AIMA 30 YEARS 1990 - 2020

JOURNAL

A special publication to mark AIMA's 30th Anniversary

The Future for the Alternative Investment Industry

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11


15


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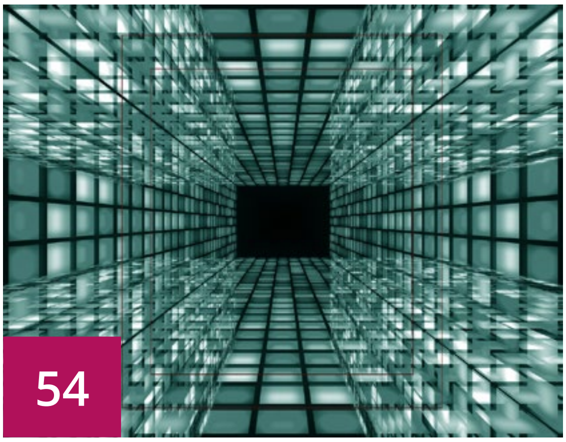
54


59


62

INTRODUCTION

Jack Inglis
Chief Executive Officer
AIMA

With 2020 being AIMA's 30th Anniversary year, we were set to host a series of events to mark this milestone in many of the countries we serve. Alas, that was not allowed to happen. But rather than looking back at what might have been, we are looking forward with optimism to the "new normal". This special edition of the AIMA Journal is all about the future and what it may hold for our alternatives industry.

Winston Churchill famously said, "never let a good crisis go to waste". COVID certainly presents new opportunity for skilled fund managers to provide solid investment outcomes for the world's pool of savings, and alternative asset managers are best positioned to deliver.

A major rethink on portfolio allocation must surely see alternatives play an enlarged role in investor preference and we are already seeing that cited in several recent surveys, with hedge funds and private credit at the top of the list.

It is hard to imagine the decade long bull market, that arose from the 2008 global financial crisis, being repeated, so the 60:40 mix simply cannot be the way forward.

For AIMA we recognise there will be much to contend with to ensure our members are not overly constrained as they seek to produce those outcomes. Just as the GFC saw banks reined in, there is now heightened risk that the use of leverage in funds will be subject to greater prudential regulation.

As an industry, we must ensure that market dislocations, seen earlier this year, are viewed in the proper context of several inter-connected factors rather than caused by the activity of just one sector of the financial universe.

The extent of UK's divergence from EU rules post-Brexit, a possible new administration in the US at year-end and ongoing tensions with China accompanied by new security laws in Hong Kong all give AIMA a busy agenda as we prepare for 2021.

It is important, as a membership body, that we come together as a central point of knowledge and impact in addressing these issues which may force some important decisions to be made by member firms.

Looking further ahead, there is little doubt that two significant thematic trends remain intact and will gather increasing momentum. The first of these is ESG.

Over the coming years efforts to integrate ESG across investment products will intensify, led by demand from investors and requirements by policymakers in varying parts of the world.

At AIMA, we strongly believe that alternative managers are well placed to deliver double bottom line benefits: superior investment returns by doing good socially and environmentally while actively encouraging high standards of governance.

They can do this because they have the tools and flexibility that come with their mandates, short selling being just one particular example.

The second megatrend is that of technology. Just as the NASDAQ continues to lead the way in stock markets so managers that fully embrace the use of technology, in both their investment and operational processes, will reap the benefits.

AIMA provides insight and guidance to the key aspects of this: the growing use of alternative data and artificial intelligence, operational efficiency through technology and protection from the ever-growing threat of cyber intrusion.

We don't yet know fully what the "new normal" will look like. Indeed, we don't know when, or if, we are going to go back full time to our offices. This crisis has forced a new way of thinking about our work environments and it may be that it lends itself to a new way of life that is more suitable to achieving our diversity and inclusion goals. Again, AIMA is here to lead on the discussion.

I hope you enjoy reading this 30th Anniversary Journal. In the ensuing pages you will find much to ponder on for the future as envisaged by our sponsoring partners, to whom I am especially grateful for their contributions.

EDITORIAL NOTE

Luke Ellis
CEO
Man Group

The AIMA Journal is always worth reading, but it feels like this 30th Anniversary edition, with its focus on the future of the hedge fund industry, carries within it some particularly important messages for us all now and going forward.

As I write this in the middle of August, we have enough perspective on this turbulent year to say that hedge funds have, by and large, delivered for their clients during these initial stages of the coronavirus crisis and the industry feels in good shape. The question for us now is how to build on this resilience and move with strength into a world dramatically reshaped by the events of 2020.

One thing that comes out of many of the excellent pieces in the journal is that one of the impacts of the coronacrisis has been to accelerate a number of trends that were already visible within the industry prior to the pandemic. We have all had stark reminders this year of the importance of understanding the liquidity of your positions; investment in technology, and particularly in systems that create flexibility while maintaining control; the need for smart, creative thinkers within an organisation; and the value of robust risk management systems.

We knew all this before the virus hit, but recent months have been a powerful confirmation of hedge fund business models that prioritised infrastructure, technology and diversification. It feels like the industry has applied the lessons it learnt from the 2008 Global Financial Crisis and is now largely more stable and able to withstand periods of intense volatility such as we experienced this spring.

Reading the newspapers, you might not know that hedge funds had negotiated the crisis in such relatively good shape. There has been a lot of focus on the travails of one or two players while largely ignoring the health of the majority. Hedge fund management is necessarily a Darwinistic environment and the past months have of course been tough for some, particularly those that hadn’t continued to invest in their businesses.

Whereas in the early days of hedge funds, it was all about finding the next $100m manager with a bright new strategy, higher ‘costs of production’ and general alpha decay have meant that smaller funds have struggled more recently, particularly since the pandemic took hold. Given the scale of investment needed in technology, risk management and infrastructure, we’re in an era where barriers to entry in the industry are higher than ever before.

This is to be expected: the industry is maturing, a trend that will only have been exacerbated by recent volatility. You'll read in these pages an obituary of Hans-Willem ("H-W") van Tuyll, a founder member of AIMA and a legendary figure in the history of the hedge fund industry. Among his many accomplishments, H-W was an evangelical proponent of hedge funds becoming more institutional, more grown-up, more regulated in the way they did business.

Hedge funds have come a long way since H-W's time, when, as one of those remembering him puts it, they were viewed as "opaque, unregulated, risky." Leading hedge funds have embraced his vision of an industry that is a transparent and an integral part of the financial markets, and where dependable alpha generation serves to mitigate portfolio risk and provide investors with a source of genuine diversification.

That brings us on to another message that comes from reading this latest AIMA Journal. Whether it is in stewardship and sustainability, in technological innovation, or indeed in how to manage through periods of huge volatility like the first half of 2020, hedge funds have increasingly come to perform a leadership role for the entire asset management industry. These are fast-moving times and adaptability has always been central to hedge funds' business models. That nimbleness and entrepreneurial spirit has helped us deliver through the pandemic-related volatility and it will enable us to continue to lead as we face an uncertain future.

Despite the relative resilience with which the hedge fund industry has made it through the crisis so far, this is not a time for celebration or back-slapping. For one thing, there's the question of diversity, where a lot is still to be done. Hedge funds came of age in an era when financial services were still dominated by attitudes that were often openly sexist, racist and homophobic.

This left a huge hole in the pipeline of diverse talent as quality people were either put off by the financial services culture and never joined, or rightly left the industry after a short period because of how they were treated. In the years since, we have made some progress, but not enough, and now we are past the time for excuses. The hedge fund industry doesn't have nearly enough women, LGBT+ or people from BAME backgrounds, particularly in senior roles, as most people in leadership positions will have been in the industry for 30+ years. It is impossible to shortcut a solution to this historic gap, but we must all focus on building and developing the future pipeline, on empowering staff within our organisations to create change for the better and on offering opportunities to diverse candidates who aspire to join our industry.

There's also the potential for further market and economic pain. As we still appear some way from a vaccine, never mind one that is widely enough used to create herd immunity, those predicting a return to something like normal life in early 2021 may be left disappointed. The 2008 crisis was about banks and liquidity, this time around it's focused on corporations and the financial and operational leverage they're running, with the potential for further spikes in defaults and restructurings.

The global political landscape is deeply uncertain and the current crisis must not deflect our attention from the need to address climate change. But, having said all this, I'll reiterate that hedge funds are by their very nature the right vehicle for volatile times, able to be proactive where others are reactive, able to adapt swiftly to new conditions, to seize the opportunities offered by advances in technology.

As we look ahead into an uncertain future, we should also take a moment to recognise how far we as an industry have come in the past 30 years and to look forward with a sense of confidence that the next 30 years will be even better for the Hedge Fund Industry.

THE FUTURE OF HEDGE FUNDS

Sarah Crabb
Partner
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Partner
Simmons & Simmons LLP

Lucian Firth
Partner
Simmons & Simmons LLP

Leading the market for the past thirty years, the hedge funds team at Simmons & Simmons is perfectly placed to advise the market on navigating the opportunities and challenges for hedge funds over the next five years.

The Simmons & Simmons hedge funds team in London is led by Richard Perry, Iain Cullen, Dev Saksena, Lucian Firth and Sarah Crabb. The team sets out its five key predictions for the future of hedge funds over the next five years below.

1. Greater fund customisation

In an extremely competitive landscape for raising capital, managers are under pressure to tailor offerings to the specific needs of potential investors. We see no indication that the trend for greater customisation will slow down over the next five years.

Allocators have increased bargaining power, as evidenced in recent years by fee rate compression, and managers offering bespoke fee deals in exchange for large tickets will inevitably continue.

Increased desire for investor control and oversight will likely prevail. Managers willing to consider setting up managed accounts and funds of one to accommodate the wishes of strategic investors will continue to rise, regardless of the operational complexities and conflicts of interest that can occur when managed alongside commingled funds. Similarly the recent trend for hedge fund co-investments, which are typically associated with the illiquid end of the investment spectrum, is expected to continue. Co-investments provide investors with the right to co-invest alongside the manager's fund, into which the investor may or may not have themselves invested.

Co-investments usually arise where the allocation to the fund is too large or where the fund is limited by investment restrictions such that the fund can only accept a portion of the proposed allocation (if at all).

Previously choice of fund structure and domicile was largely investor driven. Fund structures are now increasingly fragmented and there is no longer a "one size fits all" approach. Regulation, tax and macro-politics influence the choice of structure far more than ever before.

For example, if a fund invests in credit or a manager wants to access European investors then structuring an onshore fund in Europe might be preferred but if a fund has a non-credit strategy or a manager wants to structure "out" of Brexit then an offshore Cayman Islands' launch may make sense.

2. Renewed importance of the seed investor

In recent years, we have seen fewer but higher calibre start-up managers. Two to three years ago, managers were mainly launching autonomously.

Barriers to entry such as increased regulatory burden, compliance costs and the impact of Covid-19 on investor appetite to allocate to new managers, means we are now seeing more demand for seed deals in start-up conversations.

Our prediction is that emerging managers are likely to require committed seed capital prior to pressing ahead with the cost and expense of launching a fund independently which may or may not be successful in attracting external capital.

If seed capital is not a given, portfolio managers might be more encouraged to join a platform or an established manager to manage a particular fund or strategy with a remuneration package that is directly linked to the profits of the fund or strategy.

We also predict a prevalence in seeders investing in more distressed funds managed by mature managers.

These so-called stabilisation investments can make sense for seeders as they choose to invest in funds managed by a manager with a proven track record and existing infrastructure in return for a slice of the manager's economic returns.

3. Emphasis on responsible investment and ESG

A big talking point in the industry in 2020 has been responsible investment and environmental, social and governance (ESG) and how these apply to hedge funds.

Reports of better risk-adjusted returns and increased net flows into sustainable funds, coupled with increased investor expectations from both large and next-generation investors around consideration of ESG factors lead to our prediction that many managers will incorporate ESG principles into their investment philosophies over the next five years.

This is supported by increased ESG focus from global regulators, including the introduction of EU ESG legislation - the EU Sustainable Finance Disclosure Regulation being the first to apply from Q1 2021.

As a result of continued focus from investors and regulators, we expect managers to embed processes to consider governance, culture and diversity much more readily in their own firm structures.

4. Diversification of asset classes

As managers seek to optimise returns, we predict a renewed focus on diversification of asset classes and investment strategies over the next five years with managers looking to non-traditional asset classes.

As part of this diversification, we note that both established and emerging managers are incorporating digital assets and gold into their investment universe.

Although historically volatile, Bitcoin has demonstrated a meaningful diversification effect for portfolios in recent times and certain managers have looked to digital assets and gold as a hedge against inflationary risks.

Employing derivatives within a portfolio can be a way to obtain exposure to the upside without encountering some of the complexities of investing directly in assets such as cryptocurrencies and gold.

5. Consolidation within the asset management sector

Our final prediction for the next five years is further consolidation within the sector. Movement of portfolio management teams will likely increase as established managers seek to acquire capabilities rather than invest time and capital in organic growth.

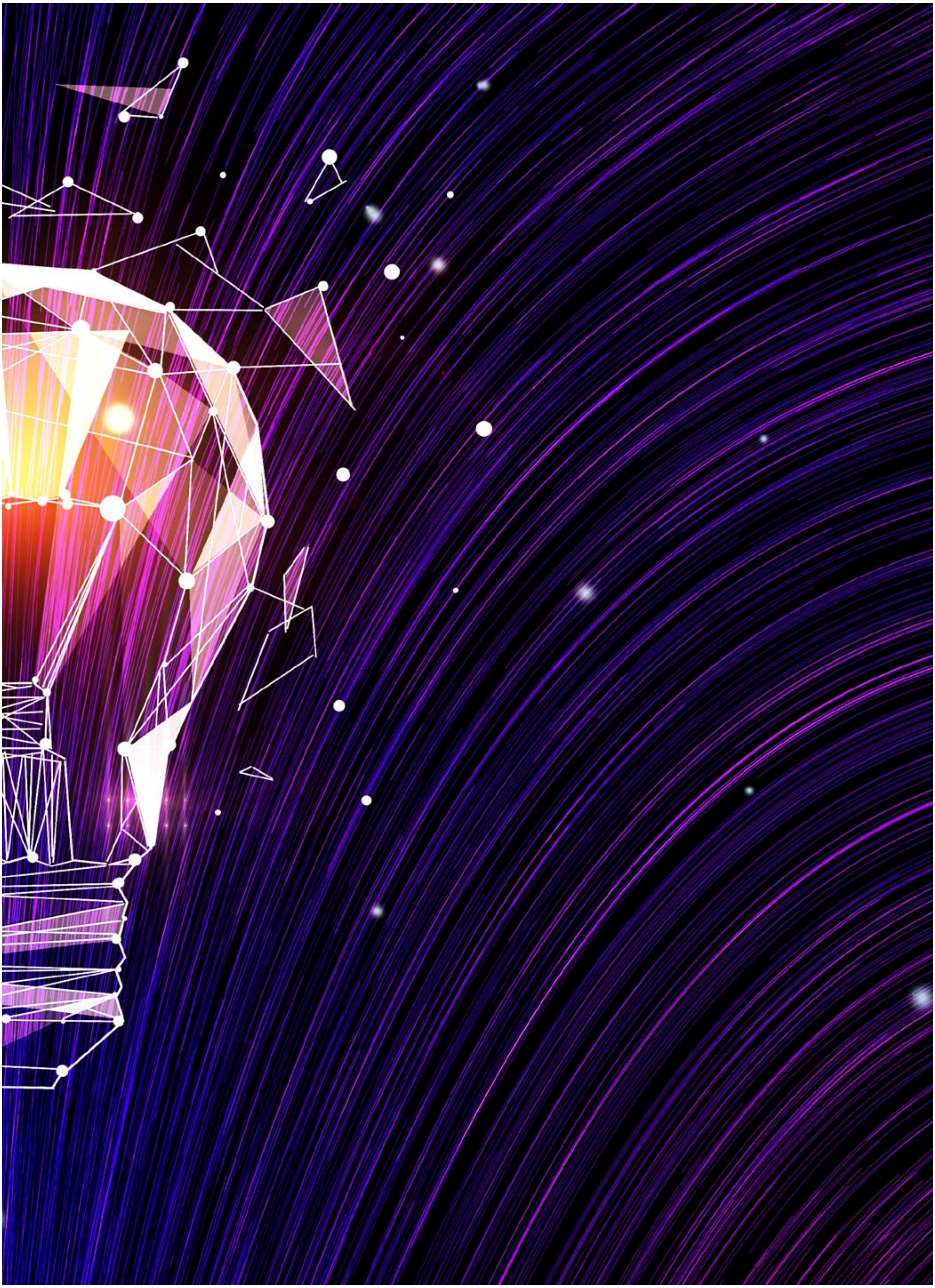
Increased competitive pressure and rising compliance costs, together with continued downward pressure on fees, will likely lead to accelerated consolidation amongst managers.

Our specialist asset management M&A team is seeing increased activity in this area and expects a wave of further activity as smaller managers navigate the aftermath of COVID-19.

This repeats a trend for increased M&A activity in the sector that was seen following the turbulence of the 2008-2009 financial crisis.

Final word

Hedge funds have evolved considerably over the past three decades and will continue to do so over the next five years to continue to attract investment and meet investor needs.



A FUTURE ACCELERATED

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As the new decade dawned, the future of the Alternative Investments sector seemed fairly certain. Fund managers would continue to shift data and processes into the cloud. Digital technologies – such as AI and Machine Learning – would prove their value at the largest firms and gradually be adopted across the sector.

A handful of large players would convert their proprietary systems and tools into industry platforms, capitalizing on the demand for scalable middle and back-office infrastructure and processes.

The emergence of the COVID-19 did not change the importance, but rather it did quickly sharpen minds and add urgency to the technology agenda. Those without efficient and effective digital data platforms quickly realized their ability to operate was being constrained.

Efforts to run operations in a more decentralized environment during the lockdown only accentuated the urgent need for change.

Important technology questions reemerged onto the Alternative Investment agenda: How will we combine and communicate key data sources – such as trading data, research data, risk management data and investor data – in a decentralized work environment? How can we leverage technologies such as AI, Blockchain, Machine Learning and digital payment solutions to both generate alpha and improve the investor experience in a digital world? And where will we find the capital and the technology skills we require to achieve our objectives?

The new reality emerges

The COVID-19 experience was an awakening of sorts. On the back of what seemed like an endless bull market, most asset managers had convinced themselves they had time to catch up on the digitization agenda.

Now that runway has disappeared. Those with a 5 to 8 year transformation journey are scrambling to expedite their timelines.

The problem is that, for most, the journey may require considerable investment. And few firms have the skills and capabilities in-house to drive and scale a successful digital transformation agenda.

That, in turn, has driven many firms to reconsider their operating models. Some are now working with outsourcers. More are flocking towards the bigger technology providers and the large industry platform providers who are offering scalable processes and tools to the industry.

Stepping on the gas

Don't expect all technology decisions to be outsourced or delegated to the platform players, however. Many fund managers are also working to rapidly build their own internal capabilities. Most now recognize that cloud is the foundation for future digital transformation.

Those with some processes or data still residing on their own 'on-premise' computers and servers will be looking to move them offsite – both as a way to reduce complexity, and to provide managers and employees the integrated data they require to do their jobs and generate alpha.

Others are now quickly assessing the value of automation and artificial intelligence. They are looking for tools and technologies that can enhance their digital channels and improve the investor experience.

For example, they are testing new RegTech solutions to help improve compliance and back office efficiency. And they are spending on new virtualization and collaboration tools designed to better connect their employees to their clients, each other and the enterprise.

To be sure, there will be a number of fund managers who, finding themselves hindered by margin constraints, may choose to reduce investment into new technology initiatives.

However, our view suggests these firms will struggle to effectively compete in the new digital world that is emerging from the COVID-19 experience.

Rather, it will be the firms that strategically deploy investments in digital tools and capabilities that will reach their accelerated targets. And they will be the successful and innovative ones that lead the sector in the future.

Having a vision

The leading fund managers know it will take more than investment capital to achieve digital transformation. Indeed, our view suggests the top firms in 2030 will be those that view technology as an enabler of future growth. And that will require a more holistic view of the transformation journey.

It will start with a fundamental rethink of the business model, operating model and value proposition. Fund managers will need to carefully consider what activities will differentiate their firms from the competition and what activities can be better (or at least equally) delivered through automation or outsourcing.

Fund managers will also need to take some time to understand the new and evolving expectations of their clients. They, too, have undergone a radical digital transformation as a result of the response to COVID-19; they will increasingly expect sophisticated digital channels and will look unfavorably on those that seem out of step with the competition.

As ever, mid-office and back-office processes – regulatory, trading execution, treasury, finance, risk and compliance, for example – will need to be reimagined and redesigned in order to enable the future business and operating models.

But by 2030, we expect the big tech players and asset management platform providers to be delivering many of these processes as a service, allowing most fund managers to refocus on their core differentiators.

The most aggressive and innovative fund managers will also see this as an opportunity to fundamentally reinvent the alpha generation process.

They will be looking at innovations in AI, IoT, 5G technologies – as well as emerging technologies such as Edge Computing and Quantum Computing – to uncover new ways to gain the trading advantage over their peers and competitors.

Get there. Now.

As we look forward to the next decade, the future of the Alternatives sector remains fairly clear. By 2030, the cloud conversion process and the centralization of data throughout the operating platform will have been completed. Non-core activities will be either automated or outsourced to increasingly powerful platform players. Workplaces will be more virtualized.

The difference is that this is no longer the vision for 2030, but rather the new reality for 2025. Welcome to a future accelerated.

THE FUTURE OF ALTERNATIVE DATA FOR HEDGE FUNDS

Michael Megaw
Managing Director, Regulatory, Analytics and Data
SS&C Technologies

Recent years have seen dramatic increases in the use of alternative data by hedge funds to uncover new investment opportunities, sharpen decision making, mitigate risks and generate alpha.

In a survey we conducted earlier this year with the Alternative Investment Management Association (AIMA), Casting the Net: How Hedge Funds are Using Alternative Data, more than half the respondents said they were actively using alternative data and another 14% were exploring options.

While definitions of alternative data vary widely, it is most easily thought of as any information pertinent to companies, sectors or markets outside the realm of traditional financial and economic data.

Throughout history, businesses have sought to gain an advantage by uncovering patterns and trends that weren't readily apparent through conventional analysis.

What is new is the explosive growth of data available in the digital age, combined with the advancement of intelligent technologies to access, synthesize and analyze it.

Alternative data has become a disruptor in the hedge fund industry. The advantages go to firms that successfully harness it, enhance their existing research, and apply it to their decision-making process, whether human or algorithmic.

The use of alternative data does not replace information gathered through conventional means – company reports, and economic forecasts. Instead, alternative data augments and enhances traditional research with deeper insights into investment opportunities and risks.

The market leaders in hedge funds have been able to mix alternative data effectively into their overall strategy that gives them a unique story for their fundraising efforts with prospective investors.

Adoption Will Continue

All signals point to continued growth in all aspects of alternative data – in the abundance of data available, in the number of providers, and its adoption and application. A substantial majority of respondents to our survey expect more widespread mainstream adoption over the next five years.

We will likely see more innovation among providers, too, as they seek to differentiate their offerings – though eventually, we expect to see a "flight to quality" as managers increasingly figure out which providers are truly delivering value. The focus on value will in turn, drive consolidation among key players.

As for the supply of data, consider 90% of the data available today was generated in just the last two years, and the data supply continues to grow at an estimated 2.5 quintillion bytes per day.

Suffice to say the availability of data won't be a problem. Instead, the challenge for fund firms will be figuring out how to capture the right data, make sense of it, and derive sufficient value from it to warrant the investment in alternative data resources.

To realize the full potential of alternative data and to advance its adoption more rapidly and broadly, fund firms need to have the technology infrastructure and staff resources to aggregate, store, synthesize, analyze and backtest the data.

Large, established funds who view alternative data as core to their process likely have the financial resources to invest in an AI-powered analytics engine and hire data scientists to extract actionable insights from the data. For emerging and mid-size players, these can be formidable barriers to adoption.

However, firms can catch up quickly by working with a technology provider who has already invested in both technology and expertise to support an alternative data initiative. Fund managers can gain scale by outsourcing alternative data aggregation, management and analysis – everything except the investment process itself, which is proprietary to each firm.

Future Applications

Even though alternative data has seen significant growth and generated a lot of buzz in the hedge fund market, it is still in its infancy. There is bound to be a certain amount of trial-and-error as firms try and figure out which datasets are appropriate to their objectives and how to apply the data.

Standards that would enable managers to more easily compare and evaluate vendors, as well as best practices in the application of alternative data, are still being defined.

A regulatory framework specifically addressing alternative data has yet to take shape, raising a number of questions from hedge fund managers – for example, do "exclusive" datasets from a vendor amount to material, non-public information or confer an unfair advantage?

Does the use of photo imagery, social media tracking or mobile download statistics raise personal privacy issues? Current regulations governing the use of the information will evolve to address these questions.

Meanwhile, hedge funds may find that alternative data has applicability beyond portfolio management decisions. In the retail investment world, for instance, mutual fund companies are analyzing trend and investor profile data to optimize their product marketing and distribution.

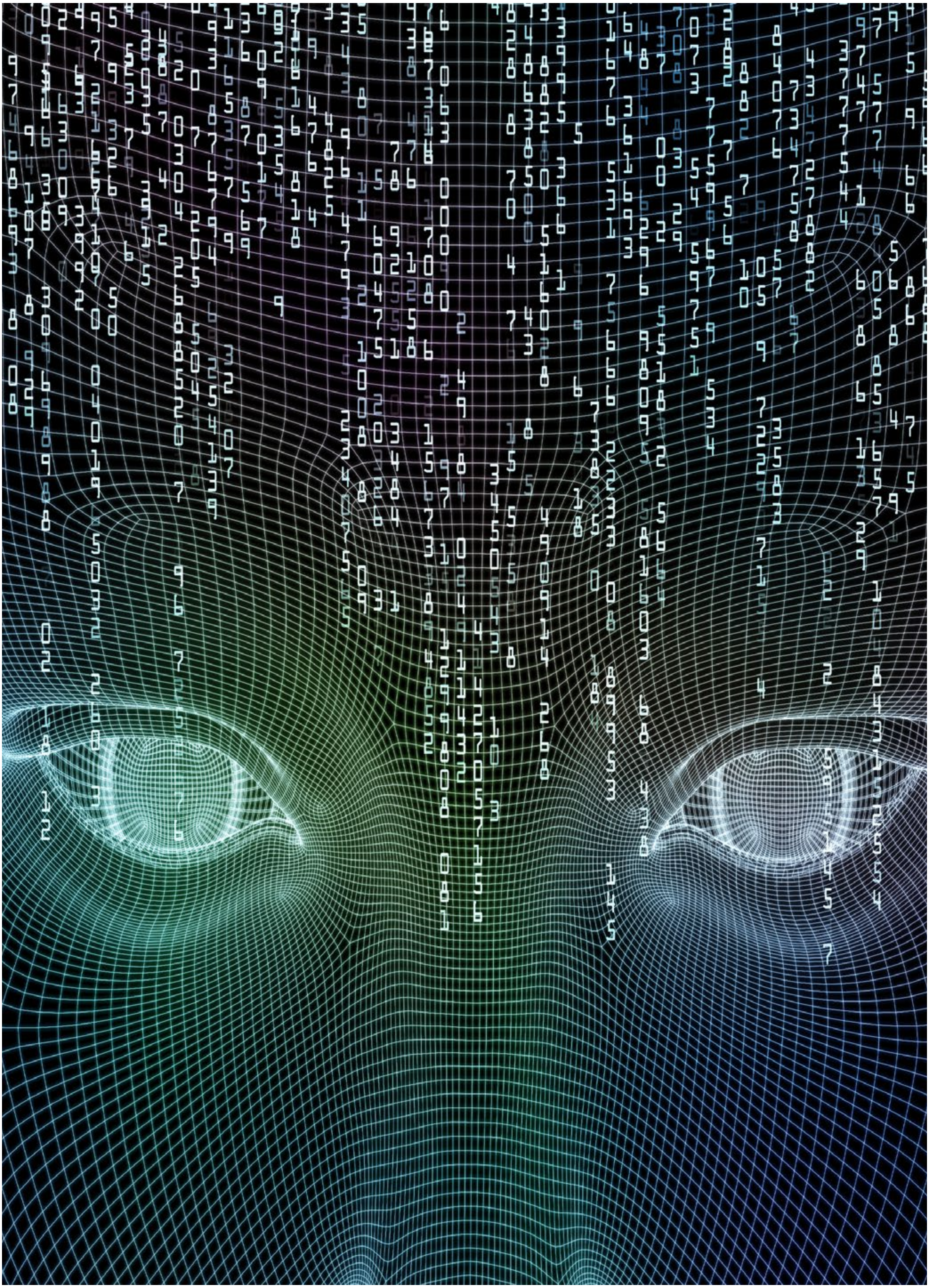
Fund managers may eventually be using alternative data to understand their investor clientele better and target their fundraising efforts. Firms who want to test the alternative data waters will first ensure they have the necessary software and skillsets to work with the data, and draft policies governing its use.

They will then conduct thorough due diligence on vendors to understand the reliability and integrity of their data sources. Once they have identified the appropriate data and providers, they will engage in a trial agreement and conduct a cost-benefit analysis to determine reasonably quickly the potential return-on-investment (ROI).

After implementation, firms do periodic reviews to evaluate whether alternative data are delivering the desired advantages.

The alternative fund industry is known for its innovation and unbridled creativity relative to other asset managers.

Early adopters of alternative data will continue to play an influential role in shaping the alternative funds industry's to improve investment performance, increase operational alpha, and raise additional funds.



FUND MANAGERS AND THEIR LEGAL ADVISERS: WHAT DOES THE FUTURE HOLD?

Peter Myners
Partner and Co-Head of A&O's Alternative Investment Initiative
Allen & Overy

Paul Loynes
Formerly European GC at Apollo Global Management and
Deputy GC
SoftBank's Vision Fund

One of the outstanding features of the record-breaking bull market of the last decade has been the extraordinary growth of the Alternative Investment (AI) industry.

We've seen rapid expansion across all the six main asset classes – private equity, debt, real estate, hedge, infrastructure and energy. Given that their interests spread over so many key sectors of the economy, it is not surprising that they have felt the affects of the Covid-19 crisis deeply.

Indeed, they provide a picture of the effects of the pandemic in microcosm, and how they respond will have a major influence on where the wider economy goes next.

As transactions become more complex, geographically diverse and sector specific, the demand for ever-more sophisticated legal advice will grow.

But there are other pressures building up – in terms of regulation, investor and public expectation and in terms of how funds are organised and operate – that will also change the relationship between funds and their legal advisors.

Impact of the crisis

In the short-term, the reaction of AI funds to the crisis has been both defensive and offensive, says Peter Myners, a Luxembourg-based partner with Allen & Overy and co-head of the firm's Alternative Investment Initiative.

They have focused on mitigating the effect of the crisis on existing investments, injecting liquidity where it makes sense. Some buyers have looked to defer or even abandon deals rendered uneconomic, while sellers have sought to keep transactions alive, in some cases, forcing buyers to complete.

But on the offensive side, the crisis has opened up opportunities, particularly but not exclusively on the distressed debt side, that have been eagerly anticipated.

"This market is creating opportunities and many of the big players have been waiting for something to happen to create dislocation," he says. **"The industry had been massively competitive in terms of sourcing and bidding on deals."**

The initial focus once the crisis hit was on liquid investment opportunities, as fund managers took advantage of debt and equity trading down to buy in to assets they'd been tracking for a while.

In recent weeks, however, the more illiquid side of the industry has started to pick up, across different asset classes.

To take advantage of these opportunities, distressed, credit and special situation funds, moved quickly to raise fresh capital from investors, or to pivot existing funds, and the industry as a whole was estimated by Preqin to be sitting on some USD2.6tn of accumulated capital ahead of the crisis.

It is likely that we will see a rapid acceleration of transactions once the economic outlook is clearer and valuations stabilise, adds Myners, helped, not least, by the likelihood that interest rates will remain low and that businesses will continue turning to private debt funds for liquidity.

"As they grow, diversify, become more sector specific and expand into new geographies, fund managers are becoming more institutional in the way they operate and more organised in how they source legal services.

But they remain lean organisationally, compared to traditional banks and corporates. They are seeking support from law firms that have a detailed understanding of their needs."

Regulatory and investor pressure

Private debt funds remain relatively lightly regulated[1] , compared with the traditional banking sector, and regulators are likely to be observing the private debt sector closely as the crisis unfolds.

Specific new regulation is also in the pipeline, not least the European Commissions latest version of the Alternative Investment Fund Managers Directive (AIFMD II), which will take effect next year.

But it remains to be seen how far governments and regulators will clamp down on the industry, argues Paul Loynes, formerly European general counsel at Apollo and deputy GC at SoftBank's Vision Fund. Instead, he expects the biggest pressure to come from the funds' own investors.

They are demanding much greater transparency, improved reporting, and tangible evidence that funds are addressing pressing environmental, social and governance (ESG) issues.

Investors may, as a result, be a lot more discerning about where they put their money, a trend that could bolster the bigger funds with greater capacity to respond.

"Investors are likely to be asking a lot more questions about ESG, such as how funds have treated their employees during lockdown and about community investment. So compliance pressures will only increase, even if that pressure is coming more from investors rather than from legislation."

Myners agrees that this trend will demand new kinds of support from legal teams. **"Most fund managers are embedding ESG much more structurally into their decision making processes, making it a key element of diligence and reporting. They are being more transparent about meeting investor demands. This tends to require additional resource."**

However, he believes another equally complex pressure is back on the table for the legal and compliance teams of fund managers in the short term – the growing likelihood of a hard Brexit at the end of this year, which is likely to create significant trading challenges for the industry, compounded by travel restrictions put in place as a result of the crisis.

Resourcing challenges

Myners and Loynes expect to see funds deploy technology, automation and alternative resourcing models, such as interim consultant lawyers and project management experts, to keep their costs under control and increase productivity.

Opportunities to bring in legal support at key points of the investment cycle will be a driving factor, argues Loynes, with the fundraising processing requiring the greatest need for support.

"Investors are demanding more and more specific deal terms which may mean side-letters or an increasing number of bespoke terms being negotiated." It is at this time that in-house teams most need to call on additional support and a lot of funds look for secondments from law firms during this phase, he says.

But needs will be different at every stage of the investment cycle. **"If the average life of a fund is 7 years, you spend a year setting up, four years deploying capital and the final two managing and exiting those investments. During that time, your legal needs are going to vary enormously. That calls for flexibility."**

Forward-looking funds, he believes, are using this slightly quieter period in the wake of the pandemic to re-assess those needs, to look at their infrastructure and prepare themselves for the next wave of heightened deal activity.

"The good firms are thinking about how they can best structure their legal functions to be nimble and capable of turning things round quickly."

Funds remain focused on working with external legal advisers who understand their strategic priorities, can co-ordinate and deliver insights from across relevant geographies, sector and practice areas, and demonstrate innovation in delivering services efficiently. It is a trend that was already there, says Myners, but one that has been accelerated by the crisis.

"These are demanding clients – but demanding in a good way," he says. **"They want to work with lawyers who understand them and can act as trusted business advisers. The key to success for any law firm supporting this industry in future will be the ability to deliver advice in a dynamic, commercially relevant and efficient way."**

1 [Non-bank Lending in the European Union]

THE FUTURE OF ESG FOR ASSET AND WEALTH MANAGERS

Olwyn Alexander
Global AWM Leader
PwC Ireland

There is no doubt that during the global pandemic there have been examples of how sustainable / ESG linked investments have likely outperformed their counterparts. Looking forward, will this performance record be the only driver of ESG and sustainable investing, or are there other factors which will drive this agenda?

To be able to look to the future of ESG for asset and wealth managers (AWM), not only do you need to understand what has happened in the past - you also need to identify the present state.

From a regulatory standpoint

Within Europe, there has been little slow down as the European Commission plans for Europe to become the first climate neutral continent by 2050. In our article [Sustainable Finance, a new era for asset managers] we outlined the European regulatory developments to March 2020 and since then, regulatory activity has kept on accelerating with numerous consultations in this area.

Will other parts of the world follow this trend?

Within the US, the Sustainability Accounting Standards Board has developed a framework which is broad-based, crosses 77 industries and recommends topics and metrics which can be used for companies to consider as they make their disclosures. Other industry or trade associations have also developed their own recommendations to assist their members.

The US Department of Labor recently announced a proposed rule that would clarify that ERISA plan fiduciaries may not invest in ESG funds if the investment strategy of such ESG funds is to subordinate return or increase risk for the purpose of non-financial objectives.

In May 2020, the SEC's Investor Advisory Committee encouraged the US to take the lead on developing a principles-based framework focused on disclosure of material ESG items - recognising the importance investor grade ESG data plays in the investment and proxy voting process. The SEC's Office of Compliance Inspections and Examinations has named ESG claims by registered investment advisors as an exam priority for this year.

Within Asia, the heterogeneous nature of different fund markets implies that the adoption of ESG has been quite diverse. However, the common positive thread is the increasing awareness and importance of ESG in asset management over the past few years.

In Hong Kong, the SFC has provided guidance on enhanced disclosures for SFC-authorised green or ESG funds. In Singapore, the Monetary Authority of Singapore (MAS) announced a Green Finance Action Plan and recently released a consultation paper for its Environmental Risk Management Guidelines for the banking, insurance and asset management sectors (June 2020).

India's mutual fund industry adopted a stewardship code, green investment guidelines have been issued in China and the Korean exchange set up an ESG team to review and report on the ESG practices of firms.

From a regulatory perspective therefore, whilst some territories may be moving at different speeds, ESG and the sustainable finance agenda are high on regulators' priorities.

AWM and Investors - changing perspectives?

It has been well documented that some of the world's largest asset managers have been and are increasingly more focused on embedding ESG and sustainability practices within their own businesses and also the products which are being offered.

In our 2016 survey, only 10% of AWM CEOs identified that they were "extremely" concerned about the impact of climate change on their business. Yet in our 23rd Annual Global CEO Survey (released March 2020), this had increased to 25%.

Investors themselves are becoming increasingly engaged on matters relating to ESG and sustainability. Our 2019 global survey of investors identified that as a group, investors placed ESG ahead of fees, relationships and operational strength.

Investors are looking to the companies and portfolios they are invested in not only from a financial return perspective, but also from a corporate responsibility perspective. This in turn is leading to higher levels of engagement by investors with AWM as they seek to gain a better understanding of how ESG and sustainability risks are being managed, monitored and responded to.

The future

The global pandemic has heightened the already growing focus on ESG and sustainable investing. So, what does this mean for the future?

- **Continuous and increasing regulatory focus:** The focus is not only about increasing the availability of data in this area and the disclosures which AWM and their financial products are making, but also about how AWM themselves do business and conduct their interactions with investors.

- **Transparency is key**: Transparency is fundamental to ESG and the sustainable investing agenda globally. Asset managers who fully embrace transparency into their business and financial products will be the ones who are able to show the market and their investors the true impact of their investment decisions and business.

- **New opportunities for investment:** As economies recover in this new "normal", there is no doubt that opportunities for investment will present themselves. There are still targets which have been set which need to be met and it will be critical that AWM play a key role in this process - not only from a financing perspective.

- **Increasing focus on health, well-being and societal change:** AWM will not only need to look internally to the welfare and work environment of their own staff, but also to those companies in which they are invested. They also need to consider how they can bring about societal change through the course of their own business, and also through the financial products which they offer, transitioning from ESG integration (as a mainstream component of investment and risk management processes) to delivering environmental and social impact.

- **Listen to your investors:** Investors were focused on this area prior to the pandemic, and this will only exacerbate. Investors will seek investments which not only provide a return, but also ones which "do some good". Additionally, investors will focus on the managers themselves - their response to the pandemic, what changes were made as the road to recovery begins, and how they are embedding ESG and sustainable practices into their business moving forward.

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THE ROLE OF ALTERNATIVE INVESTMENT MANAGEMENT IN SUCCESSFUL CLIMATE CHANGE TRANSITION

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In these challenging times of a global COVID-19 pandemic, alternative investing can still play a role in securing a successful climate transition, by enabling the provision of funding for early stage technologies and innovative businesses that are aimed at tackling sustainability.

Private markets and institutional investors are better able to provide the patient capital needed to match the risk profile and illiquidity of such investments. Patient capital can invest for the long term, working to prove the viability of these business models, taking a risk profile that may not be acceptable to public markets and working to convert it to a more traditionally acceptable one.

Once this has been achieved and the risk profile is reduced, other forms of public market finance will enter to help these industries or technologies achieve global scale.

Renewable energy investment provides a useful case study for this hypothesis. Technological advances as well as government subsidies now make renewable energy cost-competitive with traditional forms of energy generation.

Given this maturation of the renewable energy sector, we would expect a steep fall off in venture capital (VC) and private equity (PE) investment as public companies start to dominate the production of the major sources of renewable energy, solar and wind power.

This is indeed the case: VC and PE funding of renewable energy projects in 2018 was at US$2 billion versus a record figure of US$9.9 billion in 2008 and US$8 billion in 2010 (Frankfurt School, UNEP and BNEF). Around the turn of the last decade, renewable energy was still maturing, and the business model was yet to be proven, which is exactly why we see the high levels of PE and VC funding at this time.

In the last decade as maturity has been achieved, the sector has become dominated by large global players, and start-ups tend to be funded by utilities with a less significant role for VC and PE funding. Large initial public offerings are now much less frequent, with secondary PE as public equity and convertible issues more common.

With this hypothesis in mind then, it is clear that the role of more patient forms of capital in helping to achieve a successful climate transition is to help prove those business cases of the future.

Despite the above, there are still significant investment opportunities for early stage investment related to renewable energy; however, where this investment was previously focused on proving the business case of the underlying renewable energy technology, it will likely focus more so on tertiary services and infrastructure opportunities arising out of the shift to renewables.

One example is electric vehicle (EV) charging.

Today, inherent usage and volume risks make financing these projects difficult for banks and other forms of more mainstream finance. Clearly, there can be a role for patient capital in the EV charging market until the point of maturation, where reliable income streams have been established, allowing more traditional forms of finance to enter.

The real estate (RE) sector is another area of alternative investing that can have a huge impact in securing a successful climate transition. In 2016, the United Nations reported that the building sector contributed to 30% of global annual greenhouse gas emissions and consumed around 40% of world energy.

There are two main areas of focus in this sector; efforts must be made to adapt and innovate around newer less carbon intensive ways of RE construction and secondly investments must be made to adapt existing stocks of commercial RE.

Indeed, there are multiple construction technology (contech) and property technology (proptech) firms that are grappling with how to overcome these challenges. They are leveraging everything from cutting-edge choices for building materials, architectural tools, site management and artificial intelligence, to applying "internet of things" technology.

In order to successfully contribute to this change, alternative investors must integrate the goals of climate transition throughout their investment process and work to exert influence, so that these assets are built and operated in a way that is consistent with these goals.

Adopting an integrated environmental, social and governance approach to RE investment will not only drive societal benefits, but it has also been found that green-certified buildings generally have positive sale and rental premiums compared with non-green buildings, as well as operating costs up to 14% lower and 9% higher occupancy rates, while it appears that sustainable housing retrofits can maximize financial returns.

Clearly, alternative investment players will look to play a greater or lesser role in the climate transition based on their skills, expertise or sector specialisation, for example; however, whether an alternative investment firm aims to be at the vanguard of investing in businesses that will help to drive the climate transformation or fosters less aspirational ambitions, all firms must focus their attention on the very real risks posed by a disorderly climate transition.

Increasingly, regulators are challenging financial market participants to treat these risks alongside more mainstream financial risks, which is reflected in the European Securities and Markets Authority's final paper on the integration of sustainability risks and factors into the UCITS Directive and AIFMD.

Alternative investment firms must now consider both physical (sea level rise, extreme heat, flooding) and transition risks (obsolescence, stranded assets in the energy sector) as we move away from a fossil fuel-dominated energy sector.

While every firm must focus on mitigation of these risks at a minimum, we expect the leaders will go further and focus on adaptation of investments to climate risks.

As outlined above, we see the alternative investment managers' role being at the early and development stages of investment in the sustainable finance ecosystem.

This is through investing where public markets consider the risk too high, working to prove the underlying business case (it is not about proving the technology but the actual viability of the business case) and ultimately converting unacceptable market risks to more mainstream risks, paving the way for the entry of larger financial institutions.

The question from here is where alternative investment managers will place their future bets in order to maximise their influence on ensuring a greener future for all, while also investing in a way that minimises their investors' exposure to both physical and transition risks associated with climate change.


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The better the answer.
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A TRIBUTE TO HANS-WILLEM VAN TUYLL

The man we all knew as H-W

Florence Lombard
Former AIMA CEO, 1993-2009

Hans-Willem Reinier, Baron van Tuyll van Serooskerken, heer van Vleuten, Knight in the order of Oranje-Nassau, known to all of us simply as H-W, left us too soon on 11 February 2020.

He was a Founding Member of the European Managed Futures Association, EMFA, now AIMA, when seventeen of us sat around a table in Montreux, Switzerland in September 1990 to form the association.

He served on the AIMA Board from 1995 to 2003, as Deputy Chairman, then Chairman from 2001 to 2003.

First and foremost, he was a commodities and managed futures man. He represented Cargill Investor Services, where he had a long and illustrious career starting in 1969. He held various global roles, from Brazil to Japan, then based in Geneva - in the latter years focusing on managed futures and hedge funds. In 1992, he was elected to the board of the Cargill International Pension Board and also served as a Member of the Advisory Board of PerTrac Financial Solutions.

He convinced Cargill to become our first Sponsoring Member, leading the way and encouraging many other eminent organisations to follow. In those early days, nearly half of EMFA's income came from our Sponsoring Members and I do not believe the association would have thrived without their support.

He gave his time, enthusiasm, energy and quiet support: never expecting anything in return.

In 1997, he was the driving force behind the creation of the first AIMA DDQ for CTAs and in 1999 persuaded the AIMA Council to look to Asia. Off to Asia we went: opening doors, educating and helping to bring the burgeoning Asia-Pacific industry together.

We travelled tirelessly to Hong Kong, Tokyo, Singapore, Sydney, later to China and South Korea, forging the way with the first AIMA Investor and Regulatory Forums in the region, which led to the establishment of AIMA Chapters and offices throughout the region - and for AIMA to become the alternative investment representative body of choice across the region.

Emma Mugridge, AIMA Director (1996-2008) writes: **"AIMA and the industry have been blessed with the altruistic input of a number of individuals who work tirelessly and generously on their behalf.**

H-W was among the first. He was kind, interested and interesting, highly knowledgable and determined to help the industry be the best it could be.

Bear in mind that in the industry's early days, it was seen as opaque, unregulated, and risky. Derivatives then hedge funds were regularly vilified. This generated growing interest from regulators and politicians, and impacted

investment streams. It was a cycle that needed breaking.

H-W was one of those who pushed forward on all fronts: serving on and leading the AIMA Council; chairing, for many years, the Conference Committee (he was a prodigious conference attendee) and advising organisers on topics; leading the charge for the CTA DDQ; actively encouraging new membership; supporting all and attending many AIMA events around the world. Always encouraging. Always welcoming. And, for me, always supportive and kind.

He was a true gentleman. I am deeply thankful to have known and worked with him."

As well as the association, he actively supported industry pioneers and helped to develop independent research.

Nicola Meaden Grenham, Founder of TASS: **"In October 1993, TASS held the first of many conferences at which twenty hedge fund managers presented to qualified investors. The events were known as TASS Twenty Trader Talk (TTTTs). H-W attended the inaugural event and every event thereafter in Europe, Australia, Japan and the USA for the rest of the decade.**

For many women in this industry, he was one of the first men to support and sponsor us. This was not an easy task in the male-dominated financial sector. H-W's Rolodex was extensive and he willingly introduced us to managers and investors to enable TASS to promote this once fledgling industry for the benefit of all stakeholders.

For the many women in this industry who have made it, you'll find a consistent theme; H-W was our dear friend and ally."

Thomas Schneeweis, Professor Emeritus, Finance, Isenberg School of Management, UMass Amherst, (2013-Present): **"It seems a fundamental truth that one fails to keep in touch with those who helped us until it is too late to do so. I was especially sorry to hear of H-W's passing. He was one of those helpful individuals who took time out of his busy life to mentor a young academic/entrepreneur to understand the alternative investment industry and its players during the early 1990s and thereafter. His kindness and thoughtfulness were just part of his character.**

H-W reminded me that, in the end, the industry is a people business and one had to take the time to work with them to move the industry forward. This led me to spend more time with industry leaders of the day to better appreciate their views. This often entailed meetings and discussions at 'unofficial venues' in Europe or Asia.

One H-W-centered event stands out. While attending an industry conference in Hong Kong, a group of us celebrated H-W's birthday at the bar atop the Peninsula Hotel in Kowloon. We shared a set of toasts involving a cognac dated some fifty years old or more. It was only fair that, since H-W had paid for dinner, I pay for the drinks. How costly could it be? When one of the party raised her hand as an indication to leave, I thought she meant another round of drinks– and I obliged. The two rounds cost more than my entire trip to Hong Kong and back. It was worth it since the story has returned the cost, many times over.

More importantly, it led to a closer relationship with H-W.

I wish to thank H-W for permitting me to be along for the ride. The industry and I would not be where we are today without H-W.'s willingness to share and care at the beginning of it all."

On a personal level, it was my pleasure to work with him, from the first day in 1990 and until I left AIMA in 2010. He was a willing mentor, generous with his time and ideas. To say that he taught me all I know about Asia is an understatement.

I have so many fond memories of our travels across the region. One that moved me deeply, during one of our early trips to Singapore, was his story of the time, at the end of WWII, he and his mother had been released from a Japanese prisoner of war camp and reunited with his father.

Our next stop was to be Tokyo, where he had a number of good friends. This highlights the man, the power of his forgiveness and the generosity of his spirit.

Over and above everything, he was a dedicated family man - always finding time to reach out each day. To his wife Eugenie, his children Alexandra, Bryony, Sabine and Reinout, I want to say thank you for sharing him with us.

I will always be grateful for having walked the managed futures, hedge funds and Asia-Pacific paths alongside him. He will be remembered for his outstanding contribution to the alternative investment industry, a true friend deeply missed by many.

Florence Lombard was formerly the Chief Executive Officer of AIMA between 1993-2009.

THE FUTURE OF PRIVATE CREDIT

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The private credit industry emerged in the aftermath of the last global financial crisis and has grown strongly ever since, both in terms of capital raised and the strategies in which it is employed.

It is logical to ask questions about the future of private credit in the context of the COVID-19 pandemic, both in terms of the immediate and longer term effects.

Credit Opportunities

In a downturn, managers typically try to harvest immediate special credit opportunities.

Analysts have reported that the window for distressed opportunities has been very short but a second, more sustained opportunity set is expected once state interventions come to an inevitable end, and companies reassess the state of their finances and need for liquidity, in light of the new market conditions. Competition for deals in an already saturated market will doubtless become even more intense.

To take advantage of distressed opportunities, timing and speed will be of the essence. Large managers will likely be better positioned to seize such opportunities, given their scale and resources, allowing them to perform quicker due diligence and invest on the back of wider access to capital.

While a large number of pooled distressed debt funds were raised in the first months of 2020, we believe that many managers will act on an opportunistic basis, matching the right deals with the right LPs, housed in single-deal or co-invest vehicles with bespoke management and performance fee structures. In all likelihood sophisticated LPs which have long-established relationships with managers will benefit from these opportunities the most.

However, we have seen more traditional private credit fund managers (typically targeting risk averse LPs) loosening their investment restrictions to allow for opportunistic investments without, however, making distressed debt the main component of their strategies, or offering more focused funds that sit between the generations of a manager's established credit fund offerings to take advantage of immediate investment opportunities.

Smaller managers might gain a competitive advantage in certain sectors or jurisdictions, where their specific knowledge will outweigh the scale at which the industry giants operate.

Liquidity

For existing deals liquidity is key. Some managers are already wrestling with breached covenants or requests to apply EBITDA "C" in quarterly calculations. While such requests may appear easy to refuse, private credit is personal; the relationship with the borrower is a long-term one and deals are tailor-made. Keeping the dialogue open and the relationship unharmed is essential to unlocking further opportunities, and such requests might be more difficult to handle than one might think.

In some sectors, loan origination has become more difficult, such as in the senior loan space. Due to delays in due diligence caused by the pandemic, some managers may need to request an extension to the investment period in order to deploy commitments. Such extensions might, in turn, affect the timing of the launch of new funds or cause issues in terms of deal exclusivity in case of concurrent investment periods running for similar funds at the same time.

Funds may also need to seek additional liquidity for follow-on investments and to cover ongoing expenses or deal restructuring costs.

While newly raised funds may still obtain a subscription line (although the market has somewhat toughened and might be inaccessible for first-time managers) existing funds with limited or no uncalled commitments to pledge will have to use NAV facilities secured by their assets. The cost of such financing might reflect negatively in fund returns.

Consolidation

From a long-term perspective, the industry has started showing signs of consolidation and gradual sophistication over the past few years, a trend which we expect will be accelerated by the effects of the pandemic.

The scale of the market means that managers must distinguish themselves from others through the quality and scale of their resources (where additional restructuring expertise is particularly valued), better access to large high-quality deals, and capacity to provide tailored reporting to the LPs. As perceived economies of scale bite, investors might start expecting lower management fees.

ESG

The pandemic has caused a fundamental shift in global perspective on a number of key issues. These include the inefficiencies of healthcare systems and their impact on certain demographics, the sustainability of various industries and the related green economic recovery, and how racial and gender inequality negatively impacts, among other things, many people's economic opportunity.

While sensitivity to these issues has been on the rise over the past decade or so, the pandemic has helped to propel them to the forefront of investors' and managers' minds. This trend has crystallised through various industry initiatives and ESG regulations.

We expect that regulators and investors will increasingly require adherence to high ESG standards, or, at least, detailed ESG assessment and reporting in relation to investments. Putting aside the feel-good factor of the ESG aspects of an investment, high ESG standards will be increasingly important simply from a risk management and profitability perspective.

Technology and Transparency

Whilst the deployment of technology and wider digitalisation in the private credit space is resulting in the emergence of new business models, like retail peer-to-peer lending platforms, the impact of new technology does not seem to have been felt quite yet in the traditional private credit space, where the business remains personal and tailor-made for both LPs and borrowers.

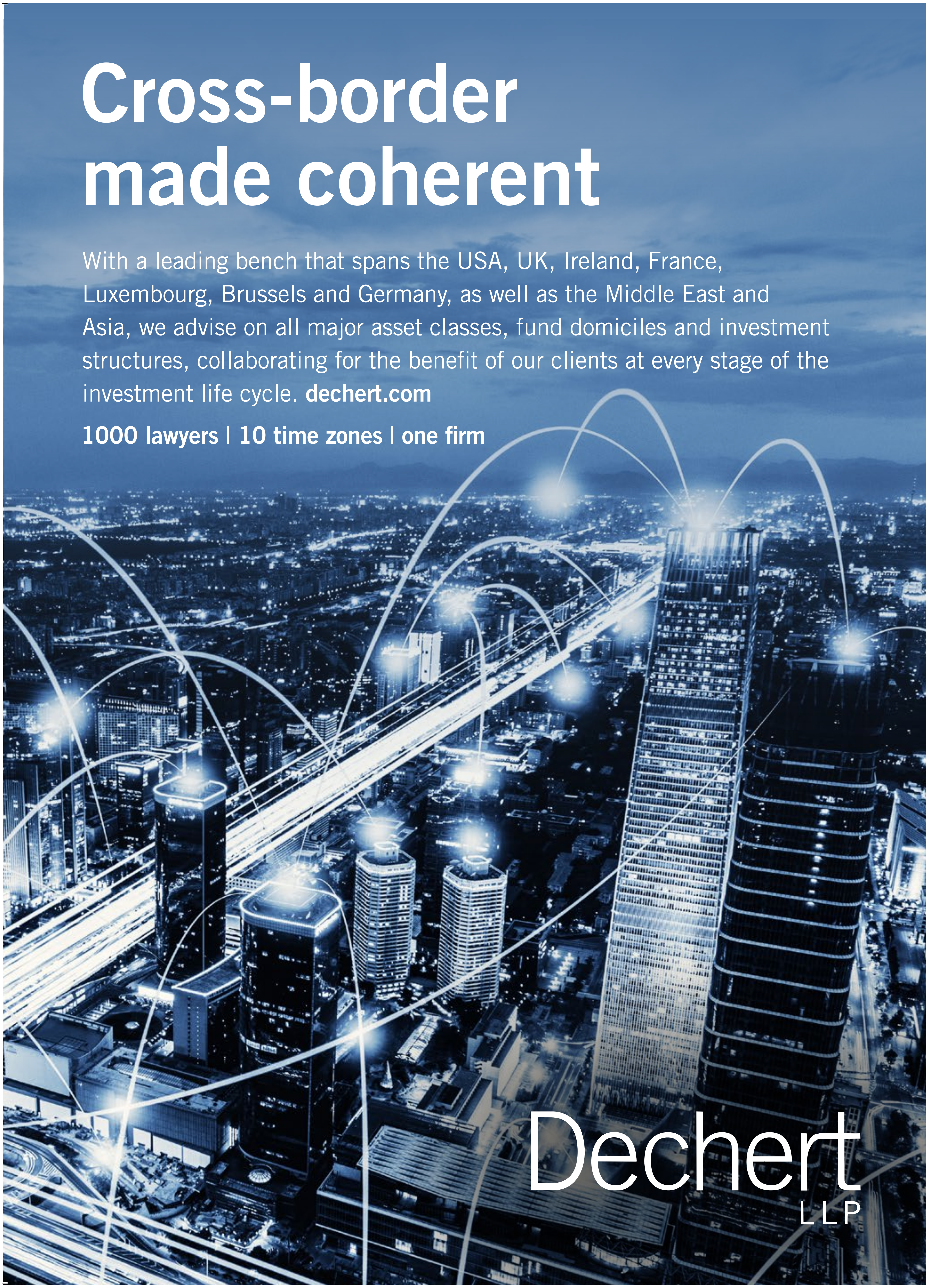
Due to the private character of the industry and the lack of globally applicable data it is difficult to develop widely usable and cost-efficient technology solutions resulting in each manager forging their own path, which puts additional pressure on operational costs.

Appropriate technology solutions could provide insight to industry players by augmenting deal modelling, data analytics and intelligent reporting to investors, especially if built on "bigger" data. To the extent that anonymised data could be shared across the industry, any increased transparency would allow for more efficient supervision and regulation of the industry.

Systemic importance and regulation

Due to its size and increasing popularity in Europe and the US (and elsewhere), especially with pension funds and insurance companies, the private credit industry is steadily becoming of interest to regulators. While, to date, the private credit industry remains largely unregulated, it is unlikely to remain so for much longer.

Hence it is important for the industry to work closely with regulators to ensure that new regulation will not hinder, but rather stimulate, healthy development of this asset class which is, and might continue to be, the primary source of financing for many businesses in the years to come.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PLANNING THE NEW NORMAL: STRATEGIES FOR RISK AND COMPLIANCE

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COVID-19 plunged the world economy into the worst recession and unemployment crisis since the Great Depression. The pandemic shuttered companies and dispersed employees to work from home where possible.

This remote work paradigm challenged financial firms to deploy their business continuity and operational resilience plans.

Compliance and risk leaders must continue to strategize, embrace change and modernization to re-imagine their functions to drive cost savings while maintaining effectiveness.

The pandemic provides a fast-forward insight to the regulatory trends and industry forces that are driving the future of compliance and risk.

We're seeing a range of industry drivers that have inspired three key strategies to adapt within this new paradigm.

Strategy 1 - Leverage technology to transform compliance and risk functions while delivering big cost savings

Regulators have overtaken investment managers: historically, managers had more sophisticated technology than the regulators - this has changed since the 2008 Financial Crisis. Regulators globally have made significant investments in technology, big data and advanced analytics, also experimenting with artificial intelligence, including machine learning, natural language processing and robotic automation.

The distributed workforce: post-COVID, firms are quickly realizing that work-from-home is viable, more efficient and expands the talent pool. All departments need to be equipped to operate as a remote work-from-home team at a moment's notice and for extended periods.

Team collaboration by shouting over a cubicle wall isn't just impossible in today's distributed workforce, it also unfavourable as it leads to poor record retention and an inability to capture useful metrics to measure performance.

Centralised data: bringing data sets together empowers compliance teams to do more, faster, and enables a holistic approach to surveillance. For example, orders, trades, and positions are required to complete regulatory filings, transaction reporting, and systematically monitor for inappropriate trading activity. Fees and expenses must be captured to identify potential conflicts and improper allocation issues. Investor data is needed centrally for AML purposes. Electronic communications data is required to conduct surveillance. Firm and personal trading data for detection of market abuse, investment mandate violation, front running and other personal account dealing risks.

Scale necessitates automation: personal trading compliance systems now incorporate elaborate brokerage integrations with rules-based processing: a complex web of "if-this-then-that" logic can be applied to new trade data to determine if the trade needs investigation, if it was automatically cleared, or if it corresponds to a trade request that was preapproved.

In the future, firms will rely on more advanced rulesets – for example, a restricted trading list (RTL) specific to a particular product area (e.g. private markets).

Outsourcing and third-party risks: with greater distribution comes increased reliance on managed services and outsourcing – an on-demand set of capabilities that is more cost-effective and efficient in delivering repetitive operational tasks to scale. In-house resources will continue to drive strategy, oversight and decision-making.

As firm boundaries expand, a plethora of third-party providers become involved in efficient operations. Many of these 'warehouse' important data or are operationally or financially critical. Third-party risk oversight cannot be a one-time review, or even an annual review. Technology is required to conduct and manage this workflow.

Accessibility: firms must react to their environments very quickly and compliance must be ready to support the distributed workforce. Chat bots and automated business assistant integrations will become commonplace to address common employee questions and reduce the burden on the compliance team. For example, "Is IBM on the restricted trading list?" is a question that a compliance bot can readily answer.

Strategy 2 – Outsource to drive better outcomes and flexibility at reduced cost

Task specialization: is the CCO the best person to review and approve marketing materials? If resources are not available internally or turnaround times are not meeting the business expectations, an outsourced solution is likely to yield immediate benefits. If senior professionals are spending too much time on operational minutia, then high risk areas may not be getting the appropriate attention.

Operational agility: this is critical for high-volume, time-sensitive tasks with extended hiring and training periods, or where workflow fluctuations can be seasonal or unpredictable. These time-sensitive tasks may also be time-consuming tasks – email surveillance rabbit holes, 60 to 90-minute expert consultations that need to be chaperoned, long DDQs that need to be reviewed. Utilizing a third-party service provider for these tasks protects against staff turnover and unexpected demands.

Technical expertise and peer benchmarking: addressing some risks require specialised knowledge and expertise – for example, cybersecurity - but the amount or seasonality of work may not justify adding to the headcount. Also, few firms want to be outliers when it comes to addressing regulatory obligations. Service providers offer insights on best practices and trends, as well as peer benchmarking.

Investor expectations: clients and investors insist that managers have robust operational infrastructure – a focus certain to increase post-COVID. Due diligence will examine in detail the sufficiency of the firm's resources, expertise, and resilience. Engaging with a service provider can help provide assurance that these expectations are being met.

Strategy 3 – Drive operational resilience to optimize cyber, BCP and 3rd party risk management

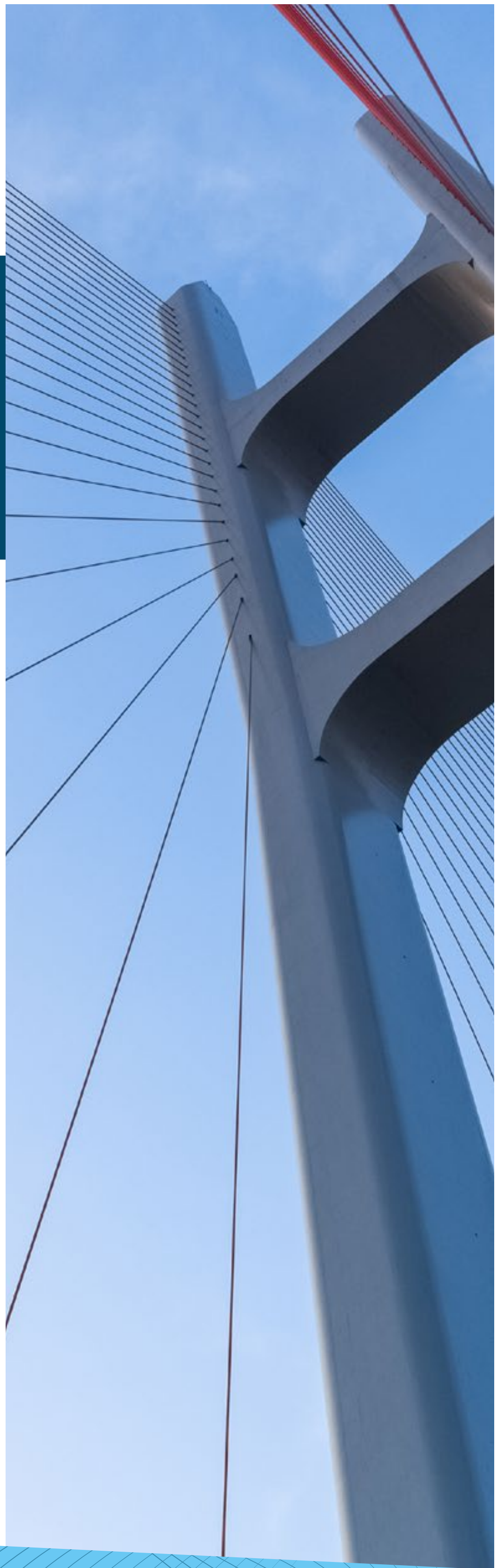
Top regulatory priority: operational resilience is a top priority for regulators, effectively replacing financial resilience that has been the focus over the past decade. The SEC has targeted pandemic response questions centered around resilience on their recent examinations and inquiries are also coming from the NFA, FCA, Bank of England and other regulators. For example, its presence as a key area of focus in the FCA's 2020/21 Business Plan and the SEC's Office of Compliance Inspections and Examinations' (OCIE) recent Cybersecurity and Resiliency Observations Risk Alert focuses on the need for managers to manage their operational resiliency.

Integrated frameworks: many firms historically addressed the capability to maintain operations during crisis through business continuity and disaster recovery plans - these were often inadequate and poorly tested. An operational resilience program – properly implemented - gives firms the framework and tools needed to respond to crisis including the following key components:

- Programme governance
- Business continuity and resilience
- Third-party and supply chain resilience
- Cybersecurity resilience
- Technology infrastructure resilience
- Digital systems and software resilience
- Data and information resilience
- Training, testing and feedback loop

The Path Forward:

While the above have tended to have a discrete role in a firm's business operations - it is now critical to have a holistic approach to govern and manage these disciplines in an optimal way. We are experiencing a perfect storm of interconnected geopolitical, economic and environmental threats. Embracing smart technology, outsourcing and cyber solutions will help firms survive - and even thrive - despite the storm.



THE FUTURE OF THE U.S. LANDSCAPE FOR ALTERNATIVE INVESTMENTS

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A. Introduction[1]

The pending federal election will determine whether the U.S. remains on the current path of populist nationalism or reasserts its role as a global leader on regulatory developments. With respect to U.S. policy affecting the alternative investment industry, the election outcome will have the highest relative impacts on systemic risk, sustainability and certain investment strategies. However, regardless of political climate, it seems clear that alternative investments will become increasingly relevant to "mom and pop" retail investors and present a broader menu of strategies and products for institutional investors.

B. Expanding Access

i. "Main Street Investors"

The SEC agenda includes advancing Main Street Investor access to investments beyond traditional public equity, so it has proposed expanding the "accredited investor" definition. As access broadens, the SEC will seek to protect Main Street Investors through transparency, diverse asset allocation, and, possibly, new substantive protections.

Congress also seeks expanded access to alternative investments. The "Fair Investment Opportunities for Professional Experts Act" would expand the definition of "accredited investor" to include licensed brokers and registered advisers, and would authorize the SEC to include "professional experts." The "Main Street Growth Act" would create "venture exchanges," which would also expand opportunities for retail investors.

ii. 401(k) Plans

Main Street Investors' indirect access to alternatives through retirement accounts is approaching a sea change. Defined benefit pension plans, which regularly invest large sums in alternative investments, are yielding to defined contribution retirement plans, such as 401(k) plans, which rarely do so. As legal and operational barriers fall, 401(k) plan participants will allocate portions of their retirement accounts to alternative investments. Main Street Investors will access alternatives largely through target date funds. These funds are typically mutual funds or bank-sponsored collective investment trusts, which function as funds of funds.
Target date funds are designed for plan participants expecting to

1 Citations to authority are omitted but are available upon request.

retire in particular years (e.g., 2030 or 2040). 401(k) accounts already invest in target date funds; however, because of liability concerns and legal and operational issues, target date funds typically invest exclusively in public securities.

In June 2020, the Department of Labor ("DOL") issued an information letter outlining how ERISA plan fiduciaries may offer a "private equity component" to individual participants. Furthermore, DOL Secretary Eugene Scalia and SEC Chairman Jay Clayton praised the expansion of access to alternative investments in retirement plans.

Private fund managers will develop structures to meet the inherent challenges. These structures may include diversified funds of funds that include an allocation to liquid investments alongside an illiquid private fund. Private fund managers may also develop their own target date funds. In time, 401(k) plans will invest more like defined benefit plans.

C. New Products

As the market for alternative investment products grows, the search for "alpha" will grow more difficult. Although funds will continue to serve as alternatives to bank lenders, particularly in stressful times,[2] new sources of investment return will become increasingly prominent regardless of the election outcome.

i. ESG

Investor demand for U.S. managers to apply environmental, social, and governance ("ESG") principles is growing, due in part to regulatory developments abroad (e.g., MiFID II and AIFMD) that provide greater transparency of ESG risks and opportunities.

Although the U.S. has not adopted similar uniform regulations addressing ESG issues, institutional investors will continue to pressure U.S. investment managers to integrate public company, data and ESG risk disclosures with their processes.

Technological developments will also improve transparency of ESG risks, with blockchain enabling companies to track products throughout their supply chains and ensure environmental or sustainability expectations are met. Whether required by regulations, enabled by technology, or driven by politics, more ESG disclosure will foster greater adoption of ESG investment products.

ii. Renewables

Even as the Production Tax Credit for wind energy and the alternative Investment Tax Credit for solar energy sunset, overall investment in renewable energy will continue to increase. Private fund dollars will flow increasingly to the solar PV and energy storage industry (e.g., battery technology) and offshore wind production, partly for ESG reasons. Private fund interest in renewables follows developments over the last decade confirming that renewable energy is reliable, cost effective, and capable of generating significant returns.

The marriage of strong fundamentals and increased ESG demand underpin the continued rise of renewables. Given the long-dated nature of renewable investments, managers will make longer-term bets on both energy storage and generation through solar energy, as well as onshore and offshore wind production.

iii. Real Assets

Investors have long been involved in natural resources-backed investment funds, such as farmland and timber funds. Driven by ESG, and perhaps political considerations, a

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2 Major industries will continue to find private lenders, particularly pooled investment vehicles, more receptive than banks due to continuing regulatory and net capital pressure on banks.

new segment of investors could find natural resource "real asset" funds an attractive source of investment returns and sustainability benefits.

Some managers seek sustainability certification for real assets in their portfolios in order to satisfy ESG-driven demand. Further, the growing exposure of institutional investors to natural resource assets (particularly, agriculture) and underserved resources such as water rights will drive investor interest and input on legislation and policy.

iv. Insurance

Private funds have become significant participants in the insurance markets, a trend that will only accelerate in coming years. Some have bought or established reinsurance companies and, as such, participate directly in reinsurance markets. Funds also participate indirectly, through investments in insurance-linked securities and instruments. As property and casualty insurance markets have low correlation to financial markets, such investments can be attractive to investors.

Insurance companies will be increasingly important investors in, and sponsors of, private funds. As sponsors, insurers provide decades of experience investing general account assets and are particularly important players in fixed-income strategies. Insurance companies also are increasingly significant as investors in insurance-dedicated funds ("IDFs"). Insurers write insurance and annuity products linked to the returns of such funds, enabling the purchasers of insurance products access to private fund strategies on a tax-efficient basis.

D. Conclusion

Depending on the outcome of the election, systemic risk, sustainability and many other policy issues will be more or less salient. In either case, alternative investments will benefit from broader access for Main Street Investors and new investment strategies. Regulators, lawmakers, fund sponsors, and investors face continuing challenges, but such stakeholder interests will remain aligned in the direction of measured growth and sensible innovation. All of these developments raise policy concerns, so the role AIMA plays in educating policymakers will remain indispensable.

THE ONSHORING OF FUNDS IN ASIA

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A large proportion of alternative investment funds distributed and/or investing in Asia have traditionally been established in "offshore" jurisdictions (principally, the Cayman Islands and other tax neutral jurisdictions where the fund manager has limited substance).

That is slowly but noticeably evolving. Over the last decade, a confluence of factors have contributed to a pronounced shift to "onshore" jurisdictions (typically, tax advantageous jurisdictions with a network of double taxation treaties where the fund manager is also located).

Evolving global investor preferences, substance concerns from a tax perspective (including related political and public relation issues in the EU and elsewhere), anti-money laundering related concerns, increasing familiarity with onshore vehicle options and regulatory developments in both onshore and offshore jurisdictions have all contributed to a discernible move towards the adoption of Asian fund domiciles.

In recent years, Asian financial centres like Hong Kong and Singapore have both added onshore vehicle options to the toolbox of available fund vehicles, and aggressively promoted the growth of the local fund and asset management industry.

If one were to survey the global landscape of fund domiciles and fund management businesses today, there are jurisdictions that are renowned for being attractive fund domiciles and others well-known for being financial centres with a supportive ecosystem for establishing a fund management business. However, there are few jurisdictions that serve both functions well, and that is exactly what Asian financial centres are aiming to do.

It is this co-location of fund manager and fund domicile (and the related ease of operation and administration, robustness of tax structuring, and increasing familiarity to international investors) that makes these onshore jurisdictions such a compelling offering for Asia-focussed funds.

Singapore introduced the Singapore limited partnership in 2009, and Hong Kong's new limited partnership fund regime will come into operation on 31 August 2020.

As the limited partnership remains the dominant vehicle of choice for private funds globally, these onshore limited partnership vehicles present a serious alternative to the traditional offshore option for Asian fund managers.

In the last several years, Hong Kong and Singapore have also introduced variable capital corporate vehicles (e.g., the Hong Kong open-ended fund company and the Singapore variable capital company) that target use by the funds and asset management industry across a broad variety of open-ended and closed-end funds.

With increasing adoption of these vehicles by fund managers and investors alike, these onshore options have been rapidly gaining traction in the market – a consideration that is key to any fund manager aiming to raise a successful fund product.

Asian financial centres have been just as keen to create a straight-forward and business friendly regulatory framework for fund managers. For example, Singapore introduced a two-tiered licensing and registration regime for fund managers based on AUM, and rolled out a simplified licensing regime for managers of venture capital funds in recognition of their business model, investor base and in support of start-up and growth stage businesses.

For Hong Kong, in addition to the relaxations to the Securities and Futures Commission (SFC) licensing requirements of hedge fund managers that were introduced in 2007, the SFC recently provided guidance for private equity firms seeking to be licensed by the SFC.

Moreover, the SFC has offered a concession rate for the annual licensing fees payable by fund managers and their licensed individuals.

For tax certainty and mitigation of exposure of funds managed by onshore fund managers, Singapore and Hong Kong have both also introduced safe harbours for funds managed on a discretionary basis by fund managers located in the jurisdiction.

For example, the Resident Fund Scheme, Enhanced Tier Fund Scheme and Offshore Fund Scheme allow a wide range of specified income from an extensive list of designated investments to be exempt from Singapore tax.

Furthermore, Singapore fund managers that qualify for the Financial Sector Incentive for Fund Managers also enjoy a concessionary corporate tax rate for fund management and investment advisory services.

Similarly, Hong Kong has exempted qualifying assessable profits of non-resident "offshore" funds from Hong Kong profits tax since 2006.

Beginning April 2019, a new "unified funds tax exemption" regime came into effect in Hong Kong which, subject to qualifying conditions being met, provides funds, regardless of their tax residency, exemption from Hong Kong profits tax on their assessable profits arising from qualifying transactions as well as transactions incidental thereto.

Besides expanding the scope of funds eligible for tax exemption, the new Hong Kong unified funds tax exemption regime also removes certain problematic features under the offshore funds tax exemption regime and expands the scope of qualifying investments.

These improvements provide greater flexibility and more certainty to fund managers seeking to "onshore" their funds in Hong Kong. In addition, the Hong Kong government has announced its intention to provide a tax concession for carried interest.

While details have not been released, clarity on the tax treatment of carried interest, together with tax relief, have been warmly welcomed by the funds industry.

Efforts by both Singapore and Hong Kong to introduce tax incentives and provide clarity of tax treatment have been a key part of their efforts to become attractive fund domiciles that present an alternative to traditional tax neutral offshore jurisdictions.

Finally, the availability of an extensive double tax treaty network in both Hong Kong and Singapore make them a preferred jurisdiction for structuring investments across key Asian destinations.

The comparative ease of designing administration, operation and governance arrangements when fund manager, fund vehicles and investment holding structures are located in a single jurisdiction is increasingly attractive at a time when running a multi-national structure that traverses several jurisdictions is becoming more complex and coming under greater scrutiny.

With Asian financial centres determined to provide a competitive offering to fund and asset managers and with the increasing adoption of fund vehicles available in those jurisdictions, all signs point to the continued onshoring of funds in Asia.


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LIBOR: ARE YOU READY TO CHANGE?
The shift from LIBOR will be the most significant change to financial markets in years and asset managers have to be ready. Firms must take active steps to prepare. The Covid-19 pandemic has not delayed the end of 2021 transition deadline to replace LIBORs with Risk Free Rates (RFRs). Asset managers must identify and quantify their exposure to LIBOR risk, a process which has scale and legal complexity.
Our global funds & investment management team has the product and governance expertise to guide you through the transition process. We advise widely on disclosures and communications to investors and clients. Our people stand ready to help you to understand what this will mean for your business, to prepare you for the future.
To learn more about LIBOR, RFRs and how to prepare, head to
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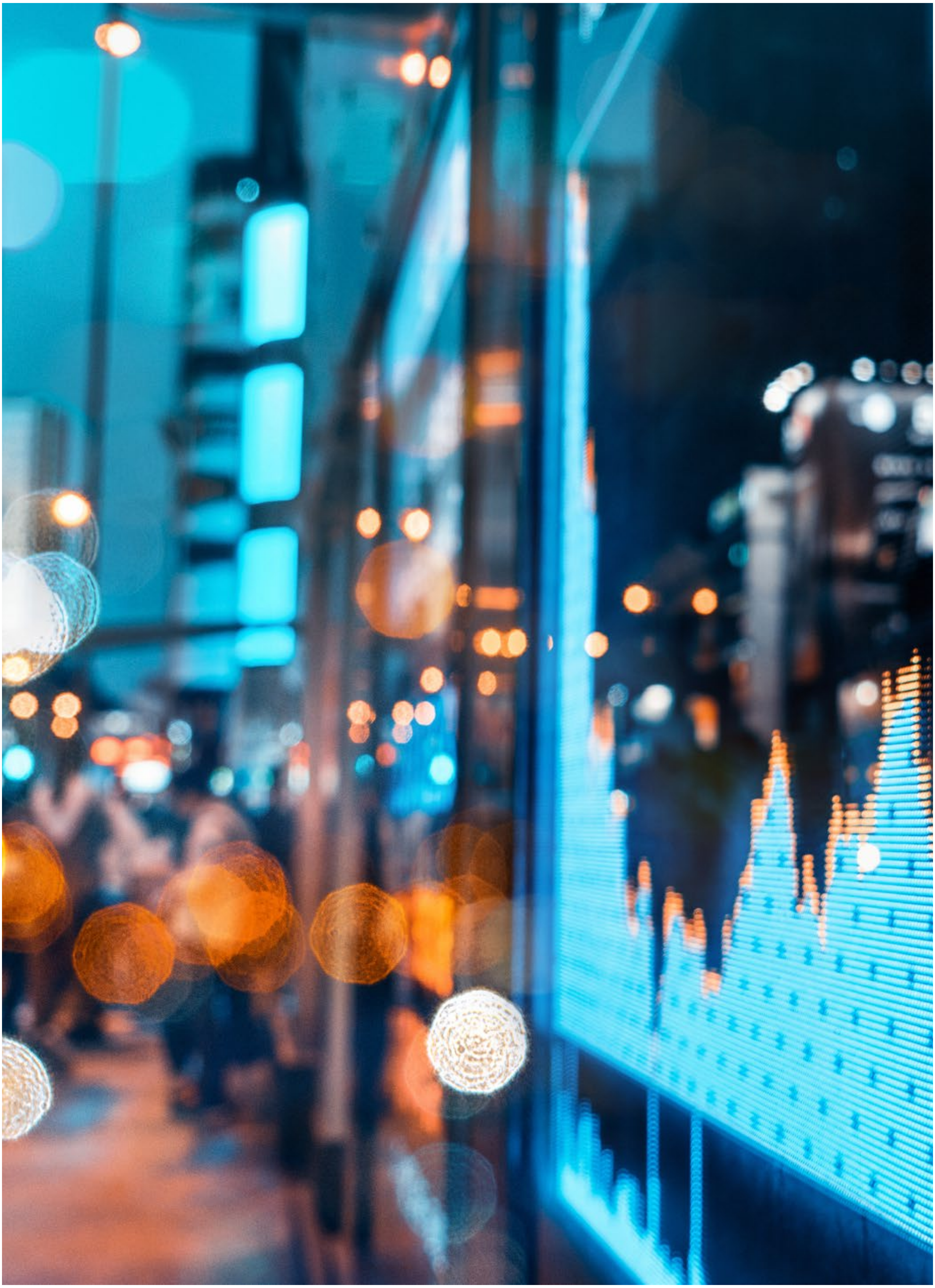

BACK TO THE FUTURE IN IRELAND AND LUXEMBOURG

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The evolution of the Irish and Luxembourg fund industries demonstrates that 30 years in the ever-changing world of alternative funds is a very long time.

As the Maples Group has large and well-established legal, fund, fiduciary and other businesses in both jurisdictions, we have had front-row seats for the relentless expansion of two of the EU's leading fund domiciles. We reflect here on that journey and consider future opportunities.

Looking back 30 years, Ireland had only just implemented the UCITS regime and introduced Europe's first regulated product for alternative funds. Today, Irish funds comprise over €3 trillion of assets under management ("AUM") in more than 8,000 products. Ireland has also become a truly global fund centre, administering over €5 trillion of assets, including more than 40% of the world's hedge funds[1].

Simultaneously, momentum was gathering in the Luxembourg UCITS and alternative space following the introduction of both the UCITS and Part II UCI regimes in 1988. Since then, the Luxembourg industry has flourished and today, AUM in regulated Luxembourg funds exceeds €4.6 trillion[2] .

With the number of €1 billion+ private equity funds doubling in the last year[3] and private debt funds' AUM increasing by 40% in two years[4] , growth in the alternative space is set to continue on this upward trajectory.

The Growth Story So Far

If we consider the exponential growth of both countries' funds industries, common themes emerge.

Government Support

Firstly, both have consistently benefitted from strong, reliable government support and investment, with continuous legislative and regulatory initiatives to accommodate the changing needs of the alternative funds market.

Recent Irish examples include the Central Bank of Ireland's 24-hour enhanced approval process for AIFs, the introduction of the extremely successful ICAV vehicle, and the incoming government's stated priority to complete the much-awaited reform of the investment limited partnership ("ILP").

In Luxembourg, growth has been facilitated primarily by the introduction of two new types of limited partnership (SCSp and SCS), which have become the legal vehicles of choice for Luxembourg AIFs, as well as the RAIF regime, which has proved extremely popular largely thanks to its impressive time-to-market efficiencies and full AIFMD compliance.

1 Irish Funds
2 ALFI
3 ALFI Private Equity & Venture Capital Fund Survey, November 2019
4 ALFI Private Debt Fund Survey, November 2019

EU Single Market Access

Secondly, both countries have taken full advantage of the opportunities presented by the EU single market.

The initial period of growth owed much to the development and global success of the UCITS regime as the gold standard for regulated liquid products.

Later, we saw Ireland and Luxembourg develop as domiciles for hedge, private credit, PE, infrastructure and RE products: a trend which has gained in momentum since the implementation of AIFMD.

More recently in the context of the UK's departure from the EU, both countries have seen a significant influx of asset managers building local management companies and investment firms to ensure continuity of EU financial service passport rights.

Economic / Political Trends

Macroeconomic and geopolitical issues have also played a part. The 2008 global financial crisis, the Madoff scandal and the liquidity challenges faced by many funds created a preference among many European institutional investors for the additional protections offered by EU regulated products.

That trend has continued in the recent low-yield market environment, with growing allocations by EU pension funds, insurance companies and other institutional investors to alternative / illiquid EU products.

We have also seen an increase in the popularity of unregulated AIFs, which, depending on the product, can represent a significant portion of the AIF population in Luxembourg and Ireland.

That is in turn part of the wider trend of using Luxembourg and Irish vehicles as parallel funds or within global master-feeder structures, as managers have sought to complement their traditional Cayman Islands, British Virgin Islands and other non-EU product offerings.

Finally, the stable and transparent tax regimes offered by both countries, together with their wide networks of double tax treaties, have recently become even more attractive in the context of global tax initiatives such as BEPS and ATAD.

Upwards and onwards?

Turning to the future, we expect the same three themes to continue to bolster the Irish and Luxembourg fund industries.

Government Support

Continued government investment and promotion is assured in the coming years, particularly given the sudden need to encourage new sources of economic activity following the 2020 pandemic.

One clear example is sustainability. 30 years from now will mark the 2050 European Green Deal target for the EU to become climate-neutral, and both Ireland and Luxembourg are committed to being at the forefront of sustainable finance.

Ireland was the first country to fully divest from fossil fuels; we have already seen the issue of a €3 billion State-backed green bond and a huge increase in the number of Irish ESG product launches; and the government has put sustainability at the core of its Ireland for Finance 2025 strategy.

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In Luxembourg, LuxFLAG an independent finance labelling agency providing ESG, sustainability and climate finance certification was established several years ago, while the launch of the dedicated Luxembourg Green Exchange and the sizeable and rapidly growing number of responsible investing funds domiciled in Luxembourg is further evidence of a thriving sector.

EU Single Market Access

We expect the opportunities presented by the EU single market to expand rather than contract. The EU's action plan to reignite the Capital Markets Union initiative offers much promise.

The scheduled review of AIFMD and the implementation of the agreed changes affecting the cross-border distribution of funds should reduce Member State gold-plating, red-tape, and further enhance the appeal of Irish and Luxembourg UCITS and AIFs for cross-border management and marketing.

We also expect that a new wave of long-term investment products can be facilitated through the scheduled review and enhancement of the EuVeCa, EuSEF and ELTIF regimes, which have gained little market traction to date.

Economic / Political Trends

Finally, we believe that geopolitics will continue to be a factor. Whether or not there is a helpful UK-EU deal on financial services, there is a clear indication that Ireland and Luxembourg will continue to expand from mere fund domiciles into wider asset management hubs.

We also expect that the predicted growth of China, India and other emerging Asian economies in the coming decades present an opportunity for both locations to ensure that they remain Asia's gateways to Europe.

Our global experience across the Maples Group is that there is no 'one size fits all' solution to fund structuring. There will always be a need for the familiarity, flexibility, speed to market and operational efficiency offered by the leading Caribbean and Channel Islands fund centres.

Equally, we believe that the positions of Luxembourg and Ireland as the leading EU fund centres are secure and will continue to gain in strength.

Whatever the future holds, given the vital role that alternative funds have played in the development of both countries as truly global financial centres, we can be confident that both will remain nimble and proactive in continuing to adapt to industry and investor needs.

This article is intended to provide only general information for the clients and professional contacts of the legal services division of the Maples Group. It does not purport to be comprehensive or to render legal advice.


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THE FUTURE OF INVESTOR RELATIONS FOR FUND MANAGERS: CONNECTED, AUTOMATED AND SECURE

Emer McGuckin
Managing Director, Head of Investor Relations
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The nature and pace by which fund managers communicate with their investors is shifting across multiple touch-points, driven by investors' need for enhanced information and higher levels of security, which can be most effectively facilitated though digitization and automation.

We see the demands of managers first-hand with the rapidity of how they are attuning the information they provide to investors' needs evident on a daily basis. Technological innovation has changed investor relations beyond recognition in the past decade, but will the pace of this change remain consistent over the decade to come?

Fast, connected and transparent

It is clear that investors and managers are demanding better access to data and more transparency.

Investors increasingly expect to be able see and track trades electronically, right through the investment process. This necessitates hosting all fund documents digitally (online) and end-to-end tracking from trade submission to registration. The use of a portal materially increases efficiency by eliminating needless information exchange via email with their fund managers.

Similarly, managers expect less email interaction, primarily for security reasons, and to communicate through portal use and data feeds direct to their in-house sales/CRM systems. Investor documents and key investor data can be accessed by managers directly from a portal, enabling them to review sensitive documentation immediately, without the need to contact their administrator.
Both groups rely heavily on the smooth functioning of an investor relations process. This is managed through reliance on data processing and transparency, ideally achieved through utilizing automated workflow within a proprietary transfer agency system. Consequently, they have seamless access to a trove of dynamic data and systematic reports available entirely 'on-demand', a further nod to data security.

The need for readily-available and accessible information will only amplify in the coming years with API connections to managers, investors and third party systems already in motion. Secure sharing, editing and interrogation of real time data will become more critical for successful investor communications; however, for this to happen, it will need to be underpinned by increased automation, data integrity and accessibility.

Out with paper, in with automation

We have seen a clear uptick among managers in facilitating online trading. Uptake on the investor side has been slower, however, their feedback following the introduction of online trading capabilities has been extremely positive and both groups are particularly interested in online static data updates.

The risks associated with trades submitted via fax or email are mitigated by the move to electronic trading. This ensures secure trade delivery plus accurate trade booking and rapid confirmation. A fully systematic workflow process can achieve this, from NAV sign-off, report auto-generation and release of statements to investors, trade finalization and settlement of redemption proceeds.

Automated reporting is key: managers require reporting delivered at a set time or stated points within the NAV cycle. They expect a full suite of standard reporting as well as tailored reports that can be scheduled to be made available to them without manual intervention. This ensures the correct data is sourced directly from an administration system and is available on demand.

We are now at a stage in the development of investor communications where all parties accept that technology enriches an administrator's interaction with managers and enhances their communication with investors. They require a full end-to-end solution, digitized subscriptions and redemptions, full automation on investor set-up and order processing, and immediate confirmation of trading – all of which are made possible by the emergence of increased automation.

Given the rapidity of its adoption, will the pace of change continue? We expect it will as the industry moves further away from paper-based trading and signed letters of authorization for static data updates. We will see more flexible technical solutions in future, allowing managers and investors to trade, report and share data in a way that completely removes any manual operation processes from the equation.

KYI: Know Your Investor

One of the obvious advantages of greater connectivity stemming from increased automation is more efficient collection of AML/KYC data, which needs to be securely acquired and stored. We have certainly seen increased interest from managers in security and portal usage in their interaction with investors more generally.

Managers are aware of the continued expectation in the industry that a fund really 'knows its customer'.

They are also aware that more extensive AML regimes now typically require full transparency on beneficial owners/controllers and on the source of wealth of those individuals.

The move to direct connectivity between manager and investor mentioned above removes the possibility of fraudulent instructions. Yet what do they expect when it comes to the security of investor data?

A secure data room where managers can communicate electronically with their prospects as well as live investors is a must. Within a data room, managers should be able to control all access to data and have full transparency on who is accessing it at the touch of a button.

The rise in online trading requires more security options underpinning it, such as Dual Factor Authentication, watermarked documents, SMS one-time passcode on trade signing, and digital certificates embedded in the document that are tamper-proof once signed.

In order to meet this ever-increasing data security need, flexible technology will continue to be a must - providing investors and managers with unprecedented levels of data control and security, where investors and managers can own and systematically reconcile their own data.

In closing, we are operating in an era of increased connectivity and security – underpinned by intelligent automation, through smart technology application.

There are no signs that manager expectations on this will decrease and, in fact, the future of investor relations will be even faster, more transparent, secure and flexible, allowing managers more time and energy to focus on investor prospecting and management.

THE FUTURE OF FUND ADMINISTRATION

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Growth in the Alternatives Industry

Fund administration for alternatives will continue to be a growth opportunity for service providers, with projections pointing to ongoing market expansion. Preqin estimates that by 2023, global assets will reach US$14 trillion[1].

This growth will be powered by several factors. First, we believe institutional investors will increase their allocations to alternatives products, particularly among pension funds, insurance companies and sovereign wealth funds.

Second, we expect increasing appetite for direct private deals as investors look to diversify their portfolios. Third, asset managers will continue to innovate in terms of new products and strategies to capture alpha for their investors through private markets.

Asset managers will also see demand from investors when it comes to fee transparency and customization.

We will see management fee pressure tighten, and thus a need to reduce operational costs. To provide additional alpha transparency, pressure on incentive fees is not likely to ease up.

These growth factors and fee trends will further crystalize the business case for outsourcing functions across the front, middle and back office for both asset managers and investors.

What Does This Mean for Fund Administration?

For fund administrators, there will be additional opportunities to provide enhanced offerings in the front office and more streamlined services for the middle and back offices at scale.

Asset managers and their investors will continue to look for administrators who act as strategic partners and can provide services at scale, yet allow for specific customization through technology. We believe asset managers and their limited partners (LPs) will be focused on:

Streamlined communication: An integrated approach to the communication flow between fund administrators, asset managers, investors and other interested third parties will be essential.

Asset managers can no longer afford to carry the cost of separate investment, accounting or performance books of record to manage and reconcile. Technology plays a key role here in providing

1 Preqin -The Future of Alternatives, October 2018

each interested party with a consolidated view that is relevant for them.

Data transparency: Asset managers are also looking to their service providers for data transparency along with self-service reporting capabilities that allow them to quickly customize their data reviews, performance and analytics. Technology plays a crucial role in delivering this ability as well. The economic downturn associated with COVID-19 has emphasized the need for smarter technology built into workflows across the investment lifecycle – from investment simulation to LP and regulatory reporting.

Value-added services: With regulatory and data privacy concerns, as well as the cost to maintain a desk, investment and maintenance of trading systems can be cost prohibitive. Managers are looking to service providers for solutions that enhance trading efficiency and access to liquidity, help them comply with regulation such as the uncleared margin rules (UMR) and optimize treasury tools. This is specifically a potential issue for emergent managers who, as a start-up company, often need to leverage the scale of an experienced provider.

Technology and innovation: Continued innovation through new technologies such as increasing use of artificial intelligence to streamline processes, and blockchain to improve recordkeeping. These technologies are becoming part of the industry's DNA, making them a critical capability for service providers.

New markets: Asset managers are looking beyond North America to drive growth. This means they need service providers with global reach and local expertise to enable a smooth entry.

Catering to business complexities: Another important aspect is the ability of the provider to service increasingly complex demands, including:

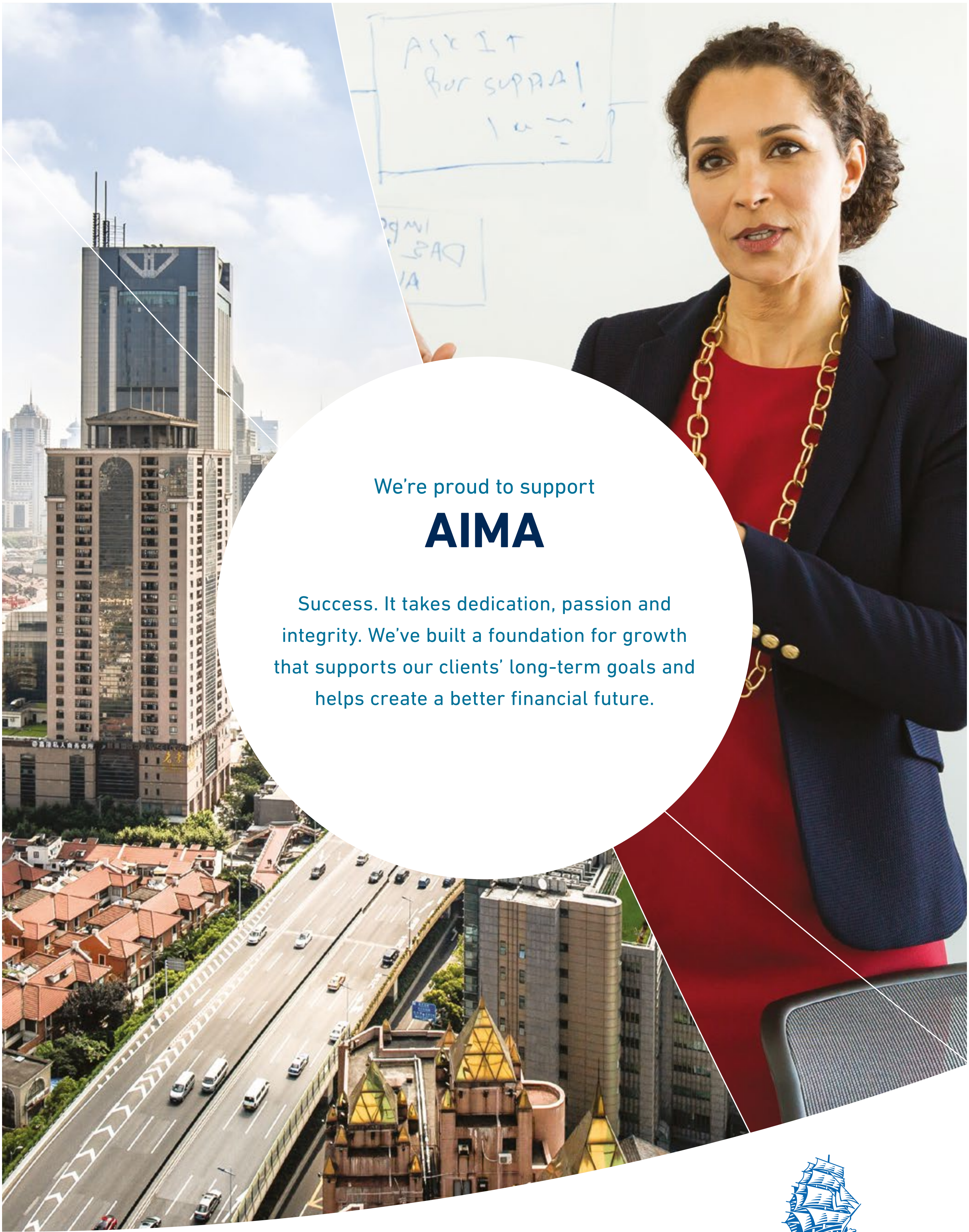
- Hybrids – Alternatives portfolios available to registered investors and the United States '40 Act funds
- Investor transparency – Investors want to be able to view their positions and portfolio across all alternative investment vehicles as well as registered products
- Increased regulation – Providing additional services to help managers comply with evolving regulatory reporting requirements across the globe.

The New Normal

As 2020 begins to settle into a 'new normal' in the wake of the global COVID-19 crisis and the Black Lives Matter movement, we believe the industry will also look to administrators who support:

- Environmental sustainability: We believe that asset managers and investors will continue to focus on adding Environmental, Social and Governance (ESG) metrics into their risk frameworks and ensure that their administration partners are focusing on ESG within their firms. Corporate responsibility must be a focus for all publicly traded and privately held companies as organizations globally rally together to support their communities.
- Diversity: Administration partners should continue to focus on creating a diverse and inclusive workforce. The strength of a business is directly tied to the well-being of the communities in which they operate. With that in mind, asset managers will seek providers with diversity as part of their core culture to champion strong communities and values. This objective goes beyond race and encompasses disability, LGBTQ and gender equality parameters to name a few.

In closing, the fund administration future is bright with continued partnership evolving within the alternatives industry between administrators, asset managers and asset owners. Because we are truly stronger together.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HOW FAMILY OFFICES ARE POSITIONING THEMSELVES FOR THE FUTURE

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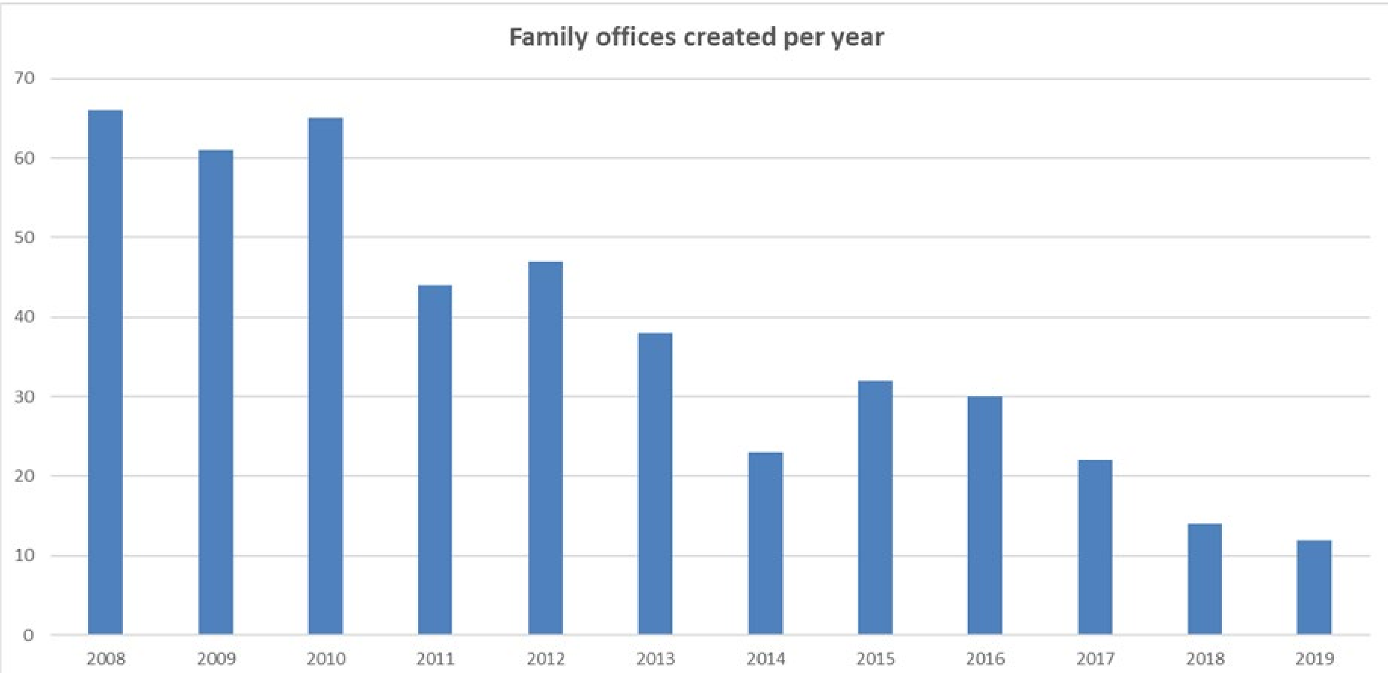
As the human and economic toll of the coronavirus mounts, no sector of the economy has been immune from the downturn, and this includes family offices. With all this uncertainty in markets, there is an opportunity for family offices to position themselves strategically to withstand the noise from the virus and invest for the future.

The reasoning is because this public health emergency, as severe and costly as it is, will eventually pass. Even if other sectors of the economy take longer to recover, the rebound for family offices could very well come in the form of a V – a quick, sharp rebound. It is all the more reason why family offices should consider leveraging the rare opportunity to make investments at values not seen in years.

According to PitchBook, a research firm that compiles data on private investment and tracks family offices, there are more than 1,800 family offices around the globe, with more than 800 within the United States alone. However, it is likely that this number is higher, because some family offices simply do not register and are not captured in PitchBook's data. According to a study by Campden Wealth, an independent research company, family offices manage about $4 trillion globally.



Source: PitchBook; RSM US LLP

Managing a crisis

Depending on the size and scope of the family office, there are a number of factors that need to be considered in navigating these treacherous times:

• **Human capital management:** As the old saying goes in the investment business, a firm's most valuable asset goes out the door every night. In family offices, this means placing a priority on taking care of employees and key executives who work in the office handling the administrative, investment, or risk functions. These individuals are critical to making sure the office runs smoothly and is able to handle the family's needs during times of crisis. In some cases, outsourcing key back-office functions with third-party providers has provided that temporary transition while the office prepares for remote operations. Reviewing and memorialising succession plans will be necessary to prepare for the time when they are activated.

• **Liquidity and credit management:** Depending on portfolio allocations, alternative investments may have a number of restrictions that will prevent the family from withdrawing capital. Investments with a hedge fund or with private equity managers may include a mandate of a lock-up period from when the original investment was made. In addition, investments in fine art, real estate, yachts, private jets or other illiquid assets may take some time to liquidate. Managing both sides of the balance sheet, reviewing budgets and cash flow are all functions that should be monitored. Working with a relationship banker to ensure access to lines of credit or other sources of financing will be important to help the family through these difficult times.

• **Information sharing and data management:** The financial markets in recent times have led many investors to make irrational decisions based on unverified data. Family offices with complex structures may have issues getting verified, timely data on their investments or businesses. Consider investing in business intelligence tools or hire outside consultants to gain a different perspective that the office would not normally have access to such resources.

• **Cybersecurity and technology management:** As offices close down to help slow the spread of the virus, confirming the strength of the information technology infrastructure, bandwidth and records management will help reduce any office disruptions as office personnel work from home. Cyber criminals may try to find opportunities to penetrate key reporting systems during this period of vulnerability. In addition, social media platforms could be subject to possible phishing or social engineering campaigns by criminals against family members to gain access to private data. The digital transformation is happening all around us and may encourage some families to move away from the traditional office and convert into a virtual office.

• **Business continuity plans, insurance, and regulatory management:** In times of crisis, like the spread of the coronavirus, families need to review their disaster recovery plans on how the office will function when the office is closed for an extended period of time. Plans might include where members of the family will safely reside, travel restrictions, initiation of backup plans to outsource all functions of the office to a third party provider, use of private security, or oversight of wealth by an institutional trustee. Also, review insurance coverages in connection with general liability, disaster, life, kidnapping, real estate, investments, personal assets, and data breaches. Family offices registered with regulatory agencies like the Securities and Exchange Commission need to review communication plans and reporting to maintain compliance during this period of disruption. Documented plans regarding communications with outside investors will help facilitate discussions and calm anxiety.

Positioning for the future:

A family office that has considered some or all of these factors may be best positioned to invest in the depressed equity and credit markets.

• **Cash is king:** According to Bloomberg LP, more than a third of family offices boosted their cash reserves last year as they bet on a global recession in 2020. Family offices are sitting on the sidelines as markets continue to fluctuate, and they will be ready to invest. As credit spreads tighten, family offices might be a good avenue for other businesses looking for liquidity in a down market.

• **Impact investing and sustainability:** As equity prices have taken a tumble and financial conditions tighten, families questioning sustainable or impact investing in the past might find the lower market values an attractive opportunity to invest in this space. A 2019 survey completed by UBS reported that the average family office portfolio allocates 19% to sustainability. In that same survey, 25% of family offices globally engaged in impact investing.

• **Private direct investing:** Families looking to invest in technology and health care businesses might have an opportunity to invest at a lower price compared to before the spread of the virus.

• **Increasing allocation to hedge funds or other alternatives funds:** As interest rates hit record lows, this will be a good opportunity for family offices to deploy capital with hedge fund or other alternative managers that have historically generated stronger returns in depressed markets. Private credit and distressed debt are some examples of strategies that will see more attention from investment managers as businesses struggle to service debt or maintain solvency. According to Goldman Sachs, the 2020 market turmoil has given investors more confidence with hedge funds as they have outperformed prior year performance and outpaced other asset classes. Hedge funds or other alternative funds should have no issue attracting capital from investors, especially family offices, looking for that much needed diversification in an uncertain world.

The takeaway

This is a good time for family offices to review key policies and procedures as it safely waits for the Coronavirus and recession to fade away. With proper planning, family offices will be well positioned to preserve capital, transition into the digital economy, invest in undervalued assets and equip the next generation of family members with the right tools to drive future success.


COVID-19 – Is your Family Office at risk?
In this challenging and unpredictable environment, Family Offices have had to quickly adapt – making both strategic and operational changes.
But now is the time to step back and assess the resilience and longevity of your Family Office, through evaluating your infrastructure and contingency plans, to overcome new challenges.
At RSM, we can help you and your Family Office to do just that.
We develop multi-generational relationships by providing tailored advisory services, to help sustain your family's vision in a constantly changing, digitally driven world.
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CLOSING NOTE: LETTER FROM THE OUTGOING AIMA CHAIRMAN

Simon M. Lorne
Outgoing Chairman of AIMA's Council
September 2016 to September 2020
Current Council Member

It is appropriate at AIMA's 30th anniversary to look at how our industry has grown in that period and—more important—where it can go from here.

The hallmark of the alternatives industry over the past 30 years has been change, and adapting to change—implicitly recognizing that ours is an opportunistic, nimble industry, responding rapidly to new developments and the ever-evolving needs of society.

Over the next 30 years, we can expect more of the same—but here, "more of the same" means more continued, dynamic change rather than any kind of stasis.

Our investor base has changed, and we have changed to accommodate it. Where we used to manage primarily for wealthy individuals and families, today most of our assets come from institutional investors, who themselves are managing funds for millions of retirees and other beneficiaries.

Our regulatory environment has changed, and our industry has become somewhat more concentrated. Those two tend to work hand in glove in a positive feedback loop: increased regulation creates barriers to entry, making scale more valuable, creating a demand by the public (and the industry's financial competitors) for more regulation. There is scant evidence of any change in that trend.

The markets have changed, and we have changed in response to them. Today we think of things like quantitative investing, artificial intelligence, neural networks, alternative credit and ESG considerations as the newer things we focus on, while not abandoning the tried-and-true analytical methodologies and hedging techniques that gave us our initial breath of life with Alfred Winslow Jones, if not Ben Graham.

We are an attentive, opportunistic industry, carefully watching the landscape, ready to pounce on the next opening, hopefully before any of our competitors.

We invest enormous sums in the search for profitable investment opportunities, using every imaginable means. In times of disruption, those opportunities present themselves in ways not previously considered. When we are successful, our myriad investors and their beneficiaries reap the benefits.

Where will our industry be at some point in the future? Who knows? All we can be certain of is that we will not be where we are now. We will have moved on from the themes of today, some of them identified above, and will be finding new boundaries, new methodologies, to seize the moment. At the same time, the methodologies that are today the new frontiers will still be in our arsenal to the extent that they have proved successful and productive.

That said, two areas of immediate adjacency stand out for the near future. As markets evolve geographically, alternative funds, and AIMA, will be there. China is an obvious candidate for substantially increased investments, but some emerging areas of Asia Pacific, as well as Latin America and Africa, are witnessing the green shoots of early growth. Internally, too, we are all recognizing the need to broaden our recruiting horizons.

Throughout history, talent has been spread more diversely than opportunity, and if we are to continue making the best talent available to our investors, we need to put aside familiarity bias and find that talent wherever it may be. Progress has been slow, but it is visibly accelerating.

We are the petri dish of the financial markets, and through the financial markets, of the global economy itself. The goal, as always, is to maximize returns relative to the associated risks; the more effectively we do that, the more efficiently will the markets allocate capital to enterprises, thereby ensuring economic vitality.

AIMA itself will also evolve in the future. It has ably led the global industry over the last 30 years, and there is no reason to expect less in the years to come. There will be challenges. Our industry is an essential part of capitalism, perhaps capitalism in its most elemental form. Time and again, capitalism has proven that with a reasonable modicum of regulation, it is the most effective economic engine for maximizing human well-being. Nonetheless, that verity continues to be questioned.

Lessons that have been learned through experience are forgotten in subsequent generations. In the largest essentially capitalist markets in the world, advocates of socialism continue to attract a following, primarily among some who have not learned the lessons of economic history, and have not experienced life in different systems.

I have every hope and confidence that the alternatives industry will withstand those challenges, and will proudly lead the way into the markets of tomorrow.

A closing personal note, if I may. This marks the end of what has been four years as Chairman of AIMA. It has been a privilege and an honor. To the energetic and capable individuals who have served with me on Council, to our Chief Executive, Jack Inglis, and his Deputy, Jiri Krol, to the dedicated Staff of AIMA, and to our thousands of members, I will forever be grateful. I look forward to continuing to contribute, in whatever capacity, as we claim AIMA's place in the future.

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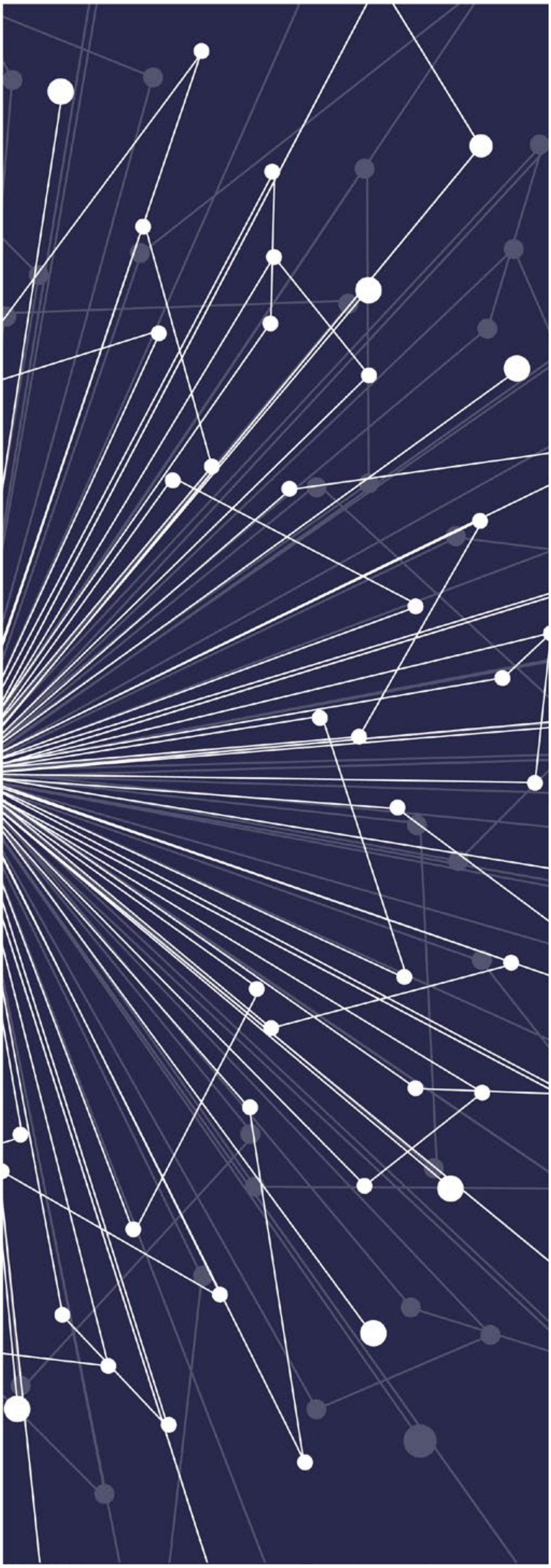

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