



Malta Funds Industry Association



Annual Report 2016

Contents

The Malta Funds Industry Association	3
Committee Members	5
Chairman's Statement	6
General overview of the investment fund assets in the International Fund Industry	9
Review of the Local Funds Industry	12
Contact Details	16

MFIA

Malta Funds Industry Association



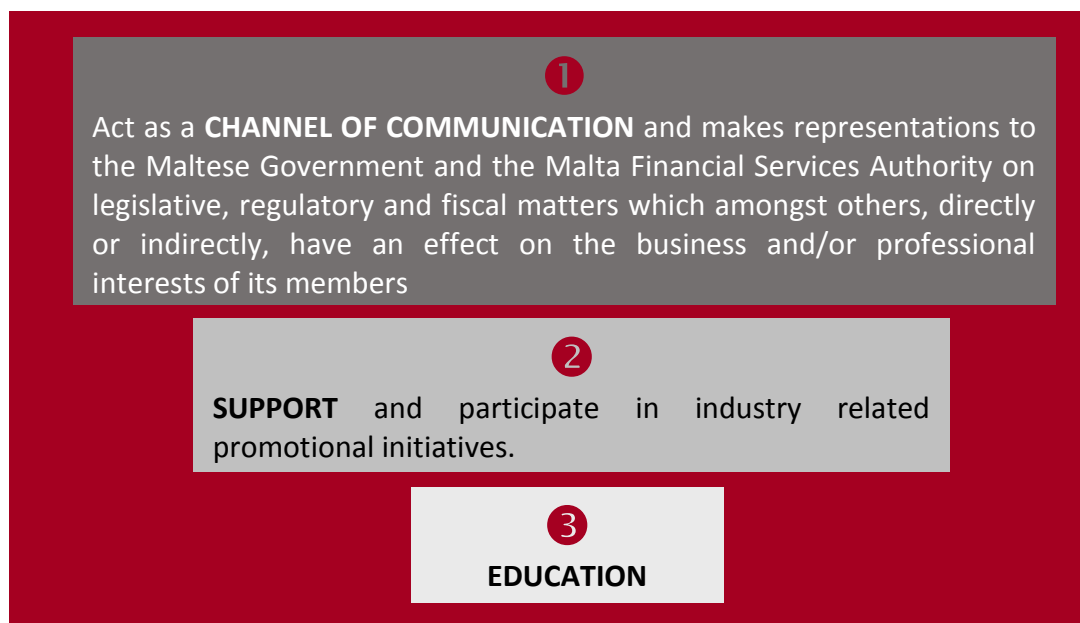
The genesis of the Malta Funds Industry Association, MFIA, dates back to 22 September 2003 where two of its current members, HSBC Global Asset Management (Malta) Limited and Valletta Fund Management Limited took the initiative to set up a representative body for the industry. At that time, the MFIA was 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	Depositories
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:



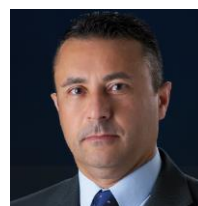
MFIA is also represented on the Board of Governors of FinanceMalta, a Foundation which was set up between the Industry and the Government of Malta with the core remit to promote Malta's financial services industry in and outside Malta. The MFIA is a full member of the European Fund and Asset Management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



Committee Members who served in 2016



Mr Kenneth Farrugia (Chairman)
Chief Officer - Bank of Valletta plc



Mr Mark Agius
Executive Head - BOV Asset Management Ltd



Mr Lawrence Buttigieg (Treasurer)
Chief Executive Officer - Alpine Group



Ms Sarah Camillieri
Director - KPMG



Mr Chris Casapinta
Country Executive Malta - AlterDomus



Mr Michael Galea⁽¹⁾
Chief Officer - Calamatta Cuschieri Investment Management



Mr Anatoli Grech (Executive Secretary)
Executive Group Compliance - Bank of Valletta plc



Ms Muriel Micallef⁽²⁾
Managing Director - HSBC Global Asset Management Ltd



Mr Andrew Zarb Mizzi
Senior Executive Officer - Swissquote Financial Services (Malta) Ltd

(1) Replaced in 2017 by Mr Neal Rossignaud – Head, Calamatta Cuschieri Investment Management Ltd.
(2) Replaced in 2017 by Mr Wayne Spiteri – Managing Director, HSBC Global Asset Management Ltd

Chairman's Statement

SUSTAINED GROWTH IN THE INDUSTRY OVER 2016

I am pleased to report that the total number of funds (including sub-funds) licenced in Malta reached 646 at the end of 2016, an increase of 6.6 percent (or 40 net licences) when compared with the previous end year. There were 460 Professional Investor Funds at the end of 2016, an increase of two licences when compared with end 2015. Over the same period, Alternative Investment Funds increased by 32 licences to stand at 86. The number of UCITS funds increased by nine licences to stand at 91 while Retail Non-UCITS funds declined by three licences with nine funds (including sub-funds) remain licensed at the end of 2016. Moreover, there were eight Recognised Private Collective Investment Schemes and 12 registered Foreign-based funds.

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 MFSA's consultation process 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 Malta Financial Services Authority. The MFIA, as a full member of European Fund and Asset Management Association (EFAMA), participates on various working group and contributes 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.

In May 2016, the Association held its first annual conference titled 'New Catalysts to Sustain Future Growth'. The Conference was addressed by the Hon. Professor Edward Scicluna, Minister for Finance, who spoke about the importance of the financial services industry as one of the key enablers to Malta's economic growth whilst the key note speaker of this event was Mr Peter de Proft, Director General of the European Fund and Asset Management Association, who presented the trends and opportunities in the European asset management industry. The Conference program also included 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 second panel debated the opportunities for Malta's fund industry in the alternative investment fund sector focusing on PE/VC structures, Loan funds, Infrastructure Funds within the context of the shift taking place in the market towards investments in alternative non-traditional asset classes. The panel discussed the impact and opportunities presented by the new regulatory regimes such as the Notified AIF, EUVECA Regulations as well as highlighted how typical PE and VC structures may be

set up in Malta. On the other hand, the third panel discussed the challenges facing the custody business as well as the opportunities for new custody operations considering to set up an operation in Malta.

On 16 and 17 of June 2016 the Association hosted the prestigious Annual General Meeting of the European Funds and Asset Management Association. This event attracted around 120 high profiles executives from international asset management and servicing firms, including, Aviva, Pioneer, JP Morgan, Nordea, Lyxor, AXA, Allianz, Blackrock, Fidelity as well as Europe's National Asset Management Associations including those of Switzerland and Turkey. This was an excellent networking opportunity for local industry professionals and has served to strengthen Malta's visibility as an asset management centre.

In July 2016, the MFIA held a seminar on Notified AIFs and discussed the practical considerations and key requirements in structuring a NAIF as applicable to Hedge Funds, PE/VC Structures, Infrastructure Funds/Real Estate Funds and others.

During the year, the Association supported FinanceMalta in the organisation of a number of initiatives aimed at promoting the funds industry in Malta. These events were organised in the US, UK and Switzerland.

In terms of regulatory led initiatives, the Association is represented on the Financial Intelligence Analysis Unit (FIAU) Committee on anti-money laundering. In this respect, the Association has drafted Part II of the implementing procedures for the fund's industry. The Association has also set-up a working group which was tasked to identify aspects from the current UCITS rulebook that may give rise to different interpretations. Recommendations and feedback will be presented to the MFSA and the industry will be notified of the interpretation that will be agreed with the MFSA. Another working group was set-up with the remit to analyse the implications and provide feedback to the Authority on the revised rule books applicable to Collective Investment Schemes.

Education is one of the key pillars of the Association and on this front, the Association, jointly with the Institute of Financial Services in Malta, has made arrangements with the University of Malta to hold an elective course on Fund Administration which has now been running for three years. The elective is aimed at students reading for the Bachelor of Commerce degree with a specialisation in Banking and Finance and the take up is increasing year-on-year. The Association also supported MCAST in the organisation of an optional credit as part of the full time Bachelor of Science (Honours) in Financial Services Management Degree.

During the current year, the Association is planning to hold a number of initiatives on various topics including Governance, MiFID II and impact of Brexit on the local industry. The Association will also be developing a new website that will serve its members better.

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

Yours sincerely



Kenneth Farrugia
Chairman

General overview

Investment fund assets in the International Fund Industry

2016 was another record year for the European investment fund industry, with net assets of European investment funds rising to an all-time high of EUR 14,142 billion and net sales of AIF reaching an all-time high of EUR 184 billion. Although lower than in the record-breaking years of 2014 and 2015, the net sales of UCITS were higher in 2016 than any single year from 2007 to 2013.

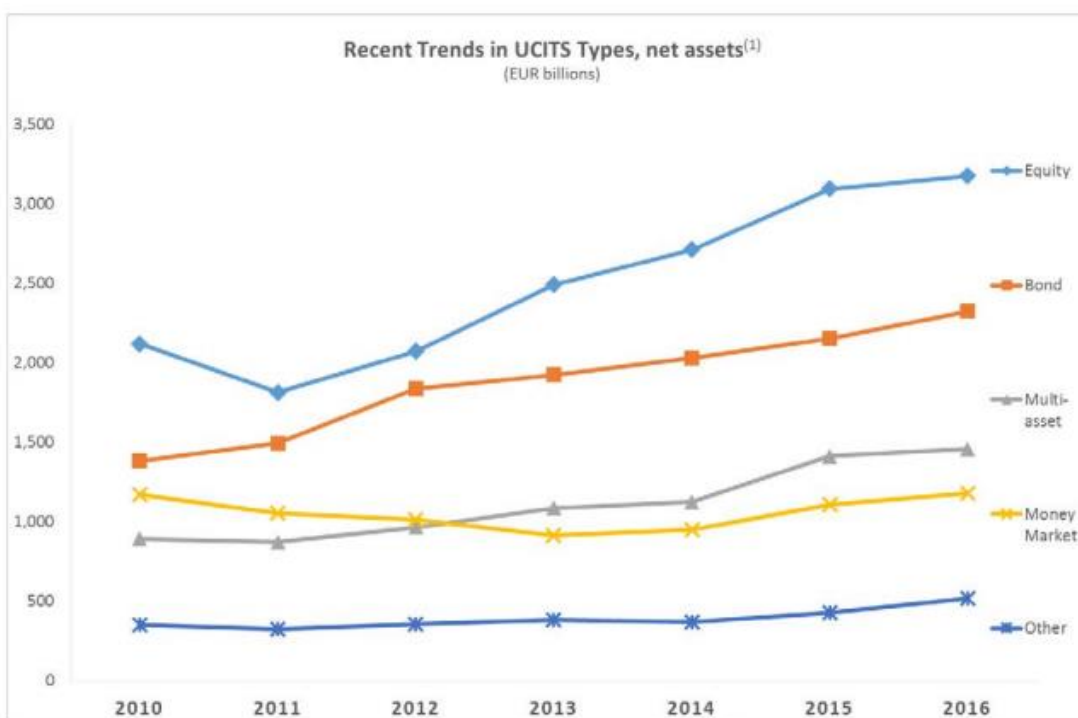
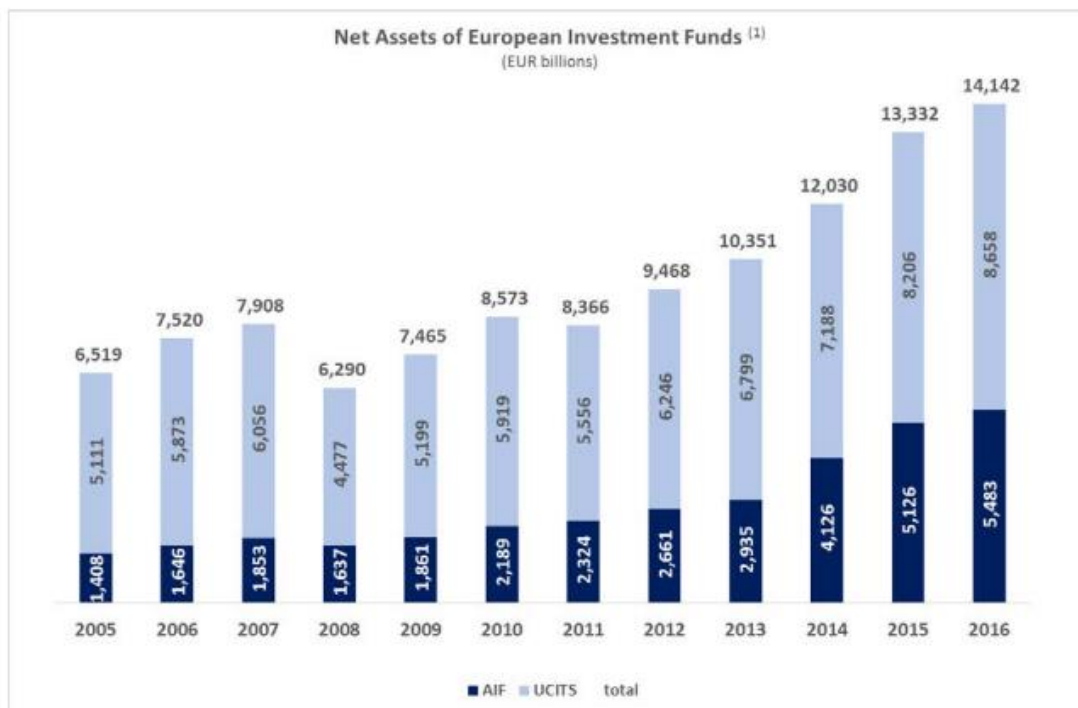
Further highlights on the developments in 2016 include:

Net sales of UCITS reached EUR 275 billion, compared to EUR 590 billion in 2015 and EUR 189 billion on average in 2007-2013.

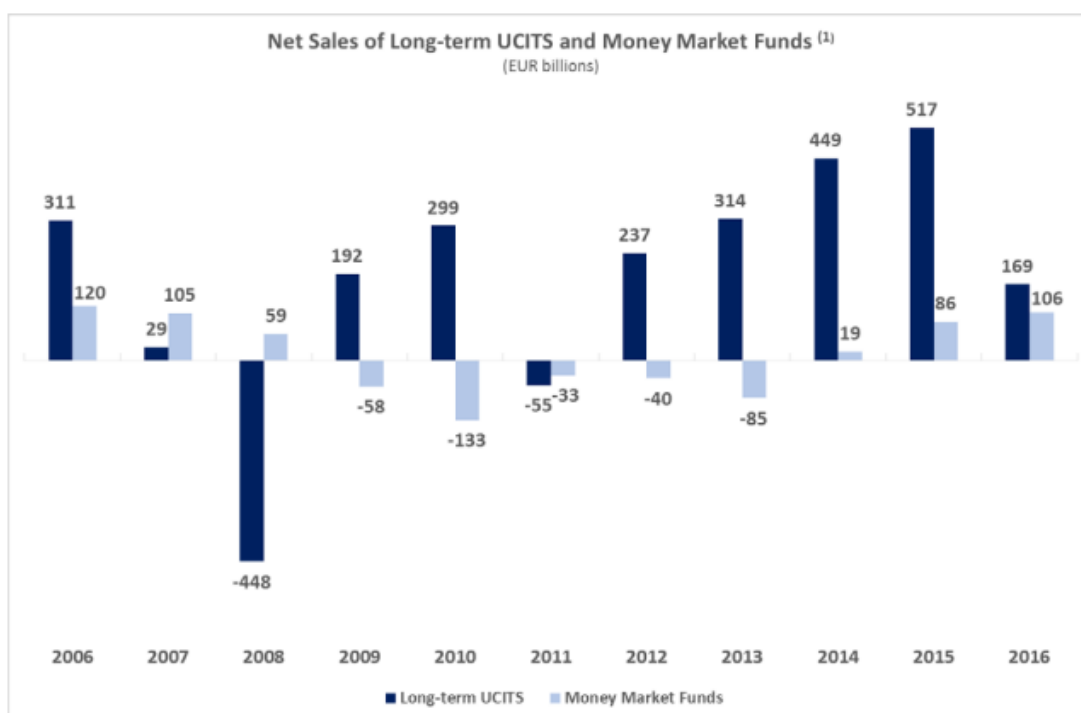
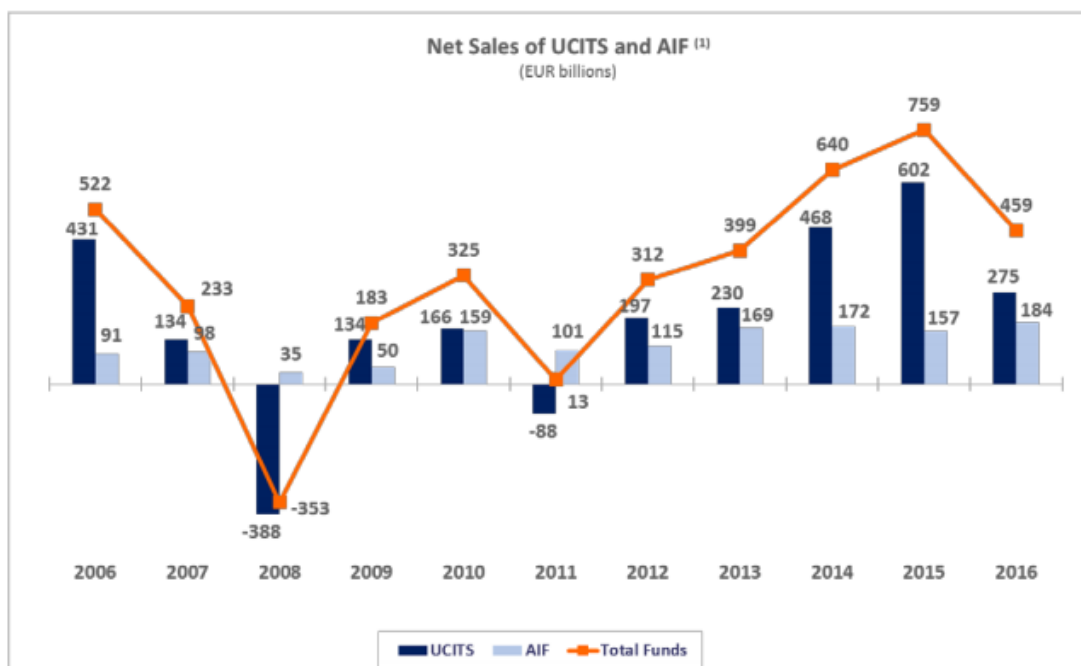
- Equity funds suffered a negative turnaround in net sales in 2016, as net sales never really recovered
- from the stock market sell-off in January.
- After three years of constantly increasing net sales, multi-asset funds suffered a sharp fall in net sales in 2016, as investors tried to limit their – direct and indirect – exposure to stock markets.
- After a difficult first quarter, bond funds enjoyed a strong rise in net inflows on the back of falling
- long-term interest rates.
- The higher uncertainty and renewed downside risks continued to increase the demand for money
- market funds in 2016, in spite of very low returns.
- -Cross-border UCITS domiciled in Ireland and Luxembourg attracted 69% of total UCITS net sales.

Net sales of AIF reached EUR 184 billion, compared to 148 billion in 2015.

- AIF surpassed net sales of long-term UCITS (EUR 183 billion, compared to EUR 169 billion). Multi-asset funds were the clear winners among the mainstream asset classes, followed by real estate
- funds, bond funds and equity funds. The move into “other” AIFs continued in 2016, as investors diversified more widely and focused
- more on investment outcomes.
- AIFs domiciled in Germany captured 53% of the total net sales of AIFs.



(1) Source: EFAMA database, annual data. Total net asset figures in 2008-2014 include data on funds domiciled in the Netherlands, whereas Dutch-domiciled funds are not included in UCITS/AIF categories and asset classes due to unavailability of data. EFAMA Quarterly Statistical Release N°68 (Fourth quarter of 2016)



(1) Source: EFAMA database, annual data. Data for 2016 excludes data on Belgian net sales due to unavailability. EFAMA Quarterly Statistical Release N°68 (Fourth quarter of 2016)

*General overview***Local Funds Industry****Fact Statistics**

- Total new funds (including sub-funds) licenced (2004 – 2016): 1,331
- Total funds (including sub-funds) surrendered (2004 – 2016): 713
- Net Asset Value of Malta domiciled Funds: €9.8 billion as at end December 2016
- Funds (including sub-funds) administered in Malta:
 - Malta domiciled funds administered in Malta: 539 as at end December 2016
 - Non-Malta domiciled funds administered in Malta: 188 as at end December 2016
- Net Asset Value of funds (domiciled and non-domiciled in Malta) administered in Malta: €9.9 billion as at end December 2016

Analysis of aggregate net asset value of locally based CISs

The net asset value of Malta-domiciled funds⁽¹⁾ stood at €9.8 billion at the end of 2016, a decline of €0.44 billion (or over 4.3 percent) when compared to the previous end year. Over the period December 2015 – December 2016, net assets of equity funds expanded by almost €0.38 billion. In contrast, diversified funds experienced a decline of €0.44 billion while hedge funds and bond funds saw their net asset value declining by €0.16 billion and almost €0.11 billion respectively.

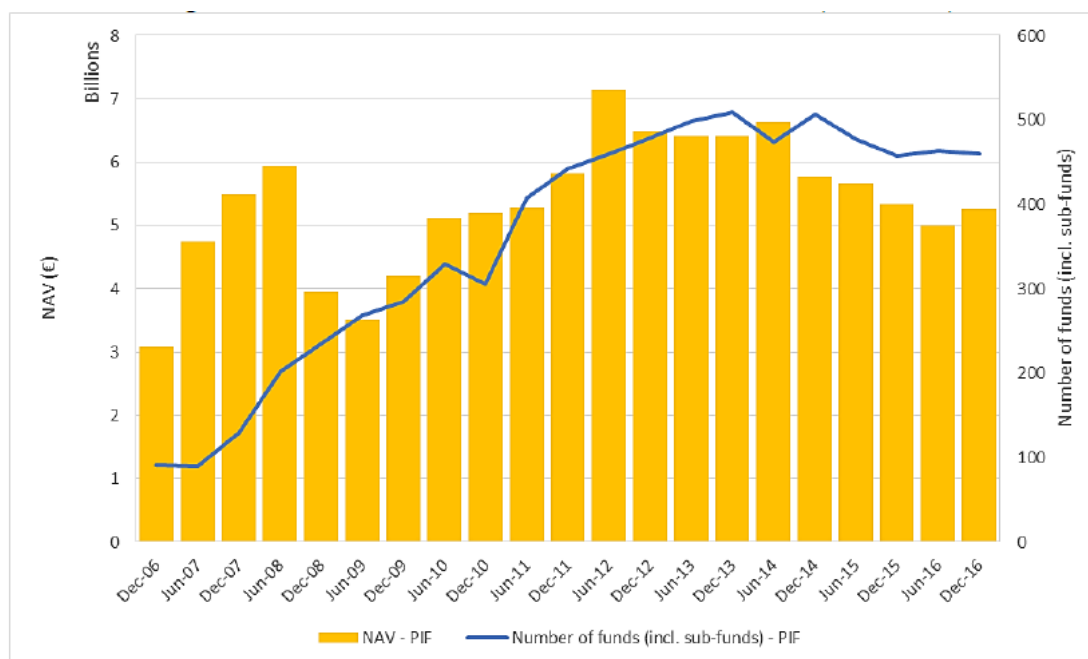
At the end of 2016, diversified funds held the largest share with almost 37 percent of the total December 2016 NAV, indicating that diversified funds remained the most popular type of funds with investors. Equity funds and bond funds followed with almost 31 percent and 16 percent respectively.

(1) PIFs, AIFs, NAIFs, UCITS, and Retail Non-UCITS.

Analysis of net asset value of Professional Investor funds

The net asset value of Professional Investor Funds stood at €5.25 billion at the end of 2016, down by almost €0.09 billion when compared to the previous end year. The following illustration depicts the net asset value of Professional Investor Funds against the number of licensed PIFs for the period 2006 – 2016.

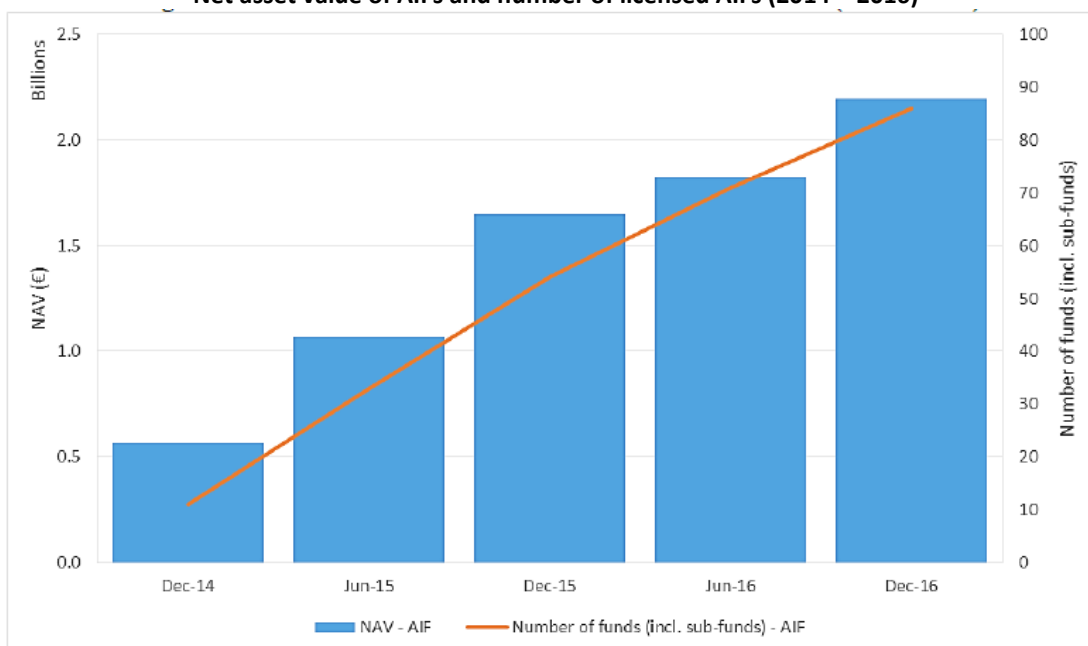
Net asset value of PIFs and number of licensed PIFs (2006 – 2016)



Analysis of net asset value of Alternative Investment funds

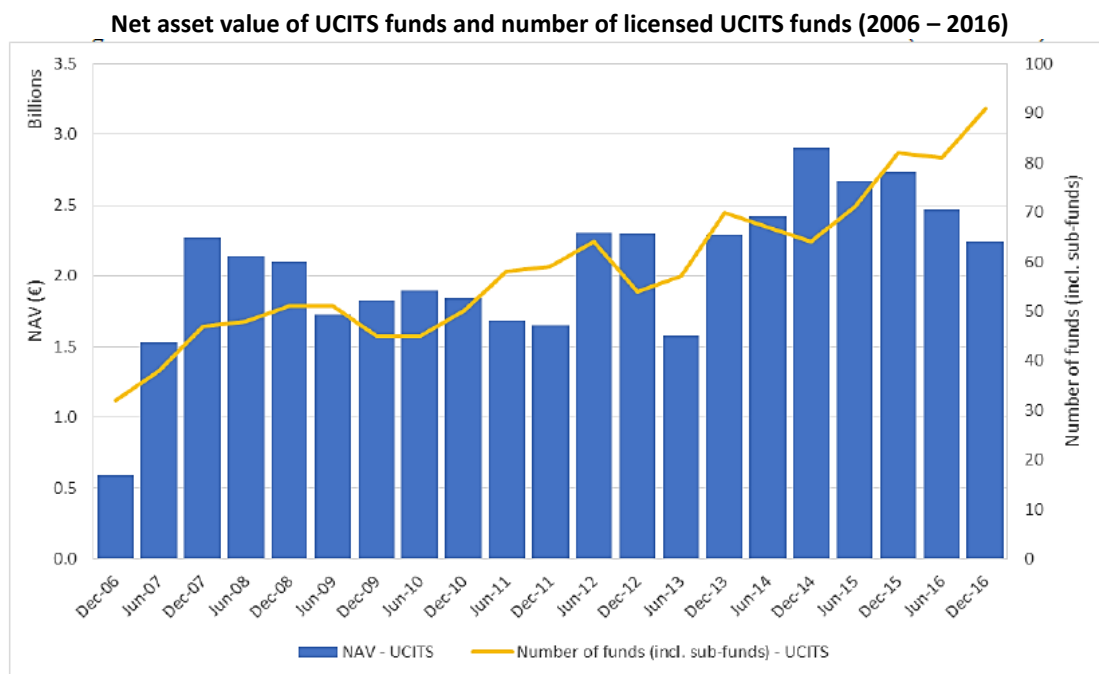
During 2016, Alternative Investment Funds continued to grow both in terms of number of licences and net assets. Alternative Investment Funds reported a net asset value of €2.2 billion at the end of 2016, a surge of €0.55 billion when compared to the previous end year.

Net asset value of AIFs and number of licensed AIFs (2014 – 2016)



Analysis of net asset value of UCITS funds

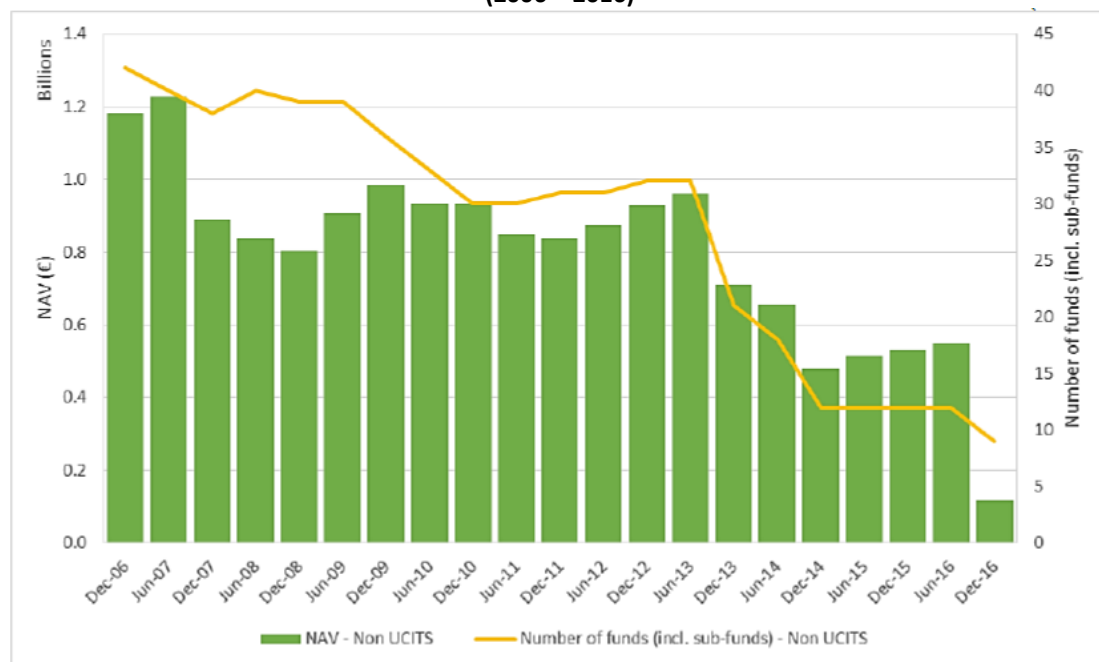
Despite the increase in the number of licences, net assets of UCITS funds declined by €0.49 billion when compared to the previous year to stand at €2.24 billion at the end of 2016. The following figure presents the net asset value and the number of licensed UCITS funds for the period 2006 – 2016.



Analysis of net asset value of Retail Non-UCITS funds

There were nine licenced Retail Non-UCITS funds at the end of 2016 with an aggregate net asset value of €0.12 billion, down by €0.41 billion when compared to the previous end year.

Net asset value of Retail Non-UCITS funds and number of licensed Retail Non-UCITS funds (2006 – 2016)

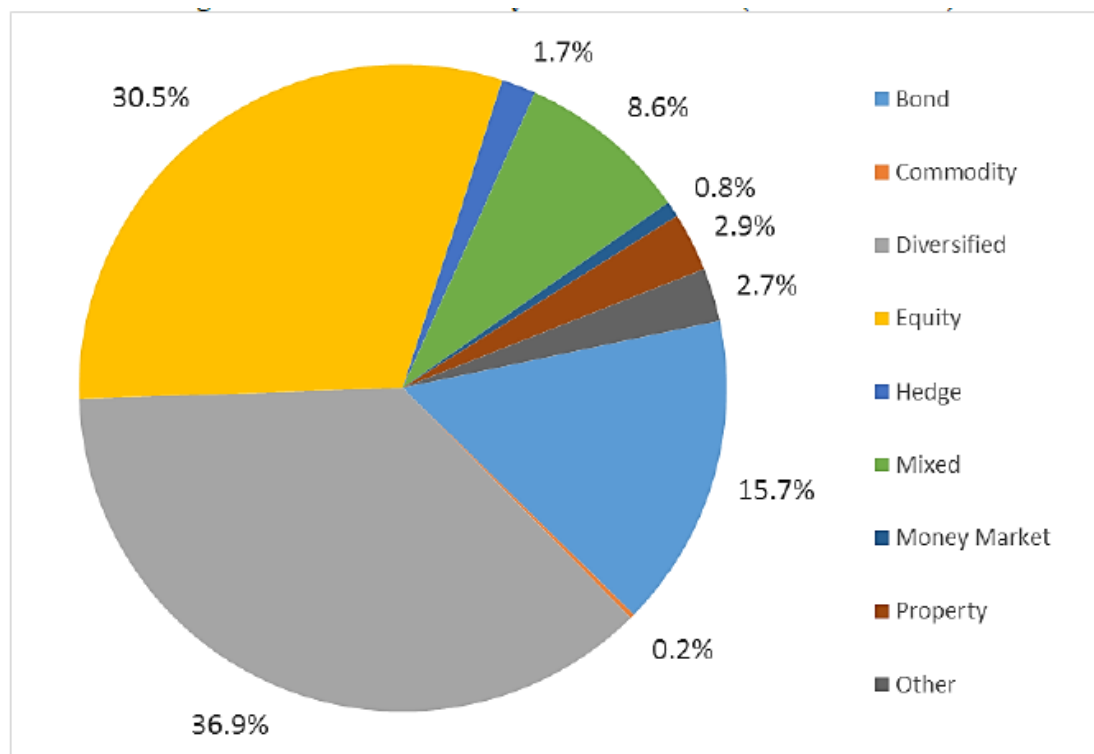


Asset class allocation of investment funds⁽¹⁾

In terms of net assets, diversified funds had the largest share with almost 37 percent (or €3.6 billion) of the total December 2016 NAV. Equity funds and bond funds followed with a share of 30.5 percent (or almost three billion euros) and 15.7 percent (or €1.5 billion) respectively while mixed funds made up 8.6 percent (or €0.8 billion) of the total December 2016 NAV.

(1) The asset allocation of funds was extracted from the prospectuses of the funds. Consequently, it does not necessarily mean that the allocated assets of the funds were invested accordingly.

Net asset value by asset allocation (December 2016)



Management of funds

About 30.5 percent of the total licenced funds as at end December 2016 were managed in Malta while 32.6 percent were managed from outside Malta. Self-managed funds continued to expand during 2016, with a share of 36.9 percent of the number of funds (including sub-funds) licenced in Malta as at end 2016. This represents an increase of 4.2 percentage points when compared to the previous end year.

Administration of funds

Funds administered in Malta accounted to 84.1 percent of the total licenced funds as at end 2016, up by 3.1 percentage points when compared to the previous end year. The remaining 15.9 percent of the funds were administered from outside Malta.



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