

The AIMA logo consists of a dark blue square with the word "AIMA" in white, sans-serif, uppercase letters. A horizontal magenta bar is positioned directly beneath the blue square.

AIMA

Report on the AIMA Brexit Survey 2.0

October 2018



1. Introduction

We are now just six months away from Britain formally exiting the EU (on 29 March 2019). Uncertainty still pervades as to whether the UK and EU will agree a withdrawal agreement and, even then, whether the withdrawal agreement will be ratified by the UK, EU and numerous additional EU27 parliaments. AIMA manager members are therefore having to take important decisions regarding their structuring for any future business in the EU27.

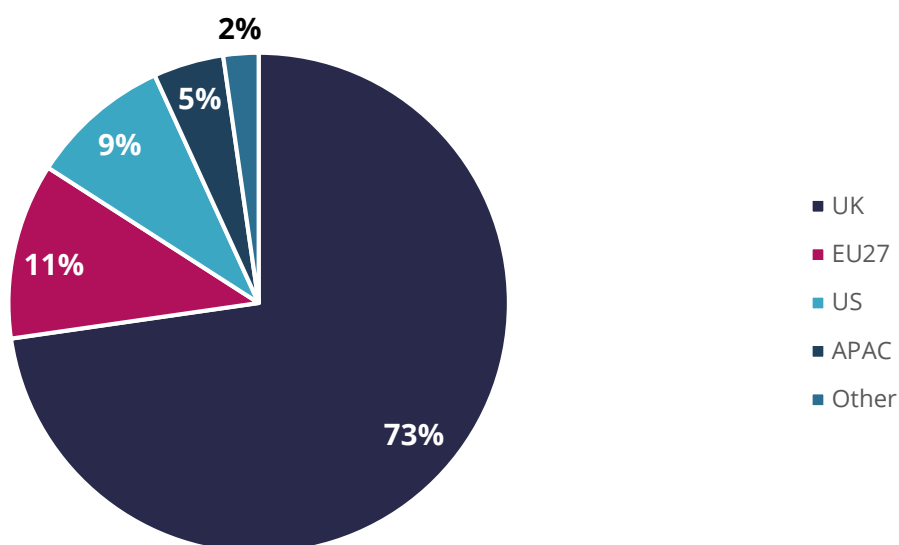
AIMA undertook a snap poll of its manager membership in September 2018 to help provide a degree of insight into firms' intentions in a post-Brexit world. This report sets out the findings of the survey.

Demographic:

In total, 43 firms responded managing in excess of \$135bn in assets. The vast majority of respondents are headquartered in the UK (73%), with others in the EU27 (11%), U.S. (9%) and APAC (5%) – see Figure 1.

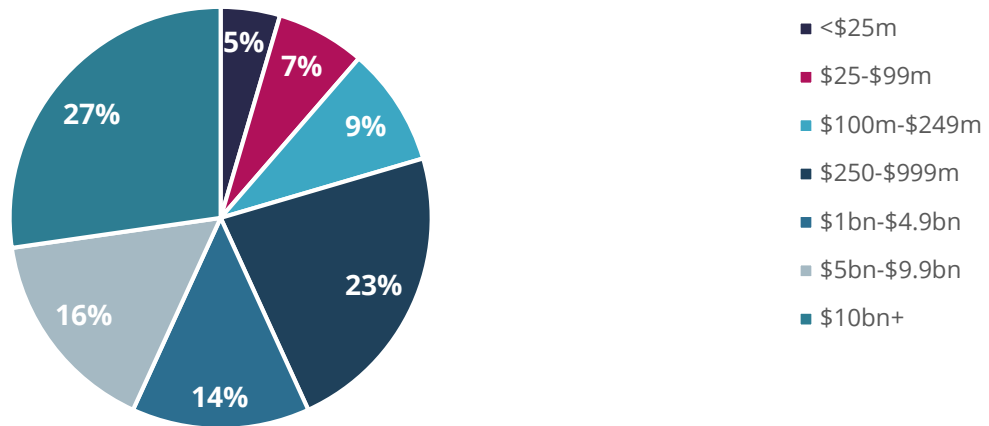
For the purposes of this report, the analysis largely focuses on the results from UK-headquartered firms, comparing where relevant to non-UK headquartered firms.

Figure 1: In what region is your firm headquartered?



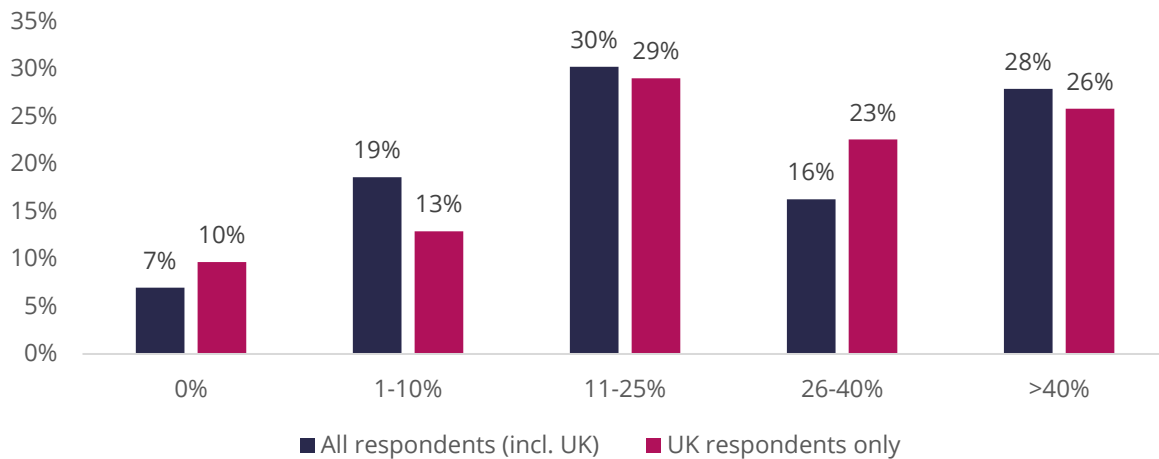
The responding sample includes a variety of manager sizes. Assets under management (**AUM**) levels are roughly split between sub-\$1bn AUM managers and those with greater than \$1bn AUM. 27% of respondents manage in-excess of \$10bn, 16% manage between \$5-10bn and 14% manage \$1-5bn. See Figure 2.

Figure 2: What is your firm's approximate AUM for hedge fund and private credit strategies?



Responding firms' have a significant proportion of AUM attributable to EU27 investors. On average, respondents to the survey draw around 25% of their assets from investors based in the EU27. As shown in Figure 3, of UK-headquartered firms, 26% report drawing over 40% of their capital from EU27 investors, just under a quarter draw 26-40% from EU27 investors, and just under a third report drawing 11-25% of their capital from EU27 investors. 10% have no EU27 investors at all.

Figure 3: Roughly what proportion of AUM is attributable to EU27 investors?



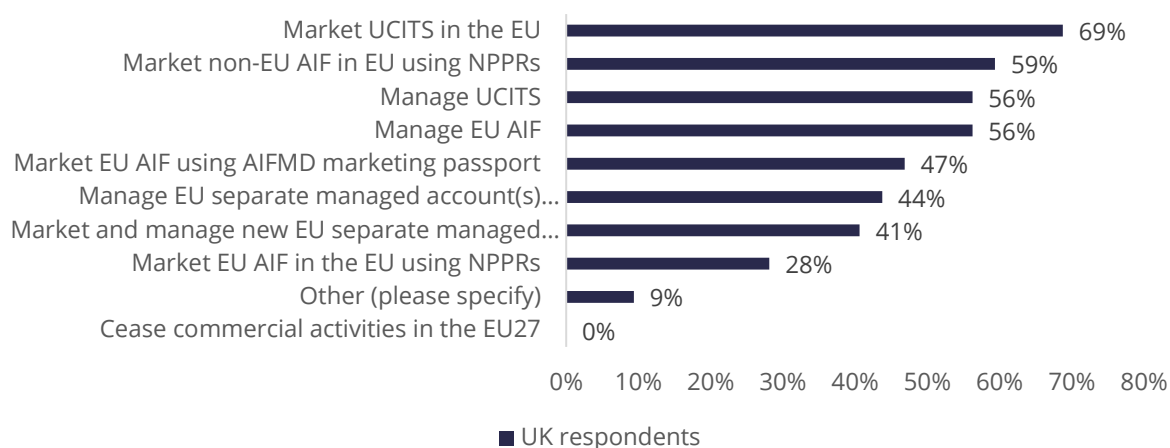
2. EU27 business activities planned post-March 2019?

Activities

The survey demonstrates that no responding firm intends to cease doing business in the EU27 with EU clients post-March 2019.

As shown in Figure 4, of UK-headquartered firms, the most common activity planned in the EU27 is the marketing of UCITS¹ (70%) and non-EU AIFs² using national private placement regimes (60%). 55% of UK-headquartered respondents intend to manage an EU AIF, with 50% planning to market an EU AIF using the AIFMD marketing passport. 43% of UK-headquartered respondents intend to service existing EU separate managed accounts. Almost all of the latter respondents also intend to market and manage new EU27 managed accounts going forward.

Figure 4: Which of the following commercial activities does your firm intend to undertake in the EU27 post-Brexit? (tick all that apply)

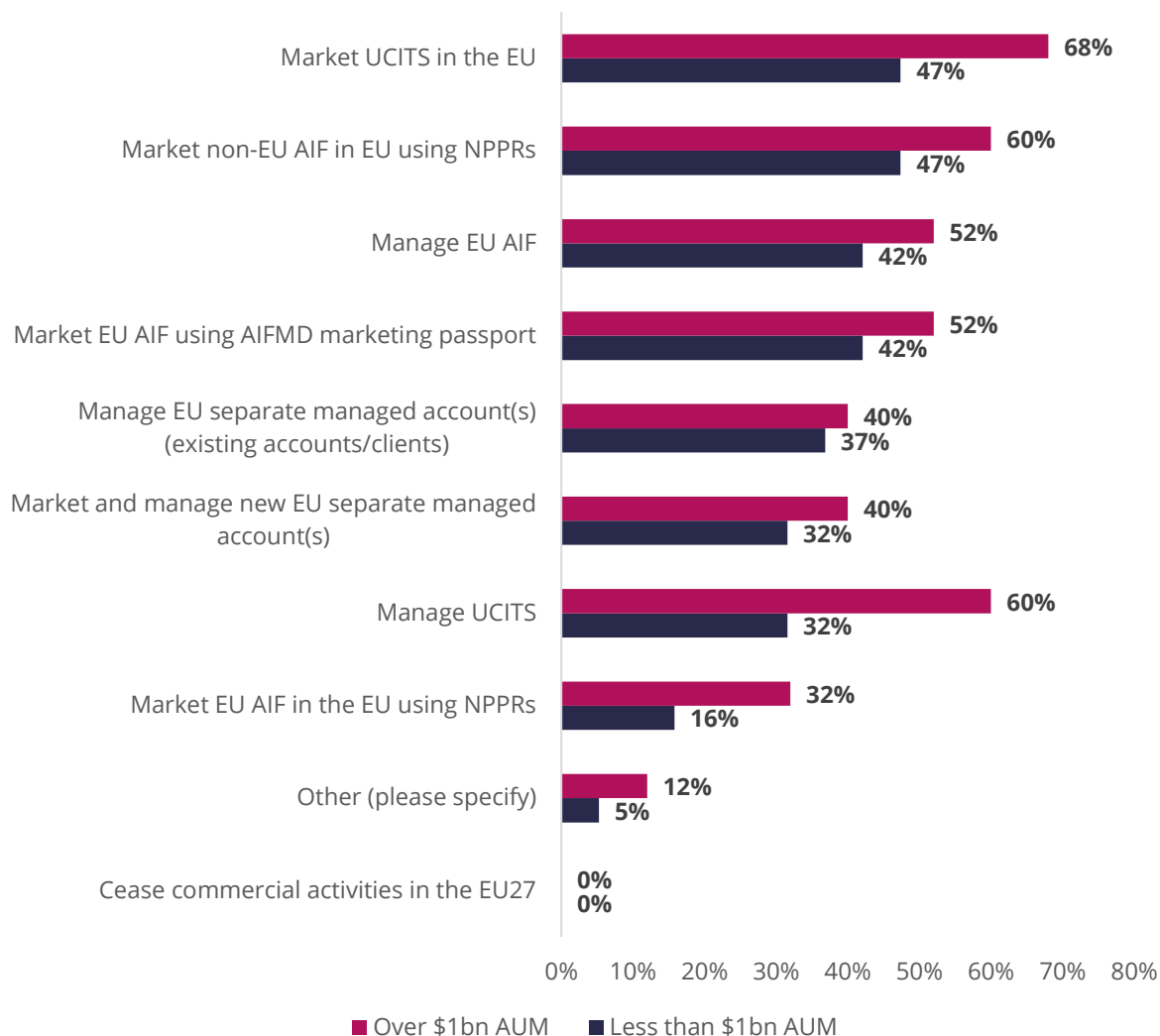


When split out by AUM, we can see that billion-dollar firms are more likely to undertake business activities in the EU27 post-Brexit. They are also much more likely to market and manage a UCITS fund; as shown in Figure 5.

¹ Undertakings for Collective Investment in Transferable Securities (UCITS) is a globally recognised EU regulatory brand for collective investment schemes targeted at both professional and retail investors. The key requirement for UCITS products is that the fund and management company must both be established in the EU, although delegation of portfolio management functions is permissible

² "Alternative investment fund" (AIF) is a definition stemming from the EU Alternative Investment Fund Managers Directive (AIFMD) which refers to any fund globally that is not a UCITS. The important classifications for EU marketing purposes is whether the AIF is domiciled in the EU (EU AIF) or outside the EU (Non-EU AIF). An intra-EU marketing "passport" is only available for EU AIFs

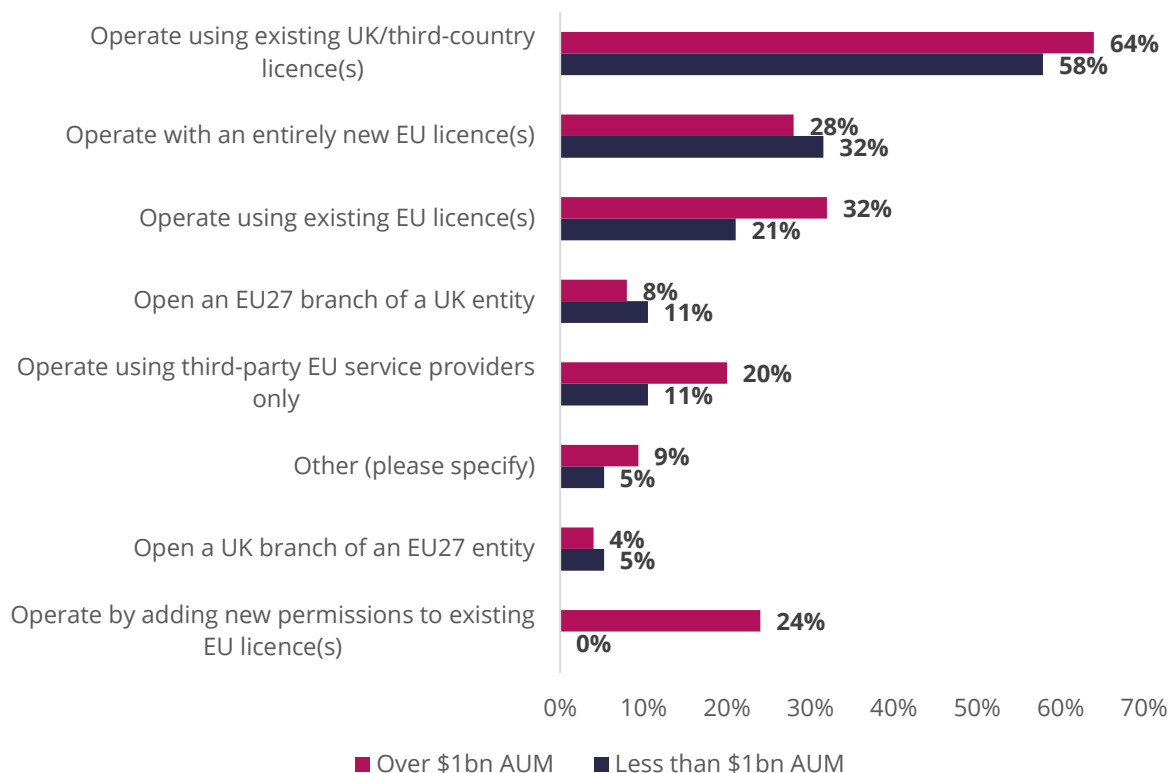
Figure 5: Which of the following commercial activities does your firm intend to undertake in the EU27 post-Brexit? (By AUM)



Licences

30% of UK-headquartered firms intend to obtain a wholly new EU licence to continue to conduct business in the EU27 post-Brexit, whereas 23% already have one or more EU27 licences that they intend to use. Almost two-thirds of those firms with an existing EU27 licence intend to add one or more new permissions. Smaller managers are less likely to have an existing EU27 licence, thus are more likely to plan to acquire one to conduct EU27 business post-Brexit – see Figure 6.

Figure 6: How does your firm intend to perform the activities described in Question 4 and 5? (By AUM)



20% of UK-headquartered firms intend to use EU27-based service providers to avoid the need to obtain a full EU27 licence.³ Other options being pursued by some firms include opening an EU27 branch of a UK-headquartered firm and, conversely, restructuring such that the UK entity is a branch of an EU27 entity, thus the firm's main establishment would be in the EU27 and would permit full EU passporting.

Functions

When asked whether firms intend to create or enhance an existing EU27 function, 44% of UK-headquartered respondents answered that they do not intend to create or enhance existing E27 functions for Brexit. Conversely, roughly the same number do intend to create or enhance internal EU27 functions.

Among those UK-headquartered firms that intend to create or enhance EU27 functions, the most common functions were sales and marketing (26%), followed by risk management (25%), compliance (16%), investor relations (9%) and portfolio management (9%). 13% of UK firms intend to use a regulatory hosting platform in the EU27, rather than creating or enhancing in-house functions. See Figure 7.

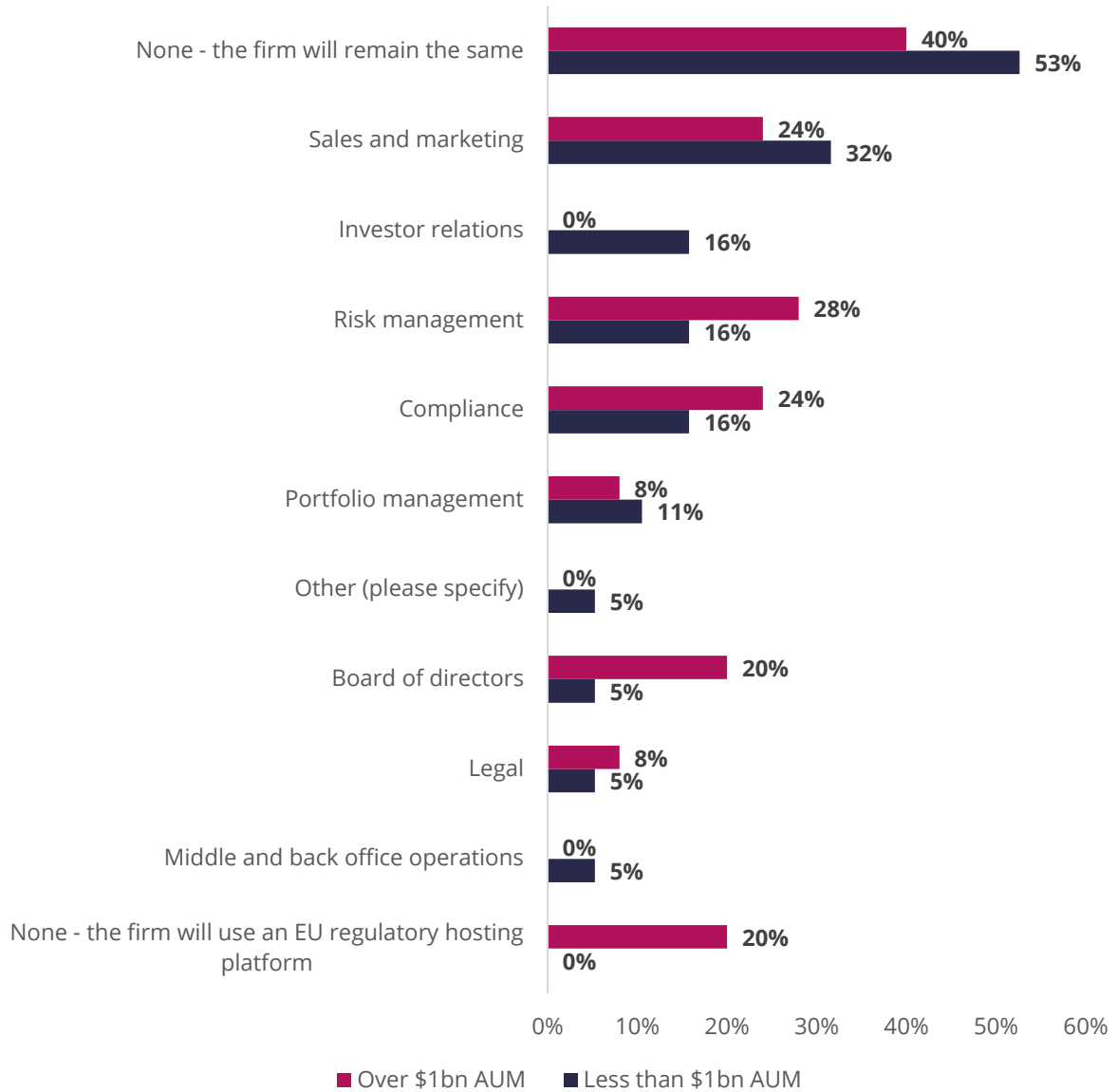
³ Which include regulatory hosting solutions whereby firms rely upon the permissions and licence of a platform provider, rather than needing their own

Figure 7: What internal functions does your firm plan to enhance or create in the EU27 post-Brexit? (tick all that apply)



Figure 8 demonstrates that smaller firms are more likely to plan on augmenting their sales and investor relation functions in the EU27 post-Brexit; billion-dollar firms are more likely to plan on increasing their risk and compliance functions.

Figure 8: What internal functions does your firm plan to enhance or create in the EU27 post-Brexit? (By AUM)



3. People

UK

A clear majority of 72% of UK-headquartered firms do not intend to change their UK headcount, whereas 13% of UK firms are still undecided. Remaining firms are split equally as to whether they intend to decrease or increase UK headcount in some way.

Comparing larger and smaller firms demonstrates that billion-dollar firms are less likely to report that their UK staffing levels will remain the same, but that billion-dollar firms are more likely to plan to increase headcount and less likely to decrease headcount, than smaller firms.

See Figure 9 and 10.

Figure 9: What will be the approximate impact on headcount in the UK post-Brexit resulting from your firm's structural changes?

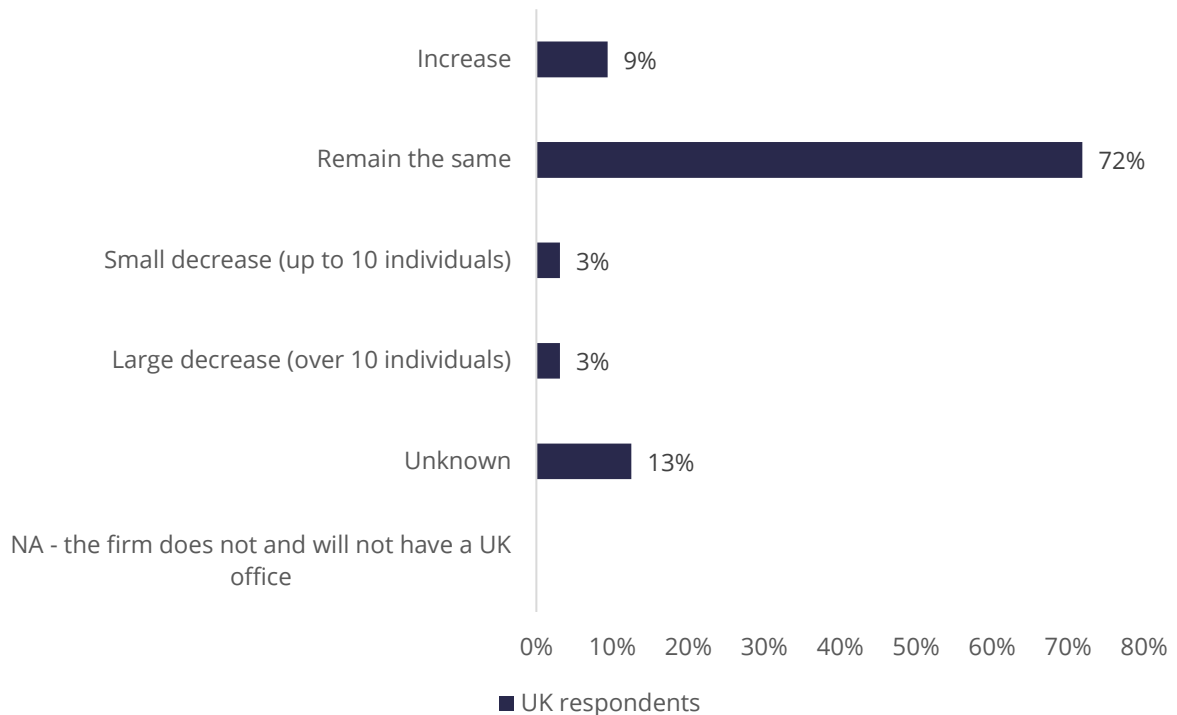
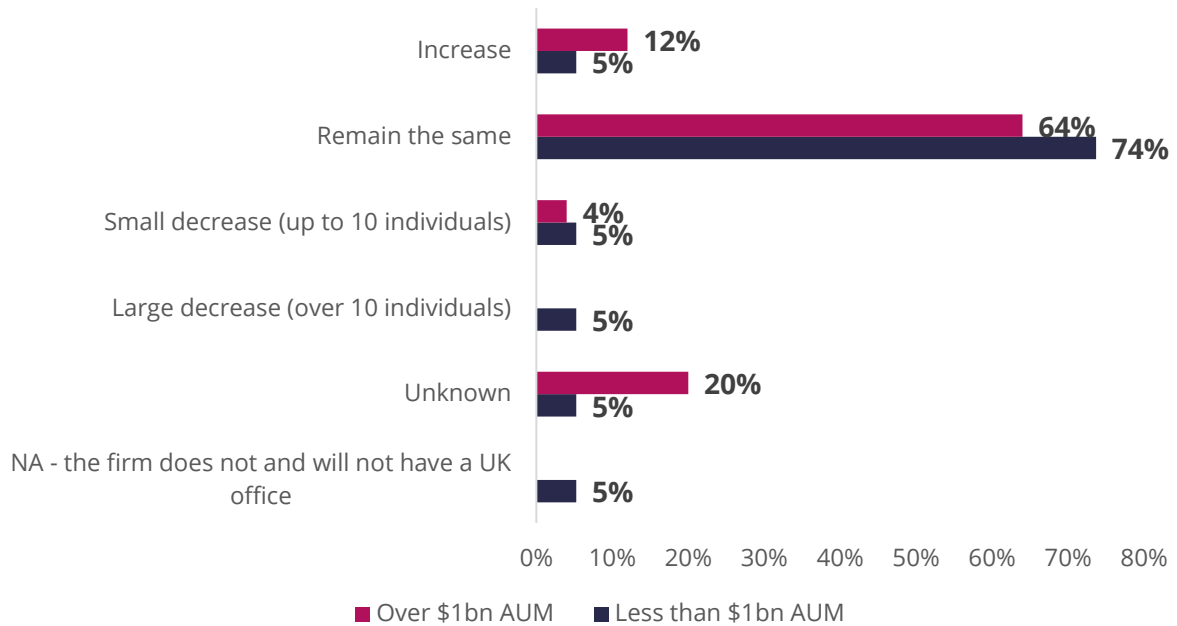


Figure 10: What will be the approximate impact on headcount in the UK post-Brexit resulting from your firm's structural changes? (By AUM)



EU27

25% of UK-headquartered firms intend to increase their EU27 headcount and only 18% believe it will remain the same (see Figure 11). Sub-\$1bn managers are particularly likely to plan to increase EU27 headcount (see Figure 12), which is in keeping with the fact that such managers are more likely to require new EU27 licences and functions.

Figure 11: What will be the approximate impact on headcount in the EU27 post-Brexit resulting from your firm's structural changes?

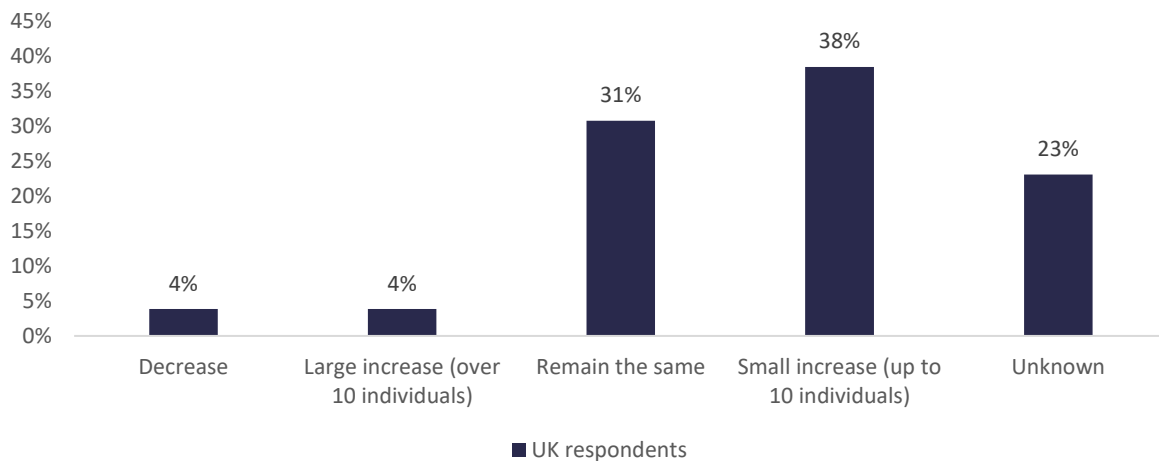
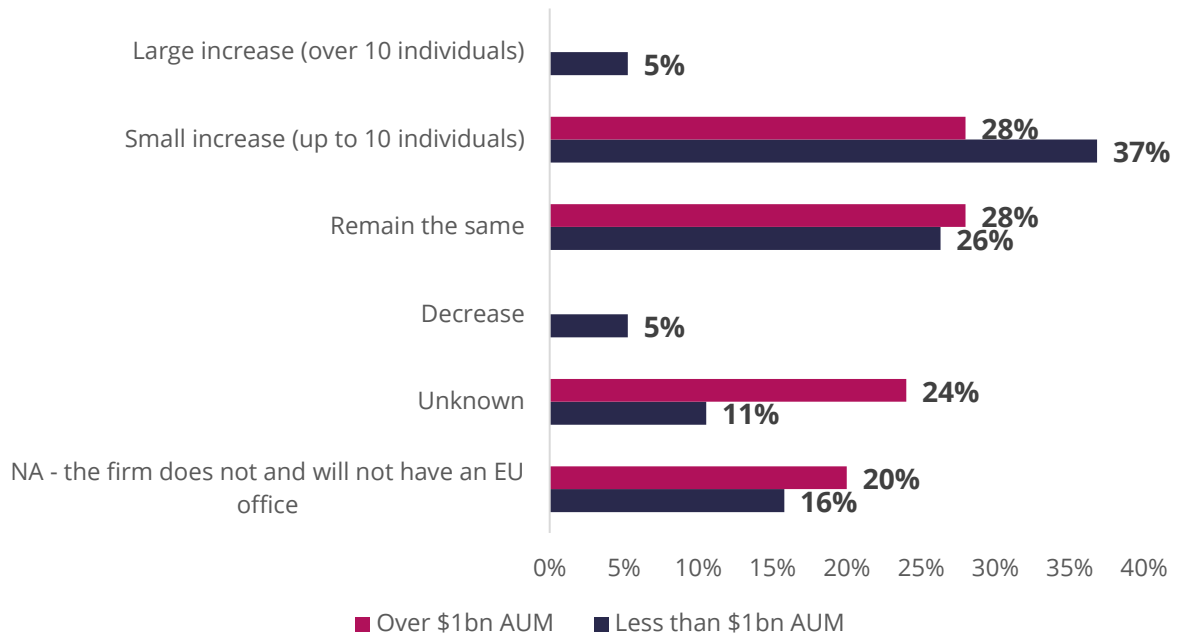
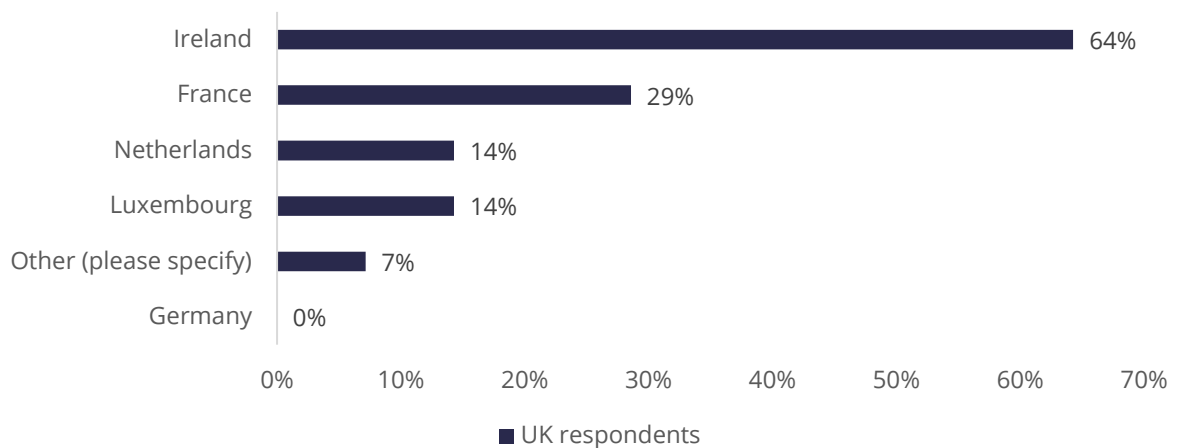


Figure 12: What will be the approximate impact on headcount in the EU27 post-Brexit resulting from your firm's structural changes? (By AUM)



The main EU27 destination jurisdictions for increased headcount for UK-headquartered firms are Ireland (64%), France (29%), Luxembourg (14%) and the Netherlands (14%). See Figure 13.

Figure 13. If increasing EU27 headcount, in which EU27 jurisdiction(s) do you intend to increase headcount?



It is apparent that new individuals will most commonly be sourced from the EU27, although almost half of those firms increasing EU headcount will do so through some relocation of UK staff (see Figure 14). Figure 15 demonstrates that larger managers are more likely than smaller managers to relocate existing staff.

Figure 14. If increasing EU27 headcount, from where will the new individuals be sourced? (tick all that apply)

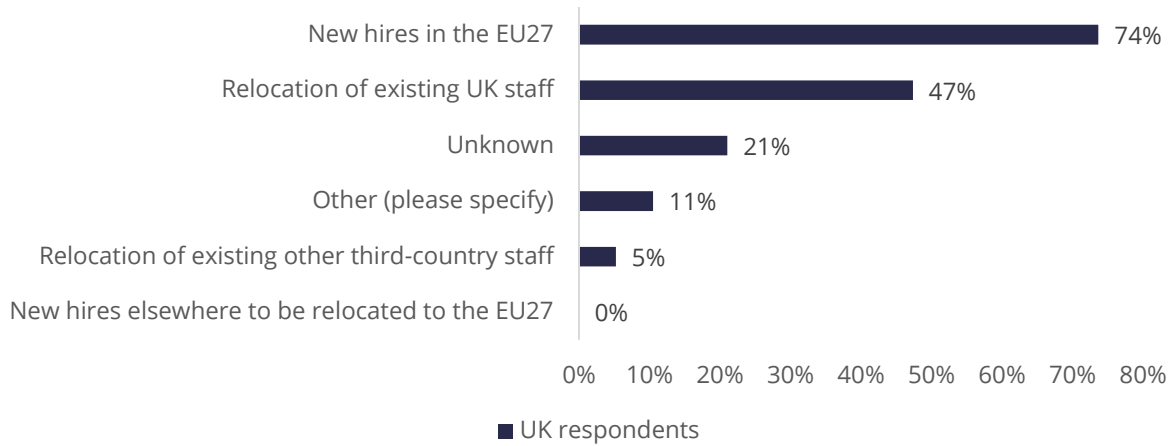
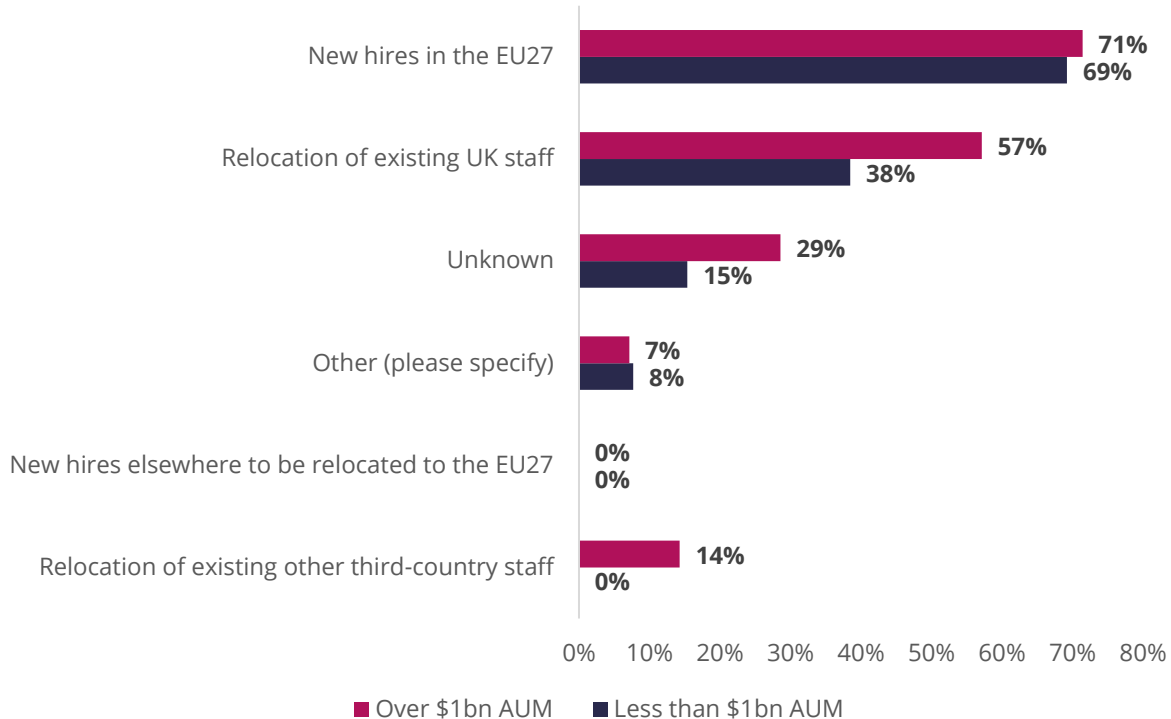


Figure 15. If increasing EU27 headcount, from where will the new individuals be sourced? (tick all that apply)



4. Key Issues

When asked to prioritise key areas of concern or uncertainty relating to Brexit, the greatest concerns highlighted by responding firms of all sizes was the uncertainty and risk around whether cooperation agreements will be entered between the UK and EU27 national competent authorities and ESMA by March 2019. These agreements are the essential foundation upon which a sub-delegation arrangement can be created whereby key portfolio management functions can be delegated from the EU27 entity to an entity in a third country - which is what the UK will become as of 29 March 2019. AIMA is glad that, at the beginning of October 2018, the negotiation and development process for cooperation agreements between the UK and EU authorities commenced and is intended by both sides to be completed prior to the 29 March 2019 deadline. This comes after concerted policy engagement by AIMA over the course of 2017-2018.⁴

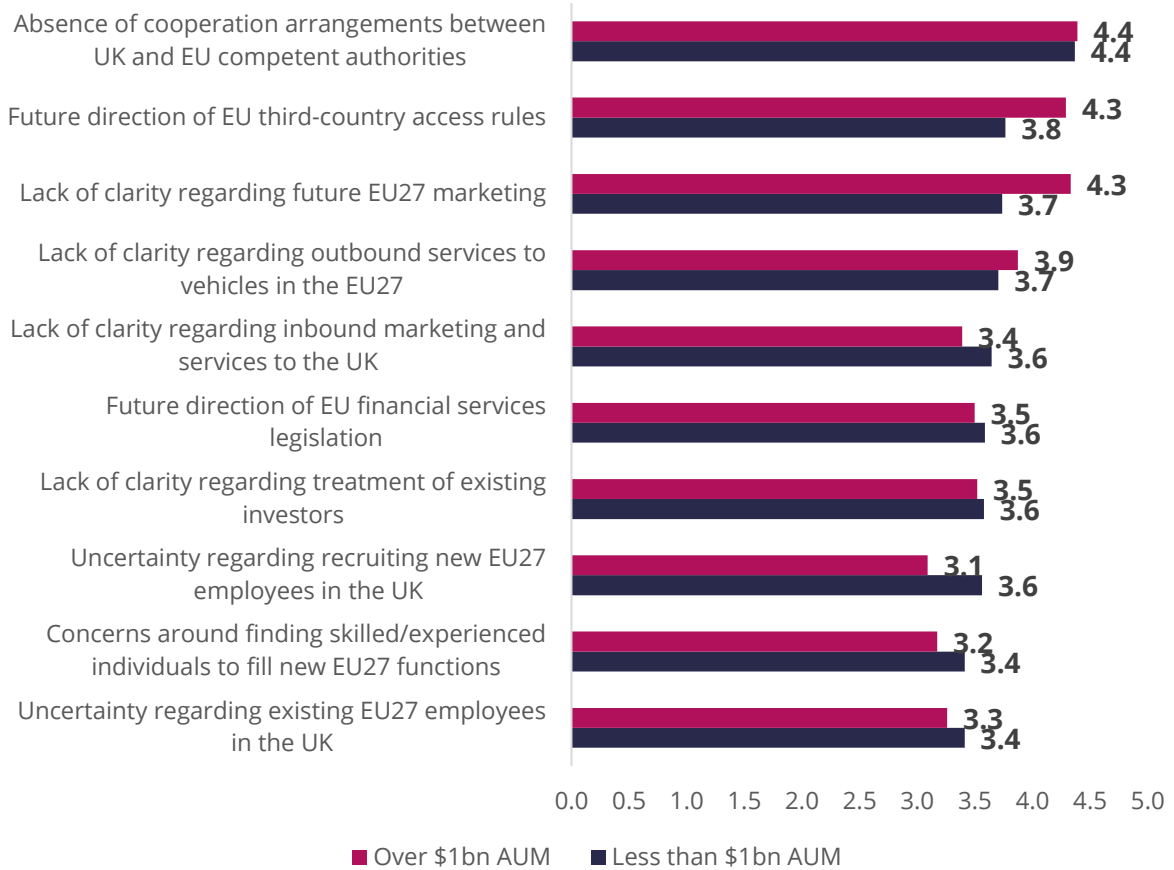
Respondents also highlighted their concerns about the lack of clarity regarding the future of EU27 marketing and third country access rules – over which the UK will no longer have any formal influence. Billion-dollar firms here appear to be most concerned about the future direction of EU27 marketing and third country access when compared with smaller firms. See Figure 16. The provision of direct management services to EU27 vehicles is also a particular area of uncertainty, not least because of the increasing reliance UK managers place upon EU27 vehicles even for non-EU investors

Issues around personnel were a lower priority for respondents when compared to our previous formal and informal surveys undertaken shortly after the referendum in 2016. Firms responding to the list of issues within the survey were least concerned about the rights of existing EU27 employees in the UK and finding skilled individuals to fill EU27 functions, as well as recruiting new EU27 employees in the UK. AIMA anticipates that this is due to the fact that EU27 citizens' rights is an area of the withdrawal agreement which has been promised broad unilateral protection by UK politicians, regardless of whether there is a deal or no deal.⁵

⁴ See 'Brexit and Alternative Asset Managers: Managing the impact in the EEA' (April 2018) available online: <https://www.aima.org/resource/brexit-and-alternative-asset-managers-managing-the-impact-in-the-eea.html> and 'Brexit and Alternative Asset Managers: Managing the Impact' (July 2018) available online: <https://www.aima.org/resource/brexit-and-alternative-asset-managers-managing-the-impact.html>

⁵ UK politicians and regulatory agencies have also been clear in trying to reassure firms that EU27 nationals already in the UK and firms that wish to continue to hire the most skilled individual for a role – wherever in the EU27 or beyond that they may be from – that it is not the UK government's intention to prevent this

Figure 16: What are the most significant issues for your firm in relation to Brexit? (By AUM)



Contact

If you have any questions on the survey or this report, please contact Oliver Robinson (orobinson@aima.org).

