

VIDEO

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Focus on Funds: Regulatory Risks for Global Funds and Their Investors

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Regulatory fragmentation in Europe could make it difficult for asset managers to work across borders. In the May 4, 2018, edition of *Focus on Funds*, Sean Hagerty, managing director of Vanguard Europe, explains potential changes and their possible harm to global funds and their investors.

Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: What's front and center in terms of risks in the capital markets for global fund managers these days? At the recent Chatham House capital markets conference, Sean Haggerty of Vanguard shared some thoughts with the panel—and afterwards, with me.

Sean Hagerty, Vanguard Europe managing director: Well, what struck me was that, as much as things are different, maybe they're not different. We've always worried about what is the pace and the ways that regulations and risk are going to affect our organizations. That probably wasn't that big of a difference.

What was different, I think, is that there is a fear fragmentation—that there is a bit of a trend now toward maybe countries protecting their own interests. And that would potentially make it harder for asset management firms to work seamlessly across borders, which is a trend that we think would generally be negative for us—but more importantly, negative for the end investor.

Ortbals-Tibbs: Your company is a classic example of one that has relied on economies of scale for investors. And indeed, if you had a model where that begins to break apart, that is concerning.

Hagerty: I think that is absolutely true. The asset management industry is largely a scale industry. And to the extent that you start to take the assets and break them into smaller and smaller chunks, it's just more expensive to do what we do, and therefore harder for us to pass on the economies of scales to the investors.

And the problem with what we're dealing with—with Brexit and some of the changes that we're seeing in the way that some of the countries are thinking about delegating and passporting—those things give us some concern because we have built, the asset management industry has really built, an efficient global model, where there are talented people across the globe who are helping each other to manage portfolios that are themselves largely global portfolios. So that is a concern, and I think that was probably common throughout all of the panelists.

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