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Potential impacts on private markets of the global tariff environment and trade shock
State Street

The risks of quiet AI in investment management: Why transparency and control still matter
Dasseti

and more...

Contents

Message from AIMA's CEO

This edition of the AIMA Journal captures an alternative investment industry buffeted by crosscurrents of macroeconomic unpredictability, diverging regulatory regimes, and rapid technological transformation. Around the world, AIMA's fund manager members are being challenged to adapt on multiple fronts. This edition details how fund managers are facing these challenges head-on, and offer a path to embracing the opportunities of tomorrow.

Private markets are a focal point. We examine how trade tensions and shifting inflation expectations are reshaping the appeal of real assets and semi-liquid funds for investors to achieve greater portfolio diversification.

Technology, meanwhile, is no longer just an enabler, it's a catalyst. From generative (Gen) AI transforming deal analysis to smarter due diligence systems increasing transparency across complex portfolios, these tools are not only transforming business models but redefining what's possible in investment operations.

Yet, amid the enthusiasm, a note of caution. As 'quiet AI' becomes more deeply embedded in investment workflows, the balance between automation and accountability must be carefully managed. Contributors highlight why transparency and human control remain vital in preserving investor trust and meeting compliance standards. AIMA's forthcoming market research report on how fund managers are and aren't harnessing Gen AI and the most common concerns around its use will shed further light on this topic.

Elsewhere, regulatory demands are rising, particularly around ESG disclosures and cyber governance. Despite a US tilt toward burden reduction under President Trump, firms globally face growing demands for data quality, consistency, and preparedness. This edition unpacks global ESG reporting trends, mock exam best practices and offers timely guidance to meet these new obligations.

These themes, from private markets to operational resilience, will be front and centre at AIMA's upcoming global events. I encourage members to join us in person at the Alternative Credit Council Summit and AIMA Technology & Innovation Day in London, as well as the AIMA Global Investor Forum in Toronto, to hear from leaders in these respective markets.

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 TECHNOLOGY & INNOVATION DAY 2025

11 SEPTEMBER | LONDON

MEET SOME OF THE INDUSTRY TITANS

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Supervision
DFSA

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Helen Packard
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Damien Bruckard
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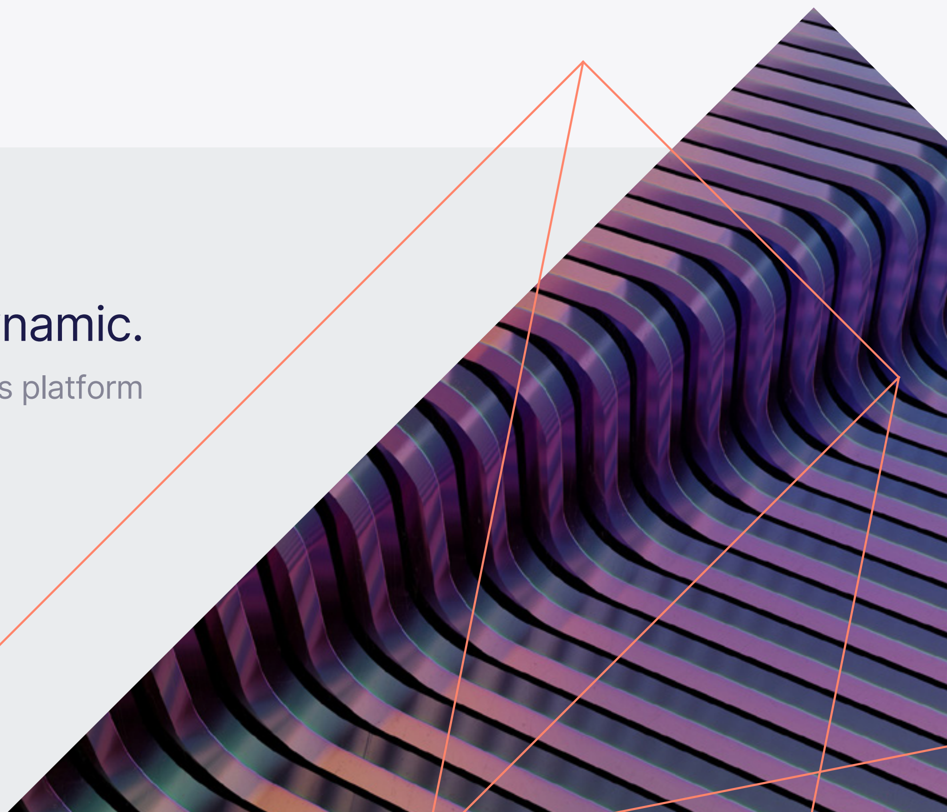

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Potential impacts on private markets of the global tariff environment and trade shock

James Redgrave
Vice President
State Street Corporation

Periods of economic and market-based uncertainty are usually met with a reasonably consistent set of responses from investors.

‘Flight to safety’, from relatively high to low risk and volatility asset classes and ‘defensive positioning’ of portfolios away from investments at most risk from loss of economic growth (consumer discretionary stocks, for example). But the current crisis has thrown up some very specific difficulties to investors trying to pursue this approach.

Most notably, the US dollar and Treasury Bill are traditionally one of the main safe havens to which investors fly. But the trade dislocation of the past few weeks generated a flight from those asset classes, raising questions about what constitutes ‘safety’ assets this time around?

The latest State Street Private Markets Study[1] offers some possible answers. This is the fourth year that we’ve run this piece of research and, over that time, we’ve identified a number of long-running trends in private assets, in particular how general and limited partners (GPs and LPs) respond to difficult market conditions.

After all, our first study came out in 2022, just as the world was coming out of the global COVID recession and market crisis. The next two surveys were run against the backdrop of sharply climbing inflation and rising interest rates – an especially challenging environment for such highly leveraged asset classes as private markets.

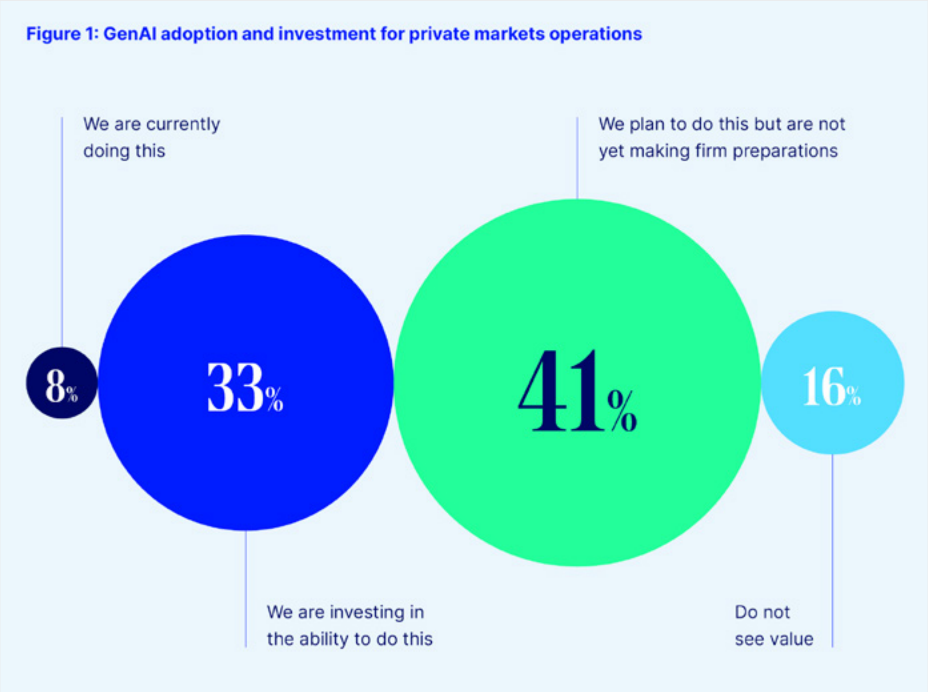
So private markets managers and investors were already out of the 2010s mindset of low interest rates and cheap borrowing enabling a rising tide that would lift all boats. They have spent the 2020s on a trajectory of rapid

1 In the first quarter of 2025, CoreData research, on behalf of State Street, ran a global survey of nearly 500 senior executives at buyside investment institutions including private markets specialist managers, generalist asset managers with private markets portfolios, and institutional asset owners.

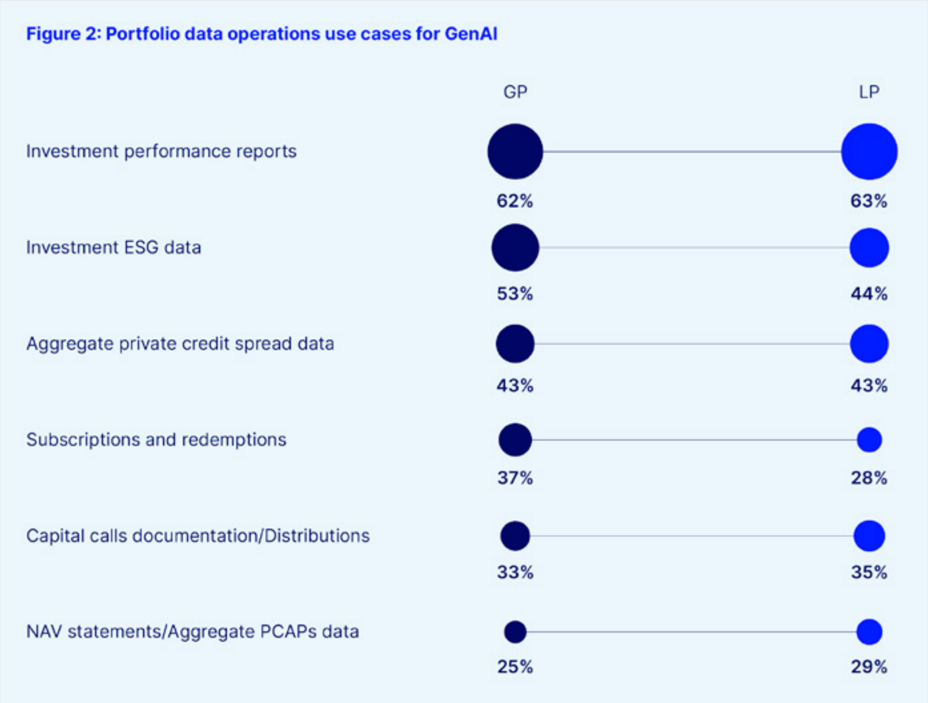
innovation, driven by a combination of technology and strategic rethinking of their approach to investment selection.

The 'flight to quality' that we have identified in our latest survey has become entrenched in private markets approaches over this time, positioning them well for yet another environment where deals have to be analysed minutely and due diligence data led investment reporting is key.

This strategic approach is no longer hypothetical. Our data shows that an overall focus on risk analysis and deal scrutiny in last year's research, in buyside institutions' internal investment in technology and operations, has become a series of highly specialised use cases for up-to-the-minute technologies like Generative AI (GenAI) across multiple areas of their data and operations.



Question: To what extent is your organisation using generative AI/large language models to generate consistent, analysable data from unstructured information related to your private markets investments? / Source: State Street 2025 Private Markets Study



Question: For which particular areas of fund/ portfolio level data is this technology proving/expected to prove most useful in dealing with unstructured data? / Source: State Street 2025 Private Markets Study

In a volatile market and shrinking growth environment, it is particularly essential to understand the quality of your underlying investments and ensure that every dollar of your, or your clients', money is being spent wisely. And this data shows that the private markets industry has been investing in systems and operations to enable this for the past five years.

For more information about how these technologies are being applied in private markets, read our industry roundtable on the topic.

There are other reasons to consider some particular private markets opportunities in this specific economic downturn.

Assuming other countries and regions don't respond to US tariffs with similarly extensive reciprocal ones, there is likely to be less inflationary pressure in those areas, and they have the leeway to cut interest rates to support economic growth, with the additional effect of increasing access to leverage for private markets.

Real assets tend to support essential economic goals like infrastructure and are less vulnerable to consumer spending than many public markets securities. Meanwhile, many private companies operating in areas such as technology hardware and microchips with long established international supply chains that cannot be quickly redesigned face rising costs. But they will also see continued rising demand for their products based on their products' essential integration into global economic activity, and longstanding global consumer trends.

Lastly, one of the most interesting developments in our research is the increased expectation of growth in the semi liquid fund market. More than half of our respondents now expect at least half of private markets flows to go through retail-style funds within the next couple of years.

The democratisation agenda has received considerable government and regulator support in recent years, for example the European Long Term Investment Fund (ELTIF) 2.0 and the UK Long Term Asset Fund (LTAF).

The reasons for these top down supports for democratisation are very much the same as the causes of the current trade crisis – they are seen as a means of financing onshoring and supporting domestic industries, funding domestic infrastructure, and reducing supply chain reliance between certain parts of the world. So it is reasonable to assume the trade dislocation scenario will generate increased interest and support for new private markets investment sources from governments.

Anti-growth global policy environments are never the preferred situation for capital markets, and this goes for private markets too. But there are reasons to believe that the right type of private markets holdings can be part of what safety looks like in what is likely to be a flight to safety world for the near future.

How the rapid development of new technologies is making democratisation in private markets a reality just when investors need it most.

Click here to sign up for the 2025 Private Markets Outlook, releasing in June.
2025 Private Markets Outlook Form | State Street

A global analysis of ESG disclosure trends

Molly Frazer
Senior Research Analyst
Integrum ESG

Introduction

In recent years, regulatory efforts to enhance corporate transparency on Environmental, Social, and Governance (ESG) factors have gained significant momentum. Jurisdictions like the European Union, the United Kingdom, and others have introduced stricter reporting requirements, setting higher standards for corporate ESG disclosures.

Frameworks such as the EU's Corporate Sustainability Reporting Directive (CSRD), and the Task Force on Climate-related Financial Disclosures (TCFD) have collectively raised the bar for transparency. Despite recent setbacks, such as the SEC climate rule setback, the trend continues toward increasing disclosure requirements.[1]

This shift in regulation reflects a growing demand for robust, comparable ESG data. For investors, policymakers, and the public, transparency is essential to ensuring accountability. As regulatory measures continue to shape the ESG landscape, the need for consistent and actionable data becomes increasingly important for driving responsible capital allocation and sustainable business practices.

The research team at Integrum ESG has examined the disclosure practices of more than 6,000 global companies over the past five years, enabling an analysis of the evolving landscape of ESG transparency and assessing the effectiveness of regulatory measures in shaping disclosure practices.

In this article, we explore how company-level ESG disclosure is changing across regions, identifying trends in disclosure practices, and highlighting countries that are leading or lagging as global disclosure standards rise.

This analysis examines disclosure practices rather than actual ESG performance. Our Awareness Scores assess how well companies report on key ESG and impact themes, focusing on the disclosure of policies, quantitative figures, certifications, and goals in line with stakeholder expectations. As our focus is on communications and not actual performance, we exclude company Performance Scores, such as how their quantitative CO_2 emissions for the year compare to their peer group.

Methodology

Data Collection

This analysis uses disclosure scores from over 6,000 companies globally, covering ESG metrics and impact-related themes from 2020 to 2023. The dataset includes two key dimensions:

1. **Sustainability awareness score:** Reflecting a company's disclosure of ESG metrics related to sector-specific environmental and social factors, based on the IFRS S1 framework.

1 https://greencentralbanking.com/2025/02/17/sec-moves-to-freeze-its-climate-disclosure-rule/

2. **Impact awareness score:** Reflecting a company's alignment with six global impact themes and their contributions to the UN Sustainable Development Goals (SDGs), using the Cambridge Impact Framework.

Both scores are calculated on a scale from 0 to 4, where 0 indicates no disclosure and 4 indicates thorough disclosure. For each dimension, individual topic scores (e.g. carbon emissions or diversity policies within Sustainability) are averaged to form an overall score.

The sustainability and impact scores assess different aspects of corporate disclosure and, when considered together, provide a comprehensive view of a company's transparency.

The sustainability and impact scores assess different aspects of corporate disclosure and, when considered together, provide a comprehensive view of a company's transparency.

Calculations

The company-level scores are aggregated to compute the average score for each country per year, with the year-on-year differences in these scores allowing us to determine the overall trends in disclosure practices. The standard deviation of awareness scores is also computed to assess the variability of disclosures within countries, with a higher standard deviation indicating greater variation in company-level disclosures.

To avoid basing trends on insufficient data, countries with fewer than 10 companies reporting scores for at least two years were excluded from the analysis. As a result, 18 countries were removed from the analysis. 2024 data was not included, as not all companies have published their reports for the 2024 financial year.

Caveats

1. **Country reporting framework variations:** To address potential limitations, it is important to note that variations in ESG reporting standards across countries may impact the comparability of the data. Different reporting frameworks are used across jurisdictions, and so only using one can introduce biases. Likewise, the Impact Awareness Score places significant emphasis on companies' awareness of specific SDGs, with scores capped if companies do not demonstrate alignment with the relevant SDG. If companies in certain countries are not adhering to the frameworks we use, this may impact the results. This is why we chose to use scores based on two different reporting frameworks, but future analysis may benefit from including more reporting frameworks.

2. **Uneven company coverage:** The number of companies represented across different countries varies significantly, which can impact the comparability and reliability of the data. The limited number of companies reporting in some regions could skew the findings, potentially misrepresenting the true state of ESG transparency in these countries.

Results

Leaders

The following three tables highlight the top 10 countries that have shown the most improvement in disclosure scores from 2020 to 2023. The first table (Figure 1) presents the combined Impact and Sustainability scores, while the following two (Figure 2 and Figure 3) break these scores down separately.

Figure 1

Combined Scores - Country average Year-on-year change

	Country	Average Year-on-year Change
1	China	0.257
2	Switzerland	0.232
3	Poland	0.200
4	New Zealand	0.198
5	Austria	0.197
6	Saudi Arabia	0.195
7	Ireland	0.193
8	Argentina	0.192
9	Luxembourg	0.183
10	Israel	0.180

Figure 2

Sustainability Scores - Country average Year-on-year change

	Country	Average Year-on-year Change
1	Switzerland	0.193
2	Norway	0.193
3	China	0.190
4	Japan	0.187
5	Austria	0.183
6	Taiwan	0.177
7	Poland	0.177
8	Luxembourg	0.173
9	Saudi Arabia	0.170
10	Argentina	0.170

Figure 3

Impact Scores - Country average Year-on-year change

	Country	Average Year-on-year Change
1	China	0.323
2	Switzerland	0.270
3	India	0.253
4	New Zealand	0.247
5	Thailand	0.230
6	Poland	0.223
7	Ireland	0.220
8	Saudi Arabia	0.220
9	Argentina	0.213
10	Austria	0.210

1. **China's leadership**: China stands out as a top performer across all three assessments. The most significant improvement has been in Impact Scores, reflecting increased company awareness of the United Nations SDGs. This aligns with the SDG Index, which shows that from 2016 to 2023, China moved up from 15th to 13th place among G20 countries.[2] The improvement in sustainability scores may also be driven by the ESG disclosure requirements introduced in February 2022, mandating major polluters to report more comprehensively.[3]

2. **Strong European performance**: Switzerland and Austria have outpaced their peers, showing consistent improvements across all categories. Countries like Poland, Luxembourg, Ireland, and Norway are also making notable strides, reflecting a broader commitment to improving corporate sustainability reporting across Europe.

3. **Limited representation from emerging markets**: While Saudi Arabia and Argentina have made notable progress, the top improvers table lacks broader representation from emerging markets. This is not surprising, given less stringent reporting requirements, but indicates potential for significant improvements in the coming years as these markets work to align with global ESG standards.

2 https://www.project-syndicate.org/commentary/china-sdgs-net-zero-why-it-has-succeeded-by-andrew-sheng-and-xiao-geng-2023-10
3 https://www.mee.gov.cn/xxgk2018/xxgk/xxgk02/202112/t20211221_964837.html?mc_cid=45e6a7ad33&mc_eid=627c47469b

Laggers

The following tables display the bottom 10 countries with the least improvement in disclosure scores from 2020 to 2023.

Figure 4

Combine Scores - Country average Year-on-year change

	Country	Average Year-on-year Change
1	Philippines	0.065
2	Mexico	0.085
3	Russia	0.087
4	South Korea	0.097
5	Finland	0.102
6	Singapore	0.103
7	Brazil	0.105
8	Denmark	0.107
9	Portugal	0.118
10	Malaysia	0.122

Figure 5

Sustainability Scores - Country average Year-on-year change

	Country	Average Year-on-year Change
1	Finland	0.077
2	India	0.103
3	Sweden	0.110
4	Thailand	0.113
5	Mexico	0.117
6	Malaysia	0.127
7	Indonesia	0.127
8	Australia	0.127
9	Canada	0.130
10	Belgium	0.130

Figure 6

Impact Scores - Country average Year-on-year change

	Country	Average Year-on-year Change
1	Philippines	-0.033
2	Russia	0.013
3	South Korea	0.033
4	Brazil	0.043
5	Mexico	0.053
6	Singapore	0.060
7	Denmark	0.067
8	Portugal	0.077
9	Turkey	0.110
10	Norway	0.113

1. Philippines and Mexico stagnation: Both the Philippines and Mexico consistently fall into the stagnation zone across combined, sustainability, and impact scores. However, with mandatory sustainability reporting set to begin in 2026, improvements in disclosure scores are likely as these countries align with global standards.[4, 5]

2. Challenges in Impact Reporting: There is a more significant stagnation in impact awareness scores than sustainability scores, which is notable as the deadline for the UN SDGs approaches in 2030. Companies may be hesitant to disclose their SDG contributions, acknowledging the challenges in meeting these ambitious targets. However, there has still been a general improvement in impact awareness scores over time.

4 https://www.eco-business.com/news/philippines-to-begin-implementing-mandatory-sustainability-reporting-by-2026/#:~:text=Philippine%20corporate%20regulator%20Securities%20and,mandatory%20sustainability%20reporting%20by%202026

5 https://senecaesg.com/insights/mexico-mandates-sustainability-reporting-for-securities-issuers/

3. Portugal's Stable Position: Although Portugal has shown slower progress over the analysed period, it continues to uphold strong disclosure practices, achieving the highest average combined score (3.03). This stability indicates that the recent stagnation is less of a concern, as Portugal already demonstrates strong disclosure practices. Additionally, Portugal displays a relatively low standard deviation in company-level scores across the years, reflecting consistency in disclosure practices among companies.

Figure 7

Country	Financial Year	Dimension	Average Score	Standard Deviation
Portugal	2020	impact	3.15	0.49
Portugal	2021	impact	3.29	0.64
Portugal	2022	impact	3.33	0.64
Portugal	2023	impact	3.38	0.61
Portugal	2020	sustainability	2.59	0.69
Portugal	2021	sustainability	2.63	0.75
Portugal	2022	sustainability	2.86	0.66
Portugal	2023	sustainability	3.07	0.62

Figure 8

Country	Financial Year	Dimension	Average Score	Standard Deviation
United States	2020	impact	1.29	1.06
United States	2021	impact	1.6	1.06
United States	2022	impact	1.78	1.04
United States	2023	impact	1.91	1.03
United States	2020	sustainability	1.81	0.82
United States	2021	sustainability	2.02	0.82
United States	2022	sustainability	2.16	0.81
United States	2023	sustainability	2.26	0.8

Perhaps unsurprisingly, large economies such as the United Kingdom and the United States do not appear among the top or bottom performers, attributed to their consistent, more gradually improving, average scores.

In the UK, corporate disclosure requirements such as the Streamlined Energy and Carbon Reporting (SECR), Gender Pay Gap Reporting and the Modern Slavery Act 2015 - Transparency in Supply Chains guidance came into force pre 2020 therefore any improvements to disclosure driven by these requirements would likely have occurred before our analysis period.

Conversely, the USA lacks comprehensive federal-level ESG disclosure mandates for corporates. This absent regulatory landscape contributes to high variability in company disclosures, as evidenced by the higher standard deviations in their disclosure scores.

Conclusion

This analysis demonstrates significant progress in ESG transparency, with all countries showing improvements in disclosure practices. Notably, China, Switzerland, and Austria have led the way, while some emerging markets, such as Saudi Arabia and Argentina, show promising progress.

While emerging markets continue to face challenges, the introduction of mandatory reporting regulations in Mexico and the Philippines signals a positive shift toward greater transparency in the future. As these markets align with global standards, investors can expect long-term value growth. Investors should actively engage with companies in these regions to prioritise transparent ESG reporting and encourage alignment with international reporting standards.

Overall, the results show that regulatory pressures are having the desired effect, as evidenced by the fact that countries lacking such pressures are not experiencing the same level of improvement in disclosure practices. This highlights the crucial role of regulatory frameworks in driving progress toward greater corporate transparency.

Maximising preparedness: Utilising health checks and mock exams to strengthen a compliance programme

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In today's regulatory environment, firms must prioritise compliance to avoid the pitfalls of regulatory scrutiny and enforcement actions. A proactive approach not only mitigates regulatory risk, but also supports investor confidence - particularly as investor due diligence processes increasingly scrutinise the strength and responsiveness of compliance programmes. By conducting regular thematic reviews, firms can identify areas for improvement and ensure they are well-prepared for any regulatory inquiries and investor assessments.

A critical tool for readiness

Health checks and mock exams have moved far beyond simple policy and procedure reviews. Today, they should be a key component of a firm's compliance programme - helping to uncover risks before they become serious regulatory issues. This is true for all regulated firms, regardless of jurisdiction, as regulators around the world continue to raise expectations and intensify scrutiny.

Examiners increasingly rely on trade data to identify trends, inconsistencies, and high-risk activity. Firms conducting compliance assessments with similar analytics can anticipate how their records, disclosures, and internal controls might be interpreted under review. This approach strengthens compliance and offers a clearer view of potential vulnerabilities.

How health checks and mock exams strengthen compliance

A well-designed health check or mock exam is one of the most effective ways to prepare for an actual regulatory review. By simulating regulatory scrutiny, firms can assess the strength of their compliance programs and proactively address potential issues before they escalate.

Key benefits include:

- **Uncovering compliance gaps:** These assessments reveal weaknesses in policies, procedures, and documentation, giving firms the opportunity to correct issues before they become regulatory findings.

- **Improving response readiness**: Understanding what to expect from the regulator helps compliance teams respond more efficiently to inquiries when a regulator announces an examination.

- **Demonstrating a commitment to compliance**: Proactively conducting assessments signals to regulators – and investors – that the firm prioritises compliance and maintains strong oversight.

- **Enhancing internal oversight:** Routine testing of compliance processes strengthens internal controls and reduces the risk of enforcement action.

Preparing for a compliance assessment

To stay ahead of regulatory scrutiny, firms should structure their health check or mock exam around key risk areas, including:

- **Cybersecurity protocols:** Test adherence to updated data protection rules and breach notification requirements.

- **Anti-money laundering (AML) controls**: Ensure AML policies and procedures meet regulatory requirements and test to confirm their effectiveness in identifying suspicious activity.

- **Use of technology and AI:** Review automated decision-making processes for compliance risks and potential conflicts of interest.

- **Regulatory documentation and reporting**: Verify the accuracy and completeness of Form ADV disclosures, financial statements, and client communication policies.

Find confidence amid uncertainty

With growing market uncertainty, investment firms must take a proactive approach to compliance. Health checks and mock exams are becoming more data-driven and detailed, and firms that conduct reviews are better positioned to adapt to shifts in regulatory scrutiny.

By identifying risks early, strengthening internal controls, and aligning policies with both current guidance and potential shifts, firms can reduce regulatory exposure and reinforce investor trust. Partnering with an experienced third party can add further value - bringing benchmarking insights, regulatory exam expertise, and independent challenge - all of which help firms to raise the bar on preparedness.

The risks of quiet AI in investment management: Why transparency and control still matter

Fiona Sherwood
CMO
Dasseti

AI has become a powerful enabler of productivity in alternative investment management, automating routine tasks, surfacing insights, and accelerating decision, making. A new AI, sometimes referred to as 'quiet AI' or 'background AI', is now entering the workflow. This AI operates invisibly, automating or influencing processes without explicit user instruction, visibility, or consent.

Quiet AI is often marketed as frictionless efficiency. It aims to reduce cognitive load, remove decision fatigue, and deliver a seamless user experience. Think of Outlook's email filtering system, which quietly sorts your inbox to surface what matters most, no prompts, no configuration, just subtle automation. But the features that make quiet AI appealing, its invisibility, automation, and integration, also pose significant challenges in high, stakes, regulated sectors such as investment management.

Following the noise around Quiet AI, we have evaluated the benefits and risks and argue for a middle path: an approach to AI that prioritises transparency, accountability, and human agency.

Quiet AI vs agentic AI: A comparison

Quiet AI is not to be confused with Agentic AI. Yes, they both aim to enhance productivity through automation, but they operate on fundamentally different principles, and have markedly different implications for trust, transparency, and user control.

Quiet AI refers to background automation, systems embedded into tools and workflows that act autonomously, often without user awareness or consent. Their interventions are subtle, designed to minimise friction, and typically not announced. A user might notice that a data point has been filled in, a sentence reworded, or a recommendation surfaced, but may not know that AI was involved at all.

Agentic AI, by contrast, is explicit, intentional, and goal, oriented. It refers to AI systems that can perform actions autonomously but operate as discernible agents with defined tasks. These systems are typically prompted or instructed by users and their outputs are clearly demarcated as AI, generated. Agentic AI may initiate follow, up actions, iterate on responses, or proactively identify next steps, but its role is visible, bounded, and subject to user approval.

From a workflow perspective, quiet AI operates by assumption, replacing decisions the system predicts you might make. Agentic AI, on the other hand, operates by instruction, supporting decisions the user explicitly wants help with.

This distinction matters deeply in sectors like investment management. Quiet AI may inadvertently alter key content in client documents without a clear audit trail. Agentic AI, while also automated, provides visibility and choice, which are essential for compliance, stakeholder confidence, and operational reliability.

The case for quiet AI

There are legitimate reasons why quiet AI has gained traction, particularly in complex, document, intensive environments:

- **Efficiency gains:** Studies show up to a 66% increase in daily task throughput in certain professions, and a significant reduction in time spent on administrative tasks.
- **User adoption:** Users may prefer AI that 'just works' behind the scenes without requiring them to learn new tools or interfaces.
- **Cognitive relief:** By minimising the number of micro decisions a user must make, quiet AI helps reduce fatigue and improve focus.
- **Consistency and standardisation**: Quiet AI can help enforce standardised approaches across teams and geographies, ensuring that client communications maintain consistent quality and messaging regardless of which team member handles the interaction.
- **Error reduction:** Research indicates that AI, assisted workflows can reduce human error rates by up to 30% in document, intensive processes, a significant advantage in compliance, sensitive environments where accuracy is paramount.

The case against quiet AI

While quiet AI may streamline processes, several research-backed concerns have emerged regarding its uncritical adoption:

Loss of transparency and provenance

In environments where documentation trails, data lineage, and auditability are essential, such as operational due diligence or investor reporting, quiet AI introduces uncertainty. If a DDQ response was drafted based on AI input, but the source of that data (e.g., an outdated document or internal system) is unclear, confidence in the response is undermined. Inaccurate or unverifiable statements can compromise not only client relationships but also regulatory compliance.

Disruption of expert workflows

Studies have shown that quiet AI can interfere with users' workflows by restructuring task sequences or inserting suggestions that interrupt concentration. This is particularly acute in complex decision-making tasks such as risk assessment, manager research, or compliance review, where precision and context matter deeply.

Erosion of trust and autonomy

We've come some way since 2023, but a 2023 EY survey reported that 71% of employees familiar with AI expressed concern about its workplace impact, with 65% citing anxiety over lack of transparency. This is still an issue today as McKinsey's 2025 workplace report notes that while AI is becoming less risky, it still lacks sufficient transparency and explainability, both of which are critical for safety, bias reduction, and user trust.

Trust is central to institutional investment. If users suspect their tools are silently altering outputs or surfacing content based on unknown algorithms, trust in both the tools and their own work erodes.

Ethical and privacy risks

Inadvertent AI interference with sensitive or privileged data, particularly when the AI is operating in the background, raises concerns over data governance, client confidentiality, and ethical boundaries.

Moving towards a transparent AI model

The investment industry has always demanded accountability, traceability, and discretion. These principles should extend to AI deployment. Several mitigation strategies have emerged from both industry guidance and academic research:

- **Human-in-the-loop models:** Ensure humans can review, approve, or override AI outputs.
- **Clear disclosure:** Notify users when AI is operating and clarify the source of AI-generated content.
- **Provenance tracing**: Log the exact origin of AI inputs and outputs for audit and review.
- **Customisability**: Allow firms to configure when and how AI is triggered, and whether to enable or disable automation features.

These recommendations align with operational due diligence standards and investor expectations around accountability. In essence, AI should be a sidekick not the main character.

Operational due diligence (ODD) example

Consider an ODD team reviewing a manager's risk controls. A quiet AI system might silently prioritise certain risk factors based on historical data. However, emerging risks, those not represented in past models, could be underweighted or ignored. In contrast, a transparent or agentic AI approach would clearly indicate its rationale, allowing the ODD professional to evaluate the reasoning, adjust inputs, and apply domain expertise to ensure nuanced oversight.

A balanced approach: Transparent AI embedded in workflow

There is a middle ground. Platforms that embed AI within existing workflows, but make its presence optional and transparent, offer the best of both worlds. Users benefit from automation but maintain oversight and control.

For example, in RFP and DDQ processes, Dasseti's AI capabilities can search through internal content libraries and previous responses to surface the most relevant answers. Our approach ensures users can:

- See the exact document or past response the AI is referencing, maintaining complete traceability of all suggested content.
- Choose to accept, reject, or edit the AI's draft, keeping human expertise at the centre of the process.
- Understand whether a suggestion is directly sourced or AI-generated, with clear visual indicators distinguishing between different sources.
- Benefit from automated data extraction that pulls relevant information from complex documents without losing context or provenance.
- Analyse response patterns and quality across submissions to continuously improve future responses.

This ‘assisted intelligence’ model reduces user burden without compromising trust or compliance. It also helps drive adoption by empowering users rather than replacing them.
AI in investment management

At Dasseti, we are working towards a shift from today’s tool-based AI implementations toward more integrated experiences. The key differentiator we see between firms executing successful and problematic implementations is not the power of the AI itself, but rather how thoughtfully it is integrated into existing workflows and governance structures.

The firms that are thriving are those that view AI not as a replacement for human judgment but as an enhancement tool that respects the unique value of human expertise while eliminating low, value tasks
In investment management, transparency builds trust

Firms considering adding AI to their investment workflows should be shaped by principles familiar to this industry: clarity, accountability, and informed decision-making. Platforms that embed optional, transparent AI, enhancing rather than obscuring human expertise, will ultimately deliver the greatest value.

Cyber insurance ≠ cyber resilience: Rethinking cyber risk across your investments

Melanie Hayes
COO and Co-Founder
KYND

What drives performance today is also what exposes it. As businesses race to modernise and digitise, they're becoming more connected – and more vulnerable. Among the many areas being reshaped by this shift is the investment landscape, where cyber risk is emerging as one of the most complex and consequential exposures to manage.

With investment companies becoming more reliant on digital infrastructure, the potential for a single cyber incident to affect multiple parts of a business – or indeed, multiple businesses – is growing. From operational disruption to reputational fallout and financial losses, the impacts are no longer contained within the four walls of a single organisation. For investment firms, this broadens the lens through which cyber risk is viewed – not just as a technical concern, but as a material, operational, and financial one that can affect performance across a portfolio.

Naturally, attention is turning to how this risk is managed. For many, cyber insurance has become part of the answer – often viewed as a primary means of protection in the face of rising digital risks. But in today's dynamic threat landscape, the question remains: is it really enough?

Cyber insurance vs. cyber resilience: Why it's not a silver bullet

Undeniably, cyber insurance plays a valuable role in the broader risk management toolkit. It provides a financial buffer in the aftermath of a breach, helping organisations manage the costs of recovery – from forensic investigations and legal fees to business interruption and data restoration. But it's not designed to prevent incidents from occurring in the first place. And it's increasingly clear that relying on insurance alone won't protect long-term portfolio value.

There are several factors behind this shift in thinking:

- **Coverage limitations and exclusions are growing**
  Insurers are tightening terms, raising premiums, and excluding certain high-impact incidents – particularly those linked to widespread or nation-state attacks. As cyber threats become more entangled with geopolitical tensions, the likelihood of exclusions increases, making insurance coverage less predictable and less comprehensive.

- **Claims processes can be complex and slow**
  Even when coverage applies, navigating the claims process can delay access to funds at a time when companies need to act quickly. Meanwhile, the business impact – especially reputational – continues to unfold.

- **Reputational damage isn't covered**
  Financial reimbursement can't repair customer trust or stakeholder confidence. The intangible, long-term consequences of a breach often have the biggest impact on brand equity and valuation.

- **Cyber risk is systemic and hard to model**
  A single software vulnerability or compromised provider can affect thousands of firms simultaneously. This aggregation risk is hard to underwrite and often leaves gaps in insurance coverage.

- **Reactive by design**
  Insurance addresses damage after it's occurred. In a threat landscape that moves as fast – and unpredictably – as today's, proactive risk identification and response are just as critical.

Cyber risk management as a dimension of portfolio performance

The financial impact of cyber incidents can be significant and often extends well beyond the immediate costs of response and recovery. From lost revenue and operational disruption to regulatory fines and reputational fallout, the downstream consequences of a breach can quietly undermine enterprise value over time.

For investment managers, the implications are increasingly clear: cyber risk is no longer just a security or compliance concern – it's a strategic performance driver that can influence valuation, deal timelines, and investor perception.

As a result, more firms and investors are beginning to view cybersecurity not as a checkbox during due diligence, but as a core lever of value protection and enhancement throughout the entire investment lifecycle.

Some of the benefits emerging from a more proactive approach include:

Identifying cyber vulnerabilities that could affect valuation
Pre-deal assessments that include critical cyber risk indicators can uncover issues that may affect earnings quality or require remediation post-acquisition. Early visibility into these areas helps inform evaluation, improve risk-adjusted returns, avoid last-minute surprises, and develop strategies to help your portfolio companies bolster their defences against potential cyber threats during the value creation period, ensuring a resilient foundation for sustained growth and maximising the long-term value.

Building investor confidence through enhanced governance
Asset owners, limited partners and co-investors are placing greater emphasis on how fund managers oversee operational risks, including cyber. Regular assessments and tools like continuous risk monitoring can provide real-time visibility into emerging threats across portfolios. Demonstrating a structured and ongoing approach to cyber oversight across the portfolio signals strong governance and a forward-looking risk management culture – qualities that resonate with today's more sophisticated investor base.

Reducing uncertainty and volatility across the portfolio
Cyber incidents are, by nature, disruptive and often unpredictable. By embedding cyber risk oversight into portfolio monitoring, firms can reduce unplanned shocks, maintain operational continuity, and preserve enterprise value. This not only protects against downside risk but also supports steadier portfolio performance over time.

Supporting smoother exits with stronger cyber hygiene

Buyers and IPO markets are increasingly focused on cybersecurity as part of operational due diligence. A portfolio company with a strong security posture and robust incident response plan may appear more resilient and command a higher multiple. Conversely, undisclosed cyber weaknesses can delay deals, drive renegotiations, or derail exits entirely. This heightened focus is well-founded: according to a 2023 report by Accenture,[1] 68% of its private equity clients saw a rise in cybersecurity incidents during the month of a deal closure – suggesting that threat actors actively target investment companies at their most vulnerable moments.

Navigating the shifting waters of regulatory compliance with confidence

From DORA to NIS2 rules, compliance is becoming inseparable from cyber risk management strategy. A proactive approach – integrating ongoing risk monitoring, advanced threat detection, regular employee cyber awareness training – not only enables portfolio companies to reduce their risk profile but also help strengthen their compliance endeavours, positioning themselves as responsible fiduciaries and keepers of valuable information in a digitally uncertain age.

As cyber-attacks become more pervasive, cyber resilience is increasingly seen as a marker of operational maturity – and a prerequisite for investment readiness. From our work across the sector, we've seen firsthand how a proactive approach to cyber risk management can support cleaner exits, help preserve long-term value, and enable companies to distinguish themselves in a landscape where digital risk is now a material financial consideration.

Cyber insurance isn't enough – but it's part of the solution

The reality of today's world is that cyber risk is increasingly tied to portfolio performance. Cyber insurance plays an important role by providing a financial safety net in the event of a breach. But it doesn't reduce the likelihood of an incident occurring, nor can it shield a business from reputational fallout, operational disruption, or long-term value erosion.

That's where cyber risk management becomes critical. It provides the visibility, controls, and intelligence needed to identify vulnerabilities, monitor evolving threats, and respond effectively – before a minor exposure becomes a major event.

The most resilient firms recognise that this isn't an either/or decision. Insurance and cyber risk management serve distinct but complementary purposes. Insurance helps absorb the shock when things go wrong. Risk management helps prevent the worst from happening in the first place. Together, they form a more robust, strategic approach to protecting value.

In a digital era, resilience isn't built on insurance alone. It's built on preparation, awareness, and the ability to act with confidence – supported by both a strong posture and adequate coverage. More investment managers are acting on this understanding – integrating cyber oversight into governance frameworks, working with cyber intelligence partners, and treating digital risk with the same discipline applied to financial, regulatory, and operational exposures.

1 Accenture,'Private Equity and rising cost of cyberattacks', 2023 https://www.accenture.com/content/dam/accenture/final/accenture-com/document/Private-Equity-And-Rising-Cost-Of-Cyberattacks.pdf


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One cyber breach in any portfolio can cost millions
Don’t let it be yours
Leading investment firms across the globe use KYND to get instant, actionable insights into the cyber profile of the companies they back.
Get our complimentary risk report on any of your portfolio companies – no technical jargon, no guesswork. Just clear, accurate cyber risk intelligence for better-informed decisions.
Scan the QR code to request your free report
You choose the company.
We reveal what’s under the surface.
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Regimes, systematic models and the power of prediction

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Introduction

We've long thought that regimes – specific market environments characterised by distinct macroeconomic, financial and geopolitical conditions over a set time period – offer a useful perspective on performance and risk.

In this paper, we construct a simple model that characterises markets by their similarity or difference when compared to historical periods. Our aim is to provide a point-in-time metric for timing investments by proposing a systematic approach to regime selection (a 'Regime Model').

To test for real-world applicability, we apply our Regime Model to six popular long-short equity factors. We go long a factor if the historical return after observing the regime at the investment date is positive, and short otherwise.

Our research documents a positive relation between the returns and similarity. Indeed, the least similar historical dates do the worst in terms of performance. The alpha of being long the most similar and short the least similar is a statistically significant three standard deviations from zero.

The Regime Model methodology

The user of our Regime Model needs to specify a set of economic variables. In this paper, we consider seven variables, transform each of them to look at annual changes and compute a z-score. Then, variable by variable, we investigate the past and identify regimes that are similar.[1] Looking at every historical date, we aggregate the distances at each date across our seven variables, to create an aggregated similarity score (the 'Global Score'). Those historical dates with the smallest aggregate distances are our definition of similar regimes. Once we have established similar dates in the past for a particular asset, we look at subsequent returns. With the historical regimes established, we can apply this method to any asset class.

Our Regime Model has several advantages. First, the method is systematic (the regime classifications are automatic). Second, the method can be applied to a much larger set of economic variables. Third, our method is simple, relying only on z-scores.

That said, in any systematic model, choices need to be made. Here, the economic state variables need to be chosen. Second, there is a choice as to how to represent each variable (e.g., what horizon for rate of change?). Third, we need to set the degree of similarity. Fourth, we need to decide the length of the observation period after the similar historical regime. Finally, how should we weight the economic variables?

1 Our measure of similarity is the squared distance of today's value to each historical observation. For example, if the z-score today is 2.5, we look at historically similar times where the z-score is close to 2.5. For a historical date value of exactly 2.5, the squared distance would be zero.

Economic state variables

We use the seven economic state variables detailed in Exhibit 1:[2]

Exhibit 1. Economic state variables and sources

Variable	Proxy	Data source	Start date
Market	S&P 500	Bloomberg	1927
Yield curve	US 10-year minus US 3-month yield	Internal data & St Louis FRED	1962
Oil	WTI spot crude oil price	St Louis FRED	1946
Copper	Copper futures price	Internal data	1959
Monetary policy	US 3-month yield	St Louis FRED	1954
Volatility	Realised volatility of S&P 500 stitched with the VIX Index (from 1990)	Bloomberg	1929
Stock-bond correlation	S&P 500 and US 10-year yield	Bloomberg & internal data	1962

For each variable, we take a 12-month change and then normalise it by computing the z-score over a rolling 10 years, capped to be within minus three and three.[3] Next, we compute an adjustment similar to a z-score, whereby we divide the one-year difference by the standard deviation of the rolling one-year differences, computed over 10 years. We finish by winsorizing at three to remove outliers, thereby creating the transformed economic state variables.

We now apply our distance-based similarity metric. Each month we iteratively compute the Euclidean distance – the distance 'as the crow flies' – between each historical month and the month in question.[4] We are then able to aggregate across our variables, to obtain one Global Score.[5] Historical months with smaller similarity scores are the most similar to today.

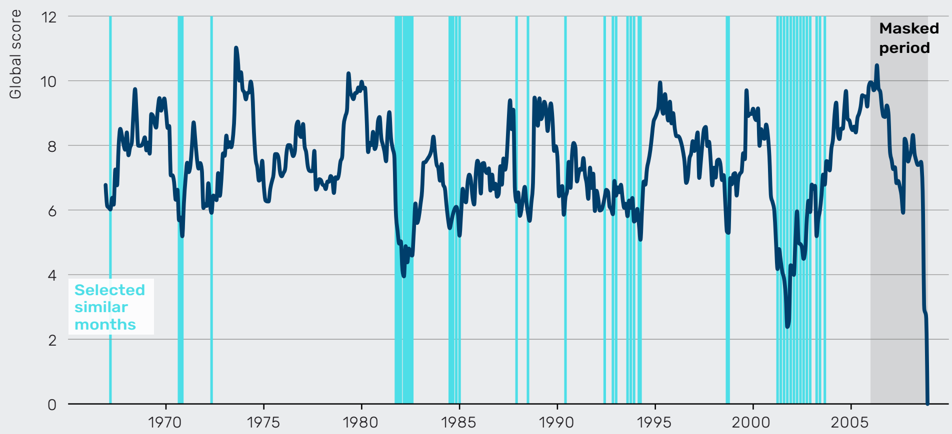
Similarity in action: the Global Financial Crisis (GFC)

To illustrate how our Regime Model works, we can apply it to the GFC. For specific months, we examine the full history and pick the 15% most similar months (i.e., the 15% of months with the lowest Global Score). We exclude the last three years (36 observations), as this helps us to avoid loading up on momentum.

Referring to the GFC, Exhibit 2 considers the Global Score as of January 2009. The most similar dates have the lowest values and include all observed recessions. Our trading strategy would take a long position in an asset in February 2009 that exhibits positive returns after historically similar regimes.

2 These were selected after a systematic process to establish which variables were the most important driver of equity returns. All are financial variables that embed macroeconomic information.
3 We use monthly data so that we can extend our history as far back as possible. For the correlation series we use a rolling three-year metric. We run this on daily data before converting to monthly.
4 This calculation must be done for every historical month. For example, if the variable has a score of 2.5 in December 2024, we calculate the distance between each historical month and 2.5.
5 The Euclidean distance, d, is defined by: $d_{Ti}=\sqrt{\sum_v^V (x_{iv}-x_{Tv})^2}$. On a selected month T, for every historical month i, we calculate a sum of squares of the V transformed variables. We do so by computing the absolute difference between the value of each variable at month i, x_{iv}, and the value of each variable at month T, x_{Tv}. We sum across variables before taking the square root, to give us our similarity score, d_{Ti}, for every month up to month T.

Exhibit 2. Historical similarity to January 2009 during the GFC



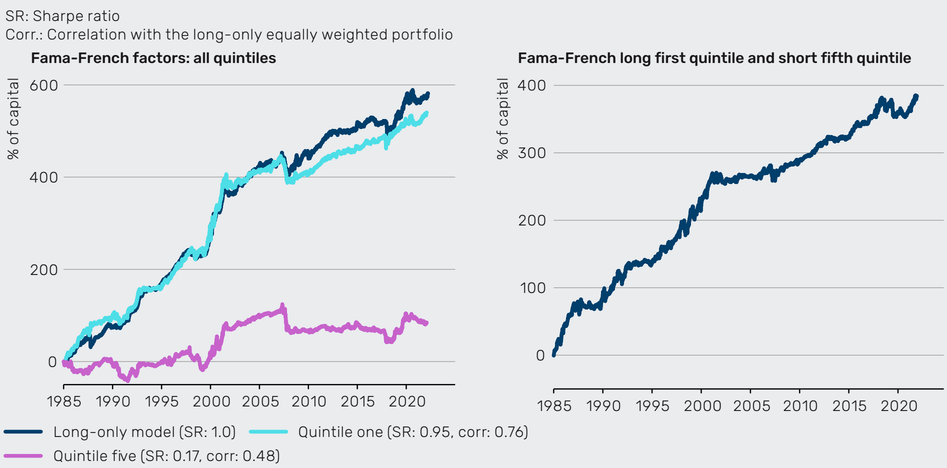
Source: Man Group internal data as at 2025. For a full list of data sources, please see Exhibit 1.

Assessing the predictive power of the Regime Model

We illustrate the efficacy of our methodology on six long-short stock factors: using the Fama-French five research factors (Market, Size, Value, Profitability and Investment) plus the 12-month Momentum factor.

Exhibit 3 shows the aggregate performance of investing in the six factors (on an equally weighted basis) using the 20% most similar historical dates (quintile one). We are long a factor if the average of returns after the most similar dates was positive, and short if it was negative. We repeat this exercise for the other quintiles, and so quintile five utilises the 20% most dissimilar dates. On the left-hand chart in Exhibit 3, we have included the performance of quintile one and quintile five (of the five quintiles, quintile one performs best and quintile five performs worst). We also include a representative long-only model (LO model) which serves as a proxy for a traditional long-only portfolio. While you can see that the LO model performs slightly better than quintile one over time, it brings with it significantly worse drawdowns during crisis periods.

Exhibit 3: Assessing the predictability using six long-short stock factors[6]



Source: Man Group internal data as at 2025. For a full list of data sources, please see Exhibit 1.

6 The performance of investing in the six long-short stock factors. For the quintile one portfolio, the direction taking in a factor is based on returns subsequent to the 20% most similar historical dates. The quintile five portfolio utilises the 20% most dissimilar returns. The long-only portfolio is long all six factors throughout. Performance is shown for 1985-2024. Input data starts well before 1985 to allow for rolling-window calibrations.

As factors tend to have positive returns on average, we can create a less correlated 'difference' portfolio by going long the quintile-one portfolio and short the quintile-five portfolio (Exhibit 3, right-hand chart). This portfolio has an impressive 0.82 Sharpe ratio, while only being 0.37 correlated to the long-only portfolio. The alpha is significant, being three standard errors from zero.

Conclusion: Diversification via multiple variables

Our Regime Model is a systematic method to identify economic regimes, which assesses the similarity of any month to the history of a selection of economic time series. The user specifies the economic time series as well as the tolerance for similarity and can specify many economic variables to achieve diversification.

We use our method to actively time six well-known factors. We aggregate all factors and find there is important information in the similarity. The strategy based on the most similar periods does well. We also find that in the anti-regime months (the most dissimilar), the performance is poor.

There are many possible research enhancements. We equally weight the economic variables, rather than a dynamic weighting based on predictive performance. Further, we assess similarity to particular months. If the investment horizon is longer than a month, it might be reasonable to look at similarity relative to a quarter or longer. These and related ideas are for future research into economic regimes.

Evolvement of programme trading regulation in China

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In today's world, algorithms and data play pivotal roles across various industries, particularly in the asset management sector. Similarly to other financial markets, China's approach to programme trading and its regulations has evolved rapidly in recent years.

Over years of deliberation and debate, Chinese regulators have now adopted a more pragmatic view on programme trading. They acknowledge its legality but believe that there is a need for enhanced regulations to ensure fair, transparent and orderly markets. This perspective is clearly articulated in the *Opinions on Strengthening Regulation, Preventing Risks and Promoting the High-Quality Development of the Capital Markets*, issued by the State Council in April 2024.

In response to this policy direction, the China Securities Regulatory Commission (CSRC) has introduced a series of regulatory measures to oversee and control programme trading practices, in the securities market - specifically narrowed down to exchange-traded equities and bonds as defined under Chinese law - and the futures markets. The validation of the legality of programme trading in China has been particularly reassuring for quantitative market participants, who had been unsettled for some time due to regulatory probes into the programme trading while the authorities remained silent on its legality.

I. Regulatory developments in the securities market

In May 2024, the CSRC issued the Regulation Measures on the Programme Trading in the Securities Market (**Securities Programme Trading Rules**), which came into effect on 9 October 2024. Following the release of the Securities Programme Trading Rules, the Shanghai Stock Exchange (**SSE**) and the Shenzhen Stock Exchange (**SZSE**) have formulated their respective implementation rules, which were officially released on 3 April 2025 and would come into effect on 7 July 2025.

Here below are some highlights of the Securities Programme Trading Rules and the implementation rules from SSE and SZSE:

- **Scope of application:** It is clarified that programme trading includes automatically selecting specific securities and trading timing according to a set strategy or automatically executing trading instructions according to a set algorithm, as well as other behaviours that conform to the characteristics of programme trading. In other words, even if portfolio managers exercise discretionary investment decisions, the use of programme trading software to execute these decisions will likely bring them under the scope of the Securities Programme Trading Rules.

- **Reporting obligations:** Market participants are required to file an initial report containing details about the size of funds, leverage, broker contact details, declaration rates or volume, trading strategies, and trading software before commencing trading; certain material changes may also lead to a subsequent filing.

- **Extra abnormal activities introduced:** The Securities Programme Trading Rules further specify that the following behaviours are considered market abnormalities and will be monitored under heightened scrutiny. Exchanges have internally passed on their guidance to the brokers, which aims to quantify those trading abnormalities by, during a given time period, price movement, index movement, trading volumes, number of orders issued and cancelled etc., but have not yet published the same. Notably, these newer market abnormalities are either stricter than those in the existing rules (like Items (A) – (C)) or entirely new (like Item (D)) with an aim to deal with the propensity to intensify market volatility caused by programme trading.

  (A) Unusual instantaneous declaration rates, which refer to a large number of declarations or cancellations in one second;

  (B) Frequent instantaneous cancellations, which refer to frequent instances of quick cancellations after declarations in one second throughout the day;

  (C) Frequent price manipulations (i.e., price pumping and dumping), which refer to multiple instances of minor price manipulations on single or multiple stocks in one minute throughout the day;

  (D) Large transactions in a short time, which refer to particularly large buying (selling) amounts in one minute; and

  (E) Other abnormal trading behaviours that the Exchange believes need to be closely monitored.

- **High-frequency trading:** HFT is currently defined as programme trading with the following characteristics (which may evolve over time), with extra reporting obligations attached:

  (A) The maximum number of declarations and cancellations per second for a single account reaches more than 300; or

  (B) The maximum number of declarations and cancellations per day for a single account reaches more than 20,000; or

  (C) Other situations determined by the Exchange

- **Stock Connect and Swaps included:** The Securities Programme Trading Rules are intended to cover overseas investors who trade under the Qualified Investor Scheme (**QFI**), Stock Connect scheme and swap arrangements into its purview. In April 2025, the SSE and SZSE issued for public comment the reporting guidelines for Stock Connect investors, which largely align with the existing requirements whilst accommodating certain practical differences between PRC and Hong Kong. Chinese regulators may then turn to focusing on trading in the PRC securities market via swaps at a later stage, e.g., in the second half of 2025 or even later.

- **DMA and Colocation:** The Securities Programme Trading Rules indicate that eligible brokers may re-activate direct market access (**DMA**) for external clients, allowing them to connect directly to the exchanges via the broker's trading counter once further technical details are promulgated. Additionally, colocation may also become legally permissible for future securities trading in China (whereas it is currently only open to international participants for acquiring market data). Please note that DMA has not yet been fully made available to all investors, including overseas participants. As a result, certain market players rely on alternative methods to achieve similar albeit suboptimal effects of DMA.

II. Regulatory Developments in the Futures Market

Notably, the Securities Programme Trading Rules do not apply to trading in the futures market, where programme trading and even HFT are allowed, with or without colocation arrangements established, after a relatively straightforward reporting and registration process is completed with the futures exchanges. According to verbal guidance from these exchanges, the current quantifiable standard for "programme trading" in the futures market is defined as the occurrence of 5 or more instances of placing 5 or more orders (regardless of underlying contract) within 1 second by the same client on the same trading day.

CSRC caught up on its efforts to regulate programme trading in the futures market and issued *Regulation Measures on the Programme Trading in the Futures Market (Trial)* (**Futures Programme Trading Rules**) on 13 June 2025. The Futures Programme Trading Rules have not caught the market by surprise, as their main objective is to convert the informal verbal guidance previously provided by regulators (widely known as "window guidance") into formal legal regulations, and it does not create substantially new requirements. According to our sources, the current goal is to officially issue the Futures Program Trading Rules within the next five to six months.

Here below are some highlights of the Futures Programme Trading Rules:

- **Scope of application:** It is clarified that these provisions apply to all programme trading (including from overseas) in the futures market within PRC, regardless of whether such activities are conducted through futures brokers or directly by non-member participants.

- **Reporting obligations**: Under the current practice, before commencing any programme trading activities, all investors need to ensure that they have filed and reported their programme trading activities and information on account, trading and software details to the relevant futures exchange (which is effectively a review and approval from the futures exchange). This process needs to be completed by a futures broker that is a member of the relevant futures exchange. The Futures Programme Trading Rules have not deviated from the existing requirements but raised heightened disclosure requirements on HFT players.

- **Emphasis on market abnormalities:** Futures exchanges have already had very robust mechanism in place to prevent market abnormalities. The Futures Programme Trading Rules have now set out the following principles to target major market abnormalities such as spoofing and reduce the impact the HFT may have when requiring immediacy during its trading process. Please note that whilst Items (A) and (B) sound similar to those in the existing rules, Item (C) seems to be newly introduced to elaborate on market abnormality in relation to programme trading.

  (A) Excessive order placements or cancellations within a short time frame or during a single trading day that exceed predefined thresholds;

  (B) High order-to-trade ratio, either within short periods or over the course of a trading day, reaching established limits;

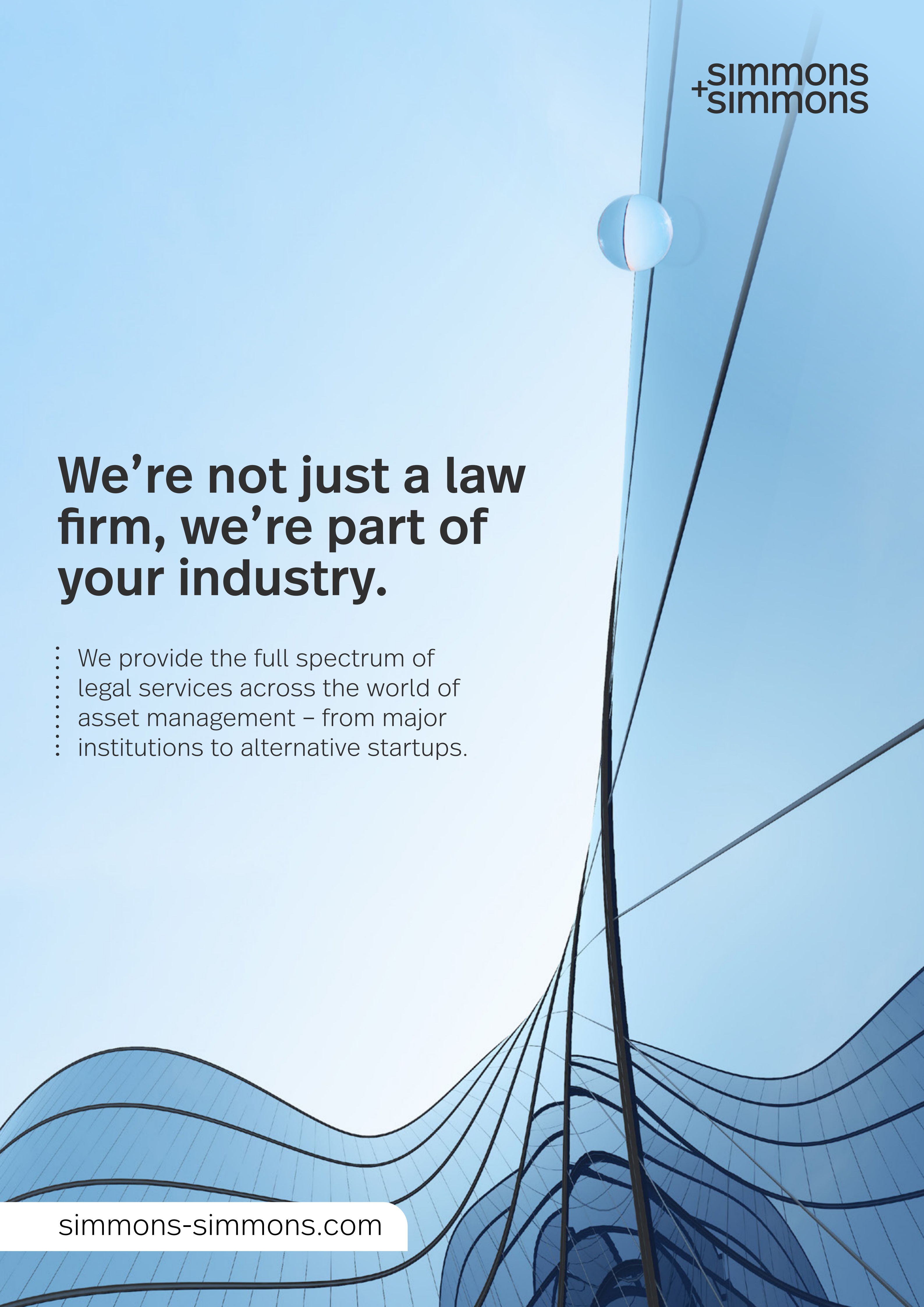
(C) Large, consecutive, or dense order placements within a short period that meet certain thresholds, with noticeable abnormalities in futures trading prices or volumes;

(D) Other circumstances identified by the futures exchange that warrant close supervision and monitoring.

- **DMA and Colocation**: DMA and colocation have been allowed for futures players to acquire market data or trade Chinese futures quantitatively. The Futures Programme Trading Rules reaffirm these arrangements while clarifying the risk management responsibilities of futures brokers.

Conclusion

In 2025, Chinese market is likely to witness the issuance of more detailed standards and regulations governing programme trading in both the securities and futures markets, with detailed transparency and reporting requirements, tiered fee structure associated with HFT, and heightened regulation over order execution, risk management and market conduct.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What a Relief! Co-investments get easier for interval funds, tender offer funds, and business development companies

The US Securities and Exchange Commission (SEC) has approved a streamlined framework for co-investments involving certain closed-end funds and business development companies (together, Regulated Funds).[1] This updated approach offers a more practical path for advisers managing both private funds and Regulated Funds, easing compliance burdens—particularly for boards of trustees or directors (each, a Board and collectively, Boards)—compared to the prior co-investment framework.

Sasha Burstein
Partner
K&L Gates

While the new framework does not address every challenge associated with co-investments by Regulated Funds, it represents a significant and welcome development. The relief has been well received across the industry,[2] and funds operating under existing co-investment orders should consider submitting amendments to align with the updated relief.

Pablo J. Man
Partner
K&L Gates

Background

The new co-investment framework is outlined in an exemptive application submitted by FS Credit Opportunities Corp. et al. (FS), seeking an order to permit certain joint transactions among affiliated FS funds.[3] On 3 April 2025, the SEC issued a notice of its intent to grant the requested relief, which includes streamlined terms and conditions relative to prior co-investment orders. The SEC formally granted the order on 29 April 2025.[4]

George Zornada
Partner
K&L Gates

1 See SEC, Investment Company Act Release No. 35520; File No. 812-15706 (Apr. 3, 2025), available here.
2 See Letter from Paul G. Cellupica & Kevin Ercoline, Inv. Co. Inst., to Vanessa Countryman, SEC (Mar. 4, 2025), available here.
3 See In re FS Credit Opportunities Corp., No. 812-15706 (Feb. 20, 2025), available here.
4 See SEC, Investment Company Act Release No. 35561; File No. 812-15706 (Apr. 29, 2025), available here.

Key changes

As noted above, the new conditions provide for significant flexibility in connection with co-investments. Among others, some of the key changes of the relief are as follows:

Streamlined co-investment transaction procedures:

- *Pre-Existing Investments in an Issuer No Longer Outright Prohibited:* Under the prior co-investment framework, Regulated Funds and their affiliates were prohibited from participating in an initial co-investment transaction if an affiliate already held a security of the same issuer.
    - o Under the new co-investment framework, a Regulated Fund may now participate in such a transaction where an affiliate already holds an investment in the same issuer, provided the Required Majority[5] of the Board approves the investment and makes specified findings regarding the transaction. In addition, Regulated Funds may acquire securities of issuers in which affiliates already hold interests—without Required Majority approval—if the Regulated Fund already holds the same security and all affiliated entities invest on a pro rata basis.
- *Reduction in Frequency of Board Approvals:* Previously, a Regulated Fund's Board was required to approve: (i) each new co-investment transaction; and (ii) any follow-on investments or dispositions, unless the transaction was allocated on a pro rata basis or involved only tradable securities.
    - o Under the new co-investment framework, Board approval is required only when an affiliate of a Regulated Fund has an existing investment in the issuer and either: (i) the Regulated Fund does not already hold an investment in that issuer; or (ii) the Regulated Fund and its affiliates are not participating in the transaction on a pro rata basis relative to their existing holdings.

Elimination of "Board-established criteria" and reduced board reporting requirements:

- *Board-established criteria*: Under the prior co-investment framework, investment advisers were required to offer all potential co-investment opportunities that aligned with a Regulated Fund's investment objectives and any objective, "Board-established criteria."
    - o The new co-investment framework eliminates this specific requirement. Instead, investment advisers may allocate co-investment opportunities to Regulated Funds based on their fiduciary duty and in accordance with their allocation policies. A Regulated Fund may participate in such transactions so long as the Board—including a Required Majority—has reviewed and approved the fund's co-investment policies and procedures.
- *Streamlined reporting:* Under the previous co-investment framework, advisers were required to submit detailed, transaction-specific quarterly reports. These reports included information on co-investment opportunities not offered to the Regulated Fund, follow-on investments and dispositions by affiliated entities, and any declined or missed opportunities.
    - o The new framework significantly reduces the reporting burden on advisers and chief compliance officers (CCOs). Advisers will now only need to provide periodic reports to the Regulated Fund's Board, in the form requested by the Board, along with a

5 As defined in Section 57(o) of the 1940 Act.

summary of any significant issues related to compliance with the relief. Additionally, the CCO will deliver an annual report to the Board outlining the Regulated Fund's participation in the co-investment program, affiliated entities' participation, and any material changes to the investment adviser's co-investment policies. The CCO will also be required to notify the Board of any compliance issues related to the relief.

Expanded flexibility for joint ventures, sub-advised Regulated Funds, and 3(c) Funds:

- *Joint ventures*: The new co-investment framework expands eligibility for participation in co-investment transactions by including joint venture subsidiaries (i.e., an unconsolidated joint venture subsidiary of a Regulated Fund, in which all portfolio decisions, and generally all other decisions in respect of such joint venture, must be approved by an investment committee consisting of representatives of the Regulated Fund and the unaffiliated joint venture partner, with approval from a representative of each required) of a Regulated Fund, formed with an unaffiliated joint venture partner. Previous co-investment relief generally did not allow such joint venture subsidiaries to participate in negotiated co-investments in reliance on the exemptive relief.

- *Sub-advised funds*: Sub-advised Regulated Funds, where the primary adviser and sub-adviser are unaffiliated, can now participate in co-investment transactions. Previously, most exemptive orders did not allow these types of entities to participate in such co-investment transactions. A Regulated Fund may rely on the relief obtained by its adviser to co-invest with adviser affiliates, as well as the relief obtained by the applicable sub-adviser to invest with sub-adviser affiliates, by indicating to the Board which relief the Regulated Fund is relying on.

- *Broader range of affiliated private funds:* The new framework extends to a broader array of affiliated private funds, permitting any entity that would be considered an investment company but for Section 3(c) of the Investment Company Act of 1940, as amended (the 1940 Act) or Rule 3a-7 thereunder to rely on the relief, provided it is advised by an adviser affiliated with the applicant. Previously, exemptive orders were generally limited to entities relying on Section 3(c)(1), 3(c)(7), or 3(c)(5)(C). Additionally, insurance company general accounts are now treated as private funds.

Takeaways for sponsors of interval funds, tender offer funds and business development companies

- *Simplified governance:* The new co-investment framework adopts a more practical approach by eliminating the requirement for Board approval for nearly every investment. This change significantly reduces the governance burden, allowing Boards to focus on strategic oversight rather than routine transaction approvals. By streamlining the approval process, advisers can make investment decisions more efficiently, minimizing delays and administrative overhead.

- *Clearer roles:* The updates provide greater clarity regarding the respective roles of the adviser and the Board in investment decisions. This clearer delineation of responsibilities enhances governance and ensures smoother operations. More specifically, the new relief does not require that a Regulated Fund's Board be presented with all relevant co-investment transactions that were not made available to the Regulated Fund and an explanation of why such investment opportunities were not made available. Instead, the Regulated Fund's Board simply must (i) review the adviser's co-investment policies to ensure they are reasonably designed to prevent the Regulated Fund from being disadvantaged by participation in the co-investment program and (ii) approve policies and procedures that are reasonably designed to ensure compliance with the terms of the new relief.

- *Expanded investment opportunities:* Regulated Funds can now participate in a broader range of investment opportunities, even if an affiliate already holds an investment in the same issuer where the Regulated Fund has not previously participated. The ability to engage in follow-on investments without requiring stringent Board approval further enhances the flexibility and appeal of co-investment opportunities, broadening access to private markets for retail investors.

- *Efficient allocation:* The new framework eliminates cumbersome requirements for special allocation determinations, placing the allocation process squarely within the adviser's fiduciary responsibility.

- *The new co-investment framework facilitates private fund to Regulated Fund conversions:* The updated co-investment framework removes the "pre-boarded assets" distinction, facilitating the conversion of private funds to Regulated Funds. This change reduces the burden on converted assets, lowers associated costs, and eliminates the need for independent counsel with respect to these pre-boarded assets, further alleviating financial and administrative burdens.

Thank you for reading the
Edition 142 of the AIMA Journal.

If you would like to contribute to future editions, please email Caterina Giordo and Jorge Palmero.

PUBLICATION PLAN 2025

- **Q3 Edition 143**

Deadline for submission 5pm UK time Monday 21 July | Publication Monday 22 September

Please note the deadline to reserve a spot for the Q3 edition of the AIMA Journal is 5pm UK time Friday 4 July.

- **Q4 Edition 144**

Deadline for submission 5pm UK time Monday 20 October | Publication Monday 24 November

Please note the deadline to reserve a spot for the Q4 edition of the AIMA Journal is 5pm UK time Friday 3 October.

Please note that availability is limited, and we cannot accept any additional contributions once all the spots have been filled.

We kindly advise all contributors to email us prior to submitting to make sure we can include the contribution. We can't guarantee the inclusion of any last-minute submissions.

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