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First central clearing for CFDs

Move will cut time to start trading

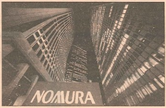
Offers flexibility and lower costs

By Steve Johnson

LCH.Clearnet, a London-based clearer, and trading platform Chi-X Europe have launched what is believed to be the first central clearing exchange for contracts for difference.

The move promises to make the trading of CFDs – equity derivatives that allow the buyer to hedge an existing exposure, leverage a position or make an outright short – simpler for fund managers.

At present asset managers can only trade CFDs over the counter. This creates inefficiencies for Ucits funds, which often need to develop derivatives trading relationships with a range of brokers given an exposure limit of 10 per cent to any single OTC counterparty under the Ucits III framework.



Chi-X is a subsidiary of Nomura — Bloomberg

Clearnet and Chi-X, a subsidiary of Nomura, argued the exchange would reduce the time needed to start trading CFDs from "about a year to a matter of weeks", as it obviates the need for asset managers to negotiate separate ISDA (International Swaps and Derivatives Association) master agreements with each counterparty.

Tony Whalley, head of dealing at Scottish Widows Investment Partnership, said the facility would give Swip greater flexibility and could also lower costs.

"We have strict limits with individual counterparties on an OTC basis and the ISDA side of things is a potential minefield," said Mr Whalley, who added that regulators were increasingly pushing market participants to trade via centrally cleared exchanges.

Roland Chai, senior manager of EquityClear Commercial Services at Clearnet, added: "I think we will find that more of these solutions will come online in the next year or two, or the buyside and the sellside leave themselves exposed to what the regulators decide."

The exchange has started trading in 125 UK stocks. Mr Chai said it had plans to add 125 continental European stocks, while it was also looking at the possibility of adding some US stocks as well as indices and baskets of equities.

Fund managers can trade single-stock futures, which have many similarities with CFDs, via NYSE Euronext's BCclear service, as well as over the counter, but Mr Whalley and Mr Chai argued that CFDs could be beneficial for some trades.

Fund house Generation will focus on EM

By Steve Johnson

Canada's Arrow Capital Management and Generation Group, a Geneva-based merchant bank, are joining forces to create a new European fund house, Generation Asset Management.

The group will be led by Sixten Eriksson, who has spent the past 14 years with Credit Suisse, and Manuel Carrelet, who previously led Deltec Investment Advisers.

Generation, which plans to launch a Luxembourg-based Sicav platform in June, will specialise in multi-manager funds focused primarily on emerging markets.

Mr Eriksson was critical of the quality of many existing funds. "There are a lot of managers out there that are overcharging and underperforming," said Mr Eriksson, who said Generation would aim to deliver "cash beating returns".

"There has not been enough transparency in the asset management industry. We see a definite disconnect between asset managers and their clients. Benchmarks are too meaningless for clients [and] index hugging is far too prevalent.

Generation, which is headquartered in Guernsey with operations in London and Geneva, intends to create a series of multi-asset funds. Typical charges will be 1 per cent (1.5 per cent for smaller investors) plus a 10 per cent performance fee for returns over a 5 per cent hurdle in addition to fees charged by the underlying funds, which Mr Eriksson said Generation would try to beat down.

Amundi aims for Europe's top 5

By Chris Flood

Amundi is aiming to become one of Europe's top five exchange traded fund managers with the launch of 16 equity ETFs in London today. It will seek to build market share by undercutting iShares, the dominant UK provider.

The group will expand its UK-listed ETF range to 50 swap-based products over the next three months and build a sales force in London to capitalise on momentum established in continental Europe last year.

Amundi, jointly owned by Société Générale and Crédit Agricole, is Europe's eighth largest ETF provider with assets of $9.9bn at the end of April. But it has punched above its weight in gathering cash from investors. Amundi's ETFs gathered $1.5bn in new cash in the first quarter of 2011, ranking it third in Europe for investor inflows.

Part of its success is due to competitive pricing, with the group claiming to charge 25 per cent less than its rivals on average. It quotes an average total expense ratio for its products of 27 basis points a year, compared with a peer group average of 36 bps.

Amundi is applying the same approach in the UK. For example, its MSCI UK ETF costs 25 bps a year compared with a peer group average of 33bps.

However, Valérie Baudson, managing director of Amundi ETF, said cost was not the only consideration. "Good pricing doesn't mean anything unless you can offer high quality products with low tracking errors and tight trading spreads."

Amundi's MSCI Europe ETF had an average tracking error of 9bps in the year to March, compared with an average of 16bps for competing products from other providers, she said.

Amundi is also hoping to exploit gaps in the geographical coverage offered by ETFs listed in London Seven of the 16 new ETFs will provide exposure to MSCI country indices for France, Germany, Italy, the Netherlands, Spain, Switzerland and a Nordic composite covering four Scandinavian countries.

Movers & shakers

- **Artemis** has hired a global equities team in the shape of **Simon Edelsten** and **Alex Illingworth**. Mr Edelsten was previously with Taube Hodson Stonex, and Mr Illingworth at Insight Investment.

- **J O Hambro Capital Management** has recruited **Samir Mehta** and **Cho-Yu Kool** via the acquisition of Silver Metis Capital Management, a Singapore-based firm founded by Mr Mehta in 2007. The pair join in advance of the launch of two Asia ex-Japan equity funds in late September.

- **Michael Moth-Greve** has joined **Affiliated Managers Group** as director of business development for the Nordic region. Mr Moth-Greve joins from Axa Investment Management.

- Also expanding in the Nordic region is **Dalton Strategic Partnership**, which has taken on **Peter Buxton** as a partner with responsibility for the distribution of Melchior Funds in Nordic markets. Mr Buxton was formerly with Gartmore Asset Management.

- **Meyer Bergman** has appointed **Renee Moran** as asset manager to strengthen its shopping centre asset management team. Ms Bergman joins from Hammerson.

Renee Moran joins Meyer Bergman

- **Bénédicte Provost** is joining **Bernheim, Dreyfus & Co** as managing director. Ms Provost was previously portfolio manager at LCF Rothschild.

- **BNY Mellon Asset Management** has appointed **Kenneth Tomlin** as director of UK institutional business. Mr Tomlin joins from Dimensional Fund Advisors, where he led institutional business development for the UK & Ireland.

- **Norbert Fullerton** has joined **Russell Investments** from Towers Watson as director, consulting and advisory services, Emea.

- **Hymans Robertson has** appointed **Linda Selman** as head of public sector investments. Ms Selman was previously a client director at Baillie Gifford.

- **Paul Miles** has left Parmenion to join **Ashcourt Rowan** as director of intermediary services.

ETF new trends

David Blitzer, chairman of the index committee at S&P Indices, says ETFs are finally taking off as defined contribution pension plans start to embrace them. There is also increased demand for alternative weighted indices as well as alternative product areas such as ESG.

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