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AIMA Journal

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AIMA's Global Policy and Regulatory Forum

Confirmed speakers include:

- **Daniel M. Gallagher, SEC**
- **Mark P. Wetjen, CFTC**
- **Martin Wheatley, FCA**
- **Carolyn Wilkins, Bank of Canada**
- **Jean-Paul Servais, Belgian FSMA**
- **Stuart Fiertz, Cheyne Capital**

- Andrew Bastow, AQR
- Nellie Liang, Federal Reserve Board
- Peter Lindner, IMF
- Nancy Markowitz, CFTC
- Barbara Novick, BlackRock
- Amanda Olear, CFTC
- Eric J. Pan, SEC
- Patrick Pinschmidt, FSOC
- Kay Swinburne, European Parliament
- Marianne Thiéry, French Finance Ministry
- Danforth W. Townley, SEC

'THE CHANGING DNA OF THE INDUSTRY'

APRIL 16, 2015 | TRUMP SOHO | NEW YORK

Topics on the agenda:

- Regulatory changes related to product innovation and business diversification
- Overhaul of the trading environment for shares, bonds and derivatives
- Re-regulation of the asset management sector to address systemic risk
- New rules for managers active in automated and algorithmic trading
- Addressing the complexity of overlapping cross-border regulations
- Implications of CCP resolution regimes for the buy-side
- Changes in the dealing commission/soft dollar rules
- Impact of banking regulations on funds

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EDITORIAL: A strong start to our 25th anniversary year

By Jack Inglis, CEO, AIMA

It has been another busy and productive quarter, as reflected in the pages of this edition of the AIMA Journal.

We have published three major reports since the start of the year. We produced a paper about hedge funds for pension trustees (here) jointly with the CAIA Association. More papers in this series are due to appear throughout the year.

We contributed to a joint survey with the MFA, published by KPMG, in which we looked ahead five years and assessed the opportunities and challenges facing the industry (here). And we produced a study of the impact of the activist hedge fund sector on the 'real' economy and corporate governance (here).

Summaries of all three reports are included in this issue.

We hosted our first Asia-Pacific regional forum in Q1, "AIMA in Asia 2015", which examined the key themes and topics across the region. The event drew 265 attendees and included presentations from Alexa Lam of the Securities and Futures Commission and Charles Li of Hong Kong Exchange. The forum was a sign of our continually increasing commitment to and support for the hedge fund sector in the Asia-Pacific region.

China remains the big talking point and 2015 will see AIMA increase our presence and influence there. Turn to the Events section of this edition for a review of AIMA in Asia 2015.

Q2 is shaping up to be just as exciting. On April 16th, we will host one of our flagship conferences of the year, AIMA's Global Policy and Regulatory Forum, which will be held at the Trump SoHo hotel in New York. Among the speakers at this one-day forum will be Daniel Gallagher of the SEC; Mark Wetjen of the CFTC and Martin Wheatley of the FCA. There are still a few places remaining, so to register or for further information, please visit the event's website here or email our events team at events@aima.org.

We have a very strong pipeline of additional research reports, sound-practice guides and due diligence questionnaires, and a number of these publications are due to appear in Q2. Look out for updates in the AIMA Weekly News.

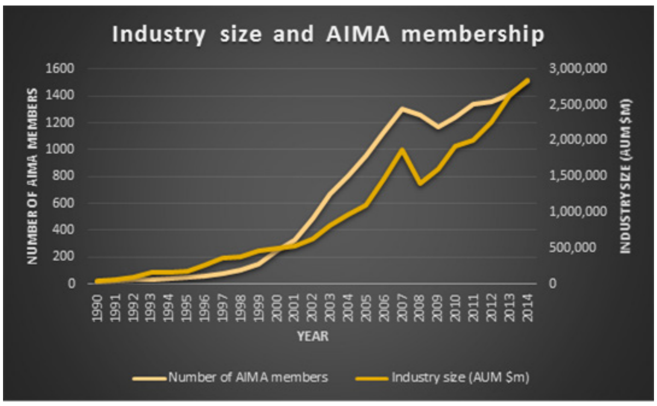
Finally, a reminder that this is AIMA's 25th anniversary year. We are planning a number of projects and events to mark the occasion. I hope members will support our 25th Anniversary Dinner, which is being held in aid of the National Society for the Prevention of Cruelty to Children (NSPCC). It is being held in London on 23 September, on the evening before our Annual Conference. Members will receive more information about it shortly.

To learn more about how far AIMA and the global hedge fund industry have come in a quarter of a century, turn to our special feature later in this issue or click here.

AIMA's 25th anniversary

This year marks the 25th anniversary of our association. Founded back in 1990 in a Swiss hotel lobby by a small group of European managers realising the need for mutual representation, AIMA has grown into a truly global organisation, with the majority of its 1,500 corporate member firms now based outside Europe's borders. The global nature of investing, trading and regulation means our relevance today is as high as it has ever been.

The growth of the association in terms of membership and staff reflects the growth of the global hedge fund industry. In 1990, we had only a part-time secretary and in 1994 we were still operating out of shared office space in Paris. As recently as 2005, by which time our head office had relocated to London, we still had only eight staff members.



Today, we have a total of 35 staff; 25 in the London head office and a further 10 in our representative offices around the world. Much of this additional resource has been added since the global financial crisis. The world changed in 2008/9, and with it, AIMA changed too. Following the crisis, we built new structures and brought in new people to address the challenges posed by the crisis and the regulatory reforms that followed.

The Government and Regulatory Affairs department that we established after the crisis comprises former law firm partners and regulators. It provides members with guidance notes and updates on complex initiatives, detailing how developments may affect their business and the advocacy positions that we are adopting. With our public affairs work on the ground in the main financial and political centres, we are able to engage in extensive advocacy in the best interests of the industry.

Our communications team coordinates our engagement with the media globally and works closely with the industry to demonstrate the value of hedge funds to investors, financial markets and the 'real' economy.

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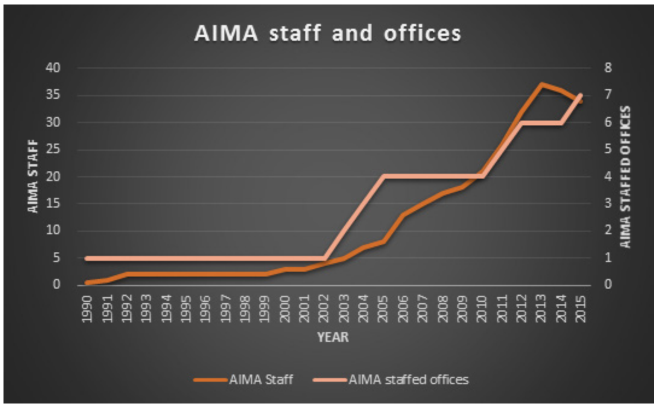
At the very top of the organisation, we have had seven Chairs, some serving for five years, and only three Chief Executive Officers in our 25 years. Our current CEO, Jack Inglis, joined AIMA in February 2014.

From small European beginnings, an impressive international network encompassing Asia-Pacific, EMEA and the Americas has been constructed.

Our members now come from over 50 different countries. The US has the dominant market share in the industry and represents over 50% of the aggregate AUM of our global membership; our Americas presence is further augmented by the existence of our National Groups in Canada and Cayman as well as our activities in Brazil. In Asia-Pacific, we have National Groups operating in Hong Kong, Singapore, Japan and Australia, all now combining under a single regionally-focused operation.

Our members are the backbone of the association and comprise both the largest and smallest firms around the world. Over 800 of our member contacts (roughly 10% of the total membership), representing about 370 firms, contribute to our more than 70 committees and working groups around the world. These groups tackle advocacy, help us draft our regulatory submissions, drive our sound practices work and support the development of other vital industry tools.



Our focus on education and sound practices has resulted in a substantial body of work for investors and practitioners alike. The first AIMA due diligence questionnaire was issued in 1997 and has gone on to become the industry-standard DDQ, covering the selection of hedge fund managers, clearing members, prime brokers, CTAs/managed futures funds, fund of hedge funds managers and administrators.

Our first Guide to Sound Practices (GSP) was published in September 2002, and our library of GSPs today includes guides to hedge fund management, valuation and asset pricing, administration, governance, business continuity, due diligence for managers and service providers, offshore alternative fund directors and fund of hedge funds managers.

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In terms of our events, our initial Regulatory Forum was held in 2000, our 10th anniversary year, and our first Annual Conference was held in 2010, our 20th anniversary year. Today, the AIMA Annual Conference and AIMA Global Policy & Regulatory Forum (the successor to the Regulatory Forum), open to all AIMA members, are our flagship fixtures and attract hundreds of delegates and leading speakers from the industry and the policymaker community globally.

We organise many additional events which provide helpful intelligence to delegates and networking opportunities. In 2014, we held over 180 events worldwide, with a total attendance of well over 10,000.

AIMA regards the global hedge fund industry as a valuable contributor to the global economy. We provide a global forum for members to establish a common adherence to industry sound practice. Our goal remains to maintain a fair and functioning environment allowing alternative asset managers to contribute to growth through capital markets activities. AIMA stands for investor protection, global consistency of regulation, market efficiency and integrity and the mitigation of systemic risk by maintaining diversity of business models within the financial sector. AIMA works this through advocacy, awareness and education among policymakers, investors, regulators, the media and the wider public.

Above all, AIMA remains a “people organisation”. Crucial to everything AIMA does are its members, its network and its staff. The voluntary work provided by all who contribute in committees and working groups, who sponsor and host our events and facilitate our product offering is a priceless feature of the AIMA toolbox. Without our members, there would be no AIMA.

Notable dates in our history:

1990 – The forerunner to AIMA, the European Managed Futures Association (EMFA), was formed. By the end of that year, our members managed around $29bn in assets, versus a total industry size of $39bn globally. As EMFA’s name suggested, managed futures funds were then the core activity of the association’s membership, although hedge funds and currency funds were included.

1992 – Launched the first member publication, the EMFA Newsletter, the forerunner to the AIMA Journal. Regulation and tax soon became key interests.

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1997 – In the year of the Asian financial crisis we became the Alternative Investment Management Association (AIMA), recognising the broadened industry. AIMA Journal replaced the EMFA Newsletter.

1999 – Launched our first National Group in Hong Kong.

2000 – AIMA had over 250 corporate members.

2001 – Launched National Groups in Australia and Japan.

2002 – AIMA co-launched the CAIA qualification with the Center for International Securities and Derivatives Markets (CISDM). Regulation as a focus was firmly staying and our website included a regulation and tax section for the first time.

2003 - Launched National Groups in Canada and South Africa.

2004 - Launched a National Group in Singapore.

2005 - At the time of our 15th anniversary, we had 870 corporate members (over 3,000 individual contacts) in 46 countries. Our Council grew to 19 members. Our manager members' AUM reached $1 trillion. Membership had become more global and fully reflective of industry interests.

2006 - Launched a National Group in the Cayman Islands.

2007/8 – The global financial crisis shook everyone in the financial sector and as the hedge fund industry declined in size, so did AIMA. Our corporate membership fell from 1,300 in 2007 to 1,170 in 2009.

2010 – The industry recovered, growing to $1.5 trillion in AUM. Our membership grew again to over 1,200 firms.

2012 – Opened an office in New York.

2015 – 25th anniversary: Currently over 1,500 corporate members, 8,500+ individuals, in over 50 countries. AIMA's manager members collectively manage more than $1.5 trillion in assets.

The Way Ahead: Helping trustees navigate the hedge fund sector

A joint paper by AIMA and the CAIA Association

During Q1, AIMA and the CAIA Association jointly published the first of a series of educational papers about hedge funds for pension fund trustees and other fiduciaries at institutional investors. The paper, titled "The Way Ahead: Helping trustees navigate the hedge fund sector", sets out to give practical guidance about how existing investors have managed issues and challenges associated with their hedge fund investments as well as detailing the advantages of allocating to hedge funds.

The other papers in the series, to be released between now and Q1 2016, will cover such topics as hedge fund strategies, transparency and governance. They are being produced in collaboration with the AIMA Investor Steering Committee, a group of leading institutional investors globally with approximately $150 billion invested in hedge funds. The following is a summary of the full paper, which is available here.

Introduction

Hedge funds have become part of the mainstream. Approximately one in every four dollars[1] managed by hedge funds today are invested by public and private sector pension funds. This means that hedge funds are managing more than $700 billion on behalf of pension funds. For institutional investors as a whole, that figure rises to roughly three in every four dollars managed by hedge funds — over $2 trillion.

1. *Source: Preqin*

The cover of the report

The change in investor demographic reflects a gradual shift in sentiment towards hedge funds over the course of the last 10-20 years. Just as stocks and shares were once considered too "risky" for pension funds and other institutional investors, so investing in hedge funds used to be thought of as a highly speculative pursuit for all but the wealthiest, and least risk-averse, in society. Hedge fund products have evolved however, the industry has matured, and gradually, almost imperceptibly, investor attitudes towards hedge funds have changed.

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Comparison of both annualised 'headline' returns and risk-adjusted returns for hedge funds as a whole, equity hedge funds, bonds and equities, for various periods to 2014

	5 year			10 year			20 year		
Index	Annualised return	Annualised standard deviation	Sharpe ratio*	Annualised return	Annualised standard deviation	Sharpe ratio*	Annualised return	Annualised standard deviation	Sharpe ratio*
HFRI fund weighted composite	4.66%	5.19%	0.63	5.17%	6.33%	0.29	8.81%	6.96%	0.55
HFRI equity hedge (total)	4.90%	7.55%	0.46	4.71%	8.66%	0.16	10.27%	2.65%	0.58
S&P 500	13.05%	13.01%	0.89	5.44%	14.67%	0.14	7.79%	15.13%	0.19
MSCI World	7.91%	14.35%	0.45	3.87%	16.41%	0.03	5.21%	15.46%	0.02
Barclays Global Aggregate ex-USD	1.38%	7.19%	0.00	2.81%	8.05%	-0.07	5.08%	8.22%	0.02

* Sharpe Ratio calculations assume an annual risk free rate of 1.41%, 3.33% and 4.95% over the 5, 10 and 20-year periods respectively. The risk free rate is calculated as the average rate of a US treasury security during the relevant period for a security of the same maturity as the period in question (eg. for the 5 year period, the risk free rate is the average rate of a 5 year treasury note over the Jan 2010 – Dec 2014 period).

Source: AIMA research, Hedge Fund Research Inc, S&P, MSCI, Barclays

Today, many hedge funds are legitimately known for their risk-management, not their riskiness. A recent institutional investor survey asked what impact a withdrawal from hedge funds would have on their portfolio; 80% responded that such an occurrence would increase, not decrease, their exposure to risk[2].

Significant inflows from pension plans and other investors during 2014 have pushed the assets managed by the global hedge fund industry to record high levels. Investors are looking for a variety of benefits when they choose to allocate to hedge funds including downside protection and diversification. Such has been the change that has taken place that versions of certain hedge fund products are now being developed for retail investors. As the hedge fund industry has become institutionalised, hedge funds have become more open and transparent and less complex and opaque.

It has not been a story of unbroken growth or success. 2008 stands out as being the industry's most challenging year to date. Performance losses exceeded $300 billion. During the fourth quarter alone, more than 750 hedge funds were liquidated and investors withdrew more than $150 billion, according to Hedge Fund Research. As markets seized up, some hedge funds imposed significant restrictions on investor withdrawals.

Since 2008, discussions have continued to persist about the pace of progress on issues like portfolio transparency, fund governance, fee levels and other issues. Many pension fund trustees and fiduciaries at institutional investors have begun to ask questions about their existing or prospective hedge fund allocations. Rarely has there been such demand for a realistic assessment of the benefits – and also the risks – associated with hedge fund investing.

With that in mind, the Alternative Investment Management Association (AIMA), the global hedge fund industry body, and the Chartered Alternative Investment Analyst (CAIA) Association, the global leader in alternative investment education, have launched a new initiative in which we will seek to help trustees and other fiduciaries

2. *Source: Preqin*

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better understand, and manage, these risks and opportunities.

In this, the first of a series of papers that we will publish about hedge funds, we will set out the main benefits and challenges associated with investing in hedge funds. We will discuss the significant investment discretion and latitude typically granted to hedge fund managers, and how this can be both an advantage and a challenge to investors. We will show how much investors have earned from hedge funds and will discuss performance, risk, volatility and other factors related to hedge fund investments. At the same time, we will give practical guidance about how investors have managed issues and risks involved with investing in hedge funds.

CAIA and AIMA have a proud shared history. AIMA is committed to developing industry skills and education standards and is a co-founder of the CAIA designation, the industry's only specialised educational standard for alternative investment specialists. Established in 2002, the CAIA Association's mission has been and remains to promote excellence in alternative investment education in a global arena. The alternatives market continues to grow at a rapid pace intensifying the need for a broad and content-rich curriculum.

Our organisations believe that as the landscape for hedge funds and other alternative investments has changed in recent years, it has become vital that those professionals charged with managing, analysing, distributing, and regulating these products keep pace with a focus that has knowledge and education as its central tenet. This is particularly true of trustees and other non-investment professionals who perform a fiduciary role at institutions. They are the primary audience for this series of papers.

Special thanks are due to AIMA's Investor Steering Committee for its support in the production of this series of papers. We hope that these publications will help to improve understanding of hedge funds, provide practical guidance on issues to consider, and ultimately be considered a trusted source for trustees and other fiduciaries wishing to learn more about this important area of finance.

Jack Inglis, CEO, AIMA
William Kelly, CEO, CAIA Association

Executive summary

Annual earnings by hedge fund investors

Year	Net asset flows ($bn)	Performance-based AUM change ($bn)
2005	$46.9	$85.9
2006	$126.5	$232.7
2007	$194.5	$209.4
2008	($154.5)	($306.9)
2009	($131.2)	$324.2
2010	$55.5	$261.8
2011	$70.6	$20.1
2012	$34.4	$209.9
2013	$63.7	$312.2
2014	$76.4	$140.3
Total change since 2005	$382.9	$1,489.5

Source: Hedge Fund Research

Most hedge fund investors are pension funds and other institutional investors

Approximately one in every four dollars managed by hedge funds worldwide is invested by public and private sector pension funds, while roughly three out of every four dollars invested in hedge funds come from institutional investors worldwide. In the UK, over half of all defined benefit (final salary) pension schemes allocate to hedge funds or other alpha-seeking strategies.

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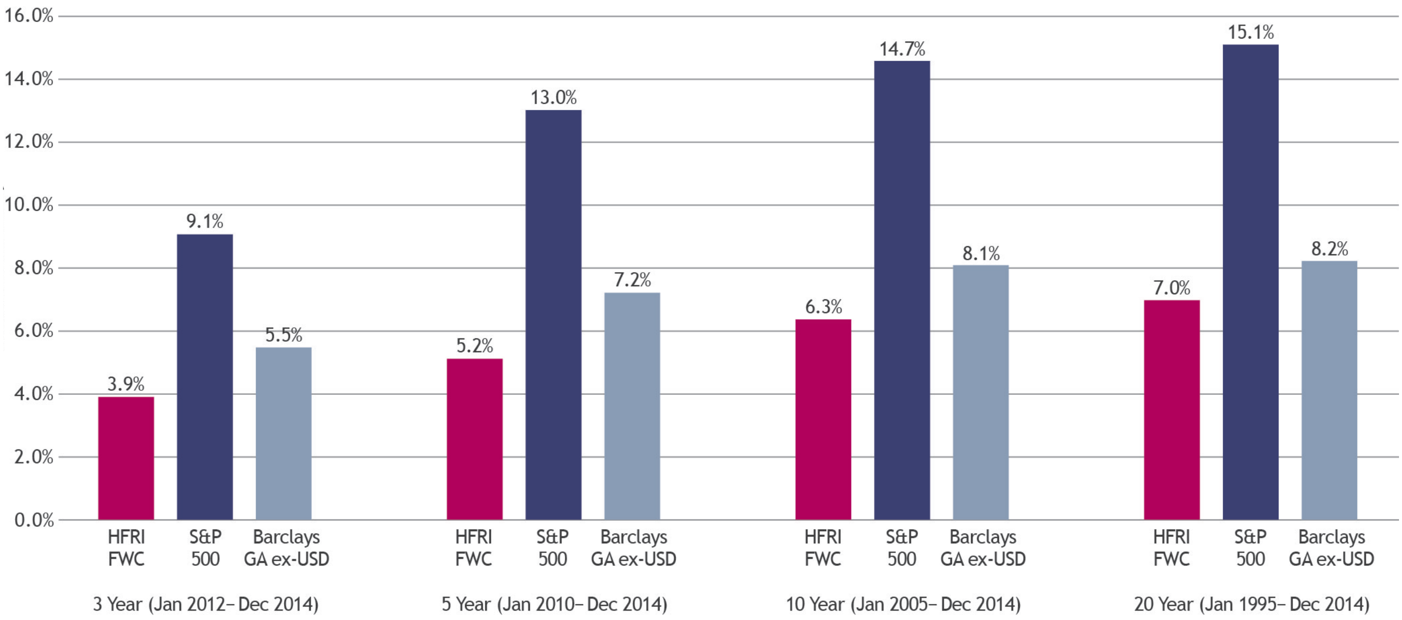
Comparison of annualised volatility of hedge funds, equities and bonds



ource: AIMA research

Investors' earnings from hedge funds top $1.5 trillion in the last decade

According to new research commissioned for this paper from Hedge Fund Research Inc, investors have earned about $1.5 trillion from hedge funds, after all fees have been deducted, over the last 10 years. That is despite the performance losses of $306 billion in 2008, by far the industry's worst year.

Pension funds would often rather have steadier returns with lower volatility than a higher return with greater volatility

This is why risk-adjusted returns are often as highly valued as the headline figures. Moreover, the hedge fund industry's risk-adjusted returns are competitive with traditional asset classes such as stocks and bonds partly because those returns tend to be less volatile.

Hedge funds are designed to provide greater protection against the large drawdowns or peak-to-trough losses that the main asset classes sometimes experience

Hedge funds (as measured by the performance of the HFRI composite index) experienced a maximum drawdown in the last 10 years of only 21.4% (between November 2007 and February 2009). Only bonds experienced a smaller drawdown (10%) in this 10-year period, while real estate suffered a drawdown of 35%, the S&P 500 a 57% drawdown and commodities a 54% drawdown.

The challenge of finding the right fund or funds is one of the reasons that the hedge fund due diligence process is deeper and longer-lasting than it has ever been

The most commonly used method for tackling due diligence and manager selection challenges is to outsource at least part of these processes to a specialist third party — either a fund of hedge funds manager (FoF) or a hedge fund consultant.

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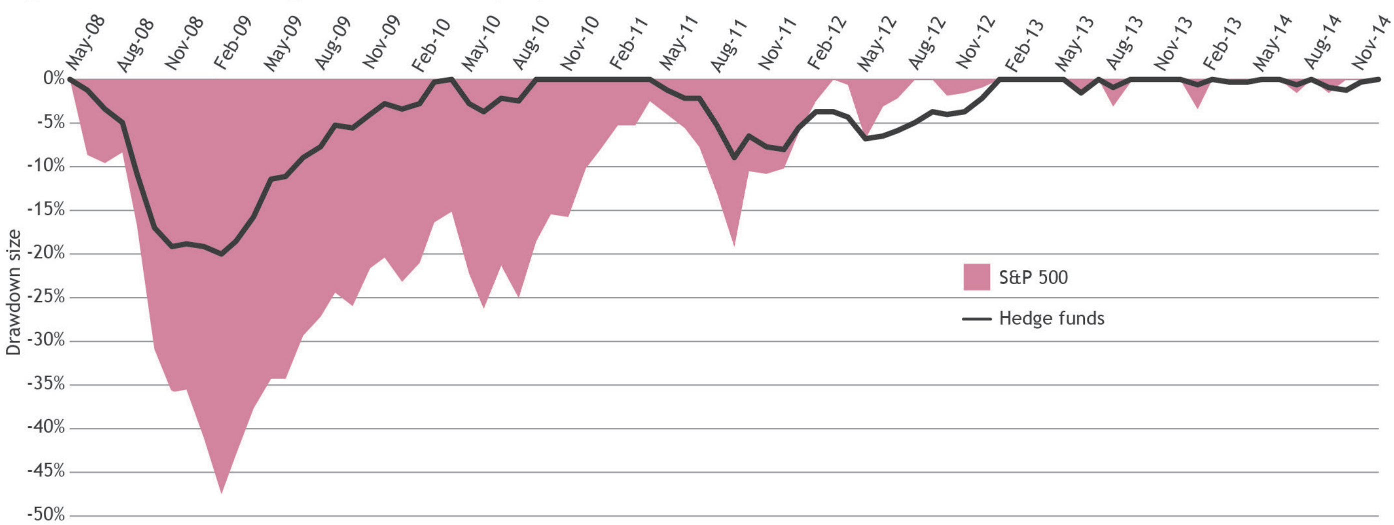
Drawdowns of hedge funds versus equities, May 2008 to December 2014



Source: AIMA

Hedge fund strategies can seem complex or difficult to understand

But changes in regulations since the financial crisis and the growing influence of institutional investors has improved transparency and public openness. In addition, the on-going "institutionalisation" of the hedge fund industry has resulted in the level of portfolio transparency provided by the fund manager to the investor being higher than in the past.

Reputational or headline risk is increasingly at the forefront of trustees' considerations when evaluating any investment program

In recent years, some hedge fund managers have been charged with insider trading and theft of client assets. Such publicity can be worrying for an investor but is certainly not representative of the global hedge fund industry. Recent regulation and adherence to industry sound practices have considerably strengthened investor protection and provided for greater transparency. Carrying out thorough operational due diligence (including background checks) will greatly mitigate headline risks. Finally, structuring investments in a particular manner can reduce investor exposure to operational risks associated with hedge funds to levels below those faced in retail fund products.

The fact that hedge funds charge higher fees than long-only managers or mutual funds means there will always be a debate as to whether hedge funds offer value for money

It is more costly to manage investment portfolios in an active manner, especially if sophisticated and flexible strategies seeking absolute returns are employed. Investors in hedge funds should always consider whether the quality of potential or actual returns is worth the fees. Tools such as hurdle rates and high watermarks assist in properly aligning manager incentives aimed at obtaining and rewarding performance.

Hedge funds are erroneously referred to as an asset class in their own right

Instead, investing in hedge funds is a method for accessing particular asset classes, and many hedge fund strategies trade across multiple asset classes such as stocks, commodities, fixed income and foreign exchange. As investors become more knowledgeable of the

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hedge fund industry and their role in today's investment portfolios, they are deploying hedge fund strategies to act as a buffer or as a risk mitigation tool.

For an institution investing in hedge funds, issues around capacity and scale can be significant headwinds to any proposed allocation

Some investors may allocate small amounts to a large number of managers, while another approach is to secure capacity with managers early on in their investment lifecycle. As the hedge fund industry grows assets to $3 trillion and beyond, investors should include discussions of capacity and scalability with their managers in order to determine whether the assets under management in any strategy or market sector are too large to predictably earn alpha, especially in smaller investment markets, such as small capitalisation emerging markets stocks.

Managers of hedge funds have a set of tools at their disposal — including lock-ups, gates and side pockets — to prohibit or restrict withdrawals

These are often designed to ensure that investment strategies are capable of being carried out as intended. Certain restrictions are designed to avoid mismatches between liquidity offered to investors and that of the underlying assets in the fund. Others exist to allow managers to withstand periods of significant market stress. It is vital for investors to understand the methods that may be used and their implications.

Key takeaways for trustees and other fiduciaries

1. The majority of hedge fund investors today are pension funds and other institutional investors.
2. Hedge funds are designed to provide greater protection against the large "drawdowns" or peak-to-trough losses that the traditional asset classes sometimes experience.
3. By co-investing alongside their clients, hedge fund managers have skin in the game which aligns their interests and incentivises prudent risk management practices.
4. Hedge funds are more transparent today, offering a range of risk reporting services, and investors have greater access to managed accounts that allow for full transparency and control.
5. Institutional investors increasingly are using alternatives in general, and hedge funds in particular, as tools to customise their portfolios and manage specific risks.
6. Working with experienced and knowledgeable partners such as consultants and funds of hedge funds can assist with manager selection and help to reduce hedge fund complexity.
7. A variety of risks associated with hedge fund investments can be mitigated by carrying out thorough due diligence (including background checks) prior to making an allocation.
8. Investors must always consider whether the type and quality of hedge fund returns is consistent with the fee and understand the costs associated with sophisticated asset management.
9. Skill-based returns are not as scalable as market returns, which is why many hedge funds eventually "close" to new investments.
10. Fund redemption restrictions such as gates and side pockets and the conditions under which they can be employed should be properly understood before making investments.

Unlocking Value: The positive role of activist hedge funds

In Q1, AIMA published a paper about the activist hedge fund sector in conjunction with the law firm Simmons & Simmons, titled "Unlocking Value: The Positive Role of Activist Hedge Funds". A summary of the paper follows. The full paper can be downloaded here. The summary is available here.

Introduction by Jack Inglis, AIMA CEO

They have been called "capitalism's unlikely heroes" by The Economist. They are the keys that unlock value in public and private enterprises. Activist hedge funds are widely recognised as delivering significant gains to their investors, to the companies in which they invest, and ultimately, to the broader economy.

By taking significant but non-controlling stakes in companies, and holding those positions often for years at a time, activist hedge funds are supporting improvements in the performance of thousands of firms around the world. Struggling businesses are being turned around, well-run businesses are improved, capital more efficiently allocated and the interests of managers, shareholders and other stakeholders better aligned.

Influence on company boards and management is usually exerted by activists in a spirit of collaboration and constructive engagement. Contrary to popular belief, and notwithstanding a few highly publicised cases, adversarial interventions are rare. The success of these campaigns can be measured in a number of ways. One is simply in the growth of the activist hedge fund sector, which has enjoyed a six-fold increase in assets under management over the last decade. This growth has been driven largely by demand from institutional investors including public and corporate pensions, sovereign wealth funds and endowments. Another, perhaps more significant measure, relates to the positive impact of activist campaigns on the targeted companies themselves, both during the holding period and following an exit by the activist via a sale of that stake.

We have explored this activity and sought to quantify its impact in a paper we have produced in conjunction with the law firm Simmons & Simmons.

What the research shows is that activist campaigns lead to corporate governance reforms, increases in share price and improvements in operating performance. It also shows that activists leave a positive and lasting legacy, with companies continuing to perform strongly even after an exit has been achieved.

All in all, activist hedge funds are creating a more efficient allocation of an economy's resources and in turn higher economic growth. Heroic? Perhaps. Beneficial – without a shadow of a doubt.

The paper's key findings at a glance

Activism yields long-term improvements in performance
Activist engagement by hedge funds is positively correlated to improvements in the share price and operating performance of targeted companies, including after the funds have exited.

Activism leads to greater alignment of interests
Activist hedge funds seek higher standards of corporate governance, which improves alignment of interest between management,

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shareholders and other stakeholders and ultimately leads to improvements in the efficient allocation of capital and resources in the economy overall. This is one of the main benefits of capital market financing as opposed to bank financing.

Improvements are even seen at companies not yet targeted
The increased likelihood of engagement by an activist hedge fund often leads company managers and boards to make proactive changes to corporate policy that, in general, appear to increase shareholder value and longer-term profitability of yet-to-be-targeted firms.

Activist hedge funds invest for the long term
Activist hedge funds hold investments for longer periods than is common in the market. Such funds have investment horizons averaging around two years, while the average market-wide holding period of stocks is around three months.

Activist hedge funds are mostly collaborative in approach
Contrary to popular belief, most activism by alternative investors takes the form of low-profile interventions and "soft" strategies, such as seeking board representation with management support. Collaborative engagement also appears more likely to achieve success than more assertive approaches, particularly outside the US.

Hedge funds generally make proficient activists
By comparison with other shareholders, activist hedge funds are generally more successful in effecting change and more frequently able to drive profitable improvements in targeted companies.

Activism explained

1. *What is shareholder activism?*

Shareholder activism can be demonstrated through taking an equity stake in a company and then trying to influence the company's board or management to adopt its proposed changes. Often the activist accomplishes this through taking a small equity position (~5%) and then encouraging other shareholders to support its proposals.

2. *What is the aim of activism?*

Activist hedge funds seek to influence a company, rather than control it (as is the case with private equity funds). The activist hedge fund manager seeks a course of action that will unlock value in the share price and transform the long-term prospects of a target company. Courses of action include improvements to governance, shifts in company strategy and reforms to the capital structure.

3. *How do companies respond to activist involvement?*

Companies often engage constructively with the activist, meeting the activist and agreeing on a set of measures. Only if relations break down would the activist solicit proxies or explore legal avenues.

4. *What do companies targeted by activist hedge funds have in common?*

Target companies tend to have suffered from poor governance structures or exhibited shortcomings in business strategy. However, even the most successful companies can be targeted if an activist perceives that opportunities are being missed by management.

5. *Where does activism occur?*

While shareholder activism is still predominantly a course of action pursued in the US, it is increasingly gaining popularity across Europe and Asia.

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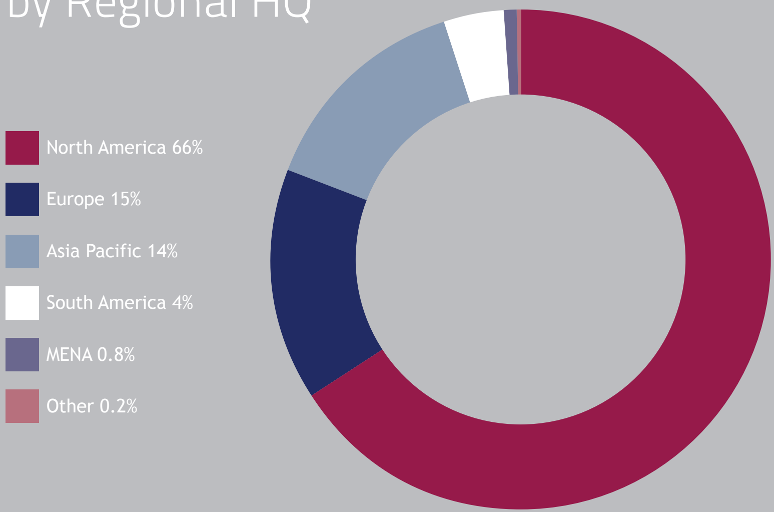
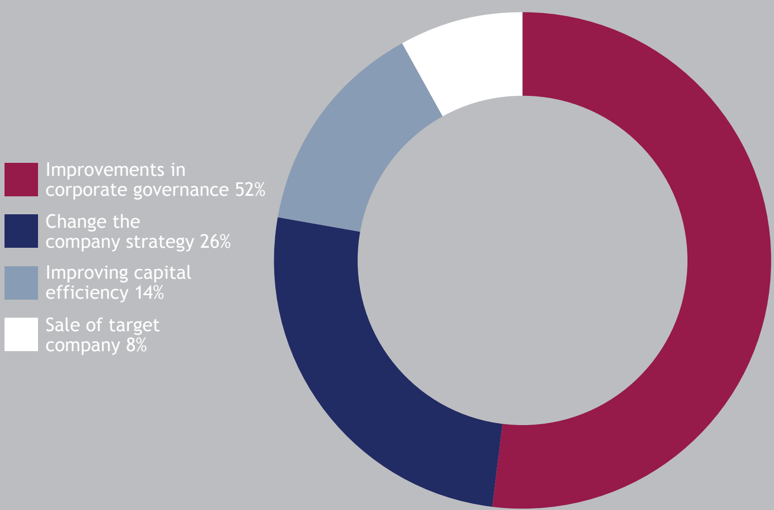
At a glance: Activist hedge funds

Global breakdown of Activist hedge funds by Regional HQ



Source: Preqin

Activist hedge fund objectives



Source: AIMA Research, Activist Insight

$120 Billion

ASSETS UNDER MANAGEMENT BY ACTIVIST HEDGE FUNDS

165

NUMBER OF ACTIVIST HEDGE FUND MANAGERS GLOBALLY

+50%

COMPOUND RETURNS OF ACTIVIST HEDGE FUNDS FROM 2012-2014

2 Years

AVERAGE HOLDING PERIOD OF INVESTMENTS BY ACTIVIST HEDGE FUNDS

25%

AVERAGE INCREASE IN SHARE PRICE OF TARGET COMPANY OVER TWO-YEAR PERIOD FOLLOWING ACTIVIST SALE

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Together we'll go far

Growing Up: A New Environment for Hedge Funds

2015 KPMG/AIMA/MFA Global Hedge Fund Survey

In Q1, we published Growing Up - A New Environment for Hedge Funds, with KPMG International and the Managed Funds Association (MFA).

The following is a summary of the full paper, which is available here.

Foreword

The hedge fund industry is in the midst of a transformation. The growth environment is constantly changing and, as a result, managers have become more focused than ever on improving operational effectiveness, increasing alignment of interest and delivering value to their investors. New strategies, new investors, new markets and new and often more customized) products and services are changing the market dynamics.

We see the evidence of change all around us. It is in the growing influence of institutional investors and the rapidly emerging markets. It is in the shift towards customization of products and fee structures. And it is in the macroeconomic trends that continue to buffet our industry.

To better understand how all of these changes are impacting managers around the world, KPMG partnered with the Alternative Investment Management Association (AIMA) and the Managed Funds Association (MFA) to undertake a comprehensive survey, both online and in person, of hedge fund managers.

We believe that – particularly in this time of rapid change – it is critical for our industry to share experiences, insights and leading practices. If we want our industry to grow (both in terms of total assets under management (AUM) and number of managers), we will need to break down barriers and adjust our strategies to continue to thrive.

This year's Global Hedge Fund Survey looks at the impact that this change is having on virtually every aspect of hedge fund management, from product mixes and fee structures through to markets and investor types, and provides keen insights gathered from our one-on-one interviews with some of the industry's largest and most successful fund managers.

Robert Mirsky, Partner, Global Head of Hedge Funds, KPMG in the US
Richard H. Baker, President and CEO, MFA
Jack Inglis, CEO, AIMA

About the research

With most managers now recognizing that the sector is on the cusp of a significant shift in investors, products and markets, KPMG partnered with AIMA and the MFA to ask hedge fund managers around the world how these changes will impact their strategies, products, models and selection of markets.

This report incorporates the views of more than 100 hedge fund managers representing approximately $440 billion of assets under management (AUM). Online survey respondents included hedge funds of all sizes, with 43% of respondents managing less than $500 million, 16% managing between $500 million and $999 million, and 30% managing greater than $1 billion in assets under management. Eighty-four percent of respondents identified themselves as single fund managers and 16% as 'fund of fund' managers.

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Once again this year, the geographic dispersion of our respondents broadly reflects the overall market with more than a third of respondents identifying North America as their headquarters and around a quarter citing the UK. Around a fifth of our respondents reported being headquartered in either (non-UK) Europe or Asia-Pacific.

This report also benefited from a series of structured one-on-one interviews with leading hedge fund managers in major centres around the world who provided deeper insight into the opportunities and strategies they were undertaking to drive growth in this new environment. Surveys were conducted online between September 2014 and October 2014, while the structured interviews were conducted between November 2014 and December 2014.

On behalf of KPMG, AIMA and the MFA, we would like to thank all of those that participated in the survey. In particular, we would like to thank the managers that gave their time to share their views through our structured interviews. The insights and views of all of our participants – online or in person – have been invaluable in helping form this unique and valuable report.

Executive summary

We are living in an era of unprecedented change. But it is not just the world around us that is evolving; so too is the alternative investment industry itself. Indeed, a new environment is now emerging for hedge funds and most managers believe they will grow upwards as a result.

As this report illustrates, the industry, which has seen AUM grow by approximately 10 percent a year since the financial crisis, is positioned to continue along this growth path over the next 5 years. Institutional investors, who already account for roughly two thirds of the total hedge fund capital, will continue to eclipse high net worth individuals as the industry's primary sources of investment. Traditional fee arrangements will erode in the face of more customized models. And new markets will emerge both as investment destinations and as potential customers.

The increasingly rapid shift towards institutional investors, in particular, will catalyse significant changes in the way that managers structure, manage and market their products. The customization of fees and products – a trend already well underway – is just one strategy that managers are taking to attract institutional investors. Other growth opportunities are also emerging. Many managers are starting to shift their attention towards new and growing markets. Others are customizing their products – and increasingly their services and strategy – to broaden their appeal. The growing adoption and development of liquid alternative products such as 40-Act and Undertakings for the Collective Investment in Transferable Securities (UCITS) funds shows that demand is shifting. The impact of new regulation remains a concern. As in the past, managers suggest that the growing regulatory burden is creating significant barriers to growth in most markets. Many say they expect the number of managers to shrink overall as a result.

Among our key findings:

- The majority of managers believe that pension funds will be their primary source of capital by 2020; public pension funds and sovereign wealth funds together will account for at least a quarter of capital inflows by then.
- Two thirds of managers think their client demographics will be less concentrated in

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the next 5 years; only one-in-five say their client demographics will stay the same. Product diversification strategies such as liquid alternatives and customized fees are anticipated to attract additional investors.

- Forty-six percent of respondents expect to either alter their fund strategy or launch new products to attract institutional investors in the next 5 years, while more than two-thirds say they expect to offer specialized fee structures.

- Forty-three percent of respondents said they expect to change the markets in which they invest their capital; 21 percent said they would invest more into developed markets while 30 percent pointed to the emerging markets and 7 percent said frontier markets.

- Managers are moving towards customized product offerings with almost half (47 percent) of all fund managers reporting that they already offer a fund of one or managed account solution and 21 percent saying they plan to offer these solutions within the next 5 years.

- Thirty-eight percent of respondents said that they either had, or were developing, a UCITS fund (making it the second most popular product offering according to our survey); more than a quarter (27 percent) said the same about 40-Act funds (the fourth ranked product).

- Three-quarters of respondents said that they expect the number of hedge fund managers to either decrease or stay the same over the next five years.

- More than three-quarters (77 percent) cited increased regulation as the biggest threat to the industry overall; 84 percent said that their operating costs had increased as a result of compliance obligations.

- Over the past 5 years, global hedge fund AUM growth has grown at an annualized rate of 10 percent (year-over-year) between 2010 and 2014. With all signs indicating that this trajectory will continue for the foreseeable future, many observers expect global hedge fund AUM to top USD4 trillion by 2020.

Key takeaways for managers:

- The industry, which has grown by approximately 10 percent a year since the financial crisis, is positioned to continue along this growth path over the next 5 years.
- A large share of the new growth will come from public-sector investors such as public pension plans and sovereign wealth funds.

Key take-aways for regulators:

- Managers have added considerably to their compliance functions since the crisis.
- Many managers continue to find that increased regulation is raising barriers to entry and driving increased consolidation.

Key take-aways for investors:

- As customized fee and fund structures become commonplace, managers will increasingly position themselves as solution providers.
- Thanks to advances in liquid alternatives such as UCITS and 40-Act funds, a true retail client base will increasingly emerge.

Q1 AIMA regulatory and tax submissions and summaries

Please note that the hyperlinks in this table are restricted to AIMA members — please log in to www.aima.org.

Date	Authority	Description
26 March	FSOC	FSOC consultation on asset management systemic risks
24 March	MAS	Proposed amendments to the Securities and Futures Act
17 March	UST	Note - FATCA update for members
2 March	ESMA	ESMA Level 2 Consultation Paper on MiFIDII/R draft technical standards
16 February	IOSCO	IOSCO Task Force on Cross-Border Regulation: Consultation Report
13 February	IOSCO	Criteria for identifying simple, transparent and comparable securitisations
4 February	HMRC	Diverted profits tax
30 January	BoE	Fair and Effective Markets Review
23 January	FSOC	Request for extension to respond to FSOC Notice Seeking Comment on Asset Management Products and Activities
16 January	EBA	Simple standard and transparent securitisations
13 January	ESMA	AIFMD passport and third country AIFMs
9 January	OECD	BEPS Action 7: Preventing the Artificial Avoidance of PE Status
9 January	OECD	BEPS Action 6: preventing the granting of treaty benefits in inappropriate circumstances
5 January	BIS	Scope of exceptions to the prohibition of corporate directors

Q1 regulatory, tax and policy developments globally

Many of the hyperlinks in this section are restricted to AIMA members – please log in to www.aima.org.

Global

Basel Committee and IOSCO delay non-cleared margin 9 months

The Basel Committee on Banking Supervision (BCBS) and International Organisation of Securities Commissions (IOSCO) have issued a final policy framework document making revisions to the implementation schedule of the BCBS-IOSCO Final Report on margin requirements for non-centrally cleared derivatives published in September 2013. In recognition of the extensive complexity associated with implementing the Final Report's requirements, BCBS-IOSCO have chosen to recommend to: (i) delay the implementation of compulsory initial and variation margin exchange by nine months from December 2015 to September 2016; and (ii) adopt a six month phased-in approach for the requirement to exchange variation margin. It is now for BCBS and IOSCO members to amend their rules to account for these changes.

(AIMA Weekly News, 24 March 2015)

FSB and IOSCO consultation on NBNI G-SIFIs

On 4 March 2015, the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) published a second public consultation paper entitled Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs) (CP 2). The consultation paper takes into account responses received on the first consultative document (CP 1) issued on 8 January 2014 (see AIMA Weekly News, 8 April 2014). Like CP 1, CP 2 does not propose any specific entities for designation as NBNI G-SIFIs or any policy measures that would apply to NBNI G-SIFIs. The revised methodologies extend the G-SIFI framework that currently covers banks and insurers to other financial institutions and include: (a) near-final sector-specific methodologies for finance companies and market intermediaries; (b) a revised proposal on sector-specific methodologies for asset management entities. Whilst CP 1 only discussed a methodology for assessing the systemic importance of funds, CP 2 discusses the methodology that may be used to assess the systemic importance of both funds and their managers. Comments must be submitted by **29 May 2015**. If you have any questions in relation to this or would like to contribute to a response, please contact Anna Berdinner or Jennifer Wood.

(AIMA Weekly News, 10 March 2015)

AIMA response to the BCBS and IOSCO securitisation consultation

On 13 February 2015, AIMA submitted a response to the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) consultation paper titled 'Criteria for identifying simple, transparent and comparable securitisations'. In the response, AIMA commented, amongst other things, that the introduction of the criteria should not lead to a stigmatisation or under-development of the remaining securitisation sector and that we do not consider that it is necessary to have a blanket ban on managed collateralised loan obligations (CLOs).

(AIMA Weekly News, 17 February 2015)

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AIMA responds to OECD BEPS discussion drafts (Actions 6 & 7)

In October and November 2014 as part of the BEPS action plan, the Organisation for Economic Co-operation and Development (OECD) published discussion drafts on treaty abuse (Action 6) and permanent establishment (Action 7). AIMA has submitted responses to both drafts, available here and here. With regard to the OECD proposals on access to double tax treaty benefits, AIMA argues that greater clarity is required on the circumstances in which collective investment schemes may benefit from double tax treaties and that the provisions proposed to be included in the OECD Model Treaty – a limitation of benefits rule and a principal purpose test – are impractical. If a filter for qualification is required, it should be based on an intention to distribute the fund widely. AIMA comments on one aspect of the "independent agent" exception for permanent establishments, where the OECD proposes that this should not be available where the agent acts only on behalf of one non-resident (or group of connected persons including the non-resident). AIMA notes that this would be problematic for some fund managers and is inconsistent with the position taken under relevant domestic legislation.

(AIMA Weekly News, 13 January 2015)

EMEA

AIFMD

AIMA responds to ESMA consultation on asset segregation guidelines

On 30 January 2015, AIMA responded to the European Securities and Markets Authority (ESMA) consultation on its guidelines on asset segregation under the AIFMD. In the response, AIMA commented that of ESMA's proposed options which are set out in Annex II of the consultation paper, that option 4 would provide the best solution and disagreed with ESMA's reasoning for discarding Option 4 in favour of Option 1 or Option 2. However, of the two identified options, AIMA noted that option 2 would be preferable.

(AIMA Weekly News, 3 February 2015)

AIMA response to ESMA call for evidence on AIFMD

On 13 January 2015, AIMA submitted a response to the European Securities and Markets Authority (ESMA) call for evidence on the AIFMD passport and third country AIFMs. In the response, AIMA supported the extension of the passport to both EU alternative investment fund managers (AIFMs) of non-EU alternative investment funds (AIFs) and to non-EU AIFMs, but acknowledged that the extension of the passport to non-EU AIFMs presented more difficulties than the extension of the passport to EU AIFMs of non-EU AIFs.

(AIMA Weekly News, 20 January 2015)

Dealing commission

UK - Feedback statement on FCA dealing commission Discussion Paper

On 19 February 2015, the UK Financial Conduct Authority (FCA) published a feedback statement (FS) on its discussion on the use of dealing commission. The FS is part of the FCA's work looking at the way firms use dealing commission and forms part of the FCA's broader focus on wholesale conduct, to ensure practices and controls by firms engaged in wholesale activities do not lead to poor outcomes for end investors. The FS provides a summary of the European Securities and Market's Authority's (ESMA's) final advice to the European Commission on proposals for the delegated acts under MiFID II and the FCA's views on it, including our interpretation

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of the likely implications of the changes if implemented by the EC as well as feedback on the responses to the questions in their discussion paper (DP14/3).

(AIMA Weekly News, 24 February 2015)

EMIR

ESMA publishes feedback statement on NDF clearing consultation under EMIR

On 4 February 2015, the European Securities and Markets Authority (ESMA) published a feedback statement summarising the responses received by ESMA to its consultation (No.3) on the application of the EMIR clearing obligation to NDFs. Taking account of these responses, ESMA concludes within the statement not to propose a clearing obligation on the NDF classes at this stage and agrees with our position that more time is needed to appropriately address the main industry concerns. It is not clear, however, how long this will be and it remains open to ESMA to propose a clearing obligation on relevant NDF classes should further market developments render it appropriate.

(AIMA Weekly News, 10 February 2015)

ESMA submits opinion on Draft RTS for IRS clearing

The European Securities and Markets Authority (ESMA) has submitted its Opinion to the European Commission on Draft RTS on the application of the EMIR clearing obligation to interest rate swaps (IRS). This Opinion comes in response to the Commission's decision to propose amendments to ESMA's original Draft RTS on IRS clearing first submitted to the Commission in October 2014. Among other things, the Commission proposed changes to the frontloading timelines and calculations proposed under ESMA's original Draft RTS in order to provide counterparties with an appropriate period of time to determine their categorisation, to which ESMA has now provided its backing. ESMA has also added a provision clarifying the calculation threshold applies at fund level for AIFs and UCITS. It now falls to the Commission to adopt and publish the final RTS.

(AIMA Weekly News, 3 February 2015)

MAR

ESMA issues Final Level 2 Technical Advice on MAR delegated acts

Today, 3 February 2015, ESMA submitted to the European Commission its Final Technical Advice on possible delegated acts concerning the European Regulation 596/2014 on market abuse (MAR). The Final Report containing ESMA's Technical Advice follows on from a consultation process in 2014 and is divided into five main sections: (i) specification of the indicators of market manipulation; (ii) minimum thresholds for the purpose of the exemption for certain participants in the emission allowance market from the requirement to publicly disclose inside information; (iii) determination of the competent authority for notification of delays in public disclosure of inside information; (iv) managers' transactions; and (v) reporting of infringements. AIMA's response to the 2014 consultation expressed significant concerns about the potential breadth of the concept of a transaction by persons discharging managerial responsibility (PDMRs) to include transactions by third party fully-discretionary investment managers - such as AIFMs and UCITS managers - in whose funds the PDMR invests. This has now been confirmed by ESMA that the PDMR requirements do not apply to such transactions and would only apply to purchases/disposals of the fund by the PDMR when: (i) his issuer firm represents 20% of the fund's assets; and (ii) the fund's composition is

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publicly available/privately notifiable. It now falls to the European Commission to adopt delegated acts so that they enter into force by **3 July 2016**.

(AIMA Weekly News, 3 February 2015)

MiFID

AIMA submits response to ESMA Consultation on MiFIDII technical standards

On 2 March 2015, AIMA submitted its response to the ESMA Level 2 Consultation Paper on MiFIDII/R draft technical standards. Particular areas of focus of the response are microstructural issues, including organisational requirements for algorithmic trading by investment firms and trading venues, maximum OTR calculations and minimum tick sizes; transaction reporting; derivatives rules and STP; best execution obligations; and, position limits and reporting for commodity derivatives. A cover letter accompanying the response was also submitted to ESMA. We now await ESMA's final draft technical standards which it must submit to the European Commission by 3 July 2015.

(AIMA Weekly News, 3 March 2015)

UCITS

ESMA consultation on different share classes of UCITS

On 23 December 2014, the European Securities and Markets Authority (ESMA) published a consultation on different share classes of UCITS. The paper discusses what constitutes a share class and how to distinguish share classes from compartments of UCITS. ESMA aims to unify divergent national practices as to the types of share class that are permitted.

(AIMA Weekly News, 6 January 2015)

Other updates (EMEA)

EBA issues draft guidelines on limits on exposures to shadow banking entities

On 19 March 2015, the European Banking Authority (EBA) issued a consultation paper titled 'Draft EBA Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395 para. 2 Regulation (EU) No. 575/2013 [(the 'CRR')]' (the 'Consultation Paper'). The Consultation Paper sets out proposed guidelines for "institutions" (as defined in Article 4(3) of CRR) on the methodology that should be used by them for addressing and managing concentration risk arising from exposures to shadow banking entities, which includes setting appropriate individual and aggregate limits for exposures to shadow banking entities. In the Consultation Paper, the EBA states that "in the absence of a definition in the CRR of the terms 'shadow banking entities', 'banking activities' and 'regulated framework' it has been necessary to develop a definition of those terms for the purposes of the guidelines," and they propose to include all money market funds (being UCITS or alternative investment funds (AIFs)), all AIFs and all unregulated funds within the scope of the definition of "shadow banking entities". Responses must be filed by 19 June 2015.

(AIMA Weekly News, 24 March 2015)

Commission tax transparency package

On 18 March 2015, the EU Commission presented a tax transparency package that will entail the automatic exchange by Member States of cross-border tax rulings, starting on January 2016 (here). By amending DAC2, the EU Commission is proposing a strict timeline for information exchange, as domestic tax authorities will need to send a report every 3 months on all rulings that have been issued (both advanced rulings

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and advanced pricing agreements). According to the Commission's press release, "*The automatic exchange of information on tax rulings will enable Member States to detect certain abusive tax practices by companies. Moreover, it should also encourage healthier tax competition, as tax authorities will be less likely to offer selective tax treatment to companies*". The package contains other measures: (i) proposal to repeal the European Savings Directive as of 1 January 2016 – since DAC2 duplicates its content; and (ii) action plan on corporate taxation, including some of the elements of the BEPS project (new transparency requirements on multinationals), reopening the debate on the common consolidated corporate tax base (CCCTB) and a recommendation on tax havens. Additionally, the Commission has recently concluded negotiations on an tax transparency agreement with Switzerland, establishing a further measure against tax evasion. Under this new agreement, Member States and Switzerland will automatically exchange information on the full scope of financial account information from 2018 (further tax agreements with third countries such as Liechtenstein, Monaco and Andorra are expected to follow). It will be ratified following authorisation by the Council on one side and the Swiss Government on the other, both of which are projected to be before the summer.

(AIMA Weekly News, 24 March 2015)

AIMA response to EBA securitisations discussion paper

On 16 January 2015, AIMA submitted a response to the 'EBA Discussion Paper on simple standard and transparent securitisations'. In the response, AIMA expressed the view that the entire securitisation regime, including both qualifying and non-qualifying securitisations, deserves further review and improvement if the European securitisation framework is to be fit for purpose in the future. AIMA stated that in order to achieve the desired benefits of a move toward encouraging market based finance, the requirements must be set in a way that would not stifle issuance or unduly limit the types of non-bank originators or sponsors for example by constraining the nature of the investments to lower yielding senior tranches which is likely to result in significant constriction of the available investor base to potential investors.

(AIMA Weekly News, 20 January 2015)

AIMA responds to UK Fair and Effective Markets Review

Last week, AIMA made a submission to the Bank of England in response to the Consultation Document published as part of its Fair and Effective Markets Review (FEMR), a far-reaching review of FICC market operation following the LIBOR and other benchmark scandals. In our response, we comment on: (1) the role that market sound practice guidelines can play in fostering good behaviour in FICC markets; (2) the need for effective cooperation between regulators globally to ensure that market effectiveness and fairness is not compromised by conflicting regulatory regimes; (3) the tendency for increased regulation to run counter to the desire to foster competition; (4) the potential value of further bond market standardisation; (5) our view that the Senior Managers and Certification (SMC) regime should not be extended beyond the banking sector; and (6) the need to develop greater fairness in secondary market trading of FICC products, by ensuring that venues are not able to exclude particular categories of participant. The Bank of England, HM Treasury and the Financial Conduct Authority are due to report on the FEMR review before the summer.

(*AIMA Weekly News, 3 February 2015*)

Capital Markets Union Green Paper

On 18 February 2015, the European Commission launched a Green Paper for its Capital Markets Union (CMU) initiative. The publication of the

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Green Paper has commenced a three month consultation period, feedback to which will be used by the Commission to develop an Action Plan to reach the goal of a fully-functioning CMU by 2019. The CMU's objectives include: improving access to financing for all businesses, especially SMEs; increasing and diversifying the sources of funding from international investors; and ensuring that markets work more effectively and effectively. Particular policy priorities for CMU include dealing with barriers to access to finance, widening sources of funding and removing obstacles to cross-border capital flows. These policy priorities are intended to be covered through: (i) measures on high quality securitisation; (ii) the implementation of the Regulation on European Long-Term Investment Funds (ELTIF); (iii) a review of the Prospectus Directive; (iv) additional credit information on SMEs; and (v) rules on private placement of securities. Two separate consultations were also launched by the Commission alongside the Green paper, covering securitisation and the Prospectus Directive respectively. **The deadline for comments for all three consultations is 13 May 2015**. If you have any questions, comments or would like to contribute to an AIMA response to any of the consultations, please contact Oliver Robinson or Adam Jacobs.

(AIMA Weekly News, 24 February 2015)

FCA thematic review report for asset managers and market abuse

On 18 February 2015, the UK Financial Conduct Authority (FCA) published a report (TR15/1) on the findings from its thematic review into how asset management firms control the risk of insider dealing, improper disclosure and market manipulation. The FCA found that while most firms have some measures to control the risk of market abuse, only a small number of firms have comprehensive practices and procedures in place. The review also found that firms need to take additional steps to manage the risk of receiving inside information through all aspects of the investment process, as well as that only a small number of firms had effective post-trade surveillance. The next steps for the FCA will be to write to firms involved in the thematic review to provide individual feedback. It expects firms that were found not to be effectively managing their risk to make improvements.

(AIMA Weekly News, 24 February 2015)

AEFI expert group, first report

The European Commission has published the first report of the expert group on automatic exchange of financial account information (AEFI). The purpose of the expert group is to ensure EU legislation on AEFI is effectively aligned and fully compatible with the OECD's common reporting standard (CRS), but also to minimise the administrative burden and guarantee consistency among the different compliance regimes. AIMA nominated an expert to represent hedge fund management interests, who contributed to the report's development. The first report includes a comprehensive approach to the major outstanding issues regarding the implementation of the AEFI measures in the amended Directive on Administrative Cooperation (DAC2) and provides recommendations in respect of: timeline, data protection and privacy, implementing guidelines, definition of entities or funds, or synergies with other ongoing projects (such as TRACE).

(AIMA Weekly News, 24 March 2015)

EBA consultation on guidelines on sound remuneration policies

On 4 March 2015, the European Banking Authority (EBA) launched a consultation on its Draft Guidelines on Sound Remuneration Policies, which relate to the fourth Capital Requirements Directive (CRD IV). These draft

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Guidelines set out the governance process for implementing sound remuneration policies across the EU, as well as the specific criteria for mapping all remuneration components into either fixed or variable pay. Guidance is also provided on the application of deferral arrangements and the pay-out instruments ensuring that variable remuneration is aligned with an institution's long-term risks and that any ex-post risk adjustments can be applied as appropriate.

(AIMA Weekly News, 10 March 2015)

HMRC filing dates for AIFM mechanism

The Finance Act 2014 introduced a provision (Alternative Investment Fund Managers: Deferred Remuneration etc.) which is intended to help partnerships which are AIFM businesses (including for this purpose also those acting as a delegate of an AIFM) comply with deferred remuneration arrangements, whether these are imposed under the AIFM Directive or other regulatory regimes or adopted voluntarily by such businesses. This AIFM mechanism was developed following representations made by AIMA to HM Revenue & Customs (HMRC) and the Financial Conduct Authority (FCA). Where the partnership has elected for the AIFM mechanism to apply, a partner may allocate to the partnership itself for tax purposes all or part of his or her share of the partnership's taxable profits which is subject to a deferral requirement or which has to be received and retained in the form of fund equities (restricted profits). The consequence of the allocation is that payment of income tax (charged at the additional rate) on the restricted profits allocated to the partnership becomes the responsibility of the partnership rather than the partner; the restricted profits are treated as part of the partner's taxable income, with a corresponding tax credit, in the tax year when they vest in accordance with the deferred remuneration arrangements. Adoption of the AIFM mechanism enables deferred remuneration arrangements to be operated net of tax and national insurance contributions on a basis which has the approval of the FCA. HMRC has requested that we remind members that are partnerships (including LLPs) carrying on an AIFM business in the UK that the election by the partnership to adopt the AIFM mechanism must be made in the prescribed form **within six months** after the end of the first accounting period for which it is to apply. Where a partner chooses to allocate restricted profits to the partnership, this allocation must be included by the partnership in its own tax return and annual statement in the prescribed form, which, as these are available only in paper format, must be filed by **31 October** (rather than 31 January) following the end of the tax year. HMRC has published forms and guidance.

(AIMA Weekly News, 10 March 2015)

FCA issues March QCP

On 6 March 2015, the UK Financial Conduct Authority (FCA) issued CP15/8: Quarterly Consultation Paper No. 8 (the 'QCP'). Chapter 4 of the QCP covers changes to the FCA's Handbook that will impact alternative investment fund managers (AIFMs) and alternative investment fund (AIF) depositaries. Amongst other things, the FCA is consulting on proposed questions and answers to clarify the valuation requirements applying to AIFMs. The QCP also discusses whether the FCA should make non-European Economic Area (EEA) AIFMs and small registered UK AIFMs, which do not submit their AIFMD Annex IV reports on time, subject to the same administrative fee that applies to full-scope UK AIFMs and small authorised UK AIFMs and seeks to clarify a number of provisions in the Handbook related to AIFMD. Responses are due by **5 May 2015**. If you have any questions in relation to this or would like to contribute to a response, please contact Anna Berdinner or Jennifer Wood.

(AIMA Weekly News, 10 March 2015)

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FCA wholesale sector competition review 2014-15

On 19 February 2015, the UK Financial Conduct Authority (FCA) published the wholesale sector competition review 2014-15. The paper states that the FCA will consider undertaking a market study into asset management and related services later in the year. Section 3 of the paper relates to asset management and highlights some features of the purchase and provision of asset management and related services that the FCA think may mean competition is not working effectively in this market. In this section, the FCA states that "where bundled services are paid for by the fund, there is a risk that the principal-agent issues exist and the asset manager does not effectively assess value for money. In addition, bundling in asset management may be driven by the asset manager, who may not be incentivised to improve transparency for end investors".

(AIMA Weekly News, 24 February 2015)

Americas

FATCA reporting, AEOI portal opening

The Department for International Tax Cooperation of the Cayman Islands (DITC) has announced that the automatic exchange of information (AEOI) portal is in final stages of testing and will be ready for Cayman Reporting Financial Institutions (RFIs) to undertake their obligations of notification and reporting (a user guide has also been uploaded – here). The deadline under the U.S. Regulations for notification/registration with the Tax Information Authority (TIA) has been extended to 30 April 2015, and 31 May 2015 is the deadline for submission of FATCA reports. Additionally, we understand that the current obligation for RFIs to submit nil returns on reporting (i.e. where they had no reportable accounts) will be removed, although this has not been announced by the DITC. RFIs will still be able to submit nil returns on a voluntary basis, if they wish to do so. Despite the removal of the requirement to file nil returns on reporting, RFIs would still be obliged to effect notifications/registrations as outlined above.

(AIMA Weekly News, 24 March 2015)

Legal and beneficial ownership information

On 30 December 2014, the Cayman Islands Government published a Consultation Report on Maintenance of Legal and Beneficial Ownership Information. In the report, the Government states that the corporate service providers (CSPs) model that it has at present meets the G20 statement on beneficial ownership and accordingly does not currently intend to adopt a centralised register of beneficial ownership information which is publicly available. However, amendments will be made in the coming year which will include adopting a codified definition of 'beneficial ownership' and 'control', introducing legislation to require CSPs to provide information on beneficial ownership within 24 hours and introducing legislation allowing Government agencies/authorities to wind up an entity (either regulated or unregulated) that has not complied with legal or beneficial ownership requirements within a specified timeframe.

(AIMA Weekly News, 27 January 2015)

Foreign funds engaged in lending and stock underwriting

The Internal Revenue Service (IRS) released on 2 January 2015 a Chief Counsel Advice (CCA) detailing the existing tax treatment on loan origination and stock underwriting activities where U.S. fund managers are conducting business on a discretionary basis on behalf of foreign entities such as corporate funds. Sections 864(b) and 882 of the U.S. Tax code set the general framework for individuals and

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corporations (respectively) to be regarded as engaged in U.S. trade or business. Under section 882, as confirmed by U.S. case law, "*merely servicing of…investments in this country*" does not constitute a U.S. trade or business. However, trading in stocks and securities can constitute U.S. trade or business, if it is not within the safe harbours in Section 864(b)(2)(A), and as a result will be subject to tax. In its analysis, the CCA first concludes that the activities performed by the U.S. fund manager as agent are to be considered as carried out by the foreign entity, that they amount to a trade or business, and consequently that the fund would be engaged in U.S. trade or business. The CCA next considers whether either of the safe harbours in Section 864(b)(2)(A) could apply. The first safe harbour in Section 864(b)(2)(A)(i) does not include an agent who has been granted discretionary authority by the principal, and therefore is not available. The second safe harbour in Section 864(b)(2)(A)(ii) applies to "*trading in stocks or securities for the taxpayer's own account, whether by the taxpayer or his employees or through a resident broker, commission agent, custodian, or other agent, and whether or not any such employee or agent has discretionary authority to make decisions in effecting the transactions*". However, the CCA considers that loan origination activities constitute banking, financing or similar business and therefore are beyond the scope of stock trading. Further, the safe harbour is not available when the foreign person is a "*dealer in stock or securities*". With respect to underwriting activities, the CCA considers that the particular facts under review (which involved active distribution of underwritten securities) show that the threshold permitted to qualify as "trading in stocks or securities" is exceeded, so that the fund should be considered to be carrying on business as a dealer, having regard at least to its underwriting activities and possibly also to its lending activity. It seems that the CCA does not set out a new interpretation of the law but demonstrates that the IRS will have regard to the facts of each case. The analysis also does not consider whether a fund that is resident in a jurisdiction which has a double tax treaty with the U.S. may be protected on the basis that its U.S. fund manager is an "*agent of independent status*", unlike under the domestic provisions.

(AIMA Weekly News, 13 January 2015)

Asia-Pacific

AIMA response to MAS Consultation Paper on Proposed Amendments to the Securities and Futures Act

On 11 February 2015, MAS issued a consultation paper to propose legislative amendments to the Securities and Futures Act to effect reforms to the regulation of over-the-counter (OTC) derivatives trading and the securities market. One of the proposals is to amend the definition of the regulated activity of fund management to cover managers of capital markets products and managers of Collective Investment Schemes (CIS). The safe keeping of assets under management with an independent custodian will also be extended to physical assets invested. CIS managers can only appoint financially and operationally sound independent custodians for such physical assets. AIMA response available here.

(*AIMA Asia-Pacific Newsletter, 17 February 2015*)

AIMA welcomes proposed IMR legislation

On 12 March 2015, the Australian Treasury published proposed changes to Australia's Investment Manager Regime (IMR) legislation. AIMA immediately welcomed the proposals in this media statement, saying the changes could help to transform the hedge fund sector in the country. AIMA will be conducting member

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events to discuss the implications of the draft changes and will consider submitting a further response to the government.

(AIMA Weekly News, 17 March 2015)

SFC consults on providing assistance to overseas regulators

On 19 December 2014, the Hong Kong Securities and Futures Commission (SFC) issued a consultation paper on Proposed Amendments to the Securities and Futures Ordinance for Providing Assistance to Overseas Regulators in Certain Situations. The SFC proposes that sections 180 (in respect of supervisory powers of the SFC) and 186 (in respect of assistance that may be provided by the SFC to overseas regulators) of the Securities and Futures Ordinance be amended so that a narrow form of supervisory assistance could be provided upon request to overseas regulators.

(AIMA Weekly News, 6 January 2015)

India - Union Budget 2015

On 28 February 2015, the Indian government released its budget for 2015 (here), which includes several measures intended to facilitate an improved business environment and enhance foreign direct investment in the country. In particular, the taxation of income received through fund managers is to be amended, so that where an eligible investment manager located in India acts on behalf of an eligible foreign fund it will not constitute a business connection in India of the eligible fund, nor will the fund be considered to be resident in India through the actions of the investment manager. Other measures that may be relevant to the financial services industry include: (i) corporate tax rate reduction (from 30% to 25%) over four years; (ii) the introduction of the general anti-avoidance rule deferred for two years; (iii) the test of "central management and control" as the basis of residence of overseas companies in India will be replaced by the lower threshold of "effective management" and (iv) increased transparency requirements for payments made to non-residents, which must be reported to the Indian Revenue Authority, even if those payments are not subject to tax in India. The Minimum Alternate Tax will not apply to capital gains for foreign portfolio investors (FPIs) although it would still apply to other categories of income (the rate of MAT has increased from 10% to 12%).

(AIMA Weekly News, 3 March 2015)

QFIIs / RQFIIs administrative tax procedure

On 14 November 2015, the Ministry of Finance and Tax Administration of China issued two circulars (No.79 - No.81) concerning the tax treatment of equity investment assets (temporary exemptions) held by qualified foreign institutional investors (QFIIs) and Renminbi QFIIs (RQFIIs) and (ii) those dealt in through Shanghai-Hong Kong Stock Connect (see AIMA Weekly News, 18 November 2014). However, a number of key concerns remained to be addressed. On 26 February 2015, a Beijing Municipal State tax official speaking at a conference is reported to have responded (there is no official material or circular) to some of these issues: (i) tax filing deadline is July 2015 (to be filed where the QFII/RQFII opened its custodian bank account or where the HQ of the custodian financial entity is located); (ii) the reporting scope involves all types on investment income of QFIIs/RQFIIs, whenever arising; (iii) on a five year look back approach, QFIIs and RQFIIs will be subject to PRC withholding tax (WHT) in respect of investment income realised between 17 November 2009 and 17 November 2014 (treaty relief applicable); and (iv) WHT on capital gains should be calculated on a transaction-by-transaction basis (with a late payment surcharge).

(AIMA Weekly News, 10 March 2015)

Singapore - Budget 2015

On 23 February 2015, the Finance Minister announced the Singapore Budget 2015 (here). This is intended to introduce a comprehensive package of measures to promote the attractiveness of Singapore, in the context of increasing international tax competition and a global economy. One item relevant to investment funds is the removal of a practical issue that can arise when a Singapore fund acquires the ultimate investment through a Singapore SPV. In cases where the main fund is tax exempt under either the Singapore Resident Fund Scheme (SRF) or the Enhanced - Tier Fund Tax Incentive Scheme (ETF), its wholly owned SPV will not be automatically exempt from Singapore tax, unless the SPV applies for the exemption separately. The higher costs and compliance burden that this would entail is set to be addressed by allowing Singapore funds to obtain approval under the ETF on a collective basis from 1 April 2015. It is not clear whether the same procedure will apply for SRF approvals.

(AIMA Weekly News, 10 March 2015)

Resolution Regime Consultation - Hong Kong

The Financial Services and the Treasury Bureau, Hong Kong Monetary Authority, Securities and Futures Commission, and the Insurance Authority launched the second phase of public consultation on establishing an effective resolution regime for financial institutions. The consultation was launched on 21 January 2015 and is open for three months. The second stage of consultation seeks views on specific aspects of the regime including: further details on the resolution options and powers initially proposed in the previous consult; governance arrangements and specifically the approach to designating resolution authorities; as well as safeguards including a 'no creditor worse off than in liquidation' compensation mechanism.

(*AIMA Asia-Pacific Newsletter, 17 February 2015*)

For more information on these and other regulatory and tax matters, AIMA members may contact:

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Q1 press releases

Date	Title
12 March	Hedge fund managers eagerly adapt to changing markets, investors and products, according to new industry survey
12 March	AIMA welcomes proposed IMR legislation
24 February	Activist hedge funds driving improvements in company performance - AIMA paper
11 February	Tax paid by UK hedge fund industry at record levels
2 February	AIMA Parliamentary Reception discusses how hedge funds can help to close the 'pensions gap'
28 January	AIMA and CAIA launch series of hedge fund papers for pension fund trustees

Media coverage of AIMA

Many of the hyperlinks in the section below are restricted to the subscribers of the particular publications

Articles by AIMA

Comment: Jack Inglis (HFMWeek)
6 March 2015
The positive role of activist hedge funds is now being fully and rightfully recognised, writes Jack Inglis in his quarterly column.

The hedge fund industry's quiet revolution (Preqin)
22 January 2015
AIMA CEO Jack Inglis says that a changing investor demographic has had far-reaching implications for the hedge fund industry.

AIMA in the news

AIMA welcomes proposed IMR legislation
13 March 2015
Our statement on proposed changes to Australia's Investment Manager Regime legislation was covered by AsianInvestor and InvestorDaily.

Hedge fund managers eagerly adapt to changing markets, investors and products, according to new industry study
13 March 2015
The release of our survey with the MFA and KPMG entitled 'Growing Up - A New Environment for Hedge Funds', was covered by, among others, Pensions & Investments, Opalesque and HFMWeek.

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[Investor demands for standardisation (HFMWeek)]
12 March 2015
AIMA's Jennifer Wood is quoted in this article on industry standards and DDQs.

[Communication is mission of AIMA chief (Pensions & Investments)]
10 March 2015
A wide-ranging interview with AIMA CEO Jack Inglis.

[AIMA warns ESMA algo-trading rules are too prescriptive (HFMWeek)]
6 March 2015
Jiri Krol is quoted in this article on algorithmic trading.

[What could the UK general election mean for hedge funds? (HFMWeek)]
5 March 2015
AIMA is referenced in this article on the industry implications of the forthcoming UK general election.

[UK moves to address 'flawed' fee income proposals (HFMWeek)]
4 March 2015
AIMA is referenced in this article on "disguised" investment manager fees.

[Getting ready for MiFID II (HFMWeek)]
27 February 2015
Adam Jacobs is quoted on CSAs in this MiFID II feature.

[The case has gone up for investors in hedge funds (Invest'News)]
27 February 2015
Profile piece on the Association.

[Activist hedge funds driving improvements in company performance, AIMA paper]
25 February 2015
The publication of our paper, 'Unlocking value: the role of activist alternative investment managers', was covered by, among others, the Wall Street Journal, Financial Times and Reuters.

[Why are hedge fund indices so different? (HFMWeek)]
12 February 2015
This article regarding hedge fund indices references our 'Apples and apples' paper.

[Tax paid by UK hedge fund industry at record levels]
12 February 2015
Our statement regarding the tax contribution of the UK hedge fund industry was covered by, among others, the Financial Times and Daily Telegraph.

[Political row over stamp duty exemptions]
5 February 2015
Comments by AIMA in response to issues raised by Labour at Prime Minister's Questions in London have been carried by the Financial Times, Bloomberg and City A.M.

[UK's West Midlands pension manager to pull out of hedge funds (Reuters)]
4 February 2015
Research cited by AIMA in 'The Way Ahead' is referenced towards the end of this article on the UK's West Midlands Pension Fund redeeming just over £200 million of hedge fund allocations.

[AIMA Parliamentary Reception discusses how hedge funds can help to close the 'pensions gap']
2 February 2015
Details of our reception at the UK Parliament were covered by FT Adviser, The Hedge Fund Journal and Opalesque.

AIMA and CAIA launch series of hedge fund papers for pension fund trustees
28 January 2015
Coverage of the publication of 'The Way Ahead', our pension trustee paper, by Reuters, Bloomberg and CNBC.

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Stock Connect tipped to survive liberalised China (AsianInvestor)
23 January 2015
AIMA Hong Kong's Philip Tye is referred to in this review of the Asian Financial Forum.

AIMA says AIFMD passport should be extended to non-EU managers (HFMWeek)
16 January 2015
Jiri Krol is quoted in this article on the AIFMD.

Irish and Lux trade bodies say 'too early' for passport extension (HFMWeek)
13 January 2015
AIMA is referenced in this article on passporting arrangements.

AIMA discourages BIS from reviewing corporates in LLPs (HFMWeek)
12 January 2015
AIMA is referenced in this article as calling on the UK Department for Business, Innovation and Skills to abandon consideration of a review of issues in relation to corporate members of LLPs.

Europe's second biggest pension scheme rejects hedge funds (Financial News)
9 January 2015
AIMA CEO Jack Inglis is quoted in this Financial News article on Europe's second-largest public pension fund's withdrawal from hedge fund investments.

AIMA blog posts

Looking ahead to AIMA's Global Policy and Regulatory Forum
18 March 2015
In his latest entry, AIMA CEO Jack Inglis previews our forthcoming Global Policy and Regulatory Forum.

Our 25th anniversary year
2 February 2015
Jack Inglis discusses the 25th anniversary of the association, his recent trip to Asia and AIMA's engagement with policymakers in the U.S. and Europe.

For media enquiries, please contact:

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Review of 'AIMA in Asia 2015'

On 22 January 2015, AIMA hosted its first Asia-Pacific regional event, entitled AIMA in ASIA 2015. The forum, which addressed a number of regulatory, policy and operational focus areas anticipated for Asia-Pacific managers in the coming year, attracted more than 265 attendees. AIMA in ASIA opened with a keynote from Alexa Lam, Deputy CEO of the Hong Kong Securities and Futures Commission, pictured below. Charles Li, CEO, Hong Kong Exchange, delivered a lunchtime presentation primarily focused on the Shanghai-Hong Kong Stock Connect. Panel discussions considered the regulatory outlook for 2015 in Asia-Pacific; the evolving onshore regulatory framework in China; talent management; cybersecurity and business disruption risks; counterparty risk/cash management practices in light of Basel III; environmental, social and corporate governance; investor engagement and investor transparency. For further details, please contact Heide Blunt.

Jack Inglis, CEO, AIMA

Alexa Lam, Deputy CEO of the Hong Kong Securities and Futures Commission


Charles Li, CEO, Hong Kong Exchange

The event was held at the Hong Kong Convention and Exhibition Centre

Forthcoming AIMA events

US - Growing Up: The New Environment For Hedge Funds
2 April 2015
Venue: KPMG LLP, 345 Park Avenue, New York City

Canada - WCM/AIMA Current and Future Opportunities in Hedge Funds
9 April 2015
Venue: Scotiabank, 44 King Street, Toronto

US - AIMA's Global Policy & Regulatory Forum 2015
16 April 2015

Venue: Trump SoHo, 246 Spring Street, New York City

Canada - AIMA Canada Annual Alberta Ski Day 2015
17 April 2015
Venue: The Lake Louise Ski Resort, 1 Whitehorn Road, Lake Louise, Alberta

Belgium - Bridging the Financing Gap
22 April 2015
Venue: Radisson BLU EU Hotel Brussels, Rue d'idalie 35, B-1050 Brussels

UK - Bridging the Financing Gap
5 May 2015
Venue: Deloitte LLP, 2 New Street Square, London

UK - How Do Responsible Asset Owners View Hedge Funds?
14 May 2015
Venue: Man Group, Riverbank House, London

Canada - Toronto Quarterly Social – June
1 June 2015
Venue: The Duke of Westminster, 77 Adelaide Street West, Toronto

Canada - 11th Annual AIMA Canada Charity Golf Tournament
8 June 2015

Venue: Angus Glen Golf Club, 10080 Kennedy Road, Markham, Ontario

Japan - 10th AIMA Japan Hedge Fund Forum 2015
10 June 2015
Venue: TBC

AIMA events globally in Q1

Canada - Toronto Quarterly Social – January
12 January 2015
Venue: The Duke of Westminster, 77 Adelaide Street West, Toronto

Canada - Concordia Career Panel
13 January 2015
Venue: John Molson School of Business, Concordia University, Montréal

Hong Kong - Stock Connect - Pre-Trade Checking and Short Selling
14 January 2015
Venue: The Exchange Auditorium, Exchange Exhibition Hall, One & Two Exchange Square, Central

Canada - HEC Montréal Career Panel
14 January 2015
Venue: HEC Montréal, 3000 Chemin de la Côte-Sainte-Catherine, Montréal

Hong Kong - AIMA in Asia 2015
22 January 2015

Venue: The Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wan Chai

Hong Kong - AIMA Hong Kong Member Networking Drinks
22 January 2015
Venue: Ramas Oyster & Grill, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai

UK - UK Parliamentary Reception
28 January 2015
Venue: Westminster, London

Grand Cayman - Managing Risk - An Expert's View
29 January 2915
Venue: The Lady Jane Room, Grand Cayman Marriott Beach Resort, Grand Cayman

Grand Cayman - AIMA Golf Tournament 2015
30 January 2015

Venue: North Sound Golf Course, Safehaven Drive, Grand Cayman

Singapore - Shanghai-Hong Kong Stock Connect: Insights, Existing Challenges and Future Opportunities
3 February 2015
Venue: Clifford Chance, 12 Marina Boulevard, 25th Floor, Tower 3, Singapore 018982

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Canada - AIMA Canada Annual Ontario Ski Day 2015
5 February 2015

Venue: Osler Bluff Ski Club, Blue Mountains, Ontario

US - AIMA Roundtable on European Policy Developments in the Payment for Research - Impact on Global Firms - New York
9 February 2015
Venue: Clifford Chance, 31 West 52nd Street, New York City

Singapore - Hedge Funds and the Evolving Cyber Landscape
12 February 2015
Venue: Control Risks, 331 North Bridge Road, #04-01/04 Odeon Towers, Singapore

Canada - AIMA Canada Annual Québec Ski Day 2015
16 February 2015
Venue: Mont Saint-Sauveur, 350 Saint-Denis Ave, Saint-Sauveur, Québec

Sweden - AIMA Members' Briefing
17 February 2015
Venue: Gernandt & Danielsson Advokatbyrå, Hamngatan 2, Stockholm

Canada - BC Social
18 February 2015
Venue: The Blackbird Public House & Oyster Bar, 905 Dunsmuir Street, Vancouver

UK - Launch of New AIMA Paper on Activist Funds
23 February 2015
Venue: Simmons & Simmons, Citypoint, 1 Ropemaker Street, London

Hong Kong - Introduction of Volatility Control Mechanism (VCM) & Closing Auction Session (CAS)
25 February 2015
Venue: The Exchange Auditorium, Exchange Exhibition Hall, One & Two Exchange Square, Central

Canada - Alberta Social
26 February 2015
Venue: Local Public Eatery, 310 8th Avenue SW, Calgary

Hong Kong - Networking Drinks
26 February 2015

Venue: Zuma, The Landmark, 15 Queen's Road, Central

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Canada - The 6th Annual Alternative Investment Outlook Forum
3 March 2015
Venue: The Vancouver Club, 915 West Hastings Street, Vancouver

Singapore - Budget Briefing: India, Singapore & Hong Kong
9 March 2015
Venue: EY, One Raffles Quay, Level 18, North Tower, Singapore 048583

Canada - Toronto Quarterly Social - March
9 March 2015
Venue: The Duke of Westminster, 77 Adelaide Street West, Toronto

US - US Briefing & Regulatory Update
11 March 2015
Venue: Clifford Chance, 31 West 52nd Street, New York City

UK - AIMA Breakfast Briefing - Debt Funds
12 March 2015
Venue: Dechert LLP, 160 Queen Victoria Street, London, EC4V 4QQ

Singapore - The Start-Up Scene: Different Options that Exist for Hedge Funds and Traders Going it Alone
16 March 2015
Venue: SGX Auditorium, 2 Shenton Way, SGX Centre 1 Level 2, Singapore 068804

UK - Understanding Hong Kong/Shanghai Stock Connect and Other Regional Developments
17 March 2015
Venue: AIMA, 167 Fleet Street, London

Canada - 2nd Annual Evening of Curling
18 March 2015
Venue: The Royal Montreal Curling Club, 1850 de Maisonneuve Boulevard West, Montreal, Quebec

Singapore - Networking Drinks
24 March 2015
Venue: The Bank Bar + Bistro, One Shenton Way, Singapore 068803

Hong Kong - Networking Drinks
25 March 2015
Venue: Armani/Prive, 2/F, Chater House, 8 Connaught Road, Central

Grand Cayman - Topical Tax Update
26 March 2015
Venue: Grand Cayman Marriott Beach Resort, Grand Cayman

Dubai - AIMA Middle East Hedge Fund Investor Summit 2015
31 March 2015

Venue: DIFC Conference Centre, Gate Precinct 4, Dubai

Q1 AIMA webinar

Click on the hyperlink in red to view the webinar

Government & Regulatory Affairs Quarterly Update
26 January 2015

Annex IV – Risk mitigation or excess regulation?

By Matt Raver, Director, Robert Quinn Consulting; and Marina Thorpe, Director, Robert Quinn Consulting

One of the most challenging aspects of the European Union's (EU) Alternative Investment Fund Managers Directive (AIFMD) is the requirement that fund managers submit an "Annex IV" report to the regulators. This article seeks to reflect upon firms' experiences of submitting their inaugural Annex IV report and considers if this reporting will produce the desired outcomes the legislators set out to achieve.

Annex IV seeks to aggregate Pan-European data on AIFMs (Alternative Investment Fund Managers), and their funds, to assist with managing and mitigating systemic risk and so help ensure investor protection. Any EEA AIFM and non-EEA AIFMs marketing in the EEA must submit Annex IV, which is highly expansive and prescriptive. The reporting topics originate at the EU legislative level, with the specific data items disseminate by the European Securities and Markets Authority (ESMA). AIFMs have to submit the report to national EEA regulators, who are required to adopt ESMA's data items.

The data sets required in Annex IV are extensive and span markets, instruments, exposures, risk and investors, amongst other things. Criteria based upon assets under management, marketing strategy and leverage levels, determine which sections of the form are applicable to each relevant fund (known as an Alternative Investment Fund or "AIF"). This information may need be collected and aggregated from an array of service providers such as fund administrators, custodian banks and prime brokers.

In addition, Annex IV has to be supplied not just on behalf of the AIFM but also for every single AIF managed by that AIFM. This is a significant undertaking for EEA/Non-EEA managers and EEA national regulators

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receiving the data. The first Annex IV filers have had a varied experience, but despite some concerns, collecting all of the disparate data sets from multiple providers was relatively straightforward. There have been some challenges for both the managers and national regulators. Annex IV deadlines are tight, one month after the end of each relevant reporting period (15 days extension for fund of funds), meaning managers may struggle to produce variable data sets, such as the Net Asset Value (NAV)/ AuM on-time.

The Financial Conduct Authority (FCA), which receives more Annex IV reports than any other EEA regulator, has been pragmatic and indicated that managers may provide information based on their best-estimated data and re-file as soon as they have obtained final figures.

The data needs to be supplied to ESMA in "XML" format. For certain EEA regulators, firms are obliged to convert the data into this format and then submit the XML file to the regulator. In addition to this, the FCA - which accepts returns via its "GABRIEL" reporting system - has created a "direct entry" alternative to the XML upload (albeit XML upload remains an option). Therefore, the FCA is effectively converting the data into the XML format on firms' behalf. Some firms have experienced issues in formatting the data and XML conversion; therefore the FCA's solution has enabled many firms to make a submission without requiring assistance from a third party IT provider.

Unfortunately, the GABRIEL System suffered an outage due to the sheer volume of managers filing Annex IV and other regular reports at the end of January, which was very frustrating for managers. A challenge for the FCA going forward will be to ensure the system has sufficient capacity close to filing deadlines. Given that a reduced number of reports will be submitted at the remaining quarter ends during 2015, it is possible that this will not be tested again until January 2016. It is also possible that a greater number of AIFMs will submit the return earlier in the month.

The multitude of guidelines issued from ESMA and national regulators including the FCA, complicated matters for managers. These are located on different websites and managers have had to scour through a plethora of documents/files (in differing formats) in order to find the relevant guidance and tools. One consequence of this is that it increases the risk of data requests being misinterpreted and inconsistencies in data submitted (which in turn reduces the value of the aggregate data across all managers). In the UK, there were differences in guidelines, depending if Annex IV was being filed as the XML file upload or via GABRIEL. Other glitches are technical albeit frustrating.

The FCA did struggle with its current resources to respond to enquiries in an efficient manner, as it did not anticipate such an overwhelming number of queries during the last two weeks before submission. In future the FCA may need to consider adopting a step-by-step approach towards its guidance. Having the guidance collated in one document, in one place would be extremely helpful to managers and minimise queries being raised with the FCA directly.

Some managers do need to make improvements. Problems faced during this filing should be identified promptly and corrective action needs to be taken to ensure a smooth filing process occurs for the next deadline. Whilst some firms have outsourced the reporting to their fund administrators, there have been

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occasional glitches and miscommunications. Again, better oversight of outsourced providers would go a long way in minimising such risks.

The big take-away, however, should be reserved for the European legislators and regulators. Annex IV filings have so far been a complex, costly and time consuming exercise. At many firms, resources were diverted away from their day to day activities, including monitoring and supervising compliance and operational risk.

The net benefit of this data collation exercise should also be closely monitored. The ambition is to minimise systemic risk. However, given that such risks are global and encapsulate investment activity external to the "alternative investment" sector, unless the data is joined up with data collated from other markets, the value of the data will be much diminished. One ambitious suggestion would be if the EU streamlined its regulatory reporting methodology and data sets with Forms PF and CPO-PQR in the US. Such an approach would ensure data is uniform and easier to collect for managers while simultaneously allowing global regulators to more effectively spot build-ups of risk in the capital markets. However, this would be a partial solution only.

One may also question the value of requesting vast amounts of data from smaller managers. In the UK, it is estimated that the 20 largest hedge fund managers account for 82% of hedge fund assets (with over 400 firms accounting for the remainder[1]). For example smaller managers may therefore query the merits in submitting data on monthly performance or subscriptions and redemption levels, for their USD 20 million fund. Furthermore, it is recognised in the legislation that AIFMD covers a wide range of strategies and situations. However, this is not properly accounted for in the Annex IV reports (which broadly appear to have been drafted with leveraged hedge funds in mind). Additionally, onerous reporting may be a deterrent for many non-EEA firms, due to increased legal and administrative costs.

Regulators may wish to conduct a review of all the data provided by both EEA and non EEA managers to ascertain if the data provided does in fact align itself with the purpose of AIFMD to minimise systemic risk and identify potential systemic risk. Given the amount of variables, legislators and regulators could find it difficult to compare like with like. If this is indeed the case, legislators should re-consider certain aspects of the reporting requirements and consider revising Annex IV. This should minimise the variables and make it easier for legislators and regulators to review and analyse the data obtained for relevant trends and take appropriate action sooner rather than later.

Overall, it is too soon to judge if Annex IV has resulted in the desired outcomes the legislators set out to accomplish; we have to wait and see. The legislators should have the conviction to fix this, if it is broken, by seeking to further harmonise reporting on a global scale and/or further reducing the reporting burden in low risk situations. Industry participants may also have a role to play in encouraging these outcomes. Perhaps this is the key take-away for fund managers after all.

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1. *FCA Hedge Fund Survey - March 2014 (*http://www.fca.org.uk/static/documents/hedge-fund-survey.pdf*)*

Product development opportunities – the ICAV, the Loan QIAIF and the Loan ELTIF

AIMA SPONSORING PARTNER

By Aisling Costello, Senior Manager,
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Ireland has recently expanded its fund range by launching both a new fund vehicle, the Irish Collective Asset-management Vehicle (ICAV), and a new fund product, the Loan QIAIF. European legislators have also been busy launching additional fund products, including the European Long Term Investment Fund.

In this article, we discuss the principal characteristics and benefits of the ICAV, before summarising and contrasting the key attributes of the Loan QIAIF and an ELTIF structured as a loan fund.

ICAV

As a vehicle designed specifically for the funds industry, the ICAV combines the advantages of each of the existing Irish fund vehicles to form a highly flexible funds solution. Its benefits for investors and promoters include its capacity for sub-funds to prepare separate financial statements; the ability to hold a single asset; and the possibility of increased distribution to US investors as it qualifies for their 'check the box' election.

The ICAV will interact solely with the Central Bank of Ireland (CBI) rather than with the CBI and the Companies Registration Office (CRO), resulting in both stream-lined incorporation and simplified on-going compliance.

Existing Irish corporate funds will be able to convert to an ICAV through a simplified conversion process. Conversion allows a fund to maintain its past performance data by changing the seat of incorporation rather than starting anew, enabling funds to carry over their track record. Similarly, it will be possible for overseas investment companies to convert to an ICAV under a one-step re-domiciliation/migration process, rather than being required to migrate and then convert.

The new ICAV structure will run parallel to, rather than replace, existing fund structures. Managers and boards may opt to convert, but are not obliged to change from their existing structure.

Therefore, before converting, we recommend that managers and boards conduct a cost-benefit analysis to determine whether the potential benefits in respect of reduced compliance costs and the increased distribution opportunities would justify any costs and effort involved in converting.

These conversion costs include drafting the instrument of incorporation, completing the filings with the CBI, de-registering from the CRO and notifying shareholders. It is also important to consider any potential tax consequences at the investor level.

The ICAV was approved by the Irish Parliament in February and signed into law by the Irish President. The CBI earlier confirmed that it would be ready to accept ICAV applications within two weeks of the enactment of the ICAV legislation.

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Comparison of existing Irish structures

	Investment limited partnership	Unit trust	Common contractual fund	Variable capital company	ICAV
Eligible for US 'check the box'	✓	✓	✓	✗	✓
Umbrella sub-funds	✓	✓	✓	✓	✓
Financial statements on a sub-fund basis	✗	✓	✓	✗	✓
Irish tax transparency	✓	✗	✓	✗	✗
Requirement for AGM	Not required	Not required	Not required	Always required	Can be dispensed with
Amending constitutional documents	Requires investor approval	Requires trustee certification*	Requires custodian/manager certification*	Requires investor approval	Requires depositary certification*
AIF/UCITS	AIF only	✓	✓	✓	✓
Open-ended	✓	✓	✓	✓	✓
Closed –ended	✓	✓	✓	✓	✓
Risk spreading	Not required	Not required	Not required	Required	Not required
Irish gross roll up tax rules **	✗	✓	✗	✓	✓

As long as the investors' interests are not prejudiced.
*****non-Irish resident - no tax due: Irish tax resident - 41% (individual) or 25% (company)***

Table 1 above compares the key features of each of the Irish fund vehicles.

ELTIF v Loan QIAIF

ELTIF: Despite its origin as one of the reforms proposed for the UCITS regime, the final ELTIF is a stand-alone fund governed by the Alternative Investment Fund Managers Directive (AIFMD) with a wide range of permitted investment strategies. One of its permitted strategies is issuing loans, and in this article, we focus on an ELTIF structured purely as a loan fund.

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Comparison between the ELTIF and the Loan QIAIF

	ELTIF	Loan QIAIF
UCITS or AIF?	AIF only	AIF only
Legal structure	Cannot be a partnership	Any
Umbrella - funds?	Yes	Yes
Authorised or Registered AIFM	Authorised only	Authorised only
Regulated?	Yes	Yes
Open/closed ended	Closed ended, has the option to include redemption rights.	Closed ended, with predetermined redemption dates throughout the life of the fund
Marketing passport	Yes	Yes
Can investors transfer their interests?	Yes, they can sell their interests in the secondary market	No restrictions on transfer
Minimum investment	€10,000	€100,000
Retail/Professional investors	Retail & professional	Professional only
Diversity requirements	➢ Max 10% of capital can be loaned to a single qualifying portfolio undertaking (20%, if the aggregate value of assets held by the ELTIF in QPUs in which it invests more than 15% is capped at 40% of the value of its capital.) ➢ Max 10% of capital in units of a single ELTIF, EuVECA or EuSEF.	Max exposure of 25% of net assets to a single issuer during a specific time-frame
Eligible assets	At least 70% must be invested in 'eligible assets', including equity/ debt/loans or infrastructure projects issued to QPUs. This limit is disapplied during a start-up period of 5 years to build up this portfolio, and also during the end of the life of the fund when positions are being closed Up to 30% can be invested in the assets referred to in Article 50(1) of Directive 2009/65/EC of the European Parliament and of the Council. (UCITS)	Loans only. The AIF Rulebook prohibits the Loan QIAIF from engaging in other businesses. However, it can be structured as a subfund within an umbrella fund, where the other sub-funds invest in non-loan assets, eg. Equities.
Loans available to whom?	➢ non-financial unlisted entities established to invest in infrastructure, property, ships, aircraft, rolling stock ➢ listed small and medium enterprises ➢ European Social ➢ Entrepreneurship Fund ➢ European Venture Capital Fund	Businesses ('non-financial')
Leverage?	Up to 30% of the capital of the ELTIF can be used to purchase eligible investment assets. Not available for loan funding.	Gross assets must not exceed 200% of the net asset value
Transparency requirements	➢ Details of how the ELTIF's investment objectives and strategy qualify the fund as long-term in nature. ➢ Prospectus Directive disclosure requirements ➢ AIFMD disclosure requirements. ➢ Prominent description of eligible assets. ➢ Prominent warning of the illiquid nature of the fund. ➢ All costs attached to the fund. ➢ KID disclosure requirements (if marketed to retail investors)	➢ a prominent risk warning highlighting the unique risks inherent in loan origination, how investment in a loan originating fund is not guaranteed and is subject to the possibility of investment losses and illiquidity ➢ information on the fund's risk/reward profile ➢ anticipated concentration levels ➢ credit assessment and monitoring processes ➢ confirmation on whether the manager will allow access to records and staff for due diligence ➢ a risk warning that the Central Bank may tighten lending standards and leverage limits ➢ Information that a reasonable investor would consider important in considering investing in the fund. ➢ The implications of the Central Bank's Code of Conduct for Business Lending to Small and Medium Enterprises where loans are made to SMEs. ➢ Details of the fund's loan book must be disclosed periodically to unitholders ➢ Details of the fund's undrawn commitments must be disclosed periodically to the CBI ➢ AIFMD disclosure requirements

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Loan QIAIF: Ireland introduced the Qualifying Investor Alternative Investment Fund (QIAIF) some years ago as the new AIFMD compliant version of its previous Qualifying Investor Fund range. In October 2014, the CBI updated this structure by authorising it to originate loans – these new loan originating elements are the focus of the Loan QIAIF aspect of this article.

In the following text, we summarise and contrast the principal features of each of these new loan funds, including their permitted investments and investors, as well as their leverage, transparency and structuring requirements.

Table 2 on the previous page contrasts the principal characteristics of both loan funds.

Portfolio - permitted loans and loan recipients

The defining feature of any fund is its investment strategy, particularly its permitted investments. Key to a loan fund is the type of loans it can hold in its portfolio and the characteristics of its permitted loan recipient. The ELTIF and the Loan QIAIF differ in both categories.

ELTIF: The ELTIF has significant flexibility regarding its portfolio - at least 70% of its capital must be invested in 'eligible assets', which include loans to 'qualifying portfolio undertakings' (QPUs) with the balance in certain diversified assets. QPUs are portfolio undertakings (excluding funds, financial undertakings, organised trading facilities, and listed entities) and listed small and medium enterprises with a market capitalisation of up to €500,000 (SMEs). It can also issue loans to European Social Entrepreneurship Funds (EuSEF), European Venture Capital Funds (EuVECA), and other ELTIFs. In general, the ELTIF can invest up to 10% of its capital in a single QPU.

Loan QIAIF: The CBI has confirmed that in addition to originating loans, the Loan QIAIF may participate in loans, acquire loans in the secondary market, and seek exposure to loans by way of sub-participations. It is also permitted to engage in operations resulting directly from those activities such as handling any collateral which is used as security for the loans, and to engage in treasury management and the use of derivatives for hedging purposes. It can invest up to 25% of net assets to a single issuer within a specific time-frame. The Loan QIAIF, unlike the ELTIF, can issue loans to businesses generally, but is prohibited from issuing loans to natural persons, financial businesses, and entities related to the fund such as the fund manager. When lending to small and medium businesses in Ireland, the Loan QIAIF must abide by the CBI's 'Code of Conduct for Business Lending to Small and Medium Enterprises' – in addition to complying with the CBI's AIF Rulebook which applies to all QIAIFs.

It seems the different range of permitted loan recipients reflect the subtle differences in drivers behind the loan funds. The Loan QIAIF was established as a pipeline of funds to businesses and so has a relatively wide base of potential loan recipients. The ELTIF on the other hand was conceived as a funding pipeline to drive the long term growth of social entrepreneurship and infrastructure throughout the European real economy.

Marketing - eligible investors

As AIFMD regulated entities, both funds can be passported across the EU using the AIFMD passport.

ELTIF: The ELTIF can be marketed to both retail and professional investors – this is an interesting development since under AIFMD only funds marketed to professional investors

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can generally be passported. The ELTIF's minimum investment of €10,000 has attracted criticism that this relatively high threshold would remove the ELTIF from the reach of most retail investors. Perhaps the European Commission set this threshold to protect the lower end of the retail spectrum from the perceived higher level of inherent risk in a loan fund?

ELTIFs are also considered to be a 'priority tool to accomplish the European Investment Plan launched in November 2014' and are conceived as an investment vehicle through which the European Investment Banking (EIB) Group can invest its European infrastructure and SME financing. The European Commission was charged with prioritising and streamlining its processes for all applications by ELTIFs for EIB financing.

Where retail investors are anticipated, the ELTIF manager must undertake additional due diligence to ensure that the potential investor has sufficient expertise and resources to understand and bear an investment in a long term closed ended fund.

Loan QIAIF: The Loan QIAIF is widely available for investment by professional investors for a minimum initial investment of €100,000.

Leverage

ELTIF: Although the ELTIF can borrow up to 30% of its capital, this can only be used to purchase assets – it cannot be used to issue loans.

Loan QIAIF: The CBI capped the Loan QIAIF's upper leverage limit so that gross assets must not exceed 200% of the fund's net asset value.

Before launching the Loan QIAIF, the CBI issued a Consultation Paper seeking feedback on some of its proposed rules. In its Feedback Statement summarising the responses received to that Consultation Paper, the CBI reported that most respondents 'fundamentally disagreed' with the cap of 200%, saying that it was relatively low. Respondents highlighted that AIFMD does not impose such a limit, it merely requires funds to set to set their own limits and adhere to them.

Given the leverage restrictions in place for both the Loan QIAIF and the ELTIF, it is likely that unregulated loan funds will continue to be established where more highly geared structures are required.

Transparency

As AIFs subject to AIFMD, both funds are already subject to detailed levels of disclosure. The CBI acknowledges these high levels of transparency, yet reasons that the unique nature of a loan fund requires supplementary disclosures, both pre-investment and periodically at each net asset value calculation point. It considers that a loan fund should apply the same criteria as banks to distressed loans so that investors can have some assurances that appropriate categorisation is applied.

ELTIF: An ELTIF marketed to retail investors must publish a 'Key Information Document' (KID). The KID is a three page document which summarises in plain language the most important feature of the investment fund and what its risks are. This is a new requirement from the recently implemented European Regulation on key information documents for 'Packaged Retail and Insurance-based Investment Products'. It introduces a new obligation for providers of certain investment products including investment funds to issue a pre-contractual information document to retail investors. Firms must comply with its requirements from 31 December 2016.

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Loan QIAIF: Information to be disclosed to unitholders includes details of the fund's loan book, while the Loan QIAIF must also submit a list of any undrawn committed credit lines to the CBI to allow it to monitor systemic risk.

Structure

The funds share similar structuring requirements – both must be authorised in their home member state, can form part of an umbrella fund, must be closed ended and must have an AIFMD authorised investment manager. The rationale for prohibiting open-ended structures is to avoid situations where a loss in investor confidence could lead to investor runs, which in turn could lead to loans being recalled or sold onwards in a forced environment. Both can also be structured using an ICAV as the underlying vehicle.

ELTIF: The ELTIF can be structured to allow redemptions if this fits with the fund's investment strategy. Under exceptional circumstances specified within the rules of incorporation, the ELTIFs life-cycle can be extended or reduced to allow for more flexibility.

Loan QIAIF: Although Loan QIAIFs must be closed-ended, they are permitted at authorisation to specify interim redemption dates within the fund's life-cycle. Distributions and redemptions are permitted if liquid assets are available and there is no risk of jeopardising the Loan QIAIF's regulatory compliance or liquidity obligations. The rules allow the Loan QIAIF to make redemptions subject to investor approval, while distributions may be made throughout the Loan QIAIF's life-cycle.

Market insights

The creation of the loan funds demonstrates the recognition by regulators that appropriately regulated investment products can help to drive the growth of the European economy.

It will be interesting to see the impact of loan funds on the European financing landscape and in particular whether the increased competition impacts the loan interest rates on offer from banks?

There has been significant interest in the Loan QIAIF since the CBI launched it in October 2014. However, to date, this has not actually resulted in a significant number of fund launches. Restrictions in relation to leverage as well as the diversity requirements have proved challenging to overcome and therefore it will be interesting to see if any of these rules are relaxed in future.

On the other hand, European regulators anticipate a large uptake by retail investors in the ELTIF, notwithstanding the minimum investment of €10,000, while Managers have expressed strong interest in the ELTIF's eligibility for priority and streamlined funding from the EIB Group.

Finally, it will be interesting to see whether the introduction of loan funds can make a real impact in driving growth in the European economy.

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Potential impacts of Basel III liquidity regulations on the prime broker / hedge fund dynamic

By Edward Grissell, Prime Brokerage Sales, Nomura International, and John Duckitt, Financing Risk, Nomura International

On 15 January 2015, Nomura Prime Finance hosted an AIMA Hedge Fund Manager Training event. The topic for discussion was the potential impacts of Basel III regulations on the global hedge fund industry, with specific reference to the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and the Leverage Ratio. Although the session was held under Chatham House Rules, this article intends to look at some of the key themes and topics covered whilst maintaining institutional anonymity.

What are the Basel III liquidity regulations?

The Basel III liquidity regulations consist of the LCR and the NSFR. The leverage ratio also falls under the Basel III umbrella, and these three new sets of rules are expected to significantly change the relationship between hedge fund and prime broker. The phasing in of LCR has begun as of January 2015 and will be fully implemented by 2019. The NSFR and the leverage ratio are due in January 2018 and are expected to have a much broader impact on the global financial industry.

The LCR is designed to ensure that financial institutions have the necessary assets on hand to cope with short-term liquidity disruptions. Banks are required to hold sufficient high quality liquid assets (HQLA) to cover a stress scenario of net cash outflows over a 30-day period. Although the 2015 Basel recommended HQLA holding requirement is at 60% of net cash outflows, this changes depending on jurisdiction. It is expected that many banks have been early adopters where they are near if not fully compliant.

The NSFR is the next phase of Basel III's liquidity regulation, and is intended to address liquidity mismatches and reduce dependence on the short-term wholesale funding market. Although it will not be enforced until 2018, it is also likely to be adopted well before its implementation date. By definition, the NSFR is a ratio of the Available Stable Funding (ASF) and the Required Stable Funding (RSF), which for compliance should be equal to or greater than 100%. The ASF is defined as the proportion of capital and liabilities expected to be reliable over the time horizon considered by NSFR, which extends to one year. The RSF is calculated as the weighted sum of the value of assets held and funded by the entity, including off-balance sheet exposures where weights are assigned to each RSF asset category. The RSF is higher for illiquid assets and lower for liquid assets. The ASF is higher for a long-term stable source of funding and lower for short-term unstable sources.

The leverage ratio aims to restrict the build-up of leverage in the banking sector and to reinforce the risk-based requirements with a simple, non-risk based "backstop" measure. Banks must hold sufficient tier 1 capital relative to their exposure so that the leverage ratio does not fall below 3%. Another way to look at it is that the assets and commitments should not represent more than 33 times the regulatory cap, regardless of the level of their risk weighting or whether the credit commitments are drawn or not.

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The leverage ratio and NSFR will change depending on the jurisdiction in which the prime broker is regulated and its G-SIB Status. As of February 2015, there has been some transparency from various regulators surrounding the leverage ratio however few have commented on the NSFR.

How will this impact hedge fund industry?

The Basel III liquidity regulations and the leverage ratio are set to transform the role banks play at distributing and transforming assets and, more specifically, the traditional prime brokerage model.

Impacts of the LCR so far have been felt where prime brokers have moved away from funding positions overnight towards a >30 day financing term funding model. When asked to what extent hedge funds had felt an impact from LCR, the general consensus at the event was that any increase in financing cost had been absorbed by the prime brokers, rather than passed onto clients.

However, the hedge fund industry has already begun to experience more direct conversations regarding meeting bank hurdle rates of various return metrics, with those unable to meet the criteria being asked to exit platforms. Following on from the implementation of the leverage ratio in particular, prime brokers are likely out of necessity to become increasingly focused on balance sheet usage and, more importantly, returns expected for utilisation. The emerging industry trend of off-boarding of hedge fund clients in recent months indicates that prime brokers are already experiencing resource constraints, where balance sheet is being reallocated to higher yielding areas. The NSFR will also raise the profitability hurdle by likely raising costs, and forcing banks to use longer term funding for transactions.

In combination, the NSFR and the leverage ratio present a high probability that prime brokers will eventually be forced to pass on the additional costs to end clients and as already appears to be happening, hedge funds can expect more difficulty in obtaining leverage, higher costs and an increased rate of off boarding.

How can hedge funds mitigate the impacts?
In order to be an efficient financing partner, the hedge fund-prime broker relationship must be mutually beneficial, a point on which everyone at the event agreed.

1. *Consider the benefit you offer as a counterparty.* Whilst MIFID II outlines the importance of unbundling and transparency of costs, which we certainly do not dispute, it is vital for hedge funds more than ever to consider what they mean as a counterparty overall. Hedge funds must consider the range and scale of services used and to what extent they are meaningful. Post-2008 saw asset managers diversifying counterparty risk by increasing the number of counterparties they dealt with, now there may be a need to consolidate in order to be meaningful.
2. *Transparency is key.* Where a hedge fund has multiple prime brokers, balances must be allocated efficiently. This can be achieved by asking prime broker(s) which type of balances they would like to see. Through active dialogue, hedge funds may be able to proactively reallocate balances for mutually beneficial optimisation. It appears that larger hedge funds are already taking this approach, however for the smaller hedge funds (who this is more relevant to) few seem to be doing this.
3. *Manage your collateral effectively.* Typically hedge funds have managed

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collateral separately across products such as stock loan, OTC and listed derivatives, FX/currency etc. In order to efficiently manage this process, clients now have to bring these different parts of the organisation together to create a centralised function. Some are even allowing these units to leverage the collateral pool to generate a P&L for the firm. It is apparent that even at the smaller asset managers, treasury functions will have to become much more sophisticated. Some treasuries may even be able to generate alpha in their own right through intelligent use of collateral management and lending of unencumbered cash balances.

4. *Look for the opportunities*. As banks retreat from business areas with traditionally low margins, or those that have been disproportionally hit by regulation, shadow banking could move in to pick up the slack. This could potentially change the role of banks to one of originators and advisors, with balance sheet provided by a bank's clients rather than the bank itself. Although it remains to be seen exactly what form this relationship would take, natural candidates for balance sheet providers would be established credit hedge funds, given their pre-existing expertise in esoteric credit instruments.

5. *Evaluate your strategy and be nimble*. We were asked which strategies are most affected by this oncoming regulation. This is a tough question to answer due to the sheer number of interplaying parts. However, the feeling at the event was that hedge funds would need to be aware of what their relationship as a whole is worth to the bank. The best way to evaluate the vulnerability of a strategy will be to consider the extent to which the portfolio is user of bank balance sheet.

To conclude, it seems that a large proportion of the sell side are yet to be actively approached by the buy side regarding the extent to which the new Basel III rules will impact their business. Banks will be affected differently due to their set up, location and existing business composition; however all are likely to face increased costs and greater focus on balance sheet usage as a result of NSFR and the leverage ratio. The buy side should be prepared for this. If the early adoption of the LCR is any guide, banks will not wait until 2018 to become compliant with the NSFR and leverage ratio and are likely to implement from late 2015.

At the end of the event, the overall consensus was that the likely result of Basel III is the reversal of the dispersion of counterparty relationships and hence a re-concentration of prime brokerage relationships, although most likely not to the extent of pre 2008. The new prime brokerage- hedge fund relationships that survive can only be more significant, fully transparent and mutually beneficial.

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Standing out from the crowd – using technology to differentiate your investor relations process

By Matthew Cartwright, Co-Founder and Co-CEO of investOrbit

At the recent "AIMA in Asia 2015" conference in Hong Kong, during the afternoon session, the subject of investor transparency was raised. Using real-time voting and analysis devices, the large audience was able to express its opinion on topics including contentious areas of discussion with investors, the level of transparency afforded to investors and the biggest concerns regarding interactions with investors.

The answers that were provided show that at the outset of 2015 the subject of investor relations is still a high priority (32% voted it as being the most contentious area, slightly behind fees at 41%), a concern (49% voted the 'fair and equal treatment of investors' as their biggest concern in their investor interactions, far ahead of 'regulatory risk' at 21%), and a business process in need of greater standardization (37% disclosed that they decided the level of investor transparency on a 'case by case' basis).

This article proposes three things: 1) that investor relations should be a priority for all fund managers, 2) that a more systematic approach to investor relations will be increasingly important for fund managers, and 3) that using technology not only helps the fund manager achieve a base line of compliance and efficiency, but can help the manager differentiate itself in an increasingly competitive industry.

Investor relations should be a priority for all fund managers. It sounds obvious: fiduciaries have an explicit obligation of care, and the entire relationship is founded on the basis of trust. In its most modern context, the attraction and retention of capital is what keeps all fund management organisations alive. Good performance by fund managers ensures that investors can meet obligations and deliver results to their constituents, and keeps the relationship fruitful. The management of the relationship and the flow of information are what preserve the relationship. Investor relations maintains trust, which is the foundation of the fiduciary interaction. Investors are demanding more from managers in terms of reporting and disclosure. Managers have in the recent past either responded by increasing their allocation of time and/or human resources to meet these higher expectations, or have not - and have faced redemptions in standoff situations.

Investor relations should be a priority not only because it facilitates the communication and trust that underpin the fiduciary relationship, but because it addresses a fundamental business risk as well. In the wake of the global financial crisis, there were a lot of data points with which to examine investor behaviour. The huge capital outflows and subsequent reallocations gave managers great insight into their investors' behaviour in stressed market conditions. As a former Head of Risk Management I always considered that investor relations was in essence a risk management tool. Well-educated investors responded well to portfolio events, and poorly educated investors responded less well. Whilst portfolio events are not always under the fund manager's control, its investor relations philosophy and approach absolutely are. Waiting until a negative portfolio event to communicate

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with investors is a recipe for redemptions, whereas continual and systematic efforts are the key to retaining capital. Essentially, a manager's approach to investor relations can go a long way towards mitigating a fundamental business risk: capital flight.

If investor relations is the underpinning of the fiduciary relationship between manager and investor, and indeed a tool to mitigate capital flight in difficult times, then it should be a priority for all managers. However, today's environment for fund managers is a challenging one, and implementing an effective investor relations function using traditional methods is a non-trivial problem. Investor requirements are variable, the competition for investor allocations is intense, and regulatory oversight is increasingly focused on investor – manager interactions. Fund managers today are under pressure from all corners to raise the bar and improve their investor relations standards.

The traditional response to increased reporting requirements from investors has been to increase human resources internally, and engage the services of fund administrators, prime brokers and other such service providers. However, this has favoured the larger fund managers who either have the resources to increase headcount internally, or have the volume of business with third party trading counterparties or custodians to warrant more 'red carpet' treatment. All but the large fund managers out there are forced to look to other solutions to keep on top of the changing requirements. That being said, regulatory pressure for equal disclosure of information to all investors (especially strong in the US, increasing in Europe, and expected in Asia) forces managers to consider a systematic approach, regardless of their size. A systematic approach requires having an investor relations process that is highly structured and accountable when it comes to the dissemination of information to investors at all stages of the investment process. The benefits of this approach are numerous, and go beyond simply remaining in line with regulations.

Fortunately, today, we see advancements in, and broad acceptance of, cloud technology. Innovative systems are coming to market, designed to keep a manager's investor relations professionals synchronised with their investors around the world, and to facilitate better operational efficiency and higher standards of investor interaction. Now managers have the opportunity to implement a systematic approach to investor relations through technology. This achieves greater internal efficiency, and ensures that the manager can stay on top of investor communications and regulatory requirements for reporting standards. Furthermore, a fund manager can differentiate itself through the technology choices it makes.

Standing out from the crowd, attracting and retaining capital, honouring the foundation of the fiduciary relationship, and staying in line with the highest standards of investor reporting and regulatory compliance are now all possible with technology. Choosing the right system gives a manager a better chance now than ever before of keeping its investors close and well educated, whilst achieving operating efficiency in this increasingly challenging business area. Indeed, the right use of technology can give managers a reputational advantage in an increasingly competitive industry. Technology can raise standards and effectiveness in the Investor Relations arena. The future is bright for the fiduciary relationship.

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Regulatory outlook for the private fund industry in 2015

By Don Seymour, Founder, DMS Offshore Investment Services

Regulatory initiatives from the U.S. Securities and Exchange Commission (SEC) will continue to dominate the private fund agenda through 2015, but the industry will also need to pay close attention to developments from the European Securities and Markets Authority (ESMA) and tax authorities like the IRS and the Cayman Islands Tax Information Authority (TIA). In this article, I examine three key themes – regulation, institutionalization and customization – that will underpin fund governance practices this year.

Regulation

Annual Compliance Review

Registered investment advisers under the Investment Advisers Act of 1940 (the "Act") are required to conduct an annual compliance review pursuant to Rule 206(4)-7 of the Act.

Rule 206-(4)-7 is now 10 years old and continues to be one of the single most important annual considerations – and risks – for any registered adviser. As the industry is continually evolving, it is crucial that "policies and procedures be reviewed and updated as business changes, as regulations change, and as new guidance is issued".

According to industry sound practices, the annual compliance review includes evaluating the capabilities of fund service providers, including its directors. Such annual compliance reviews often ensure that the fund's directors have adopted sufficient internal controls and procedures that are consistent with applicable rules and regulations surrounding risk management, independence, data security (particularly MNPI), business continuity, recordkeeping and of key business controls that relate to the ability of the adviser to meet its obligations under SEC rules and regulations. Under this Rule, service providers – including fund directors – to investment funds managed by registered investment advisers are required to have "implemented effective compliance policies and procedures administered by competent personnel and should provide the compliance officer with periodic reports".

It is important for an adviser to maintain proper documentation of the annual compliance review as it is a focal area of the SEC National Exam Program.

Conflict committees

Conflicts are typically disclosed prior to investing in the fund, but unforeseen conflicts do arise after the investor has invested. These are usually resolved by the independent board members of conflict committees so it's important to continually assess the independence and any conflicts of interest of the committee members.

Independent board members are often required to review any instances of reliance on SEC exemptive orders. SEC exemptive relief is extensive and, in many circumstances, can provide a hedge fund with significant advantages. However, advisers expecting to rely on any SEC exemptive relief must carefully ensure compliance with the applicable SEC rules and regulations, including SEC independence standards. The SEC maintains strict independence standards that include, among others, the requirement that the independent directors not be affiliated with

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its legal counsel, an unconventional legacy practice remaining in some offshore funds.

Inspections

Recent SEC inspections have revealed that hedge fund directors need to remain vigilant about "flip-flopping" or "cherry picking" valuation practices. The good news is that the SEC is finding fewer deficiencies among hedge fund firms than among private equity firms, where the deficiency rate was more than 50%.

There is increased use of novel inspection practices such as the telephone 'examination', a high level 'review by interview' of the adviser's business operations. This practice emerged in the second half of 2014 in one SEC regional office and other regional offices have now adopted the practice, so expect its use to increase in 2015.

Cybersecurity

After the issuance of the SEC Risk Alert in April 2014, cybersecurity governance became a critical aspect of fund governance and a "top priority" for the SEC who believes that "cyber threats are becoming more common, sophisticated and dangerous", and in particular, warned about the necessity of "procedures for assessing cybersecurity risks posed by third-party contractors". What sounded ominous and overblown now sounds precise and prescient after the recent disastrous developments at Sony and Target. In fact, the SEC appears downright visionary.

Empirical evidence from around the fund industry points to a marked increase in registered hedge fund advisers hiring cybersecurity consultants to conduct comprehensive risk assessments and document compliance on cybersecurity policies and procedures surrounding the cyber risk controls of their third-party contractors, including fund directors. Expect this trend to continue into 2015 as fund directors will need to have comprehensive cybersecurity programs to reduce any vulnerabilities inherent in the fund governance process to ensure information security.

European Securities and Markets Authority (ESMA)

The much discussed Alternative Investment Fund Manager Directive (AIFMD) became fully effective in July 2014 and many investment managers are still considering their options as the dust settles on the largest piece of regulation ever to impact European alternative funds. While nearly all EU-based investment managers were caught under AIFMD, and had to become registered or authorized as AIFMs (Alternative Investment Fund Managers), non-EU managers had to consider their options and determine their marketing strategy for EU investors. Investment managers now have to contend with the range of obligations placed upon them by AIFMD, from segregation of duties, to risk and regulatory reporting to various governance and compliance requirements. Non-EU managers, i.e. the typical U.S. manager with a Cayman fund, have settled across three camps. First, those with minimal interest or potential in raising capital in the EU have "opted out" of AIFMD and relied on reverse solicitation, i.e. waiting for EU investors to approach them, to avoid any issues down the line. Second, many managers have availed themselves of the National Private Placement Regime (NPPR) to target specific EU countries and have found a wide variance in process, cost and timing between the national regulators in different countries. Accordingly managers have focused on certain countries such as U.K. and Netherlands which have a simpler process and biggest potential for capital raising. Third and most important, the preference for European investors, particularly

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institutional investors, to invest only into EU-domiciled funds has led to continued growth in AIFs in Ireland and Luxembourg. Non-EU managers generally unwilling to be authorized as an AIFM in Europe, are electing to partner with specialized AIFMs in Europe who offer this service. Fund Platforms and stand-alone funds have both been popular and are seen as practical and cost effective methods to operate in Europe due to the local expertise of an EU AIFM, and the ability to market the AIF across the EU, thanks to the "passport" process.

ESMA, the body of EU national regulators, is conducting consultation review across the industry to assess various aspects of AIFMD over 2015. These include the effectiveness of the AIFMD marketing passport system and the potential for a passport for non-EU AIFs. Politics in Europe will influence the outcome of this process, but in the meantime the choice and availability of managers to EU investors is considered to have been reduced since AIFMD and many managers are exploiting this dynamic created by a piece of regulation in the short to medium term.

Risk Reporting

The economic and financial events of recent years have highlighted inadequate risk management practices within many firms, as well as the need for systemic oversight. In response, the SEC, CFTC and European regulators have mandated transparency reports such as Form PF, CPO-PQR, and Annex IV.

Such reports have placed a huge burden on the amount of data that firms must generate, consume and manage. In response, many have found that outsourcing the production of these activities allows them to focus on their core competencies of managing money.

Cayman Islands Monetary Authority (CIMA)

While there is evidence of rigorous compliance with the CIMA Statement of Guidance, some areas of frictional noncompliance remain, but no further guidance has been issued by CIMA and no public, material enforcement efforts have been undertaken during 2014 in relation to fund governance.

The industry should expect that the 'transitory' or 'good faith' compliance period should be considered over. Like all regulators worldwide, CIMA is adding experienced industry staff resources and focusing on increasing enforcement efforts.

Cayman Islands Tax Information Authority (TIA)

Under the Cayman Islands Intergovernmental Agreement, FATCA registration remains with the IRS, but the compliance and reporting responsibilities shift to the TIA.

Complying with the Foreign Account Tax Compliance Act (FATCA) is a serious governance concern as the withholding penalties and other consequences are severe and potentially irreversible as withholding penalties for non-compliance are generally non-refundable. During 2015, all registered deemed-compliant investment funds will need to properly implement international tax compliance "arrangements" to comply with the various Cayman Islands international tax compliance regulations.

Institutionalisation

Institutional investors continue to drive positive changes in the hedge fund industry that benefit the interests of all investors. New investor advocacy groups of influential institutional investors formed during 2014 will add new perspective to the debate in 2015 and beyond. Key fund governance considerations remain

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around board performance and the quality of fund documentation.

Board Review

Board and committee performance continues to be a focal point of institutional investors and should be assessed in-depth at least annually. Consider whether the composition of the board, the capacity of its members, plus the frequency (and location) of its meetings, transparency reporting and other governance output meet stakeholders' expectations. Direct interactions with board members have continually increased since the 2008 financial crisis with board members now providing greater transparency and more information to explain board performance.

The most important assessment, however, is of the control of the board and the scope of its authority. If the voting shares of the fund are not held by an independent party, or the fund is a feeder into a master fund that is not governed independently, or the fund documents impose undue constraints, the board may be rendered impotent or severely hampered in achieving effective fund governance. In these instances, board composition, capacity and other performance considerations become less relevant.

Review the tax status of the board members annually. Ensure that any directors or officers of the fund that are U.S. persons have provided the fund with proof that the director or officer has made any required personal tax filings to the IRS. U.S. citizens and U.S. residents who are officers, directors, or shareholders in certain foreign corporations (including offshore investment funds) may be responsible for filing Form 5471 Information Return of U.S. Persons With Respect to Certain Foreign Corporations. The form and attached schedules are used to satisfy the reporting requirements of transactions between foreign corporations and U.S. persons under sections 6038 and 6046 of the Internal Revenue Code. Substantial penalties exist for U.S. citizens and U.S. residents who are liable for filing Form 5471 and who failed to do so.

The location of the board meetings is also important. In recent years, a series of U.S. court decisions have found that the centre of main interests (COMI) of various Cayman Islands funds was not in the Cayman Islands. An important consideration of these courts in determining the COMI, included the finding that "none of the directors resided in the Cayman Islands and there was no evidence of any board meeting taking place there". If a Cayman Islands fund is assumed by an official authority to not conduct a trade or business in the Cayman Islands, it may cause adverse tax and regulatory consequences for the fund. It is generally accepted that "substantially all" of the board meetings of a Cayman Islands fund be conducted in or from the Cayman Islands.

Fund Document Review

Material fund documents, including marketing and performance advertising information, should be reviewed at least annually to ensure the documents are fully and fairly informing investors of current practices, considering the pace of regulatory changes in the industry and fiduciary obligations. Consult with your professional advisors on any proposed changes, including benchmarking current and proposed practices against industry-leading trends, to ensure fund documents remain compliant with best industry practices.

Customisation

Side Letters

There are over 1.7 million investors in Cayman Islands hedge funds and they are leaving

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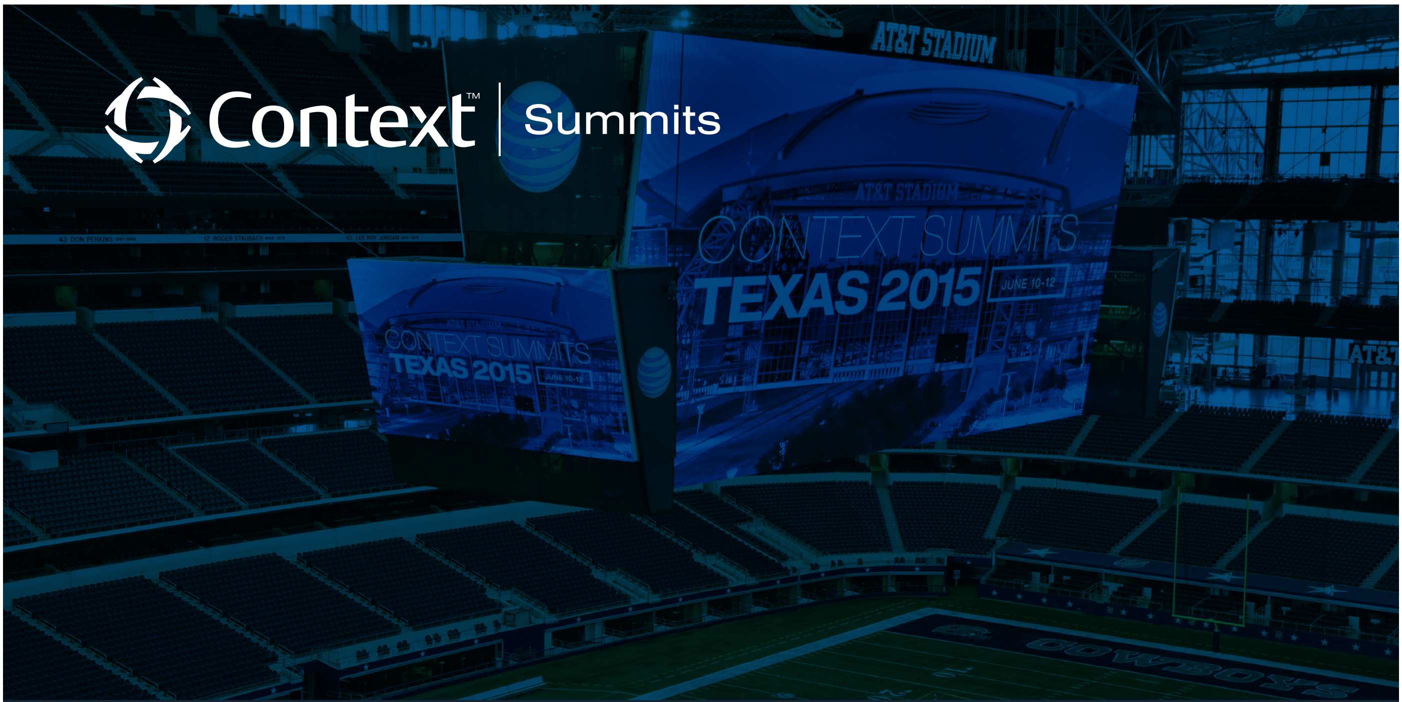

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10% DISCOUNT FOR FUNDS CODE: **ASSN-AIMA** their fingerprints all over the industry. Like fingerprints, side letters are unique and no two are the same as each investor has different investor preferences. However, that preference should not become a disadvantage to the other investors in the fund taken as a whole. This continues to be one of the most challenging (and controversial) issues in fund governance (i.e. when does an investor preference become an unfair advantage or prejudicial to the interests of the fund?). One very salient issue with side letters is that investors are focused on obtaining more transparency, not only as it relates to the portfolio, but also to significant capital activity by other "large investors".

As side letters proliferate, fund directors need to ensure that there are mechanisms in place to adequately and effectively monitor the terms of the side letter, and to also ensure that despite the desire of the investment manager to attract capital, this is not being done in a manner that prejudices other investors.

Single Investor Funds

Single investor funds and pooled funds remain popular because they provide attractive options between the commingled fund and managed account. Both products still demand independent fund governance oversight to enforce the investment management agreement and other service agreements. It is also common for these products to voluntarily register with CIMA for the added layer of regulatory compliance.

Managed Accounts

These run alongside commingled funds with differing liquidity terms but notably, there is no independent oversight or supervision of the investment management agreement. Fund governance over these structures is limited to purely moral suasion, if a situation develops that may threaten the interests of the commingled fund, such as a concern regarding liquidity and best execution and allocation practices.

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One in five companies have experienced an investigation involving a company director

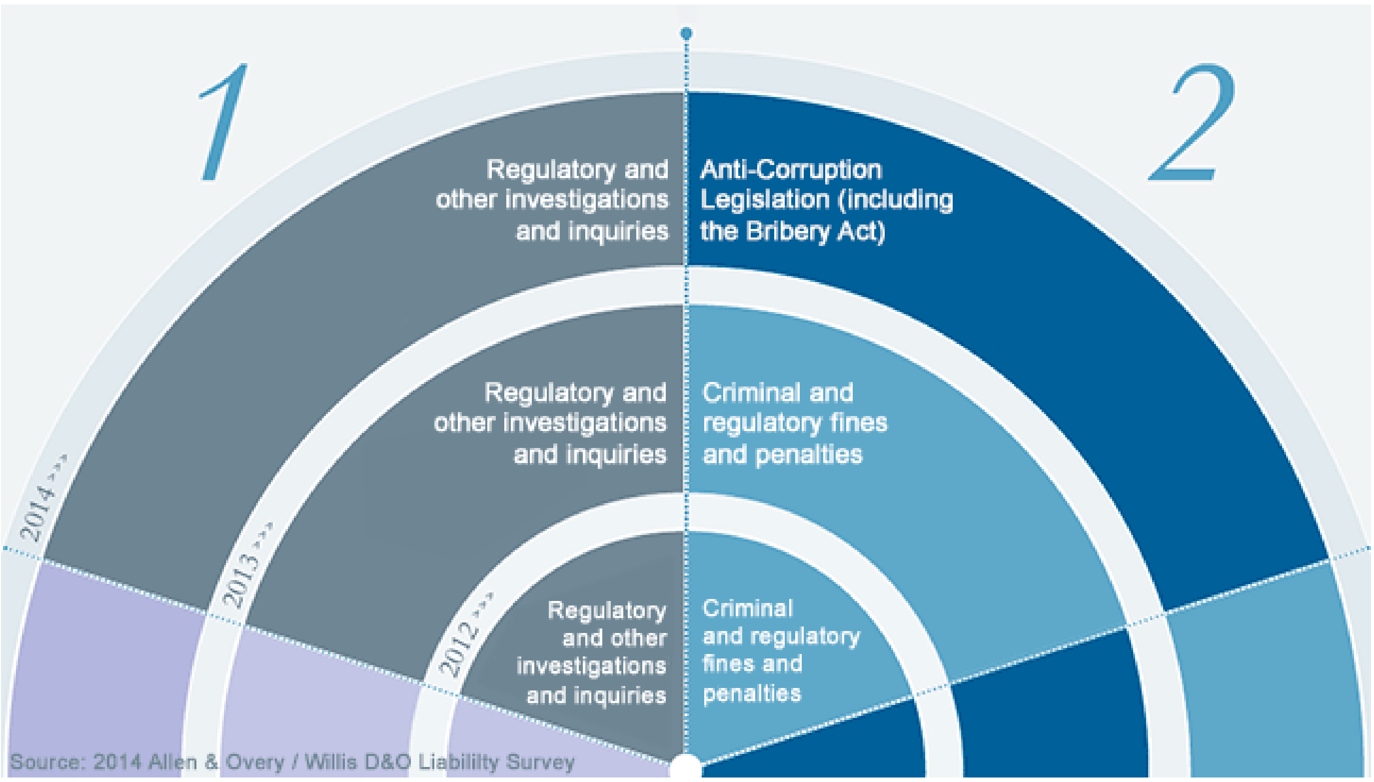
AIMA SPONSORING PARTNER

By Francis Kean, Executive Director, Willis

The annual Willis/Allen&Overy D&O Survey, "Blurring the Lines," is our third annual survey and, with over 180 responses, our largest and most authoritative to date. We surveyed executive and non-executive directors, in-house lawyers, risk officers and compliance officers. Its key findings -

- More than one in five respondents to our survey has experience of a claim or investigation involving a director of their company;
- Only one in three are aware of the significant expansion of the directors' disqualification regime;
- More than 85% did not know of proposals to permit the sale of claims against directors to third parties;
- Regulatory and other investigations and inquiries are again considered to be the greatest risks facing businesses and their directors, followed by criminal and regulatory fines and penalties;
- When it comes to D&O policy coverage, the top concerns are that there should be clear and easy-to-follow policy terms; that the ability of insurers to refuse a claim based on non-disclosure should be restricted; and that cover should be available for the early stages of an investigation, prior to the main hearing;

Top risks to businesses and directors, year-on-year



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- There is a wealth of interesting detail in the section of the report dealing with the liability landscape and a surprising absence of knowledge or concern among directors about proposals here in the UK to strengthen and facilitate remedies available against them. These include the prospect of the sale or assignment of claims against directors to third parties and the proposal to introduce compensation orders against directors who have been disqualified.

Director disconnects

It is, however, the findings on the coverage front which really caught my eye, especially when we began to drill down into the detail of some of the responses.

For example, whilst the number-one overall priority for respondents is: "clear and easy to follow policy terms and conditions", it is surprising that the directors themselves, as the end users of the policy (and especially the non-executive directors), rank this rather lower than do the risk or compliance functions or in-house lawyers. It seems to me this is more likely to suggest a lack of experience by directors of the opaque and difficult-to-follow policy terms and conditions that can crop up than a sense of comfort that all is well.

I also find it interesting that risk managers are much more aware than directors are of the need to focus on control of the claims process. Again this may suggest that directors have not had much direct experience of the issues which can arise.

There is also the intriguing question as to whether, when risk managers talk about control of the claims process, they have in mind the same type of control which the directors in their personal capacities would wish the company to exercise on their behalf. In other words the interests of the company may not always be the same as those of the directors themselves. This is a theme to which I consistently return.

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New members of AIMA

The following corporate members joined AIMA in Q4 2014.

Membership of AIMA is corporate. For further details, please contact Fiona Treble at ftreble@aima.org. To learn about the benefits of an AIMA membership, click here. All information supplied in the following member profiles has been provided by the member company and its accuracy is not guaranteed by AIMA.

ATHOS CAPITAL LIMITED
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Contact: Amy Gordon
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Business activity: Hedge fund manager / adviser

BALLIOL CAPITAL LLP
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Business activity: Hedge fund manager / adviser

BANK OF AMERICA MERRILL LYNCH
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Website: www.ml.com

BANK OF AMERICA MERRILL LYNCH
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BANK OF AMERICA MERRILL LYNCH
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Business activity: Hedge fund manager / adviser

BOSVALEN ASSET MANAGEMENT LIMITED
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Business activity: Hedge fund manager / adviser

BULL CAPITAL MANAGEMENT INC
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CHORUS CAPITAL LIMITED
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CYAN OAK CAPITAL (UK) LLP
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DECCA CAPITAL LIMITED
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Website: www.decca.capital

EIKOH RESEARCH INVESTMENT MANAGEMENT
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GOLDMAN SACHS & CO.
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Website: www.gs.com

HONGHU CAPITAL MANAGEMENT LIMITED
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IMAGINE SOFTWARE (UK) LTD
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Website: www.derivatives.com

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MITSUBISHI UFJ FUND SERVICES
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Business activity: Fund administration

continued ▸

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PERPETUAL LIMITED
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New members of AIMA

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AIMA — Representing the Global Hedge Fund Industry

AIMA has more than 1,500 corporate members in over 50 countries and is present in all of the major financial centres globally

Track record
AIMA was founded in 1990 and over 25 years has grown into the only truly global hedge fund industry association, with more than 1,500 corporate members in over 50 countries.

Representing the industry
We represent the world's hedge fund industry to regulators, policymakers, investors, the press and other stakeholders.

Speaking for the whole industry
AIMA's members come from all parts of the global industry — including managers, service providers, allocator managers (including FoHFs), advisers and investors. AIMA's manager members manage a combined $1.5 trillion in assets.

Regulatory updates
AIMA members receive comprehensive regulatory updates and tools.

Sound Practices and DDQs
AIMA members receive access to our full range of sound practices material, covering hedge fund management, valuation and asset pricing, administration, governance, business continuity, as well as DDQs for managers and service providers, offshore alternative fund directors and fund of hedge funds managers.

Loyal members
We consistently have a high membership renewal rate.

Insight
Our members get access to our online library of industry knowledge and expertise. Additionally, they receive our weekly newsletter, covering all the latest key industry and regulatory developments, and our flagship quarterly publication, the *AIMA Journal*.

Positive start
Due to the amount of information available from AIMA and assistance we can provide through sound practices guidance, membership of AIMA is often one of the first steps taken by new firms in the industry, wherever they are based.

Get involved
Our members are able to share ideas and influence outcomes by either joining one of our many committees and regulatory working groups or by taking part in one of our many events around the world.

Regular events
Our Annual Conference and Global Policy and Regulatory Forum, open to all AIMA members, attract leading speakers from the industry and among policymakers, and hundreds of delegates, from around the world. We also hold regular events globally, which provide intelligence and networking opportunities.

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