase of 3.5 percentage points when compared to the previous end year.

Administration of funds

At the end of 2015, 81 percent of the funds licensed in Malta were administered by fund administrators established and recognised in Malta, an increase of 5.6 percentage points from the previous year. Only 19 percent of the funds were administered from outside Malta at the end of the year.

Non-Malta Domiciled funds administered in Malta

In terms of net assets, non-Malta domiciled funds administered in Malta had a net asset value of almost €1.9 billion at the end of 2015. This represents an increase of seven per cent (or €0.12 billion) when compared to the previous end year.

Source: Malta Financial Services Authority.

Analysis of Collective Investment Schemes licensed by the Malta Financial Services Authority 2015.

Revenue and Expenditure Account

	2015 EUR	2014 EUR
Revenue	12,550	10,900
Other income	-	1,100
Administrative expenses	(13,993)	(7,430)
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(Loss) / Profit for the year / total comprehensive income for the year	(1,443)	4,570
	=====	=====



Members

Abacus Fund Administration Limited
 Alter Domus
 Amicorp Fund Services Malta Ltd
 APEX Funds Services (Malta) Ltd
 APS Funds SICAV plc
 Argentarius ETI Management Limited
 Bank of Valletta p.l.c. (KP)
 Bank of Valletta p.l.c. (LC)
 Be. Legal Advocates
 Calamatta Cuschieri & Co Ltd
 Calamatta Cuschieri Investment Management
 Camilleri Preziosi Advocates
 Chetcuti Cauchi Advisors Finance Ltd
 Citco (Malta) Limited CUSTODY
 Citco (Malta) Limited FUND SERVICES
 Crystal Finance Investment
 CSB International
 Custom House Global Fund Services Ltd
 Deutsche Bank (Malta) Ltd
 FMG (Malta) Ltd
 Gauci-Maistre Xynou [GM International Services Ltd]
 Gonzi & associates advocates
 Growth Investments Limited
 Heritage International Fund Services (Malta) Limited
 HSBC Global Asset Management (Malta) Ltd
 IDS Fund Services Malta Ltd
 IFAG Institutionelle Fondsleitung AG
 Intergradvisory Ltd
 Jesmond Mizzi Financial Services Ltd
 KPMG
 M.Z. Investments Limited
 PHAX Services Co. Limited/Ganado Services Ltd
 Praxis Fund Services (Malta) Ltd
 PRESTIGE CAPITAL MANAGEMENT LIMITED
 PSG Fund Management (Malta) Limited
 Scotstone Fund Managers
 SGGG Fexserv Fund Services (Malta) Ltd
 Sparkasse Bank Malta
 Swissquote Europe Ltd
 Temple Asset Management Limited
 TMF Malta
 Valletta Fund Management Limited
 Valletta Fund Services Limited



Malta Funds Industry Association



c/o TG Complex
Suite 2, Level 3
Brewery Street
Mriehel BKR 3000
Malta



(00356) 22755201



info@mfia.org.mt



www.mfia.org.mt