

EXPENSE ALLOCATION GUIDE

Executive Summary

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Asset management is not a cost-free exercise. As a result, allocation of expenses to alternative asset funds has become one of the most discussed and examined topics in the alternative investment industry. It has attracted the scrutiny of both investors and regulators driving the alternative investment manager community and fund governing bodies to increase their focus on this area and implement clearer policies and procedures around expense allocation including investor transparency and disclosure. Regulators have also taken action against what they view as unfair or unreasonable allocations of expenses to funds and, by extension, fund investors.

The allocation of the expenses of asset management is a key concern for investors, investment managers, fund governing bodies and regulators. Each of these stakeholders will have a point of view regarding the most appropriate allocation of expenses. The purpose of the Guide is to provide investment managers and fund governing bodies information about the perspectives of investors and regulators on the appropriate allocation of the diverse types of expenses they will incur.

The Guide is organised into the following sections:

Section 2 - General principles — identifies the generally accepted principles for expense allocations, as well as some practices which many consider inappropriate;

Section 3 - Expense allocation policies and procedures — outlines the key factors that the investment manager should consider when establishing expense allocation policies and procedures and how they should periodically test, review and update those policies and procedures to ensure they remain fit for purpose;

Section 4 - Governance and oversight — addresses the role of the fund governing body and its approach to deciding whether to adopt the investment manager's expense allocation policies and procedures as the fund's or to require a fund-specific set of policies and procedures, outlining the key role that the fund governing body, the investment manager, the fund administrator and the fund auditors each will play in this process;

Section 5 - Disclosure and transparency — provides guidelines on how investment managers and funds should disclose to investors information regarding (i) fund expenses and their expense allocation policies and procedures as well as governance practices, and (ii) how the investment manager will demonstrate compliance with such policies and procedures;

Section 6 - Investor expectations — outlines common investor expectations with respect to the treatment of individual types of expenses that investment managers should consider in defining and implementing their expense allocations policies and procedures; and

Section 7 - Types of expenses — provides a brief description of many common types of fund expenses and provides views from investors and regulators on the acceptable treatment of each of those types of expenses.

The Guide does not seek to define what should or should not be a fund expense or an investment manager expense. This is a decision that investment managers and fund governing bodies will need to take on their own.

This Guide was developed to be as jurisdiction-neutral as possible, so it can be of the most use to AIMA manager members around the world, and specific regulatory requirements that apply to investment managers established or operating in certain regions or countries may not be identified specifically in the text or footnotes. No regulator has commented specifically on all types of expenses. The last column of the tables in **Section 7** of the Guide captures some specific regulatory guidance provided by some regulators. This should not be considered to be an exhaustive or definitive set of the requirements of any particular jurisdiction.

Investment managers should comply with the regulatory requirements applicable to them if and to the extent those requirements conflict with anything written in this Guide. Where an investment manager or fund is subject to the regulatory requirements of a specific jurisdiction, the perspectives of that jurisdiction's regulator will take precedence. However, in the absence of guidance or other indications of a regulator's point of view on a particular expense category, the perspectives of other regulators may be

worth at least considering as these may inform opinions of investors from those jurisdictions.

The regulations applicable to expense allocation often rely heavily on awareness, transparency and disclosure of fees and conflicts to create a balance in the marketplace of what is considered appropriate with respect to the types and allocations of fees and expenses charged to funds. Given this reliance on transparency and disclosure, investment managers should give substantial weight to the investor perspective

when setting expense allocation policies and procedures for funds.

To assist investment managers, AIMA has sought the input of the AIMA Investor Steering Committee and other investors and allocators for this Guide and has included their perspectives on specific expense types in the “Specific Allocation Considerations” column in the tables in **Section 7** of the Guide. More general investor perspectives have been reflected throughout the main text as well.

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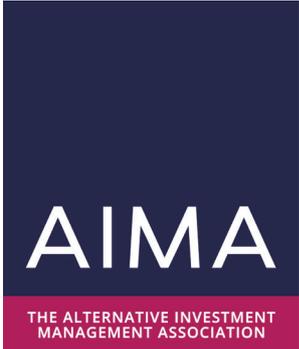
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<p>About AIMA</p> <p>AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than \$2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org.</p>	
<p>About the ACC</p> <p>The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents over 100 members that manage \$350bn of private credit assets. The ACC is an affiliate of the Alternative Investment Management Association (AIMA) and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure projects and trade and receivables businesses. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with a view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. To find out more, visit www.lendingforgrowth.org.</p>	

Disclaimer

The Guide is not a substitute for specific advice, whether legal, regulatory, tax or other advice, nor for professional judgement. It does not seek to provide detailed advice or recommendations on the wider ranging corporate governance issues.

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