



AIMA Journal

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The Long-Short



Your window to the alternative investment universe, providing the latest insights from special guests from across the industry.



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Message from AIMA's CEO



AIMA's recent [Technology & Innovation Day](#) brought together leaders from across the alternative investment industry to explore how digital innovation is reshaping our world. This edition of the AIMA Journal continues that conversation, with contributors examining how firms are addressing uncertainty and managing risk through pioneering technological advancements, from artificial intelligence to blockchain and tokenisation.

Tokenisation, in particular, takes centre stage in this edition. Readers will discover how best to apply this technology to bridge governance gaps and drive both innovative product launches and enhanced portfolio returns. AIMA is no stranger to tokenisation, having been at the forefront of tracking tokenisation's evolution from concept to practice. Our recent report, '[Tokenizing Alternatives](#),' offers an in-depth look at the opportunities, challenges, and regulatory developments shaping this transformation.

Elsewhere, a mighty data deluge looms large. Contributors share strategies for channelling information overload into front office growth by deepening investor relationships and powering smarter trading decisions. Those most successful at harnessing these new data streams will reap the rewards.

Private credit, unsurprisingly, also remains in sharp focus. One article examines how the asset class interacts with broader portfolios, while another explores the blurring boundaries between public and private markets. Meanwhile, an [op-ed](#) by Jiří Król, the Global Head of AIMA's private credit affiliate, the Alternative Credit Council (ACC), reflects on the IMF's October 2025 Global Financial Stability Report, arguing that the real vulnerabilities still lie within parts of the banking system, not in private credit. The discussion will continue at the upcoming AIMA Private Credit Summit during Abu Dhabi Finance Week, where the ACC will unveil timely market data. More information on that event can be found [here](#).

Finally, as AIMA's CEO, I have the great privilege of experiencing firsthand the remarkable global reach of our organisation. Nowhere is this more evident than in our expanding investor engagement work this year. In a recent [letter to members](#), I highlighted how AIMA has substantially increased the opportunities for fund managers to hear from and meet with investors across regions, asset classes, and perspectives.

As always, thank you to our contributors, members, and partners for making this Journal an essential source of industry knowledge. We hope it continues to be a valuable resource for our members worldwide.

Sincerely,

Jack Inglis
CEO, AIMA





AIMA CONFERENCE CALENDAR 2026

January

SHANGHAI 29 Jan | AIMA China Live

February

DUBAI 3 Feb | AIMA Middle East Forum

MIAMI 23 Feb | Private Credit Investor Forum

March

DUBLIN 3 Mar | AIMA Global Policy & Regulatory Forum

SINGAPORE 12 Mar | AIMA Singapore Annual Forum

May

NEW YORK 14 May | AIMA Digital Assets Conference

TOKYO 14 May | AIMA Japan Annual Forum

LONDON 19 May | AIMA Next Generation Manager Forum

June

MONTREAL 17 Jun | AIMA Montreal Forum

September

SYDNEY 15 Sep | ACC Private Credit Investor Forum

SYDNEY 17 Sep | AIMA Australia Annual Forum

October

TORONTO 14-15 Oct | AIMA Global Investor Forum

LONDON TBC | Alternative Credit Council Global Summit

HONG KONG 28 Oct | APAC Credit Refresh

HONG KONG 29 Oct | AIMA APAC Annual Forum

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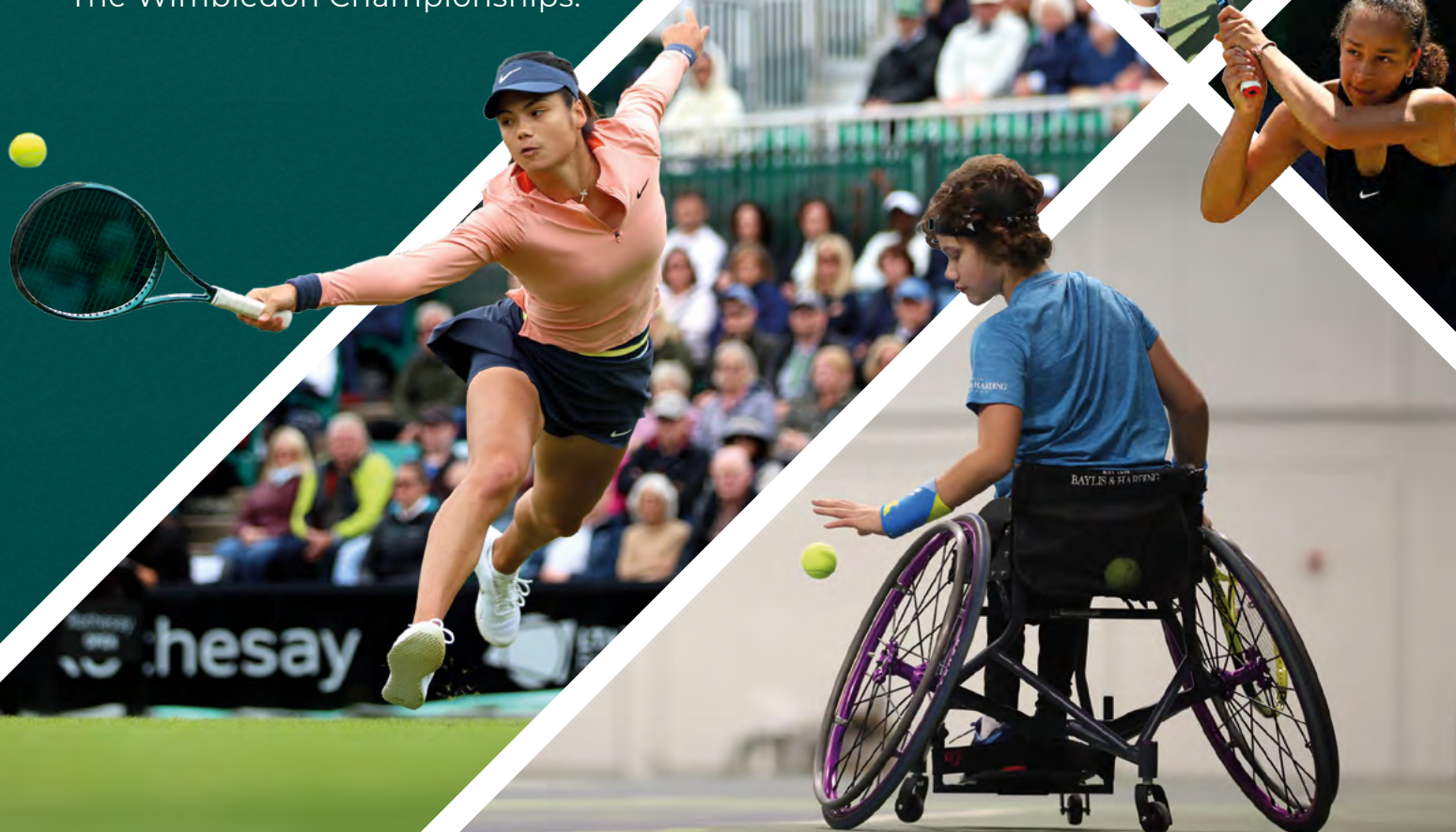
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Tokenised money market funds: The digital revolution of cash management

Money market funds (MMFs) have long been the unassuming backbone of the financial world—low-risk, cash-like vehicles essential for corporate treasurers and individual investors alike. While not typically a glamorous topic, the recent era of higher interest rates has thrust them into the spotlight, revealing both their value and their limitations.

Today, a paradigm shift is underway. The intersection of finance and blockchain technology is giving rise to tokenised money market funds, an innovation poised to address the inherent inefficiencies of traditional MMFs while unlocking a new era of accessibility, efficiency, and utility. This isn't just an upgrade, it's a fundamental reimagining of what a money market fund can be.

The tokenisation revolution: What are tokenised MMFs?

Tokenisation is the process of converting an asset into a digital token on a blockchain. A tokenised money market funds is a digital representation of a share in a traditional MMF on a distributed ledger.

In essence, each token is a unit of ownership in the fund, combining the established stability of a conventional MMF with the transformative power of blockchain technology. It's not about changing the underlying assets; it's about radically improving the wrapper they come in and what you can do with it.

Market momentum: A multi-billion dollar surge

The tokenised money market fund (MMF) segment has quickly become the growth engine of real-world asset (RWA) tokenisation. As of August 2025, tokenised Treasury and MMF assets stand at US\$7.4 billion, marking an 80% year-to-date increase and demonstrating strong institutional appetite for efficiency and liquidity.



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Asset Class	Market Size (Approx.)	Note
Money Market Funds & Treasuries	\$7.4 B	+80% YTD, fastest growing
Tokenized Real Estate	\$300 B	Expected to grow \$4 T by 2035
Tokenized Loans	\$9.2 B	Largest category overall
Commodities (Gold, Oil, etc.)	\$1.1 B	Stable demand, gold-led
Tokenized Bonds	\$105 M	Early adoption stage
Alternative Funds (Hedge, VC, PE)	\$330 M	Niche but growing
Tokenized Equities	\$11 M	Still Experimental

Source: RWA.xyz, Coinlaw.io, Financial Times (August 2025), Tokenized real estate | www.deloitte.com

Key benefits of investing in a tokenised money market funds

1. **Enhanced liquidity and 24/7 markets:** Unlike traditional MMFs confined to market hours, tokenised versions can be traded 24/7/365 on digital platforms. This provides unparalleled flexibility for global investors operating in different time zones. In addition to the direct liquidity there are liquidity options through the DeFi protocols such as Automated market makers, lending protocols etc.

Secondary markets are another option where investors can liquidate to other peers via an ATS.²

2. **Fractional ownership:** Tokenisation shatters high minimum investment barriers. Investors can own fractions of a share, making these once-institutional products accessible to a much broader retail audience.
3. **Faster settlement and redemption:** Blockchain enables near-instant settlement of transactions, eliminating the 24-hour+ wait for redemption proceeds. Some platforms even offer instant redemption tools, providing real-time access to cash. Transaction costs are also improved in comparison.
4. **Transparent operations:** Every transaction is recorded on an immutable public ledger. Investors can independently verify the fund's Net Asset Value (NAV) through oracle networks and confirm their holdings via proof-of-reserves, eliminating opacity.
5. **New financial utility:** Perhaps the most exciting benefit is the emergence of new use cases:
 - **Collateral:** Major crypto brokers (e.g., FalconX, Hidden Road, BitGo) now accept tokenised MMFs as collateral for trading.
6. **DeFi integration:** These tokens can be used as yield-bearing collateral in decentralised finance (DeFi) lending protocols, unlocking innovative yield-generation strategies.
7. **Efficient transfers:** Transferring ownership between investors can be done in minutes, not weeks, without cumbersome paperwork.

Key considerations when thinking about starting a tokenised funds

Consideration	What to evaluate	Why it matters
Issuers' Goal	Define the main purpose for tokenizing (liquidity, accessibility, efficiency, etc.)	Ensures the tokenization strategy aligns with business objectives and investor expectations.
Investor Demand	Assess if there's a real market for a tokenized version of the asset.	Helps avoid unnecessary tokenization if the product won't attract investors or add value.
Value Addition for Investors	Analyze whether a token improves access, yield, transparency, or efficiency.	Demonstrates the clear benefit of tokenization compared to traditional offerings.
Partnerships and Vendors	Identify needed partners: fund admin, legal, auditors, tax advisors, tech providers.	Selecting the right team ensures compliance, accurate operations, and smooth technology integration.
Investor Security	Define measures like custody solutions, encryption, cybersecurity protocols.	Protects investor assets and builds trust in the fund.
AML/KYC and Ongoing Compliance	Implement anti-money laundering checks and continuous monitoring.	Ensures regulatory compliance and mitigates reputational and legal risks.
Blockchain Selection	Evaluate public vs. private blockchains, speed, cost, and ecosystem support.	Impacts security, scalability, transaction costs, and investor accessibility.
Custody of RWAs	Decide how the underlying real-world assets will be held and verified.	Secure custody validates the token's backing and maintains investor confidence.
Custody of Tokens	Choose secure wallets or third-party custodians for the tokens themselves.	Prevents loss or theft of investor tokens and aligns with regulatory expectations.
NAV Requirements	Determine whether daily NAV or off-hours NAV is needed for pricing tokens.	Ensures transparent and timely valuation, critical for investor trust and trading activity.
Smart Contract Audit	Plan audit frequency and select reliable auditing firms.	Regular audits ensure security, prevent vulnerabilities, and maintain compliance.

The technical foundation: How it works

Blockchain protocols: Choices range from public networks like Ethereum to permissioned ledgers like JPMorgan's Onyx or Hyperledger Fabric, which offer more control and privacy for institutions.

Smart contracts: These self-executing contracts automate critical functions: issuing shares, distributing dividends, enforcing transfer restrictions (e.g., only allowing whitelisted investors to trade), and processing redemptions.

Oracles: Services that feed real-world data (like the daily NAV of the fund) onto the blockchain so the smart contracts can operate accurately.

Secure custody: Solutions involving multi-signature wallets and qualified custodians to hold the underlying assets and manage the token minting/burning process.

Regulatory & compliance considerations in tokenised MMFs

Tokenised money market funds face a unique regulatory challenge, they must uphold the strict liquidity, transparency, and investor protection rules of traditional MMFs while operating in a borderless, 24/7 digital environment.

Smart contracts now enable more efficient AML/KYC processes, automating investor whitelisting and creating immutable audit trails. Still, administrators must carefully balance blockchain transparency with data privacy regulations like GDPR.

Globally, regulators are stepping up. The U.S. GENIUS Act has provided much-needed clarity, creating a favorable environment for tokenised MMFs by banning yield-bearing stablecoins—which removes a key competitor—and encouraging institutions to tokenise traditional assets like MMFs within a clear compliance framework. This is complemented by other US legislative efforts, such as the Digital Asset Market Structure Bill, which seeks to clarify jurisdiction between the SEC and CFTC, and the CLARITY Act, which aims to provide exemptions for certain digital assets, collectively reducing regulatory ambiguity.

Meanwhile, Hong Kong's SFC recently introduced tailored licensing codes (Aug 2025) that set strict custody, disclosure, and risk management standards—initially for professional investors. In Europe, the MiCA regulation is advancing, classifying tokenised funds as crypto-assets subject to rigorous compliance.

Beyond these major economies, pivotal fund jurisdictions like the Cayman Islands are also adapting. Following a consultation that ended in September 2025, the Cayman Islands has presented amendment bills to its Private Funds and Mutual Funds Acts. These changes, expected to be implemented in early 2026, are designed to explicitly cover tokenized funds, introducing definitions for digital tokens and addressing custody, recordkeeping, and cybersecurity for these new structures.

The role of fund administrator in tokenised money market funds

In tokenised money market funds (MMFs), the fund administrator moves from being a back-office function to a critical operational partner, ensuring stability, compliance, and investor confidence in a digitally transformed environment. MMFs prioritise liquidity, capital preservation, and daily NAV calculations, making precise administration essential. They calculate NAV daily and in real time, monitor liquidity and cash flows in short-term debt instruments such as Treasury bills, and manage compliance including AML and KYC checks that are more complex in tokenised funds.

Investor services such as portals, communication, and yield distribution, help maintain trust. For tokenised MMFs, administrators integrate blockchain technology to automate reconciliations, enable instant settlements, and provide real-time transparency through smart contracts.

Conclusion: The democratisation of finance is here

Tokenised money market funds represent more than a tech advancement; they are the innovator of a broader movement to make finance more efficient, accessible, and transparent. By bridging the trusted world of traditional finance with the innovative potential of blockchain, they offer the best of both worlds: stability and progress.

The flow of capital into these funds is a powerful market signal. While regulatory and technical challenges remain, the direction is clear. The future of cash management is digital, programmable, and on-chain. The question for institutions is no longer **if** but **when** and **how** they will participate in this digital transformation.

For more information, please visit [NAV Fund Services](#).



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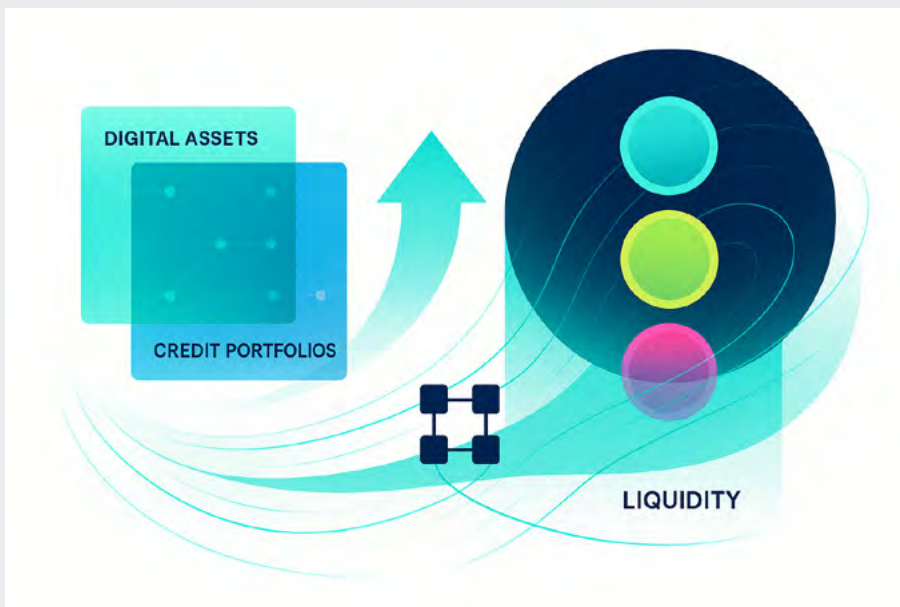
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How to leverage technology facilitated securitisation to drive liquidity

Whether you are a fund manager or a capital allocator you've probably spent some time thinking about liquidity. Both managers and allocators want to free up trapped capital to undertake additional investments. While some are content with capturing the illiquidity premium, others prefer to mix things up and strive to optimise capital utilisation. While this is true of both fund participation and credit portfolios, today we will focus on liquidity for high-performing credit portfolios. As a manager, is tech-enabled securitisation a viable strategy for your credit portfolio? As an allocator, do you treat this as you do other securitisation products, or does it change things for you?



Francois R. Labuscagne
Chief Operating Officer and Chief
Financial Officer
Zult, Inc



Arushi Sood
Founder and CEO
Zult, Inc

The traditional avenues for managing and exiting these investments often come with significant friction, limiting agility and capital efficiency.

Unless you've been living under a rock, you've probably heard the terms tokenisation, blockchain and artificial intelligence (AI). However, what is less clear is how to leverage these technologies to drive new products or gains in existing portfolios.

Before we dive into what and how to leverage technology to facilitate more affordable securitisation, it is important to define their commonality. Traditional securitisation and tokenisation both aim to transform illiquid credit exposures into investable assets. The big difference is how tokenisation leverages blockchain technology to transform digital rights of real-world assets such as credit portfolios into unique transferable tokens. In addition to providing a proof of ownership in a digital form, tokenisation enables programmability (think compliance, redemptions etc.), fractionalisation (think smaller minimums and new investors) and governance.

A secondary market for your high-performing credit portfolios

For decades, securitisation has been a cornerstone strategy for transforming illiquid assets, such as mortgages and various forms of credit, into tradable securities. This process, while effective, has historically been complex, resource-intensive, and often more accessible to larger institutions. The market

has evolved significantly since its early days, now encompassing a diverse range of assets from private credit and commercial loans to real estate debt. Yet, for small to medium-sized asset managers, the operational burden and cost associated with traditional securitisation can still be prohibitive, hindering their ability to dynamically manage their portfolios and access broader investor bases.

What option then, do small to medium-sized asset managers have, to access secondary markets? Enter technology facilitated securitisation. In reality, it is but a collection of next generation tools and often equated with tokenisation as a catchall term.

Unlocking liquidity and efficiency with next-generation tools

Imagine a world where the operational bottlenecks that plague credit portfolio management are significantly reduced, and new avenues for liquidity are readily available. Advanced platforms, powered by AI and distributed ledger technology (DLT), are making this vision a reality.

Artificial Intelligence (AI) is revolutionising the front and back office. AI-driven analytics can sift through vast amounts of data, identifying optimal portfolio compositions, assessing risk with greater precision, and even automating due diligence processes.

For instance, AI-powered document review can rapidly analyse loan agreements and transaction documents, ensuring compliance and consistency far faster than manual methods, thereby reducing cycle times and operational costs. This efficiency gain is crucial for managers looking to scale their operations without proportionally increasing overhead.

Blockchain and Distributed Ledger Technology (DLT) offer a paradigm shift in transparency and operational efficiency. By creating immutable records of asset ownership and transaction histories, DLT can significantly reduce reconciliation costs and enhance trust among participants. The most exciting development for credit portfolios is asset tokenisation. This process converts rights to underlying assets into digital tokens on a blockchain, enabling fractional ownership and creating a more liquid, accessible secondary market. For asset managers, this means the potential to:

- **Enhance liquidity:** Tokenisation can transform traditionally illiquid credit assets into highly divisible and transferable digital units, making them easier to buy and sell. This opens up new exit strategies and allows for more dynamic portfolio rebalancing.
- **Broaden investor access:** Fractional ownership lowers the barrier to entry for a wider range of investors, potentially increasing demand and improving pricing for credit assets.
- **Streamline operations:** Smart contracts, self-executing agreements embedded on the blockchain, can automate many aspects of asset management, from interest payments to collateral management, reducing administrative overhead and human error.

While the adoption of these technologies is still evolving, early indicators are promising. The ability to significantly reduce the costs and complexities associated with traditional asset transfer mechanisms is a game-changer for asset managers seeking to optimise their credit portfolios. Early adopters have reported substantial reductions in operational costs and improved efficiency in structured credit transactions, highlighting the practical benefits of these innovations.



The most exciting development for credit portfolios is asset tokenisation.

This process converts rights to underlying assets into digital tokens on a blockchain, enabling fractional ownership and creating a more liquid, accessible secondary market.

Navigating challenges and building resilience

Embracing these new technologies also means addressing inherent challenges. Interoperability between different technological platforms and existing legacy systems requires careful planning. Data privacy and robust cybersecurity are paramount, especially when dealing with sensitive financial information. Furthermore, the regulatory landscape for digital assets is still maturing, necessitating a proactive approach to compliance.

However, these challenges are being actively addressed through industry collaboration and technological innovation. Developing common standards, implementing stringent data governance, and engaging with regulators are crucial steps. The focus is on building secure, transparent, and compliant ecosystems that foster confidence among investors and market participants.

What this means for allocators

Tokenisation facilitates access to new products from new managers. It also reduces minimums and facilitates liquidity. Depending on the risk appetite it allows investors to play in tradition or DeFi markets. Access to these securities is enabled through Alternative Tradition Systems (ATS) or decentralised exchanges (DEX). However, creative managers can utilise well known and reliable investment wrappers that allow these securities to trade alongside traditional products in the OTC Markets. As this market evolves, we can imagine a world where allocator derivatives can be freely traded.

Allocators need not fear this world of tokenisation. It is an evolution of the traditional securitisation with better access, transferability, programmability and liquidity.

The future of credit portfolio management

The integration of AI, blockchain, and tokenisation is not just about incremental improvements; it's about fundamentally reimagining the possibilities for credit portfolio management. For asset managers, particularly those in the small to medium-sized segment, these tools offer a pathway to greater liquidity, reduced operational friction, and expanded market access. By embracing these innovations, managers can unlock new levels of agility and value creation, ensuring their high-performing credit portfolios can thrive in an increasingly dynamic and interconnected financial world.



Tokenisation and bridging the smart contract governance gap

Traditionally, Cayman Islands-domiciled hedge funds track share issuance, transfer, and redemption through a shareholder register, which serves as proof of ownership of shares. Now, blockchain technology is enhancing this by enabling digital representations of share ownership, or “tokenisation.” Interest is also growing in smart contracts on blockchains to automate routine governance through clear “if-then” rules. However, technology cannot always anticipate “what-if” scenarios that require thoughtful judgment from hedge fund directors, without whom, a governance gap will exist.



Alric Lindsay
Cayman Fund Director

The “if-then” situations

“If-then” situations can be accounted for in smart contracts by codifying the rules outlined in the articles of association and prospectus for a corporate hedge fund. These include conditions for effecting share transfers, issuances, and redemptions. In addition, investor due diligence may be addressed on-chain.

Some firms that have adopted blockchain technology and are using smart contracts include BlackRock, with its BlackRock USD Institutional Digital Liquidity Fund (BUIDL), Apollo Global Management, with its Apollo Diversified Credit Securitize Fund (ACRED) and SkyBridge Capital’s tokenisation of a portion of its hedge funds.

In BlackRock’s case, a *Businesswire* press release¹ dated March 20, 2024, referred to the launch of BUIDL, BlackRock’s “first tokenised [money market] fund issued on a public blockchain.” This can reportedly facilitate token transfers on a 24-hour basis, all year round, for a whitelist of investors.

Regarding ACRED, it is understood to have been launched in January 2025² and is a tokenised feeder fund that provides on-chain access to Apollo Diversified Credit Fund.

Lastly, it was reported in August 2025³ that SkyBridge Capital planned to tokenise US\$300 million worth of its Digital Macro Master Fund and Legion Strategies.

- 1 See <https://www.businesswire.com/news/home/20240320771318/en/BlackRock-Launches-Its-First-Tokenized-Fund-BUIDL-on-the-Ethereum-Network>
- 2 <https://www.prnewswire.com/news-releases/apollo-and-securitize-announce-partnership-and-launch-tokenized-access-to-credit-fund-on-aptos-avalanche-ethereum-ink-polygon-and-solana-networks-302364212.html>
- 3 <https://uk.finance.yahoo.com/news/scaramuccis-skybridge-capital-tokenize-300m-182042984>.

The trend toward tokenisation is drawing close attention from regulators, including the Cayman Islands Monetary Authority (CIMA), where 13,119 mutual funds and 17,741 private funds were registered by the end of Q3 2025.⁴

Regarding this, the Ministry of Financial Services, under which CIMA operates as a statutory authority, proposed amendments to the Mutual Funds Act and Private Funds Act in September 2025 to embrace tokenisation. CIMA, as the primary regulator, is expected to incorporate stakeholder comments to strengthen the regulatory framework.

While legislation is being enhanced for tokenisation, CIMA published a report on virtual asset service providers (VASPs), highlighting governance issues.⁵

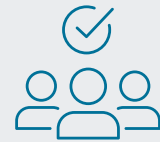
According to the 18 September 2025 publication, some of these governance issues were as follows:

- Business risk and customer risk assessments were either not documented or did not demonstrate that all relevant risk factors had been considered and kept up to date.
- CIMA noted that reviews for risk assessment and adequate assurance of technology solutions were lacking. These reviews are needed to ensure effective operation. Examples of such technological solutions include screening for sanctions and adverse media, e-KYC, transaction monitoring, and on-chain analytic tools.
- CIMA noted missing customer due diligence and the absence of verification on customer files. Reliable, independent source documents, data, and information were not always used.
- CIMA observed occasions of inadequate board oversight of the VASPs' AML/CFT Compliance Function.
- CIMA noted that AML/CFT training did not always cover the regulatory framework relevant to the Cayman Islands.
- CIMA observed instances of inadequate verification of information obtained regarding originator and beneficiary information on virtual asset transfers.

While these governance deficiencies were identified for VASPs, rather than investment funds, they highlight key risks for Cayman Islands-based hedge funds that plan to adopt tokenisation. Avoiding these pitfalls requires integrating both effective technology and a strong governance framework.

What a strong governance framework looks like

A strong governance framework comprises a competent board, an effective legislative framework, an active regulator, and a robust culture of compliance. To create a competent board, hedge funds are encouraged to seek independent directors who understand their legal and fiduciary duties and can effectively discharge them while embracing evolving technology. These duties include acting in good faith in the best interests of the hedge fund, acting for a proper purpose, not making a secret profit, avoiding conflicts of interest, not fettering discretion, and exercising reasonable skill and care, assessed subjectively and objectively.



A strong governance framework comprises a competent board, an effective legislative framework, an active regulator, and a robust culture of compliance.

⁴ See <https://www.cima.ky/investment-statistics>

⁵ See <https://www.cima.ky/amlcft-on-site-and-off-site-supervision-of-the-virtual-asset-service-providers>

The specific circumstances of each transaction must also be considered when discharging these duties. Ultimately, this means that smart contract coding is not enough, and a successful discharge of directors' duties in an evolving environment will require a human element.

Summary

The foregoing illustrates that tokenisation isn't a destination; it's a journey where blockchain illuminates the path, but independent directors hold the map.

While this map is being shaped by proposed changes to Cayman's Mutual Funds Act, Private Funds Act and Virtual Asset (Service Providers) Act, hedge fund managers must ensure that the governance path remains clear, with proper guardrails along the way in the form of independent boards that care deeply about the protection of investors and the hedge fund's success. Fundamentally, it's not just about speed and automation but getting to the destination safely and with the hedge fund's assets intact.

Scaling alternatives with tokenised fund structures

Tokenisation has moved from pilots to production for investment funds. Leading commentators are predicting that tokenisation of real world assets will quickly scale to a multi-trillion market by 2030. Asset managers now issue and service funds on distributed ledger technology (DLT), shortening settlement, opening new distribution, and delivering real-time transparency and automation. Money market funds lead, with tokenised share classes and on-chain wrappers live across Europe, the US, and Asia. We are also seeing rising interest in the tokenised ETF space, with industry players actively exploring the area. It is clear that tokenising ETFs will be game-changing for the funds industry. The next wave – alternatives – will use tokenisation to lower minimums, streamline capital flows, enable controlled secondary liquidity, and encode any required access and transfer restrictions. As legal frameworks and standards mature, the priority is safe scale, near-term value, strong governance, custody, and interoperability.

Opportunities: Efficiency, liquidity and new market access

Tokenised funds create a single, secure ownership ledger, cutting reconciliation, operational risk, and duplicative infrastructure. Smart contracts automate corporate actions, distributions, and eligibility controls to improve accuracy and reduce costs.

Liquidity and access are enhanced through intraday settlement that reduces counterparty risk and releases trapped collateral and treasury capital, and through fractionalisation and 24/7 transfer that broaden distribution while permissioned networks preserve investor protections. For alternative investment funds, fractionalisation widens the investor base.

Tokenised funds are more than digital wrappers and can become connective tissue across modernised market rails. These can be used as collateral, composed with tokenised treasuries and deposits, and reconciled in real time by regulators and service providers. Institutions that align issuance, custody and settlement across digital and traditional rails are already reporting measurable operational gains.

Challenges: Interoperability, liquidity formation and operating risk

Growth is constrained by fragmented platforms, thin liquidity, and poor interoperability. Most systems operate in silos without standards for cross chain settlement, wallet portability, or common data formats. Secondary trading is rising but remains sparse outside permissioned networks, limiting, to some extent, scalability and optimum liquidity for digitally native regulated funds. Ensuring that current anti-money laundering and countering the financing of



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terrorism (AML) and sanctions rules which impose 'know your client' (KYC) requirements on funds and managers, can be met on permissionless networks is a distinct challenge. The task will be to reconcile onboarding, verification and approvals with the open infrastructure of a truly permissionless DLT.

From an operational perspective, operational resilience and security considerations differ for a fully on-chain model. For example, institutions will need to have the infrastructure to ensure enterprise grade wallet security, key management, smart contract governance, and cyber resilience. Dual running on and off chain books requires rigorous three way reconciliation. DORA style expectations, outsourcing oversight, and code audits demand disciplined governance. On-chain AML is viable, but identity and data subject rights must remain compliant with GDPR and the principles of data minimisation especially considering the use of immutable ledgers, which are unchangeable once recorded.

Alternatives add complexity; valuing hard to price assets; encoding side letters and transfer rights; managing capital calls, defaults, and cross fund set offs; tax across feeder/parallel structures; and custody/control of assets and digital LP records. Liquidity for fund tokens should favour controlled venues and periodic windows over continuous trading. For products that maintain a bucket of liquid assets to provide liquidity, redemptions should be from that bucket.

Alternatives add complexity; valuing hard to price assets; encoding side letters and transfer rights; managing capital calls, defaults, and cross fund set offs; tax across feeder/parallel structures; and custody/control of assets and digital LP records.

Legal and regulatory considerations in key funds jurisdictions

Some of the same key issues and priorities emerge across jurisdictions and regulators. For example, it is important to ensure legal certainty for on-chain ownership, transfers, settlement finality, collateral perfection, and to have certainty around rights and outcomes in an insolvency event. Aligning permissioned public, private, and institutional networks with applicable prudential and conduct requirements will also be key to prevent fragmentation, especially for settlement and custody. Another area of discussion has been whether an industry standard will emerge for smart contracts to allow for optimal interoperability and efficiency for full transactions, and how data protection and privacy requirements will be integrated into the DLT. Clear rules on tokenised LP interests, transfer restrictions, recognition of on-chain registers, and enforceability of digital waterfalls and side letters will also be important. Finally, with the advent of DLT, it is essential that the technology used fully facilitates compliance with AML requirements. Given the increased cybersecurity risk inherent to tokenisation, this consideration must be heavily scrutinised.

- **The European Union.** Across the EU, tokenised fund shares that qualify as financial instruments generally fall within the MiFID, UCITS, or AIFMD frameworks. The EU recognises DLT-based issuance, account-keeping, and settlement through pilot regimes, and several Member States have updated securities laws to accommodate DLT registries and dematerialised issuance. The European Commission is actively preparing for tokenisation, and it is expected that their upcoming proposals for the Savings and Investment Union will include elements on tokenisation, while also supporting initiatives like the EU Blockchain Sandbox to foster innovation. In Ireland, tokenisation models are being mapped to existing fund legal requirements, to allow for on-chain registers, intraday transfers,

and record location rules. In Luxembourg, successive “Blockchain laws” have provided a specific legal framework to issue, distribute, hold, and manage native tokenised funds, including introducing a new control-agent concept to add an additional layer of security and oversight to Luxembourg tokenised funds.

- Cayman Islands.** The Cayman Islands’ Virtual Asset (Service Providers) Act (2024 Revision) (the “VASP Act”) establishes a registration and licensing regime for virtual asset service providers, with the licensing phase for custodians and trading platforms effective from 1 April 2025. Under the VASP Act, activities such as exchange, transfer, custody and participation in, or provision of, financial services related to a virtual asset issuance are regulated. Whether tokenised funds fall within the VASP perimeter is fact specific: Cayman Islands private funds and mutual funds continue to be regulated primarily under the Private Funds Act and Mutual Funds Act, with tokenisation typically addressed through constitutional/documentary updates and operational controls. However, where a fund (or its service providers) conducts a “virtual asset service” (for example, issuing freely transferable tokens to the public, operating a transfer function akin to an exchange, or providing custody of investors’ tokens), VASP registration or licensing and CIMA engagement will be required. Issuers must also consider the Securities Investment Business Act for any dealing/arranging activities involving security tokens. For alternatives, common structures (exempted companies and exempted limited partnerships) support tokenised feeders and closed ended vehicles, but sponsors should calibrate transfer restrictions, secondary windows and AML/KYC checks to align with the terms of offering documents and Cayman Islands AML rules. In August this year, the Ministry of Financial Services and Commerce released a Consultation Paper setting out various proposed amendments specifically for tokenised funds. For example, under the proposals, tokenised funds would be required to keep clear, complete records of how their digital equity or investment tokens are created, sold, transferred and owned; be able to show these records to CIMA on request within 24 hours; have appropriate skills, knowledge and experience to operate the fund properly; maintain enough capital and have strong cybersecurity measures in place; and comply with certain audit requirements. The industry is awaiting the outcome of the consultation process.
- British Virgin Islands.** The British Virgin Islands Virtual Assets Service Providers Act, 2022 (as amended) requires VASPs carrying on business in or from within the British Virgin Islands to be registered with the FSC for activities including exchange, transfer, safekeeping/custody and administration of virtual assets, and participation in or provision of financial services related to an issuer’s offer or sale of a virtual asset. Tokenised funds are generally structured within existing British Virgin Islands fund regimes under the Securities and Investment Business Act and Mutual Funds Regulations (e.g., approved, incubator, professional or private funds), with the tokenisation layer addressed in the fund documents and transfer agency operations. VASP registration may be triggered where the fund, manager or an affiliate provides a regulated virtual asset service (for example, operating an issuance portal, on-chain transfer function, or custody). As in the Cayman Islands, analysis is case by case. Alternatives sponsors should ensure side letter mechanics, transfer restrictions and investor eligibility are enforceable at the token level, and that British Virgin Islands AML, Travel Rule and data handling requirements are embedded in onboarding and wallet controls.
- Jersey.** Jersey became the first jurisdiction to approve a regulated Bitcoin investment fund in 2014. Since then, the Jersey Financial Services Commission published guidance in 2024 that provides clear, proportionate pathways for asset tokenisation. Requirements generally include having a Jersey-incorporated issuer (company or LLC), appointing appropriate corporate services providers and custodians, having a Jersey-resident director, applying AML controls, issuing risk warnings and transparency and investor disclosure requirements, requirements for underlying assets to be verified by a qualified third party and for smart contract audits, with related reporting obligations.

Emerging best practices

A resilient model brings together a permissioned token on institutional-grade infrastructure, an approved list of investors matched to a verified register, and programmable transfer rules aligned with the fund's prospectus and target market. Transfer agency can be operated in parallel with existing systems or built natively on-chain, with an immutable audit trail for transparency.

Custody arrangements for investors should accommodate investors who wish to self-custody in their existing wallet, or alternatively, institutional custody arranged for the investor, supported by a robust oversight infrastructure. The cash leg of transactions is often raised as an issue to the scalability and interoperability of tokenised funds with the broader / traditional financial system so the cash leg of subscriptions and redemption will need to evolve to digital cash—such as stablecoins or tokenised bank deposits—to enable atomic delivery-versus-payment. Governance should include rigorous code audits, formal change controls, clear incident-response processes and human-in-the-loop safeguards for exceptions.

For alternatives, “good” also means tokenised capital call notices and payment rails; encoded distribution waterfalls with testable models and off-chain oversight; side letter terms reflected in token permissions; periodic transfer windows and price discovery mechanisms on regulated venues; and audit-ready connections between underlying asset data—such as loan tapes and leases—and NAV and oracle inputs.

Digital asset legislation is coming for Australia; will it bring investment with it?

Currently, the regulatory landscape for digital assets in Australia is relatively fragmented. This has hampered direct institutional investment into the asset class, causing asset managers to prefer synthetic instruments (such as crypto ETFs) in many cases.

On 25 September 2025, the Australian Treasury released draft legislation to bring certain digital assets and digital asset entities into the scope of Australia's financial services laws.

The Treasury Laws Amendment (Regulating Digital Asset, and Tokenised Custody, Platforms) Bill 2025 (Bill) imposes licensing obligations on digital asset platforms (such as exchanges) and custodians, in an approach which is similar to the way in which custodial investment platforms (often referred to as investor-directed portfolio services) are regulated in Australia.

In this article, we explore the legislation and the potential impacts that its introduction could have for asset managers both locally and internationally, including the potential for it to facilitate greater direct access to crypto assets for institutional investors.

Current state of play

The Australian framework for regulating digital assets has, up until the introduction of the Bill, been relatively fragmented. The position from the Australian Securities and Investment Commission (ASIC) is outlined in Information Sheet 225 (which is also under review). According to ASIC, the existing financial services regime applies in determining whether a crypto-asset is a financial product or not.

For example, a digital asset, if it has the relevant features, may amount to a managed investment scheme or security. As such, the exercise of determining whether a particular token is a financial product is an issue that has been at the forefront of the digital asset space.

There have been a number of pieces of litigation in this space, where ASIC has prosecuted token issuers for issuing what it alleges to be financial products. The outcomes of these cases have been varied and have only provided limited clarity. The crypto industry in Australia more broadly has decried the use of an apparent regulation by enforcement approach as not being a fair or efficient method of clarifying these issues.



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Proposed changes

Under the Bill, a number of new concepts are to be introduced into the Corporations Act 2001 (Cth). Two of the key concepts, and those that will be regulated, are Digital Asset Platforms (DAPs) and Tokenised Custody Platforms (TCPs).



At a high level, cryptocurrency exchanges and digital asset custodians are likely to fall into the category of a DAP and the regulated entity will be the operator of the DAP.

Digital asset platforms

A DAP is a facility under which a person possesses one or more digital token on trust for or on behalf of another person. A digital token being a digital object over which one or more persons are capable of exercising control.

At a high level, cryptocurrency exchanges and digital asset custodians are likely to fall into the category of a DAP and the regulated entity will be the operator of the DAP.

Tokenised custody platforms

A TCP is a facility under which:

- The operator identifies one or more assets, and for these assets creates a digital token,
- Possession of a token confers a right to redeem or direct the delivery of the underlying asset
- The operator holds the underlying asset on trust for, or on behalf of, a person who possesses the digital token

An example of a TCP is an offering in which an underlying asset such as gold is effectively wrapped by the operator, and customers obtain the right to redeem or to direct the delivery of the gold by obtaining a token.

Financial services framework

These two facilities will be treated as financial products and issuers of them would be required to obtain an Australian Financial Services Licence (AFS Licence) subject to any potential exemptions which may be applicable.

In addition to issuers of DAPs and TCPs being required to be licensed, the existing regulatory regime will apply. For example, third parties who provide advice to customers around the use of DAPs and TCPs will be required to be adequately licensed. Crucially, however, these changes will not change the treatment of underlying digital assets. As such, digital assets which are not financial products (which is presumed to include conventional digital currencies such as bitcoin and Ethereum) will not be directly regulated under the proposals.

This will also mean that persons providing advice or recommendations about bitcoin or Ethereum, for example, will not be subject to licensing. The government has acknowledged that this is a shortcoming and one which they intend to address in future.

Exemptions

There are a number of exemptions contained in the Bill, these include:

- relief from the requirement to hold an AFSL for a DAP if the total market value of the transactions across platforms issued by its group does not exceed US\$10 million across a rolling 12-month period, each client's total holdings do not exceed US\$5,000 and a number of other requirements are met.
- relief from the requirement to hold an AFSL where a person arranges for a client to use a DAP or TCP in the course of an otherwise primarily non-financial services business.

What does this mean for asset managers?

While the Bill does not look to bring digital assets into the financial services regulatory framework directly, it will hopefully act to provide more comfort to asset allocators around their engagements with DAP and TCP operators.

By providing a regulated framework for exchanges, asset managers will have better access to invest directly in cryptocurrencies in Australia, with greater certainty and comfort around the exchanges and custody providers. In particular, when investing directly, asset managers will have increased comfort that they are dealing with an exchange which is subject to ASIC regulatory oversight under a familiar regulatory framework.

The Bill provides ASIC with the ability to make standards that deal with the conduct of licensees in relation to possessing and safeguarding the underlying assets of platforms. This would be another piece of security which should provide asset managers with comfort around engaging with digital assets in Australia. In a retail fund context, this too will help responsible entities demonstrate compliance with their obligations in connection with holding and safeguarding fund assets in light of ASIC's detailed expectations as set out in Info Sheet 225.

Separately, we consider that there is scope for asset managers to look into the TCP model as a clearer pathway for issuing tokenised funds in Australia.

More broadly, as seen in other jurisdictions, the creation of new bespoke legislation is seen as having a positive impact for investors (both institutional and retail), as well as for industry participants (by encouraging further investment in the area). The details of the Bill are still being discussed, with the Government inviting feedback on the draft legislation before it is passed likely early in 2026.

We will continue to monitor this process and report on any further developments.

By providing a regulated framework for exchanges, asset managers will have better access to invest directly in cryptocurrencies in Australia, with greater certainty and comfort around the exchanges and custody providers.

The image features a dark blue background with a network of glowing white and yellow nodes connected by thin white lines, creating a sense of global connectivity. In the top left, there is a solid orange rectangle containing the K&L Gates logo. Below this, a larger orange rectangle contains the main text of the advertisement.

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Cyber risk intelligence: Turning data into resilience for alternative investments

Why intelligence-led approaches are essential to meet rising threats, regulatory demands and investor expectations.

The alternative investment industry is entering a new era of scrutiny. Regulators, investors and counterparties are paying closer attention to how firms manage operational risk, and cybersecurity sits at the heart of that conversation. Threat actors have grown increasingly sophisticated, targeting firms not only for financial data but also for sensitive investor and portfolio information.

For managers, operational due diligence questionnaires now include detailed sections on cybersecurity posture. The questions no longer ask whether a policy exists, but whether it is tested, independently validated and benchmarked. Regulators, meanwhile, are moving from principles to prescriptive requirements.

In this environment, compliance alone is insufficient. Firms that rely solely on meeting the minimum threshold risk falling behind. It is intelligence - the ability to interpret risks, contextualise findings, and demonstrate resilience - that increasingly separates managers who simply check boxes from those who win investor confidence.

The evolving cyber threat landscape

Cybercrime is projected to cost the global economy US\$10.5 trillion annually by 2025 ([Cybersecurity Ventures](#)), making it one of the largest 'shadow economies' in the world. Within financial services, ransomware and phishing remain the most prevalent threats, with nearly 60% of organisations reporting ransomware attacks in 2024, of which 70% resulted in data encryption ([Integrity360, 2025](#)).

Alternative investment firms are not immune. In fact, their unique profile - lean teams, highly valuable data, and reliance on third-party providers - makes them an attractive target. A single breach can disrupt trading, compromise investor trust, and trigger regulatory inquiries.

At the same time, the regulatory perimeter is expanding. In the United States, the Securities and Exchange Commission (SEC)'s new cyber disclosure rules require public companies to disclose material cybersecurity incidents within four business days and to provide detailed annual reporting on governance and risk management ([SEC, 2024](#)). The SEC's cyber rule for investment advisers further demands written policies and procedures designed to address cybersecurity risks.

In Europe, the Digital Operational Resilience Act (DORA) came into effect in January 2025, mandating rigorous testing, third-party oversight, and operational resilience planning for financial institutions in the European



Eric Bernstein
CEO
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Union ([Proofpoint, 2025](#)). The UK's Financial Conduct Authority (FCA) has also made operational resilience a supervisory priority.

Overlay investor expectations onto this landscape, and the pressure becomes clear. Investors increasingly expect firms to demonstrate not just that controls exist, but that they are effective and comparable to peers.

The intelligence gap

Despite investing in security tools and audits, many firms struggle with what is known as the “intelligence gap.” They have data - scan results, penetration test reports, vendor attestations, and so on - but lack the ability to turn that data into meaningful insights for boards, investors or regulators.

For COOs and CTOs, this creates several pain points:

- **Interpretation.** Technical findings are difficult to translate into business impact, leaving boards uncertain about whether risks are material or theoretical.
- **Prioritisation.** Not every vulnerability carries equal weight, but without context firms can waste resources remediating low-severity issues while critical gaps remain.
- **Validation.** When managed service providers perform their own assessments, questions of independence arise. Investors increasingly want to know that the firm's cyber posture has been evaluated by a credible, conflict-free party.
- **Reporting fatigue.** Different stakeholders demand different formats - regulators want technical detail, boards want concise summaries, and investors want benchmarks. Producing these consistently strains already lean compliance functions.

In short, the gap is not the absence of information but the absence of intelligence - and that can be just as dangerous as a missing control.

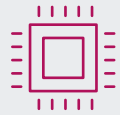
Towards cyber resilience, not just compliance

True resilience requires moving beyond one-off assessments or narrowly defined regulatory exercises. Cyber risk management should be integrated into a firm's overall strategy, not treated as a siloed IT function.

An intelligence-driven approach offers several advantages. It provides clarity about which risks matter most, shows measurable progress over time, and situates a firm relative to its peers. This benchmarking element is increasingly vital, as investors ask not just whether a firm has met minimum standards, but whether it stands above the industry line.

Continuous monitoring and iterative improvement are also essential. Cyber threats evolve daily, while most regulatory examinations occur annually or less frequently. A static report produced once a year will always lag behind reality. Managers that embed resilience into ongoing operations can better anticipate changes and adapt more quickly.

For the alternative investment sector, strong cyber posture is becoming a differentiator. Firms that can demonstrate resilience win trust not only from regulators but also from current and prospective investors. And in competitive fundraising environments, that trust can translate directly into capital allocation decisions.



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Practical steps for firms

So, the question is how can alternative investment managers close the intelligence gap and build resilience without overwhelming limited resources? Several practical steps stand out:

- **Translate findings into board-ready insights.** Avoid technical jargon and frame issues in terms of business impact. A vulnerability that could expose investor data should be described in those terms, not just as a misconfigured server.
- **Benchmark against peers.** Investors want to know whether a firm's posture is average, lagging, or leading relative to its peer group. Independent benchmarks provide this context.
- **Align compliance with real risk reduction.** Regulatory frameworks such as the SEC's cyber rules or DORA should not be treated as checklists. They should be mapped to practical controls that genuinely strengthen resilience.
- **Seek independent oversight.** Whether through third-party assessments or external advisory, independence helps avoid conflicts of interest and builds credibility with allocators.
- **Track progress over time.** Cybersecurity is a journey. Firms should establish metrics to show how posture improves year over year, rather than presenting the same static evidence at each diligence cycle.

It's important to keep in mind that these steps do not eliminate the complexity of cyber risk, but they provide a framework for turning it into something more manageable - and more demonstrable.

Taken together, these measures reflect a broader shift in mindset: cyber resilience is no longer a technical exercise, but a strategic imperative that underpins trust, continuity and long-term value.

Securing the future of alternatives

Cyber threats are not abating; they are accelerating. The financial and reputational costs of inaction are rising, as are the expectations of regulators and investors. Alternative investment managers that continue to view cybersecurity as a compliance exercise risk being left behind.

By embracing intelligence-led approaches, firms can move from reactive to proactive, from box-ticking to resilience. This shift is not just about defending against attacks. It is about earning trust, protecting performance, and securing long-term growth in an industry where confidence is everything.



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Cyber due diligence for alternative investors

A practitioner's brief on protecting deal value, separating signal from theatre, and structuring terms accordingly.

In alternative investments, we underwrite execution, integration, and customer concentration risk with rigor. Cybersecurity deserves the same level of discipline – not as a compliance checkbox, but as both a valuation factor and a lever for post-close value creation.

The past decade has shown how latent cyber exposure can directly affect deal outcomes - including price adjustments at signing, regulatory delays in the first year, and unplanned capital or operational expenditure that undermine the original investment thesis. A disciplined cyber review is therefore not about technology for its own sake; it's about protecting EBITDA, preserving revenue durability, and maintaining covenant headroom.

Why cyber diligence is investment diligence

A target's identity and third-party control posture directly affects how quickly you can stabilise operations on Day 1, execute separations or roll-ups, and convert pipeline. Weak access controls, untested recovery procedures, or unmanaged vendor sprawl all slow integration, increase hidden costs, and delay time-to-value.

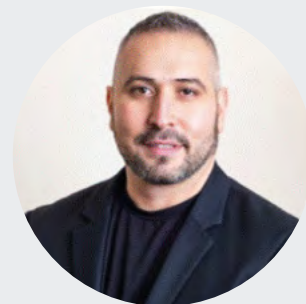
Conversely, a well-governed identity model, tested backup and restore capabilities, and clearly defined vendor boundaries reduce friction, minimise unexpected spend, and sustain commercial momentum.

In short, cyber diligence is the difference between buying growth and buying a breach.

How insufficient diligence destroys value

When diligence is thin, the costs emerge precisely when the balance sheet is least able to absorb them. Incident response, forensics, legal remediation, and insurance renegotiations all hit the P&L. Sales cycles lengthen as certifications are re-earned, while operational interruptions magnify losses far beyond any ransom or remediation expense.

In several public cases, acquirers have absorbed fines and retroactive obligations directly tied to cyber diligence gaps in the acquired environment. Even without a major incident, post-close clean-up - from deploying multi-factor authentication and privileged access controls to enforcing log retention and disaster recovery drills - becomes unplanned capital expenditure that delays integration and erodes value-creation timelines.



James Azar
Cyber Consultant
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Translating findings into deal mechanics

Cyber findings should translate directly into deal economics and terms. Quantified risks can justify purchase-price adjustments, targeted holdbacks, and more precise representations and warranties.

Post-close, a 100-day plan anchored by clear, board-visible milestones ensures accountability and execution. Typical early priorities include:

- Enforcing phishing-resistant MFA for administrators and remote access
- Completing a timed restore of a crown-jewel workload
- Deploying EDR (endpoint detection and response) across all assets
- Hardening CI/CD (continuous integration and delivery) pipelines
- Running a cross-functional tabletop exercise that includes finance, operations and legal.

Cyber insurance should be bound without exclusions that undermine recovery – such as clauses for ‘failure to maintain MFA’. This approach aligns incentives, caps downside exposure, and accelerates post-close integration.



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What real maturity looks like – beyond the slideware

Mature cybersecurity programs lead with identity. They implement broad single sign-on (SSO), phishing-resistant multi-factor authentication (MFA), device trust policies, and automated joiner-mover-leaver processes.

Privileged access is granted just-in-time and fully audited.

Endpoint and email controls are consistent across the estate: legacy mail protocols are disabled, and DMARC enforcement protects domains from spoofing.

Detection and response are measurable. Logs retained for meaningful periods, alerts are validated, and 24×7 incident response is tracked by MTTR (mean time to recover). Data governance is equally disciplined - data is classified, egress controlled, encryption keys managed in secure KMS/HSM environments, and backups are immutable, segmented and routinely tested through timed restores.

Finally, third-party access is tiered by potential impact (‘blast radius’), enforced through SSO/MFA, and reinforced by contracts that grant evidence rights and enable rapid offboarding.

These are the hallmarks of operational maturity - signals of real resilience, not marketing artifacts.

One-page investor checklist

Use this quick-reference framework to verify whether a target’s cybersecurity posture supports valuation assumptions and post-close stability.

- **Valuation drag check:** Any price reductions or escrows tied to disclosed incidents? Benchmark against public re-cuts following breach disclosures.)

- **Restore reality:** Evidence of a successful, timed restore within the past 90 days for a crown-jewel workload. If missing, reserve for downtime using a high hourly interruption cost.
- **Identity health:** Named list of IdP (Identity Provider) admins; phishing-resistant MFA enforced; automated joiner-mover-leaver (JML) processes; SSO for contractors and vendors.
- **EDR/MDM coverage:** ≥95% of endpoints and servers protected; non-compliant devices isolated.
- **Email and domain security:** Modern filtering; DMARC policy set to 'reject'; legacy protocols disabled.
- **Logging and response:** ≥12-month log retention; validated alerts; 24×7 monitoring with tracked mean time to recover (MTTR).
- **AI risk posture:** Inventory of AI tools and models; access controls for plugins/APIs; defined remediation plan and budget for shadow AI.
- **Data and key management:** Data classification in place; DLP (data loss prevention) on egress; encryption keys stored in KMS/HSM; backups immutable and segmented.
- **Third party risk:** Vendors tiered by blast radius; SSO/MFA for Tier-1; 15-minute kill-switch and offboarding runbook; contractual evidence rights in place.
- **Regulatory exposure:** Review open investigations, fines, or undertakings – including inherited liabilities from acquisitions.
- **Deal terms:** Cyber-specific holdbacks with milestone-based release; R&W insurance aligned to actual control maturity, not documentation alone.

From insight to action

Cyber diligence is not an IT exercise; it is a core component of underwriting. Treat control evidence with the same scrutiny as audited financials and ensure findings directly inform deal terms. Translate identified gaps into contractual protections, targeted milestones, and measurable post-close actions.

A disciplined 100-day plan should follow – one that turns diligence into a roadmap for execution, not just documentation. This level of preparedness preserves the investment thesis, accelerates value creation, and safeguards the growth narrative that underpins every deal.



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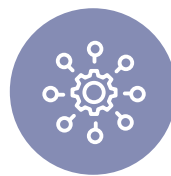
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Operations teams evolve as line between public, private markets blurs

The bright line that once delineated public and private markets funds has blurred dramatically, as a flood of complex fund structures and products that blend elements of both markets' funds drive new revenue and expansion, while creating new layers of operational complexity for asset managers and outsourcing partners.

Semi-liquid funds for private credit, private equity, real estate, and other asset classes are meeting investor needs by providing greater liquidity and flexibility. As of June 2025, there were 726 evergreen funds in the alternatives marketplace, Preqin reported, with dramatic growth in the last 15 years as the number of funds increased on average at 18% year-on-year, doubling every five years.¹

To effectively manage these structures and the increased volume, Operations teams for asset managers and outsourcing partners are refining—and in some cases overhauling—their models to manage functions that include multiple legal entities, complex data flow, varied contractual time frames, disbursements, and reinvestments.

By developing innovative technology with artificial intelligence, improving automation, and hiring skilled talent, Operations teams are restructuring models with tailored solutions to add new value for asset managers, enhance the investor experience, and reduce risk.

New needs, new models

Traditionally, supporting funds in public and private markets has been straightforward. Transactions in public markets with open-ended funds are handled primarily by automated straight-through processing systems and assets are generally custodied. Private markets with tailored, closed-ended funds feature longer-term investments and limited liquidity, and often have complex accounting treatments and fewer automated tools.

Lured by stronger returns in private markets, retail investors with fresh capital are seizing private markets opportunities but also are demanding greater liquidity and flexibility that semi-liquid funds provide. Even institutional investors are increasingly looking to alternatives markets for opportunities. In 2024, institutional investors allocated almost 20% of assets under management to alternatives, up from nearly 16% in 2020, with the greatest jump in private equity, Preqin noted.²



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Chief Operating Officer
MUFG Investor Services

- 1 Preqin: Evergreen funds: liquidity for a growing private capital investor pool, July 24, 2025: <https://www.preqin.com/insights/research/blogs/evergreen-funds-liquidity-for-a-growing-private-capital-investor-pool>
- 2 Preqin's State of the Market: H1 2025, January 2025: <https://pro.preqin.com/insights/research/reports/preqins-state-of-the-market-h1-2025>

The challenge for Operations teams is determining how to reengineer models to develop more unified client service structures that centralise and automate transactional tasks, while managing the nuances of semi-liquid funds.

While there are many options, our Operations team reorganised into three, client-centric delivery teams: The first team leads operational client relationships, ensuring that service level agreements (SLAs) are in place, tracking client key performance indicators (KPIs), and assisting with client solutions. The second group is responsible for more complex aspects of client engagements, fee calculations, income allocations, reporting and NAV review, and delivery. The third group oversees all day-to-day data, and transactional production work and services. All activities of the three teams are visible in real-time to relationship managers and executive sponsors via a transparency layer.

This new model is a reset of historic asset servicing that is heavily influenced by public markets products with frequent dealing schedules that resulted in over-functionalisation and many silos in front-to-back process (e.g., transfer agency vs. middle office vs. fund accounting, etc.). Through technology and automation, our firm consolidated these silos into a basket of services, which allows other teams to offer additional services and expertise to clients, in line with regulatory permissions. This dynamic is needed for private markets given the bespoke nature of the products they manage.

Mastering data and workflows

To address the complexity of new funds and unstructured data in private markets, asset managers and outsourcing partners are creating new models that provide strong data management, integrate with downstream systems, support internal and external workflows, and consolidate external vendor data. In some cases, public markets tools are being revamped to use with semi-liquid funds, and tailored solutions are developed for waterfall calculations, client invoicing, collaboration tools, data management, and other requirements.

Improving master data and building workflows across processes are critical tools to support enhanced operating models. These workflows improve productivity and provide transparency to teams and clients about the status for completing deliverables. By validating data from various platforms, remediating exceptions, and aggregating information into a self-service portal, clients may access real-time balances, positions, and reporting data.

Streamlining data into one tool speeds trade execution, payments, and other workflows, and provides strong client and investor experiences.

Communication between service providers and asset managers is typically greater in private markets. To address that point with semi-liquid funds, firms are embracing artificial intelligence to enhance service management by classifying e-mails and extracting data, and then moving actions automatically into workflows to improve status tracking, response, and processing times.

In one example, an e-mail case management system uses GenAI to automatically categorise e-mails received from clients and investors according to transaction type and client, enabling teams to process those



Improving master data and building workflows across processes are critical tools to support enhanced operating models.

These workflows improve productivity and provide transparency to teams and clients about the status for completing deliverables.

transactions in an efficient and structured manner. Then, GenAI applications extract data from unstructured documents, which are attached to those e-mails in a systematic way, and initiate workflow tasks to send processes to the appropriate execution team. In addition, the system ensures that all e-mails are managed within appropriate response times and provides valuable oversight and insights that contribute to overall service management KPIs.

To improve efficiency and reduce risk, Operations teams are shifting from lengthy enterprise-wide, problem-solving initiatives to agile “hyper-automation” teams that develop bespoke, expedited solutions to resolve specific issues for clients and internal teams. These teams match business expertise and technology skills to map solutions, then design and build tailored solutions and Minimal Viable Products using low code/no code tools to automate processes or provide an output needed by a client. These teams help to develop digital skills and enable teams to build solutions themselves, and create the “flywheel effect” of solution management and digital upskilling across the organisation.

For example, tools developed by one hyper-automation team for client requests include cash flow forecasting, a payments tracker, fund of fund back testing consolidation, front-to-back client SLA trackers, and trade files automation. These tools are projected to save more than 30,000 hours in labour by the end of 2025. The solutions generated by hyper-automation teams help to reduce risk by applying preventive measures to incident-prone processes, and can be developed beyond single client use cases and be deployed at an enterprise-wide level.

Balancing technology and talent

Implementing systems and processes is only one aspect of new Operating models. Finding high-potential, tactical employees with specific skills and vision to see where the alternatives market is heading is critically important as well.

Creating the most efficient processes is a priority, as asset managers continue to deal with increased pressure on margins – Preqin noted that as of September 2024, average hedge fund management fees were 1.38%, below the traditional 2%.³ Given the volume of new funds and labour-intensive nature of private markets, asset managers and outsourcing partners are spending a great deal of time identifying candidates to add depth and experience in product development, operations solutions, and operations.

While automation will help manage elements of new funds, the specialised nature of many funds will require more staff.

Profitable global firms with deep balance sheets and broad product offerings beyond traditional asset servicing often have a competitive advantage in hiring experienced employees, regardless of location. For example, our firm’s “follow the sun” model ensures client collaboration from Toronto and Halifax to Singapore, Kuala Lumpur, Cyprus, and Dublin. In addition, our Private Markets



To improve efficiency and reduce risk, Operations teams are shifting from lengthy enterprise-wide, problem-solving initiatives to agile “hyper-automation” teams that develop bespoke, expedited solutions to resolve specific issues for clients and internal teams.

3 Preqin: How closed- and open-end fund managers are evolving to meet LP demands, September 25, 2025: <https://preqin.com/insights/research/blogs/how-closed-and-open-end-fund-managers-are-evolving-to-meet-lp-demands>

Academy provides intense private markets training for employees with public markets backgrounds, as well as recent university graduates, and is a significant vehicle for developing talent and advancing new solutions. The Digital Academy marries the skills of the business with technology.

Nimble firms will chart the future

As open-ended funds of the public markets morph with closed-ended funds in private markets, asset managers and outsourcing partners must move quickly to develop the foundational infrastructure and solutions to move forward.

The structure of semi-liquid funds requires Operations teams to remain agile as they bring in new talent with fresh ideas, simplify the re-engineering processes and adapt the use of AI. Firms continue to work toward the goal of full automation, as asset managers and outsourcing partners forge even stronger collaborative relationships to develop and launch new industry standards.

The most successful Operations teams will be the nimblest, with the resources and teams to overcome the new complexities and lead into the future.

A trend following deep dive: The dynamics of dispersion

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Dispersion among trend followers is a nuanced, though seldom explored, topic. Intuition might suggest that there is little scope for differentiation as a trend follower. In reality, the mechanisms for capturing trends are vast, with different expressions and parameters leading to diverse outcomes.

Examining the constituents of the Société Générale Index of trend followers (SG Trend Index)¹ from its inception in 2000, we found that the delta between the best and worst performer each calendar year is typically around 10 percentage points. In some years, it rises to double that.

In this paper, we examine the portfolio properties that can lead to dispersion and consider how each contributes to differentiation in trend-following outcomes.

Dispersion between trend followers

To quantify dispersion, in Figure 1, we plot the risk-adjusted (scaled to 10% annual volatility for comparability) calendar year performance for each of the (typically) 10 SG Trend Index constituents,² with the navy and pink lines tracking the best and worst constituents for each calendar year.

Figure 1: SG Trend Index constituents, risk-adjusted annual performance (2000-2024)



Source: HFR, Inc., With Intelligence, Bloomberg, Man Group Database. Jan 2000 – Dec 2024.

1 Constituent data is sourced from third-party databases with which Man Group has a data licence. Past performance is not indicative of future results. The performance of SG Trend Index constituents is not necessarily representative of the performance of any Man Group product.

2 See: https://wholesale.banking.societegenerale.com/fileadmin/indices_feeds/SG_Trend_Index_Constituents.pdf

In most years, the majority of constituents are directionally aligned. However, Figure 1 demonstrates that there is typically a sizeable magnitude of dispersion in the absolute performance of index constituents.

In some, albeit rarer, cases, the source of dispersion is idiosyncratic. To take one example, in 2009, one constituent stood in double-digit positive territory, while the rest of the pack logged flat or negative returns. This positive outlier turned out to be a discretionary fund which had found its way into the index and was later removed. Aside from idiosyncratic cases such as this one, dispersion generally stems from the core design parameters of a trend-following system.

Capturing performance dispersion through trend-following proxies

In a bid to model the dispersion we observe between index constituents, we have created a set of 20 trend-following proxies that we believe model the variations in the type of trend-following systems employed.

Below, we outline four binary choices to construct 16 (or 2^4) core trend proxies:

- 1. Speed**
 - (a) Fast: two-to-three month holding period, one-month lookback for position sizing
 - (b) Slow: six-month holding period, 12-month lookback for position sizing
- 2. Inclusion of carry**
 - (a) No carry
 - (b) 15% allocation to currencies and fixed income carry
- 3. Inclusion of alternative markets**
 - (a) Purely traditional: futures and FX forwards across commodities, currencies, fixed income and stocks (around 150 markets)
 - (b) Including alternative markets: such as power, synthetic credit indices and interest rate swaps
- 4. Allocations**
 - (a) Equal risk weight: to each asset class (and equal risk weight to markets within each asset class)
 - (b) Proportional to capacity: based on daily dollar volume and exchange limits

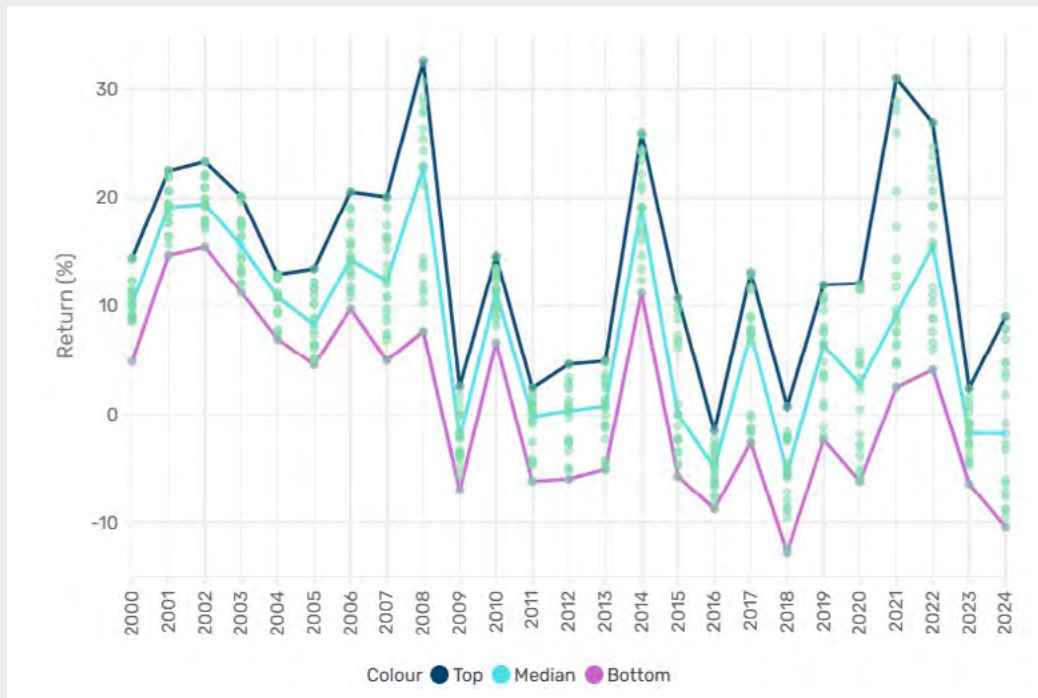
In addition, we consider four trend-following proxies where we apply asset class tilts in the allocations step four, bringing the total number to 20. In these proxies specifically, we ‘fix’ parameters one to three above to better isolate the impact of active allocation decisions. We utilise a medium speed (four-month holding period), excluding carry, trading traditional markets only and applying equal market risk allocations within each asset class. However, instead of applying an equal 25% allocation to each asset class as we do in the first 16 proxies, we apply a 40% overweight to one of the asset classes and 20% to the remaining three. The rationale for including these additional proxies stems from evidence that some managers consciously tilt their portfolios towards certain asset classes.

The opposite school of thought purports that all markets are equal in terms of their expected trend-following information ratio, and by that token, the goal should be to maximise diversification by spreading risk across markets. In practice, this takes into account the covariance matrix of markets, subsequently skewing allocation to those that are less correlated. For the purposes of this paper, however, we use an equal-risk-weight approach (proxy parameter 4a) to reasonably proxy for this. Additionally, parameter 4b accounts for the presence of capacity constraints, where optimising for strategies with larger assets under management would tilt the weights towards higher capacity markets.

Lastly, we subtract an annualised transaction cost of 2% for fast and 1% for slow implementations, respectively, to account for turnover differences. We also apply a 1.5% management and 20% performance fee (with high watermark and end-of-year fee crystallisation, as is common) and assume 50% of cash is unencumbered, earning the Treasury bill rate.

Using this framework, in Figure 2, we replicate the analysis from Figure 1 but instead plot the annual performance for the 20 trend-following proxy portfolios.

Figure 2: Proxy trend strategies, annual performance (2000-2024)



Source: HFR, Inc., With Intelligence, Bloomberg, Man Group Database. Jan 2000 – Dec 2024.

Overall, the results show that the proxy portfolios are reasonably robust in capturing both the yearly pattern of returns and dispersion, with the delta between the best and worst performers for each calendar year approximately in line with that of the actual SG Trend Index constituents. We can therefore leverage the insights from our proxy portfolios to better understand the practical dispersion between index constituents.

Analysing the trend proxy portfolios and binary parameters

Taking a more holistic view of the long-term performance of our 20 proxy portfolios, in Figure 3, we observe that dispersion in the initial period from 2000 to 2006 is relatively less pronounced compared with the period following the onset of the Global Financial Crisis (GFC) in early 2007. Most trend-followers did similarly well irrespective of design. Indeed, the absolute average pairwise correlation between the portfolios was 0.87 in the early period, falling to 0.78 from 2007 onwards.

Figure 3: Proxy trend strategies cumulative performance (2000-2024)



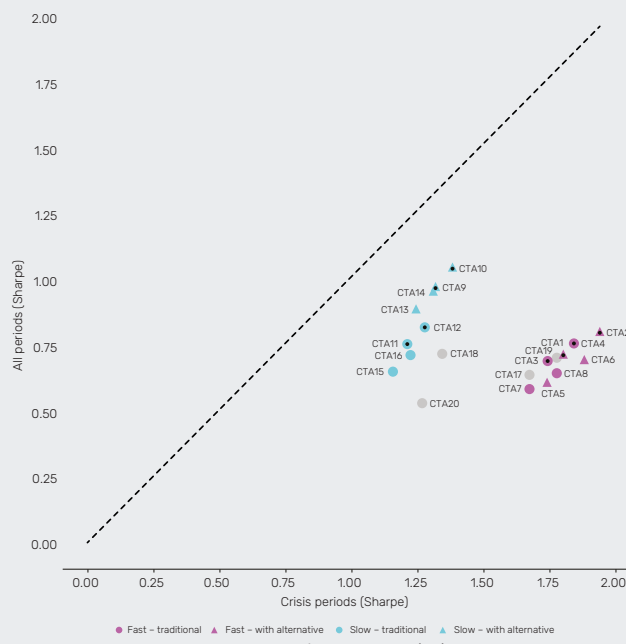
Source: Man Group Database. Jan 2000 – Dec 2024. The performance of the proxy portfolios is hypothetical and back tested. See [Important Information](#).

The more meaningful dispersion in the post-GFC period was principally driven by design choices. 2009-19 was widely regarded as the ‘CTA winter’, where traditional trend struggled amid the currents of the Federal Reserve put. Portfolios that capitalised on the proliferation of liquid, tradable alternative markets, which basked in plentiful trends, along with those that followed a slower, more passive approach naturally navigated this period better. Although, this is not a persistent effect through time, as certain properties or design choices perform better in different environments.

For many investors, trend following’s role in a portfolio is as a diversifying, crisis-offset allocation, and therefore the design parameters that drive dispersion in such periods are a crucial consideration for allocators. To explore this, in Figure 4, we decompose long-term performance to uncover which of the parameters give rise to improved crisis alpha properties.

We define crisis periods as the peak-to-trough time periods when the S&P 500 experiences a 15% or worse drawdown.

Figure 4: Crisis versus non-crisis performance for the 20 trend proxies (2000-2024)



Source: Man Group Database. Jan 2000 – Dec 2024.

Our first observation is that all of the proxy portfolios sit below the diagonal line, underscoring that trend following's crisis Sharpe is comparatively better than its all- periods Sharpe. This accords with empirical evidence that trend following's performance is most positive in the worst quintile of equity returns.

Where each of these portfolios sit below the diagonal line, however, is influenced by the different binary parameters of each proxy.

Speed

Starting with speed, we observe a clustering of faster trend (pink markers) further along the x-axis. This indicates that faster portfolios have historically tended to perform better during periods of crisis.

Alternative markets

Trading alternative markets, represented by the triangles in Figure 4, leads to better overall performance, as shown by the clustering of triangles in the top right-hand direction.

Notably, however, there is an interesting interplay with the effects of speed, with the additivity of alternative markets more apparent in slower trend systems.

Asset class tilts

Active asset class tilts can also drive meaningful bifurcation in trend-following outcomes.

Notably, the relative performance between any of the asset class-tilted portfolios can be significant in any given year. 2019 is a pertinent example of this, when being overweight fixed income led to a marked improvement in performance relative to most other implementations. Despite this, there is no single asset class tilt that consistently outperforms year-after-year.

Carry

Trend followers often complement their core trend allocation with a satellite allocation to diversifying, non-trend content. In doing so, they aim to provide diversifying performance during more challenging periods for trend signals. Carry is a natural fit to achieve this, given that stable, rangebound markets, which are not conducive to most trend signals, are often associated with beneficial periods for carry.

The size of allocation to carry is variable among trend followers and can periodically have meaningful impact on performance. In 2016 and 2023, for example, an allocation to carry was beneficial. As it pertains to crisis performance, however, carry does not have a material impact, with other parameters being more prominent drivers of dispersion.

Conclusion

Our analysis illustrates that even among seemingly similar trend-following CTAs, subtle differences in key parameters – such as speed, market set, carry and allocation methods – can drive considerable performance dispersion, particularly during periods of heightened market stress. Our 20 proxy portfolios offer a behind-the-scenes insight into the mechanics of the SG Trend Index universe, while also serving as a useful framework for internal benchmarking and supporting continued refinement in risk management.

This is an abridged version of a paper originally published on [Man Institute](#).

[Important information](#)

From survival to scaling: How prime brokers can accelerate hedge fund growth

For emerging and mid-sized hedge funds, a strong prime broker relationship can make the difference between surviving and scaling.

Launching and running a fund, no matter where in the world it is based, remains as challenging as ever. Operational costs, regulatory burdens, and ability to hire and retain talent are persistent headwinds. Add to that the increasing geo-political uncertainty and a complex global investor landscape and it is no surprise that fund managers are looking for more than transactional services from their prime broker. In order to maximise growth opportunities, they need their prime broker to provide insight, access and value.

A hedge fund's long-term success can hinge on the right prime brokerage relationship. The following five considerations are key to making that assessment.

1. Strategic consultancy, not just service delivery

The best prime brokers act as strategic consultants, particularly for new or expanding funds. There is also an increasing list of talented managers that are held back by sub-optimal infrastructure set ups. The prime broker's visibility and expertise across the hedge fund and investor landscape allows them to offer perspective on what's working and how to avoid common pitfalls. Whether it's choosing the right fund domicile, refining a launch plan, advice on selecting a technology platform, or navigating complex regulations, a prime broker should be a sounding board as well as a service provider. A prime broker with experience guiding emerging managers can help founders focus on their investment thesis while ensuring their platform set up is sound and scalable.

2. Operational consolidation and cost efficiency

Fragmented infrastructure is a common issue, particularly for funds that have added providers piecemeal as they grow. It is not uncommon to see custody with one party, execution with another and financing with a third. This setup may seem flexible at first, but it often leads to inefficiencies, unnecessary costs and operational friction.

A prime broker offering a consolidated, full-service platform can provide significant value.

Consolidation across custody, leverage, execution and shorting means fewer counterparties, cross-margining opportunities, streamlined reporting and reduced risk. Operational simplicity also frees up time and resources, allowing managers to redirect attention to alpha generation and investor relations.



Andrew Rae-Moore
Co-head of international
prime brokerage and
outsourced trading
Marex

In addition, an integrated relationship can enhance negotiating power. A larger wallet with a single prime broker opens the door to additional services, such as capital introduction, that may be out of reach when activity is split across multiple providers.

3. Talent and networks

Beyond operational support, prime brokers have valuable networks. For emerging funds, finding the right talent can be a major challenge. A prime broker with a strong network can introduce managers to fellow investment professionals, experienced operational staff, traders and “C” suite hires, helping them build robust internal teams.

This ability to make recommendations and introductions extends to the investor community as well. A prime broker with deep institutional relationships can help funds build their brand with allocators who are often difficult to reach independently. This is especially important for smaller and mid-sized funds where credibility and access matter as much as performance.

4. A truly global service offering

As the hedge fund industry globalises, an increasing number of managers are launching outside traditional financial hubs. From Latin America to Southeast Asia, we’re seeing a surge in emerging managers who are sophisticated in strategy but underserved by the global prime broker landscape.

Many large prime brokers remain focused on major markets centred around New York, London and Hong Kong, and are less present to provide a service for managers in countries like Brazil, Taiwan, South Africa and the wider Middle East. A mid-sized, international prime broker with global infrastructure can fill this gap, delivering a broad product offering alongside consistent, high-touch service and support, regardless of geography.

This global footprint also matters for capital introduction. Many of these emerging locations are unlikely to feature on the investor roadshow circuit, so access to allocator networks in the US, Europe and Asia can be transformative, as international access can be critical to their fundraising success. In the more mainstream financial regions, such as London, New York and Dubai, partnering with a prime broker with a local presence is imperative for vital introductions and relationship building.

5. Capital introduction with senior engagement

Capital introduction is one of the most sought-after services by fund managers, but its value hinges on how it is delivered. It is not enough to make a few passive introductions and leave managers to their own devices. Cap intro should be personal, strategic and relationship-driven.

Senior-level engagement from the cap intro team matters. Managers benefit most when introductions are carefully curated, when feedback is shared post-meeting, and when there’s a long-term commitment to building allocator relationships over time. In this respect, a prime broker’s approach to capital introduction can be a good barometer of their broader service philosophy: are they transactional, or truly invested in the client’s growth?

For fund managers, especially those early in their lifecycle or operating outside traditional hubs, selecting the right prime broker is one of the most important decisions they’ll make. The relationship should go beyond pricing and product, it should feel like a partnership. A prime broker that brings together operational efficiency, strategic guidance, talent networks and global investor access doesn’t just help a fund survive, it helps it to grow.

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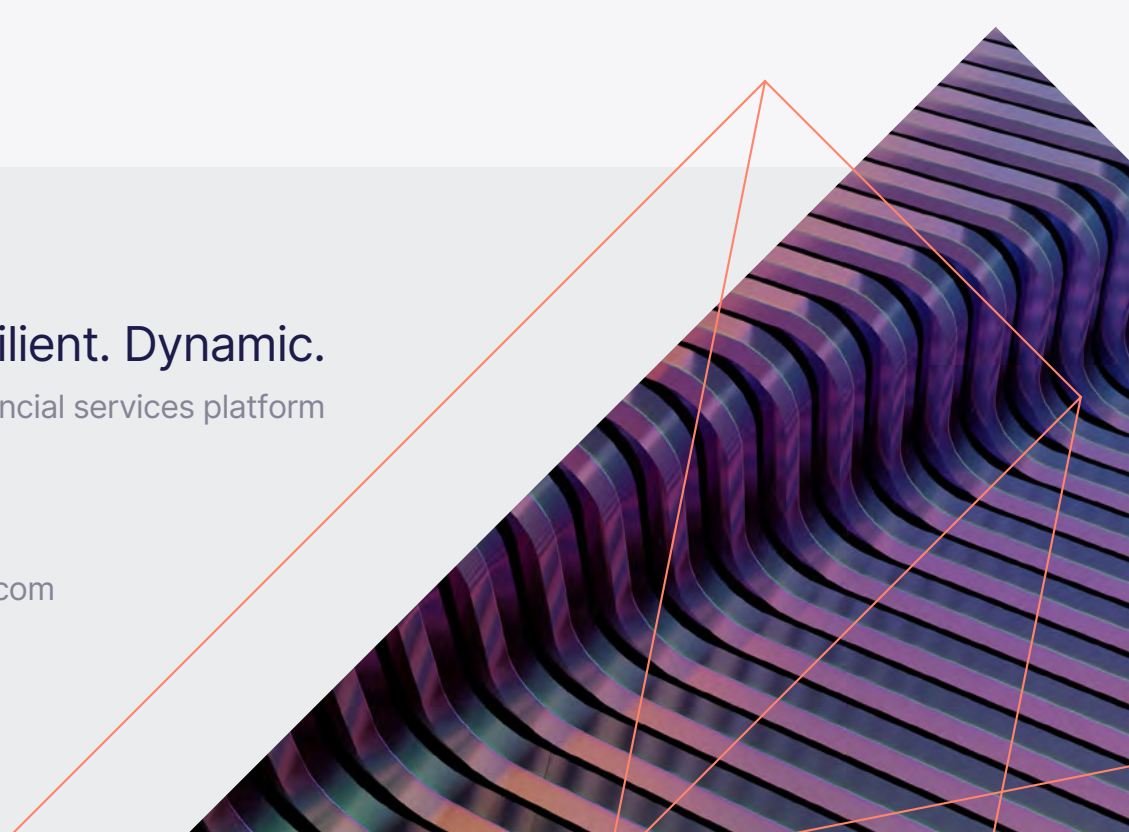
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Unmasking private credit risk: Beyond the leveraged loan analogy

Private credit has seen significant growth in the last decade, attracting both institutions and retail investors searching for yield and portfolio diversification. Its appeal often lies in a perception of stability, with quarterly valuations and contractual cash-flow profiles creating the impression of muted volatility. In reality, that smoothness largely reflects appraisal lag rather than genuine insulation from market cycles. Furthermore, many private credit lending strategies also behave differently from public assets. Understanding what drives those differences is essential as allocators look to integrate private credit into their total portfolios.

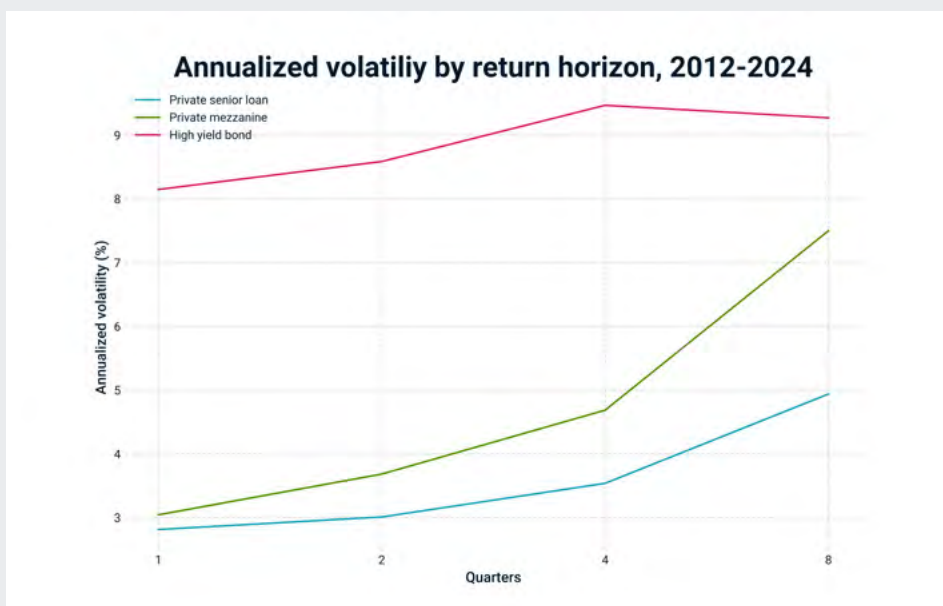


Lue Xiong
Vice President
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Development

The illusion of low volatility

Empirical evidence from long-term private credit data shows a consistent pattern. The annualised volatility of private credit rises as the return horizon lengthens. Shorter horizon returns, such as quarterly figures, show artificially low variability due to smoothed valuations. However, when returns are measured over longer horizons, volatility steadily increases and converges toward that of public high-yield bonds.

This convergence highlights a key insight. Smoothing can delay the recognition of volatility but cannot eliminate it. Over time, unrealised fluctuations in credit quality, spreads and collateral value are eventually reflected in the data. Private credit's reputation for low volatility, in other words, is largely a function of slow-moving valuations rather than inherently lower risk.



Source: MSCI Research

Different lending strategies, different risks

Private credit encompasses a wide range of lending strategies, each with distinct return and risk drivers. The differences arise from a combination of factors, including its position within the capital structure, deal type and collateral dynamics.

Senior direct lending typically provides first-lien exposure to middle-market borrowers with predictable cash flows. These loans usually feature floating rates and relatively low default risk, with returns driven by credit spreads and modest fund level leverage. Historical loss rates tend to mirror those of broadly syndicated loans. This is largely supported by collateral coverage and covenant protections, although those protections have loosened in recent vintages.

In contrast, subordinated or opportunistic lending targets higher yields through mezzanine, second-lien or hybrid instruments. These loans sit deeper in the capital structure and absorb more downside risk, making them more sensitive to macroeconomic downturns and borrower stress. Returns can include equity-like components, such as payment-in-kind interest or warrants, introducing greater dispersion and fatter tails in performance outcomes.

Asset-backed lending brings a different set of risk drivers altogether. These strategies rely on the performance of specific collateral pools rather than on a borrower's enterprise fundamentals. Their credit behaviour stems from collateral valuation, asset liquidity or structural complexity rather than from corporate default cycles.

Leverage as a key amplifier

Leverage is a defining feature of private credit funds and an important driver of both return and risk. Many managers borrow against committed capital to enhance yield and improve efficiency in capital deployment.

MSCI Private Capital Solutions data shows that safer lending strategies often employ higher fund-level leverage because their underlying assets generate more predictable cash flows and exhibit lower loss severity. For example, senior real estate backed debt funds frequently operate with higher leverage than subordinated real estate debt funds. Similarly, senior direct lending funds typically use more leverage than subordinated or opportunistic credit funds.

As a result, investors assessing private credit risk need to consider the fund's use of leverage. Two funds with comparable borrower risk may have very different volatility profiles once financing structures are factored in.

Decomposing total risk: a factor-based perspective

Much of the discussion around private credit risk remains conceptual. Yet new analytical frameworks, can help investors measure these dynamics more systematically. The new model breaks down total risk in private credit into three intuitive components: leverage, public market risk and pure private risk.

This factor-based approach reveals clear patterns across strategies. Senior direct lending exhibits the lowest overall volatility, driven primarily by its correlation to public leveraged loans. As strategies move down the capital structure toward subordinated, opportunistic or distressed lending, risk rises sharply and becomes increasingly shaped by private market-specific factors.

In asset-backed segments, such as real estate or infrastructure lending, the model finds that most of the total risk originates from pure private factors. This reflects the unique characteristics of their underlying collateral. Public market betas explain only a modest portion of total risk in these cases.



Source: MSCI Research

This decomposition, together with the correlation heatmap, highlights an important insight. Private credit derives its diversification value from two sources: its modest correlation to public credit and the unique risk factors embedded in its different lending strategies. By isolating these drivers, models such as MSCI's give allocators and risk teams a more accurate, forward-looking picture of how private credit behaves within the total portfolio.

Disclaimer: Private equity is valued infrequently, may not be priced on a secondary market, and any reliance on fair value estimates and non-market input introduces potential biases and subjectivity. Internal Rate of Return metrics are not fully representative without full disclosure of cash flows, assumptions, and time horizons.



Get deeper insight with factors built for private credit.

Investors are expanding into private credit, but limited data and insights can obscure how these allocations impact total portfolio risk.

MSCI's Private Credit Factor Model can help you quantify exposures and assess private credit's contribution to overall market risk.

Go beyond public proxies.



Data from
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private credit
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modeling



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How data in the front office can unlock growth



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While most wealth and asset managers have honed their use of data for compliance and operational efficiency, a significant opportunity remains underleveraged: using data to deepen investor relationships and drive growth. The firms that are successfully winning new mandates and retaining assets are not just collecting better data. They are equipping their distribution and investor relations (IR) teams with real-time, actionable insights at every client touchpoint.

From back office to front office

Asset and wealth managers possess a wealth of high-quality data. In fact, compared to broader financial services, the asset management sector reports stronger confidence in data quality. Yet, much of this valuable information remains confined to compliance workflows and operational dashboards. While these uses are essential, they fall short of unlocking data's full potential.

To gain a competitive edge, firms are shifting from siloed data systems to integrated models that offer a unified view of investors, products, and performance. This transformation enables front-office teams to engage with clients more effectively using insights that were previously buried in back-office systems.

Meeting the expectations of a new generation

The industry is on the cusp of a massive generational wealth transfer, with Millennials and Gen Z expected to inherit upwards of US\$100 trillion over the next decade. However, this transition is far from automatic for incumbent managers. Younger investors demand transparency, personalised strategies, and digital control over their portfolios. Traditional quarterly PDFs and passive-only offerings no longer suffice. These investors are quick to move their assets if their expectations are not met.

Institutional allocators are also raising the bar. Many now operate their own analytics desks and expect the same level of digital transparency from external managers. To meet these demands, distribution and IR teams must have immediate access to relevant data. Unfortunately, many firms still struggle with fragmented systems that prevent a cohesive view of client relationships and strategic opportunities. The cost of building integrated data systems can be substantial, but the risks of inaction are greater. Disconnected data environments can lead to declining revenue and reduced investor retention, ultimately threatening assets under management (AUM).

Three strategic shifts to unlock growth

To fully capitalise on data's potential, asset managers must make three key shifts.

1. Empower front-line teams with real-time insights

Data should no longer be the exclusive domain of compliance and operations. Front-line teams need access to real-time insights that inform client conversations and strategic decisions. This requires breaking down silos and creating systems that deliver a single, trusted view of each investor.

Firms that succeed in this area are those that embed data into the daily workflows of their distribution and IR teams. By doing so, they enable more personalised engagement, faster responses to client needs, and better alignment with investor goals.

2. Prioritise data integration across the organisation

Achieving a unified data view demands more than just technology. It requires organisational alignment. Departments must collaborate to ensure data flows seamlessly across systems and teams. This includes standardising data definitions, establishing governance protocols, and investing in platforms that support cross-functional access.

Integrated data environments not only improve client engagement but also enhance internal decision-making. Leaders gain clearer visibility into performance metrics, product trends, and investor behaviours, allowing for more informed strategic planning.

3. Treat data as a core growth asset

In today's market, data is not just a tool. It is a foundational asset for growth. Firms must recognise its strategic value and invest accordingly. This means allocating resources to data infrastructure, analytics capabilities, and talent development.

By treating data as a growth engine, firms position themselves to adapt quickly to market changes, anticipate investor needs, and deliver differentiated value. The result is stronger client relationships, increased retention, and a more resilient business model.

Where to focus now

To begin unlocking data's growth potential, asset managers should focus on several key areas.

- **Client segmentation:** Use data to identify and prioritise high-value client segments. Tailor engagement strategies based on investor preferences, behaviours, and goals.
- **Product alignment:** Analyse product performance and investor adoption to refine offerings. Ensure that products align with market demand and client expectations.
- **Performance transparency:** Provide clear, accessible performance data to investors. Enable self-service dashboards and digital reporting tools that enhance transparency and trust.
- **Operational efficiency:** Streamline data workflows to reduce manual processes and improve accuracy. Automate reporting and analytics to free up resources for strategic initiatives.
- **Talent enablement:** Equip teams with the skills and tools needed to leverage data effectively. Invest in training, support, and user-friendly platforms that foster data-driven decision-making.

Conclusion

Asset managers have long relied on data for compliance and operations, but its potential as a growth driver remains largely untapped. By shifting data to the front office, integrating systems across the organisation, and treating data as a strategic asset, firms can unlock new opportunities for engagement, retention, and performance.

The firms that embrace this transformation will not only meet the evolving expectations of investors. They will redefine what it means to grow in a data-driven era.

Your surveillance data is more valuable than you think

Surveillance data is no longer solely a compliance tool; it's a strategic asset that can power smarter trading decisions and strengthen your firm's ability to manage market abuse risk.

As trading environments grow more complex and regulatory expectations rise, firms must extract greater value from the data they already collect. Useful surveillance data can include trade and transaction data from the full trade lifecycle, meeting and call transcripts, and electronic communications. When used effectively, this data can uncover trends, inform investment decisions, reduce duplication, and reveal hidden risks.

Regulatory pressure

Regulators across major financial jurisdictions, including the UK Financial Conduct Authority (FCA), U.S. Securities and Exchange Commission (SEC), Monetary Authority of Singapore (MAS), Hong Kong Securities and Futures Commission (SFC), Securities and Exchange Board of India (SEBI), and United Arab Emirates regulators such as the Financial Services Regulatory Authority (FSRA) and Dubai Financial Services Authority (DFSA), are tightening expectations around transaction reporting and surveillance, with many of them publishing their commitment to reduce market manipulation in their annual examination priorities and business plans.

Recent fines highlight the cost of poor data quality and fragmented controls:

- A £21 million fine issued to a UK-based digital bank for failures in systems and controls, underscoring the FCA's focus on operational resilience and governance.
- A £9.2 million penalty against a major commodities exchange for breaches related to market transparency and conduct under MiFID regulations.
- Enforcement action against a CFD trading firm for transaction reporting failures, reinforcing the importance of accurate and timely reporting under Markets in Financial Instruments Regulation (MiFIR).
- A recent US\$560 million market manipulation case in India penalised a global firm for aggressive trading strategies, reinforcing the global need for proactive surveillance and governance.

Missed opportunities

In addition to the risk of enforcement, firms are missing a bigger opportunity to use surveillance data to create front-office value.

These shifts reflect a global trend toward more assertive, data-driven supervision.



Marc Salter
Managing Director, RegTech
ACA Group



Matthew Oswald
Managing Director, Regulatory
Advisory
ACA Group

Regulators are no longer satisfied with static compliance programmes; they expect surveillance to be proactive, integrated, and continuously evolving.

From pre-trade intent to post-trade execution, surveillance data provides insight into trading behaviours, control effectiveness, and operational efficiency.

For the front office, it can also inform research, uncover trading patterns, and support alpha-generating strategies. When used effectively, surveillance becomes a source of competitive advantage, not just a compliance obligation.

For example, transaction cost analysis reporting can do more than provide insights not only to benchmark execution quality and manage trading costs across jurisdictions. It can be used to evaluate both explicit (commissions) and implicit (slippage and market impact) costs globally while supporting compliance with key regulatory standards such as MiFID II (UK and European Union), SEC Rule 606 (US), and the Packaged Retail and Insurance-Based Investment Products (PRIIPs) regulation.

A recent analysis of transaction cost analysis reporting revealed:

- **United States:** Average commission rates are relatively low due to high competition among brokers and widespread use of algorithmic trading. Commission rates for low-touch and execution-only trading continue to hover at 1.7 cents per share. High-touch & commission-sharing-agreement commission rates are slightly higher at 3.4 cents per share on average.
- **European Union:** Under MiFID II, transparency requirements have led to more standardised commission structures, averaging 2 to 7 basis points depending on asset class and venue.
- **United Kingdom:** Post-Brexit, UK firms still align with MiFID II benchmarks, with commission rates like those in the EU.
- **Asia-Pacific (Japan, Hong Kong, Singapore):** Commission rates vary widely, from 3 basis points to 10 basis points, influenced by local regulations and market structure.
- **Emerging Markets (Brazil, South Africa, India):** Higher commission rates are common, often exceeding 10 basis points, due to lower liquidity and fewer execution venues.

Unlocking the strategic power of surveillance data

Surveillance data is a firm-wide asset. When shared across departments, it fosters collaboration between compliance, risk, operations, and the front office. It helps identify inefficiencies, reinforce conduct standards, and support strategic decision-making. By breaking down silos, firms can turn surveillance into a unifying force that drives both regulatory readiness and commercial performance.

Yet many firms still treat surveillance as a compliance tool, disconnected from broader business strategy. This siloed approach limits visibility and leaves firms exposed to market abuse risks that span asset classes, trading strategies, and internal processes.

Firms must take a lifecycle-wide approach

To stay ahead, firms should adopt a structured, lifecycle-wide approach to market abuse risk by:

- Evaluating how people, processes, and technology interact across the trade lifecycle.
- Connecting surveillance data to governance, conduct, and control reviews.
- Using insights to inform both compliance and front-office decision-making.

Surveillance data should be continuously updated to reflect evolving trading activity and regulatory expectations.

Conclusion

In the race to obtain alpha, looking internally at your surveillance data can be a game-changer. But unlocking its full potential requires more than just technology, it demands a strategic mindset, cross-functional collaboration, and deep regulatory insight.

Firms that embrace this shift can move from reactive compliance to proactive risk management, using surveillance data to drive smarter decisions, uncover hidden risks, and create front-office value. For those looking to accelerate this transformation, working with experienced specialists can provide the perspective, tools, and frameworks needed to unlock the full value of surveillance data.

By combining data analytics with deep industry insight, firms can move from reactive compliance to proactive risk management and turn surveillance data into a source of lasting strategic advantage.



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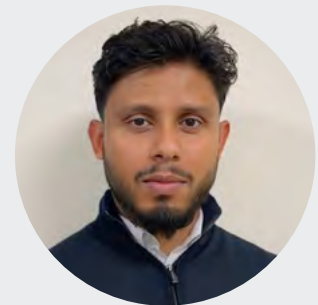
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How innovations driven by pure mathematics can unlock R&D tax relief

Success in the alternative investment industry often comes down to one thing: innovation. Technology must develop at pace to help keep up with increasingly unpredictable geopolitical events.

Developments in mathematical modelling, algorithmic design, and AI-driven breakthroughs are central to tackling uncertainty, volatility and market complexity. They are all also potentially eligible for tax reliefs in the form of research and development (R&D) tax credits.

R&D incentives are available from governments worldwide, but it's only within the last couple of years that innovative projects using mathematical sciences have become eligible for R&D tax relief in the UK. As the change is relatively new, there is still a lot of uncertainty around what is considered R&D for tax purposes.



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Background

To be eligible for R&D tax relief, a project must look for a scientific or technological advance. Since April 2023, the guidance for claiming has been updated to include 'pure mathematics', effectively recognising that advanced maths doesn't just tackle abstract concepts, it also has very practical applications for driving business innovation.

For anyone working on such projects, the implications are huge. Especially as the UK Government's definition of pure mathematics is tantalisingly broad:

"Pure mathematics involves the exploration of new mathematical concepts, the development of new theories and techniques and the discovery of new mathematical relationships and patterns. This can involve the development of new mathematical models, the study of mathematical structures and symmetries, and the exploration of the foundations of mathematics itself."

If your work qualifies, you can claim a tax credit for certain expenses like employee comp, consumables, software, data licences, cloud computing and other R&D-related spend.² For those working on multiple innovative projects with large teams of quants or other engineers and scientists, this can add up to a significant amount of tax relief.

1 HMRC, Research and Development (R&D) tax reliefs – draft guidance update, April 2023 <https://www.gov.uk/government/consultations/draft-guidance-research-and-development-rd-tax-reliefs/outcome/research-and-development-rd-tax-reliefs-draft-guidance-update>

2 You can find out more about the eligibility criteria for R&D tax credits here: <https://leyton.com/uk/r-and-d-tax-credits/>

R&D relief isn't just for software projects

From our experience speaking with fund managers, we know that there's a lingering sense that R&D tax relief is only available for larger, more software-oriented development projects, such as building a new trading platform.



But the revised eligibility rules mean that the opportunity for claiming is so much larger than this – especially for an industry currently focused on leveraging the potential of artificial intelligence, a technology reliant on pure mathematics.

For instance, quants are always trying to beat the market by developing their models and algorithms, driving technological improvements in areas such as hedge funds and alternative credit. Any such projects that follow a plan with clear steps to help resolve an uncertainty and arrive at an advancement, may qualify as R&D for tax purposes.

Understanding the boundaries of R&D

Of course, innovation within investment R&D often doesn't come from a single project. It's an ongoing, iterative process of advancement, which adds to the confusion over which activities qualify for relief. Routine work isn't eligible, so it's important to be able to identify the boundaries of R&D.

A quant team's activities can be broken down into routine non-qualifying work, and non-routine R&D activities that are eligible for tax relief.

Much of their work is operational, involving tasks like monitoring risk exposures, adjusting portfolios, or developing pricing strategies. While these activities are critical, and involve a high level of expertise, they wouldn't be called R&D because they're routine.

Qualifying R&D activities, on the other hand, involve a systematic process of testing and learning to overcome an uncertainty. This might include projects that lead to the development of new machine learning models to improve the estimation of stochastic volatility. It's the sort of work that goes far beyond simply using off-the-shelf solutions.

It could also involve developing new methods to more efficiently source, clean, back-test, and simulate the massive datasets that are needed for training and validating AI models. For example, a company might develop a new approach to ingest and interpret sporadic, asynchronous data from multiple sources with the aim of improving the accuracy of predictions.

Another example could be creating new AI-powered algorithms to support companies that handle large trades, where the goal is to execute transactions discreetly without affecting the market.

It's not the specific type of R&D that's important, it's whether or not you have improved something, created something new, or learned something that wasn't known before. A good test of this would be if a competent professional in the field would agree that your work has made an appreciable advance.

It's not the specific type of R&D that's important, it's whether or not you have improved something, created something new, or learned something that wasn't known before. A good test of this would be if a competent professional in the field would agree that your work has made an appreciable advance.

Based on internal data gathered by Leyton, the average benefit per company for claims of this nature is approximately £576,000, highlighting the scale of potential value available to qualifying businesses.

Conclusion

The finance and insurance industry was the fifth-largest contributor to the UK's economic output in 2023, accounting for 8.8% of GVA.³ And yet, the industry was the tenth when it came to the total number of R&D tax credit claims for the tax year 2022 to 2023, barely accounting for 2% of all claims.⁴ For an industry that relies so heavily on innovation, something isn't adding up.

The most likely explanation is that a lack of awareness of the pure maths eligibility criteria is resulting in companies missing out on tax credits to which they're completely entitled. For those already claiming for their flagship projects, significant value might be added to existing claims.

But there will also be many who have never explored the possibility of claiming tax relief for their R&D, and there is a real opportunity here to improve tax efficiency and secure government funding that can be used for further R&D.

As a driver of cutting-edge breakthroughs, alternative investment as an industry is ideally placed to gain from a better understanding of the qualifying criteria for R&D tax relief, especially if it recognises the potential value of claims.

3 House of Commons Library, Industries in the UK, October 2024 <https://commonslibrary.parliament.uk/research-briefings/cbp-8353/>

4 HMRC, Research and Development Tax Credits Statistics: September 2024, September 2024 <https://www.gov.uk/government/statistics/corporate-tax-research-and-development-tax-credit/research-and-development-tax-credits-statistics-september-2024>

Real estate insights: Europe's market dynamics

Navigating investment strategies for European real estate

In recent years, real estate has borne the brunt of rising interest rates and muted economic growth in Europe.

The growing trend of remote work, powered by a proliferation of technologies has created unique structural challenges for property. Conversely, government-backed infrastructure and new industrial strategies to bolster core economic sectors have significantly uplifted other private assets.

And these market dynamics are starting to have an effect on investors' asset allocation plans over the past couple of years. For example, when we surveyed private markets globally last year, real estate was the only sub-asset class respondents were planning to decrease allocations to in the near term.

However, some trends are emerging that could support renewed investment in the asset class in the coming years, based on our latest research:

- Regional variations are emerging in asset allocation intentions, with investors developing a growing focus on their home region property opportunities, and developed Europe in particular gathering increased interest from investors globally
- The asset class stands to benefit from the growth of semi liquid funds and other vehicles aimed at individual investors bringing new flows into the sector
- Emerging technology, in particular Generative Artificial Intelligence (GenAI) and Large Language Models (LLM) have significant applications for real estate investment operations, enhancing efficiencies and improving access to the asset

Firstly, there are some signs of improved sentiment from our asset allocation data. As mentioned, in 2024, only 45% of respondents planning to increase exposure to property over one to two years, while 55% were selling.

In this year's survey, we modified our methodology slightly, allowing respondents to select "no change" as an option in describing their real estate investment plans.

Interestingly, "no change" was the most popular option among European respondents, with 47% not planning to alter their real estate exposures. However, there was a slightly positive outlook for the asset class in that more institutions (31%) were planning increased investment than were decreasing (22%).



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State Street

This is the first among a pattern of responses in our latest research that indicates there could be cause for a tentative sense of optimism around European real estate.



The local perspective

Globally institutional investors see developed Europe as a prime real estate destination. In particular, among those planning property investment, developed Europe was the most popular area for 54% of respondents, up from just 42% in 2024. In this it leapfrogged North America, which was a destination for 49%, reasonably consistent with last year's 46%.

The other key regional trend to observe is growing home region bias. While global investment intentions towards North American property are holding fairly steady, North American LPs are significantly more likely to invest domestically in the asset class (80% plan to do so, compared to 69% previously). And Developed Europe benefits from this tendency too, with three quarters of LPs from the continent exploring opportunities in Western Europe specifically, also an increase on last year (62%).

GPs have long been interested in the potential for increasing flows into private markets asset classes from high-net-worth individual investors and wealth management distribution channels. And expectations are heightening for increased uptake of these products in Europe.

European investors planning increased allocations to this market are primarily attracted by yield or returns, with portfolio diversification and hedging against macro risks also high on their list of reasons.

Democratisation

GPs have long been interested in the potential for increasing flows into private markets asset classes from high-net-worth individual investors and wealth management distribution channels. And expectations are heightening for increased uptake of these products in Europe.

A little over half of European institutions expect at least half, if not more, private markets flows to come through retail style fund wrappers in as little as two years.

This has positive implications for real estate, which a tenth of respondents thought was the single most likely asset class to benefit from the trend, on grounds of ease of securitisation and investor familiarity.

Emerging Technology

European respondents were also more likely than their peers in other regions to leverage generative artificial intelligence (GenAI) in real estate investment data and operations.

A third (36%) said it was among the asset classes where GenAI was proving most useful in converting unstructured information into structured data, compared to only 27% of North American respondents and 32% in Asia Pacific (APAC).

As we've reported in [previous publications](#) based on this research, private markets are seeing a slowdown in investment volumes coterminously with a heightened focus on deal quality and improved use of this technology is also core to managers' enhanced focus on deal diligence, and investors' on manager diligence.

Conclusion

Amid the structural headwinds faced by real estate, the imperative is clear: find the right new opportunities, prioritise market selection and sector focus, and institutionalise next generation technologies to lead with confidence.

Download our annual private markets study [here](#) for more insights.

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Loan origination funds: From AIFMD II to Luxembourg's bill of law 8628

Bill of law 8628 (Bill) implementing AIFMD II was submitted to the Luxembourg Parliament on 3 October 2025. The Bill amends the Luxembourg law on alternative investment fund managers (AIFM Law) to implement AIFMD II into national law. Drawing upon its well-established regulatory framework for private credit funds, Luxembourg has chosen not to gold-plate the directive and has sought to implement AIFMD II into national law with minimal divergence from the new EU framework. The Bill's accompanying commentaries provide certain clarifications on the implementation of AIFMD II into the AIFM Law. The most significant provisions are summarised below.

New regulatory framework for loan origination by AIFs: recap

AIFMD II came into force on 15 April 2024 and must be implemented into national laws by 16 April 2026. It supplements the existing AIFMD framework by establishing a dedicated and harmonised regulatory regime for loan originating AIFs and loan origination activities by or on behalf of AIFs.

The new regime aims to facilitate cross-border loan origination activities by or on behalf of AIFs across the EU. Whilst the policy objective of AIFMD II clearly promotes the right of AIFs to originate loans across all Member States, the directive does not prevent individual Member States from maintaining or imposing certain conditions on loan origination by AIFs under domestic law. It is therefore important that fund managers monitor how AIFMD II is being implemented by each Member State.

AIFMD II also introduces certain operating conditions for AIFMs managing AIFs that originate loans and/or loan originating AIFs, and additional requirements at the level of the AIFs.

Luxembourg bill of law 8628: what it proposes for loan origination

Recognition of loan origination as permitted activity for AIFMs

Consistent with the new directive, the activity of "loan origination on behalf of AIFs" is added to the list of "other functions that an AIFM may additionally perform in the course of the collective management of an AIF" under Annex I, section 2 of the AIFM Law. For this purpose, the Bill introduces definitions of "loan origination" and "loan originating AIF" that mirror the AIFMD II definitions.

The commentaries on the draft Bill confirm that the purpose of this addition is to provide the industry with greater legal certainty. Indeed, from a Luxembourg perspective, this is a confirmation rather than an amendment of existing regulatory practice, pursuant to which loan origination by or on behalf of AIFs was already considered a permitted activity for AIFMs as part of investment management functions under Annex I, section 1 of



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the AIFM Law, subject to certain conditions established by the CSSF for Luxembourg AIFMs. The commentaries also confirm that this activity is to be interpreted as encompassing cross-border loan origination, consistent with the policy objectives of AIFMD II.

Rules applicable to loan origination

AIFM policies and procedures. Luxembourg AIFMs managing AIFs that originate loans will have to ensure, subject to the shareholder loans exception, that they have implemented policies, procedures and processes for the granting of credit, in particular for assessing credit risk and for administering and monitoring their credit portfolio. These rules are broadly consistent with existing regulatory requirements in Luxembourg.

Borrower diversification limit. The notional value of loans originated by an AIF to any single borrower may not exceed 20% of the capital of such AIF, where the borrower is a financial undertaking, an AIF or a UCITS. For the definition of a financial undertaking, the Bill refers directly to the definition in Directive 2009/138/EC (Solvency II Directive), consistent with AIFMD II. The commentaries clarify that this rule does not apply to loans originated by a feeder AIF to a master AIF, as the AIFM Law imposes that a feeder AIF maintains an 'exposure' of at least 85% of its assets to the master AIF, and this exposure may comprise loans to the master AIF.

No "originate-to-distribute" strategies; risk retention requirement. AIFMs may not manage AIFs that originate loans where the whole or part of the investment strategy of those AIFs is to originate loans with the sole purpose of transferring those loans or exposures to third parties. The commentaries clarify that the prohibition does not prevent AIFs and AIFMs from selling loans originated by such AIFs; it prohibits the pursuit of an investment strategy where loans are originated solely for the purpose of transferring them to third parties. Moreover, all AIFs originating loans must retain 5% of the notional value of each originated loan, subject to certain exceptions. This retention applies either until loan maturity (for loans with a maturity period of up to eight years and for all consumer loans regardless of maturity) or for at least eight years (for other loans).

No origination of loans to consumers in Luxembourg. AIFMD II allows Member States to prohibit loan origination by AIFs to consumers in their territory, and Luxembourg has decided to exercise this option. The Bill provides that AIFs are not authorised to originate loans or to service credits granted to consumers in Luxembourg. The scope of this prohibition is defined by reference to the Luxembourg Consumer Code. The commentaries clarify that the prohibition applies to all AIFs, whether established in Luxembourg or elsewhere. They also specify that Luxembourg AIFs are not prohibited from granting loans to consumers outside of Luxembourg, subject to local laws and regulations, or from acquiring a portfolio comprising loans to consumers in Luxembourg on the secondary market following their origination by a third party, and from managing credits granted to such consumers.

No origination of loans to certain connected parties. To prevent conflicts of interests, AIFMs must ensure that AIFs do not grant loans to certain connected parties, including their AIFM and its delegates, and their depositary and its delegates, and entities part of the same group as the AIFM, unless an exception applies. For the definition of a group, the Bill refers directly to the definition in Directive 2013/34/EU (Accounting Directive), consistent with AIFMD II.

Rules that apply to loan originating AIFs only

Leverage limit. The AIFM must ensure that the leverage of a loan originating AIF it manages represents no more than 175% of its net asset value where the AIF is open-ended and 300% where the AIF is closed-ended, subject to shareholder loans exceptions. The commentaries clarify that this provision introduces a specific regime for limiting the level of leverage with which a loan originating AIF must comply, which applies without prejudice to the general regime on leverage applicable to all

AIFs. Consistent with AIFMD II, the Bill provides that, for this purpose, leverage is expressed as the ratio between the exposure of that AIF, calculated using the commitment method as defined in the AIFMD Delegated Regulation, and its net asset value. The commentaries clarify that this refers specifically to Article 8(Commitment method for calculating the exposure of an AIF) of AIFMD Delegated Regulation.

Open-ended loan originating AIFs. A loan originating AIF must, in principle, be closed-ended, unless the AIFM is able to demonstrate to the CSSF that it has adopted a liquidity risk management system for the AIF which is compatible with its investment strategy and redemption policy. The Bill does not provide a definition or conditions for an AIF to be treated as open-ended or closed-ended for this purpose, nor does it establish the procedure or conditions for AIFMs to make such demonstration to the CSSF.

Entry into force and grandfathering rules

The Bill provides that the amendments to the AIFM Law, as described above, will enter into force on 16 April 2026.

Consistent with AIFMD II, the Bill introduces a grandfathering regime for AIFs constituted before 15 April 2024. In particular, AIFs that are still raising capital after that date and have loan concentrations to a single borrower or leverage levels above the applicable limits on the date of entry into force of the amended AIFM Law may maintain, but not increase, such concentrations or leverage levels until 16 April 2029. AIFs established on or after 15 April 2024 do not benefit from grandfathering; such AIFs and their AIFMs must comply with the new requirements as from the date of entry into force of the amended AIFM Law.

Similarly, the Bill provides that loans granted before 15 April 2024 are grandfathered from the following rules: AIFM policies and procedures, no origination of loans to certain connected parties, allocation of loan proceeds to the AIF, no “originate-to-distribute” strategies, risk retention requirement, and no origination of loans to consumers in Luxembourg. Loans granted after that date will need to comply with these requirements as from the date of entry into force of the amended AIFM Law.

Next steps

The Bill has been submitted and is now subject to the legislative process. Further amendments or clarifications may be made throughout that process. Once adopted, the Bill will enter into force on 16 April 2026, except for the reporting requirements, which will enter into force on 16 April 2027.

Luxembourg is the primary domicile for private credit funds in the EU. AIFMD II opens new opportunities for private credit fund managers to operate more efficiently across the EU, leveraging the existing regulatory framework, structuring options and industry expertise available in Luxembourg. The implementation of AIFMD II in other Member States should also be monitored, particularly regarding the ability to grant loans on a cross-border basis in key borrower markets. At the same time, fund managers should review their investment strategies and fund terms to anticipate any compliance issues, as the deadline for implementation is approaching.

Government deregulation drive should boost UK hedge fund sector

The reforms to the UK Alternative Investment Fund Managers (AIFM) Regulations proposed by His Majesty's Treasury (HMT) and the Financial Conduct Authority (FCA) create a unique opportunity to increase the UK's attractiveness as an asset management hub.

UK reforms seek to reduce regulatory burden

On 7 April 2025, HMT and the FCA published an [open consultation](#) and a [Call for Input](#) (Cfi) respectively regarding proposed reforms to the regulatory regime currently applicable to AIFMs in the UK. With the AIFMD having come into force in the UK in July 2013, it's now been over 12 years since its original adoption, and so HMT and the FCA agreed that material reform is needed.

The goal of the proposals is to streamline the regulation of AIFMs and establish an approach that is proportionate to an AIFM's size and activities. The hope here is that, by making it simpler and cheaper for asset managers to conduct business in the UK, while maintaining high regulatory standards, the reforms will increase the UK's attractiveness as an asset management hub. This strongly aligns with both the UK Government's economic growth agenda and the FCA's five-year strategy for 2025-2030, as well as the regulator's secondary international competitiveness and growth objectives.

The FCA's Cfi and HMT's consultation paper both closed for comments on 9 June 2025. After considering the responses, the Government intends to publish a draft statutory instrument for feedback, following which the FCA will consult on detailed rules in the first half of 2026.

The big question now is what specific regime changes could make a real difference to the attractiveness of the UK as a centre for asset management.

Raising the thresholds

One of the key proposals contained in HMT's consultation and the FCA's Cfi is to revoke the legislative thresholds and instead establish new regulatory classifications for UK AIFMs. It's worth noting that the thresholds for the proposed new tiers would be based on an AIFM's net asset value (NAV), rather than leveraged assets under management (AUM). This change benefits hedge funds, which often employ leverage to enhance returns, compared to private equity funds which are typically unleveraged at the fund level (although leverage is employed at the portfolio company level). It's also proposed that UK AIFMs would no longer need to apply for a variation of permission as they change size category.

Under the current rules, AIFMs with AUM of more than €100 million – or €500 million for funds that are unleveraged and have no redemption rights for the first five years – are subject to the full-scope UK AIFM regime. In



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contrast, an AIFM below these AUM thresholds is categorised as either a small, registered UK AIFM or a small authorised UK AIFM and is accordingly subject to fewer requirements.

However, as HMT notes in its consultation, these AUM thresholds have not been amended since the introduction of the AIFMD and have, therefore, not accounted for inflation or market movements. Furthermore, this regulatory framework has created a “cliff-edge effect”, which can disincentivise growth. This refers to the sudden increase in capital and other more onerous regulatory compliance requirements that sub-threshold AIFMs face when the value of their AUM crosses the full-scope threshold, which could occur passively due to market movements.

FCA proposes three AUM tiers

The proposed three-tiered approach to the regulation of AIFMs is summarised below:

Large AIFMs (NAV of £5 billion or more): This category of firm would be subject to rules similar to those currently applicable to full-scope UK AIFMs. As the FCA notes, much of the leveraged exposure is concentrated in the firms with the largest NAV, and setting the threshold at this level would therefore capture most leveraged assets within the most stringent regime. At present, this cut-off would capture 64 AIFMs, amounting to 78% of the total leveraged AUM or 74% of the total NAV of the UK asset management sector.¹ These large firms would continue to be subject to a regime similar to the current rules for full-scope UK AIFMs but with unnecessarily burdensome rules disapplied, and with certain rules applied only to firms doing specific activities.

Mid-sized AIFMs (NAV of £100 million to £5 billion): These firms would be subject to a comprehensive regulatory regime that is consistent with the rules applicable to the largest firms, albeit with fewer procedural requirements to allow for greater flexibility and proportionality. The regulator expects that a significant number of currently full-scope firms would be reclassified as mid-sized as it increases the thresholds, which could reduce their costs as well as subjecting them to a simpler, more flexible and less onerous regime with fewer prescriptive rules to follow.

Small AIFMs (NAV of below £100 million): These firms would be subject to rules setting “baseline standards essential for maintaining appropriate levels of consumer protection and market integrity” proportionate to their size and activities.

FCA depositary requirements

The FCA sees no immediate need to change asset safekeeping and fund oversight requirements for large and mid-sized AIFMs. For hedge funds, current rules require AIFMs to appoint a depositary once assets under management exceed €100 million. This threshold remains broadly the same under the proposed tier system at £100 million. Hedge fund managers classified as mid-sized AIFMs (£100 million to £5 billion NAV) will therefore continue to require a depositary as they enter this tier.

However, the FCA may adopt a less prescriptive approach to depositary obligations, such as cashflow monitoring and operational oversight, for certain mid-sized AIFMs based on their risk profile and structure.

Hedge funds investing in hard-to-value assets

The AIFMD regulations allow AIFMs to appoint external valuers to carry out valuations of assets held by the AIF. However, they also set out that the external valuer is liable to the AIFM for any losses caused by the valuer being negligent or intentionally failing to perform its tasks. Industry feedback to HMT suggest that this liability makes valuers cautious about taking on business and makes it challenging for them to obtain professional indemnity insurance.

¹ According to AIFMD reporting data as at 31 December 2024.

HMT is proposing to remove this legal liability from legislation to encourage greater market participation, and notes that these external valuers would still have contractual liability to AIFMs. This links to the FCA's publication of its [multi-firm review of private market valuation practices](#) earlier this year.

These proposed changes could benefit hedge fund strategies that invest in hard-to-value assets such as distressed debt and special situations funds holding assets such as defaulted bonds, and bank loans or direct lending funds lending directly to companies that can't access traditional financing holding assets such as illiquid loans, mezzanine debt and asset-backed securities.

Further deregulation needed to make a real difference

Although some changes proposed in the Cfl will be helpful in reducing the regulatory burden for AIFMs, it's difficult to go much beyond a worthwhile fine-tuning of the regime given the scope of the reforms.

However, the three-tiered approach to categorising AIFMs may turn out to be a more significant first step in allowing the FCA to take a bolder approach to other key issues that they're planning to address in separate reforms. One example is the proposed reform of regulatory reporting. The reporting regime brought in by AIFMD has not been reviewed since its introduction. The FCA has committed to consider how best to establish a more effective reporting regime that is proportionate in its demands on firms. Its aim is to collect information in a way that is future-proof, helps it understand the market and monitor the collective and individual risks posed by firms.

All UK AIFMs are required to provide reports to the FCA known as Annex IV reports. The tiering approach would give the FCA an option to remove the Annex IV reporting requirements for mid-sized and small AIFMs, reducing the regulatory burden of completing and submitting the returns for over 500 firms, representing just over 22% of leveraged AUM. The FCA would still ensure it's provided with key information to meet its financial stability objective, because around 78% of leveraged AUM, and most of the leverage risk, is concentrated in the 64 large firms that would continue to report.

A similar approach of using the three-tiered UK AIFM classifications may also allow the FCA to take a bolder approach to its proposed reforms of AIFM capital requirements and remuneration.

In summary, the HMT consultation and FCA Cfl are a clear signal of intent to reduce the regulatory burden facing hedge fund managers, marking the first step in a deregulation drive aiming to make it easier for hedge funds to grow, innovate and enter the market. Along with current geopolitical tailwinds, the UK may be on the verge of a "golden age" for its world-leading asset management sector if the government and regulator can work effectively with the sector to seize the opportunity whilst protecting investors and ensuring firms manage risks responsibly.

Thank you for reading the
Edition 144 of the AIMA Journal.

If you would like to contribute to future editions,
please email [Caterina Giordo](#) and [Jorge Palmero](#).

PUBLICATION PLAN 2026

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