AIMA’s Global Review of the Year 2014
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End-of-year message from Jack Inglis

I am delighted to introduce our Global Review of the Year for 2014, which describes the work we have undertaken around the world this year on behalf of our membership.

This publication will go into detail about the year we have had, but in particular, I would like to highlight the following areas where I believe AIMA is making a real difference on our members’ behalf:

**AIMA expertise**
In increasing numbers, our members are directly accessing our strong bench of senior staff for guidance and advice.

**Policy and regulation**
Our proactive engagement with policy makers and regulators across the full suite of legislation impacting our industry (e.g. AIFMD, UCITS V, MiFID, global derivatives reforms, CPO registration, dealing commissions, beneficial ownership rules and the Net Stable Funding Ratio) continues to secure significant improvements to initial regulatory proposals.

**Compliance & training**
We are expanding our toolkit of implementation guides and increasing the number of hedge fund manager training programmes for hedge fund staff in all three global regions.

**Sound practices**
In response to high demand, we are significantly extending our library of sound practice guides and DDQs, available only to AIMA members.

**Industry image**
Our evidence-based published research is demonstrating the real value of hedge funds to the economy and to investors, and we are gradually altering the embedded misperceptions of our industry.

**Global influence**
Each year we create new records for the number of forums we host that aid our members tackle the important issues that affect their businesses. In addition to the key financial hubs across the US and Europe, these extend from Cayman to Canada, Sydney to Singapore, Hong Kong & Tokyo.
New markets
This year we signed a cooperation agreement with AMAC in China in recognition of the future importance of inbound and outbound capital flows to and from the country and hosted forums in Shanghai and Beijing.

Member engagement
Member involvement is at all-time highs. The power of our organisation is the huge input and active engagement of our members on our many committees, thus enabling us to quickly get to the heart of what really matters to our members.

Finally, I want to take this opportunity to look ahead to 2015. We have a strong pipeline of projects in the coming year, which includes:

- Updates to several of our due diligence questionnaires
- A new suite of Guides to Sound Practices
- Guidance notes on many of the ongoing regulatory and industry issues as part of our broader advocacy programme
- Another substantial programme of events (we put on almost 200 in 2014) including the inaugural ‘AIMA in Asia’ conference in Hong Kong in January and the fifth Global Policy & Regulatory Forum in New York in April
- Numerous research reports including a series of papers explaining the value of hedge funds to pension trustees and a survey with the MFA and KPMG on the next five years of the industry
- A significant upgrade of our website
- Additional investments in our media engagement activities and in projects designed to enhance the reputation of the industry

Delivering value to our members is my number one priority, and I look forward to continuing our work on our members' behalf in 2015, our 25th Anniversary year.
AIMA’s year in numbers

1,545 | Corporate members
8,500+ | Member contacts
56 | Countries where our members are based
$1.5 trillion | AUM of manager members
275 | New corporate members joined in 2014

375 | Member firms represented on AIMA working groups and committees
800+ | Individual participants on working groups and committees
70+ | Committees and working groups worldwide

180 | AIMA events worldwide
10,000+ | Attendees at AIMA events globally
40 | Speaking engagements by AIMA principals at industry (non-AIMA) conferences globally

88 | Regulatory/tax submissions, summaries and briefing notes

160,000+ | Visitors to the global AIMA website
18,000+ | Recipients of the AIMA Journal, which marked its 100th edition in September 2014
2,900 | Followers of AIMA on Twitter
1,200 | Followers of AIMA on LinkedIn
AIMA paper

Capital Markets and Economic Growth: Long term trends and policy challenges

Policymakers have taken an increasing interest in the role that market finance could play in terms of filling the lending gap and allowing firms to access the capital that they need for growth.

To contribute meaningfully to the debate, AIMA asked two leading academics in this field, Christoph Kaserer and Marc Steffen Rapp, to explore how the balance between market and bank-based finance affects economic growth, resulting in the publication of the study ‘Capital Markets and Economic Growth – Long-term trends and policy challenges’ in March 2014.

The study’s key finding is that the balance between market finance and bank lending does matter and that overreliance on banks comes at a cost in terms of reduced economic growth.

The study estimates that growing capital markets by one-third could fuel a long-term real growth rate in per capita GDP of around 20 percent.

The study also highlights the positive role that hedge funds can play, using their expertise and willingness to create positive governance changes in the firms in which they invest. Hedge funds are also important providers of liquidity, risk management and price discovery in capital markets.

The findings of the research have been taken up by policymakers around the world with great interest.

AIMA has hosted events in the US, Germany, France and Brussels to present the paper’s findings, setting out our views about how a policy programme could be developed to exploit the full potential of capital markets.

In the EU, this has given us a ‘seat at the table’ in the development of a broad policy programme entitled Capital Markets Union, aimed at promoting and deepening sustainable non-bank finance.
Asset management regulation

AIFMD
On 22 July 2014, the transitional provisions of the Alternative Investment Fund Managers Directive (AIFMD) came to an end in most Member States of the EU. During 2014, AIMA engaged with various national regulators as well as the European Securities and Markets Authority (ESMA) and the European Commission in order to ensure that the implementation of the AIFMD is workable for the hedge fund industry. AIMA has also successfully engaged with a number of key EU jurisdictions on issues related to delegation, remuneration, depositaries, the national private placement rules and reporting.

• Planners
On 17 April 2014, AIMA published a new set of practical and country specific guides for hedge fund managers wishing to comply with the AIFMD. The new guides relate to the AIFMD transposition in the UK, Ireland and Luxembourg and build on the generic AIFMD implementation guide originally published in January 2013.

• Timing of filing
In early 2014, AIMA worked with the members of the staff of Her Majesty’s Treasury to prolong the deadline for accepting applications for authorisation as late as 22 July 2014. AIMA successfully argued that it was the lodging the application rather than becoming authorised that was required by the terms of the AIFMD to have occurred by the end of the permitted transition period. Further to this, a change to the UK implementing legislation for AIFMD was proposed and enacted.

• Calculation of additional own funds
AIMA successfully engaged with the UK Financial Conduct Authority (FCA) to change the definition of the term “funds under management” to permit the valuation of derivatives at their market value rather than at notional value. This had the effect of substantially reducing the total figure on which the amount of their requirement for additional own funds would be based.

• Remuneration
On 31 January 2014, the Financial Conduct Authority (FCA) finalised its guidance on the alternative investment fund managers (AIFM) remuneration code arising from the issuance of the ESMA guidelines on sound remuneration policies under the AIFMD. The FCA clarified their guidance on which remuneration regimes are equally as effective for the purposes of delegation. The FCA guidelines contained significant improvements in some areas from the draft guidance upon which AIMA commented. Crucially, the FCA decided to set a presumption for the disapplication of the pay-out process rules, meaning that AIFM’s who manage less than £1 billion in AIF assets (including leverage) may be able to dis-apply the most egregious remuneration rules.

• Reporting
AIMA successfully engaged with the FCA in relation to the reporting of master fund information by an AIFM that manages a master and a feeder fund, the master of which is not marketed into the UK. The FCA stated that “if you are marketing an AIF in the UK that is a feeder AIF which invests into a non-EEA master AIF which you also manage but are not marketing in the UK, the FCA does not require you to report (to the FCA) about the non-EEA master AIF.

AIMA has also engaged with ESMA and the FCA in relation to their Q&As on reporting requirements under the AIFMD in order to achieve greater clarity on the reporting requirements for AIMA members and has been holding bi-weekly calls with AIMA’s AIFMD reporting forum in order to assist members with their reporting queries.

CPO/CTA relief
AIMA has been engaging with the US Congress and the US Commodity Futures Trading Commission

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(CFTC) in order to address certain issues relating to commodity pool operators (CPOs) and commodity trading advisors (CTAs). AIMA, working closely with a number of associations, has been successful in securing relief for CPOs and CTAs in various areas. In September 2014 the CFTC issued three exemptive relief letters relating to the requests which AIMA had made, relating to (i) restrictions set forth in CFTC Regulations 4.7(b) and 4.13(a)(3) which had previously foreclosed the ability of CPOs to use the relief envisioned by the JOBS Act; (ii) certain reporting requirements; and (iii) certain recordkeeping requirements. In October 2014 the CFTC also issued a self-executing registration no-action relief letter in relation to CPO delegation requirements, which replaced their previously issued letter, which had required delegating CPOs to file a specific request for no-action relief.

**Dealing commission (UK)**
AIMA engaged extensively with the FCA in relation to its rules on the use of dealing commission throughout 2014. In relation to the changes made to the FCA rules in June 2014, AIMA successfully argued that the FCA’s proposed reversal of the evidential presumption in relation to using dealing commission to purchase research services should not be introduced.

**UCITS V**
AIMA engaged with the European Parliament and the Council to assure that the remuneration requirements to be applicable to UCITS management companies were not made more onerous than those applicable to AIFMs in the level 1 text for UCITS V. In particular, the issue of limiting variable remuneration to 100% of fixed pay was dropped in the EU parliament. AIMA will engage with ESMA and national competent authorities in the coming year as the UCITS remuneration guidelines are developed.

**Loan origination (Ireland)**
AIMA engaged with the Central Bank of Ireland (CBI) on its proposal to establish a type of investment fund especially for the purpose of loan origination. AIMA was successful in encouraging the CBI clarify that leverage should be calculated for this purpose based on net asset value and balance sheet size as opposed to using gross notional measure of exposure, and that pro rata distributions to all investors should be permitted before the end of the life of the fund and without the need to seek investor consent.

**Beneficial Ownership (Cayman)**
AIMA, with the assistance of the Cayman Islands national group, has engaged with the Cayman Ministry of Finance to encourage the Cayman Islands authorities not to adopt a requirement for a public register of beneficial owners of Cayman Islands companies, a proposal they are being encouraged to adopt by the UK. Thus far, the Cayman Islands government has not imposed such a requirement.

**Non-bank non-insurance systemically important financial institutions**
In April 2014, AIMA responded to the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) consultation paper titled Assessment Methodologies for Identifying Non-bank Non-insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs). Thereafter, AIMA continued to engage with the FSB and other regulators in order to persuade them that hedge funds are not systemically important and to argue that gross notional exposure (GNE) was not the best way to measure the systemic risk of a hedge fund. The FSB is likely to change its approach to asset managers as a result of the strong engagement by industry, releasing a new consultation document in the near future.

**Early Warning Reporting System (Canada)**
In 2013, AIMA and the Managed Funds Association submitted a joint response to the Canadian Securities Administrators (CSA) request for comments in respect of the proposed amendments relating to the Early Warning
Reporting (EWR) System and the related Alternative Monthly Reporting (AMR) System (the ‘Proposed Amendments’). AIMA and the MFA argued that several aspects of the Proposed Amendments could stifle shareholder engagement and democracy and could overly restrict the ability of shareholders to have a positive impact on the corporate governance and performance of Canadian issuers. Specifically, the Proposed Amendments would have lowered the early warning reporting threshold from 10% to 5% and included equity equivalent derivatives towards the calculations of the thresholds, among other things.

In October 2014, the CSA announced that, in light of the comments received and following further reflection and analysis, it had reconsidered the Proposed Amendments and determined not to proceed with certain of the Proposed Amendments, including the lowering of the reporting threshold from 10% to 5% and the inclusion of equity equivalent derivatives toward the calculations of the threshold. However, other aspects of the proposal are expected to go forward in the second quarter of 2015, including requiring disclosure of 2% decreases in ownership, making the AMR System unavailable to eligible institutional investors when there is an intention to engage in proxy solicitation and providing guidance clarifying the current application of EWR requirements to certain derivatives and requiring disclosure of derivatives in the early warning report.

Markets regulation

MiFID II / MiFIR
2014 saw a political agreement between European Parliament, Council and Commission regarding the overhaul of the MiFID framework. With the primary legislation in place, attention has now turned to the elaboration of secondary rules, with ESMA publishing a Discussion Paper and Consultation Paper on MiFID2 in May 2014.

In responding, we made a number of broad points:

• We explained our belief that the proposed restriction on the use of dealing commission to fund investment research is not justified, and would harm the European asset management industry. We instead believe that investment managers should have in place a robust governance framework, based principally on Commission Sharing Agreements (CSAs), to ensure that the level of research spend meets the test of being a minor benefit, and to ensure that the research is substantive in nature.

• While we strongly endorse a heightened focus on investor protection issues, we encouraged ESMA to consider carefully the different needs of retail clients and professional clients, ensuring that the client protections and disclosure requirements that are applied in the retail space are not simply copied across to the professional space without considering whether professional clients would derive value from them or whether those provisions would constrain professional clients from negotiating contractual terms that reflect their needs.

• We expressed our support for the drive to make markets more efficient and explored in detail the role that straight-through processing of cleared OTC derivatives transactions can play in this regard. At the same time, however, we considered the way in which other components of the MiFIDII framework, including position limits and rules on algorithmic trading and high-frequency trading, can be calibrated and applied in a proportionate manner that does not undermine the functioning of markets or create barriers to entry that will harm competition.

• MiFIDII/MiFIR entails numerous reporting
requirements – transaction reporting to competent authorities, post-trade reporting to the market, position reporting via trading venues - which have the potential to duplicate one another, or to duplicate the reporting obligations established in other pieces of legislation, notably the European Market Infrastructure Regulation (EMIR). We encouraged ESMA to design reporting requirements in a way that avoids duplicative reporting as far as possible, whilst facilitating the delegation of those reporting requirements by investment firms to entities with the necessary infrastructure to fulfil them effectively.

Since filing our response, we have engaged closely with European regulators involved in the ESMA discussion in order to present our position. We feel many have been receptive to our arguments and hope to see an improved approach in the core areas of member interest. In particular, we have good grounds to believe that that ESMA will modify its approach to dealing commission regulation, moving away from outright unbundling of execution and research spend. Further consultations on Level 2 measures will be published imminently.

**Swiss Federal Financial Services Act**

In November 2014, AIMA filed a submission in response to the Swiss Federal Council consultation on the Federal Financial Services Act (FFSA) and Financial Institutions Act (FinIA), measure designed to parallel aspects of the MiFID rules. In our response, we highlight the fact that regulating the distribution of funds under the Collective Investment Scheme Act (CISA), rather than the FFSA, will create unnecessary operational burdens, whilst distorting the level playing field across product types. We propose the transfer of relevant CISA provisions into the FFSA.

We also suggest an enhanced approach in respect of cross-border business, with appropriately crafted exemptions for intragroup business, services provided to eligible counterparties and for “reverse solicitation”. Finally, we propose alignment with concepts that are already established in European law; this is the case in respect of client categorisation, for example.

**European benchmarks proposal**

AIMA has monitored developments and engaged with key policymakers and politicians on the issue of the use of financial indices as benchmarks throughout 2014. In particular, we continue to raise the importance of the distinction between benchmark ‘administrators’ and benchmark ‘users’, recommending that the proposed regulation apply only to administrators of benchmarks. We also stress that the equivalence of a third-country jurisdiction’s rules on benchmarks should not be necessary for a third-country benchmark to be used in the EU. Overall, AIMA is encouraged that positive developments are being made in the European Council in line with our position - in particular the distinction between the administration and use of a benchmark in a fund management context as well as a significant liberalisation of the third country regimes - and will continue to engage with both the Council and Parliament on this file during 2015.

**Basel III Net Stable Funding Ratio**

In January 2014, the Basel Committee on Banking Supervision published a consultation on a revised Net Stable Funding Ratio (NSFR), a measure that featured in the 2010 Basel III agreement and which is designed to reduce banks’ reliance on short-term wholesale funding. Responding to members’ concerns that the NSFR would lead to significant increases in the cost of certain services, particularly relating to securities lending, repo and equity swaps, in September 2014 AIMA wrote to the BCBS setting out our concerns regarding the NSFR. The standard as subsequently adopted in October 2014 addressed some of our concerns through the introduction of a new carve-out for “interdependent transactions”, which should
lessen the impact of the measure on activities undertaken by banks to service client demand. The NSFR will become a minimum standard by 1 January 2018.

**CFTC cross-border swaps rules**
Over 2014, AIMA has continued to engage with authorities on both sides of the Atlantic regarding their respective rules on cross-border activities in OTC derivatives markets. The CFTC’s approach has been of particular concern to a number of our members, given their efforts to regulate any funds that are majority-owned by US investors, regardless of where the nexus of their operations is.

Our engagement has included Chairman-level meetings with both the CFTC and SEC, and a number of meetings with key legislators in the US. We have also sought to support the European Commission in its discussions with the CFTC, providing analysis of the situations in which rules are likely to overlap and developing possible solutions that they can pursue with their counterparts.

**European Market Infrastructure Regulation (EMIR)**

- **Reporting**
  Over 2014, AIMA hosted a number of events on EMIR reporting, in order to help members prepare for go-live of EMIR reporting. We also continued to engage with ESMA through its Questions and Answers process to gain clarity regarding the scope and detail of the reporting regime.

- **Clearing**
  With reporting rules now implemented, the next key aspect of the European rules to be addressed is central clearing, with 2014 seeing extensive work by ESMA on the question of product scope and on the phase-in schedule for clearing. AIMA has engaged through this process to ensure: (1) appropriate alignment of products that must be cleared in the EU and US; (2) that any retroactive clearing obligation is minimised; (3) that the phase-in schedule for the buy-side makes sense given operational and competition considerations.

**Recovery and resolution of banks and CCPs**

- **CCPs**
  The European Commission’s work on an EU framework for the recovery and resolution of non-banks was been delayed during 2014, with a proposal anticipated during Q1/Q2 2015 which focuses mainly on CCPs. Earlier this year AIMA published a White Paper on the issue of CCP resolution which sets out our key policy principles on the approach to dealing with a failing or failed CCP. The White Paper argues against the use of client money (such as variation margin) for the purposes of CCP recovery. The White Paper has been well received in the European Parliament and Commission.

- **Banks**
  Our recent work on the issue of bank recovery and resolution has included the co-signing of a letter to the Financial Stability Board (FSB) alongside a coalition of buy-side associations expressing significant concerns as to the FSB’s efforts on the contractual recognition of resolution actions and the suspension of derivative counterparties’ early termination rights. In addition to the development of prudential rules by FSB members, the FSB has sought ISDA’s assistance in amending the standard ISDA Master Agreement via a new Protocol that recognises special resolution regimes and allows suspension of cross-border derivatives counterparties’ early termination rights upon the entry of a G-SIFI into resolution.

The joint letter, in particular, expressed criticisms as to the particular process the FSB has used which: prevented key stakeholders from contributing to the process; has finalised the ISDA Protocol before FSB members’ prudential

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European regulation on Securities Financing Transactions

The European Commission issued its proposal for a Regulation on reporting and transparency of securities financing transactions (SFTs) and rehypothecation in January of 2014 and AIMA has engaged throughout the year on the file. We developed an initial position paper - which has now been amended to take into account positive developments in the European Council - and also met to discuss the file with the Italian presidency.

Particular positive policy outcomes have been the Council’s amendment of their compromise text to ensure the certainty of the definition of an SFT, removing the discretion of the Commission to specify further contracts to be brought within scope. AIMA will continue to push for the amendment of the dual counterparty reporting requirement for SFTs to become a single counterparty reporting requirement, as per the Dodd-Frank swap reporting regime, in order to avoid the pitfalls experienced under EMIR reporting. We will also continue to work to prevent minimum haircut rules from being introduced within the SFT transparency Regulation.

Shanghai-Hong Kong Stock Connect

AIMA worked with the HKEx, Shanghai Stock Exchange and local regulators to keep members informed of the progress of the Shanghai-Hong Kong Stock Connect initiative and address market queries on a number of issues including stock borrow and short selling; quota hogging; beneficial ownership; reporting obligations; and capital gains tax treatment. While Stock Connect has marked a turning point in terms of the type and breadth of access provided to investors, we look forward to further developments along the path to China market reform.

Hong Kong OTC derivatives regime

The Hong Kong Monetary Authority and Securities and Futures Commission had originally proposed that SFC-licensed investment managers be required to report the OTC transactions of their
funds and other clients. In response to feedback from AIMA and others, this requirement was postponed until a later phase of implementation. AIMA Hong Kong’s Regulatory Sub-Committee and OTC Working Group will continue to oversee developments on this topic.

Tax affairs

UK Partnership Taxation Review
The most relevant tax reform concerned UK partnership taxation, which was enacted in the Finance Act 2014, following a review by HM Revenue & Customs (HMRC) commenced in July 2013. AIMA worked closely with the HMRC in responding to their consultation documents and had several meetings with HMRC on the review of partnership tax rules.

Certain members of limited liability partnerships (LLPs) are required to be treated as employees for tax purposes (“salaried partners”) if they do not possess at least one of three indicia of partnership. AIMA has argued that these provisions were potentially excessive and not reflective of the particularities of the asset management sector. The final texts and guidance have been amended considerably, allowing for most LLPs to determine the status of its members satisfactorily.

AIMA has also worked successfully on introducing a provision enabling a participating partnership, at the election of an affected partner, to be treated as the person to whom the partner’s deferred remuneration is allocated for tax purposes, and so liable to pay tax in respect of it. The mechanism has been accepted by the FCA as an effective means to make any deferral required under the AIFMD remuneration code on a “net of tax” basis. It may also be applied to voluntary deferral arrangements which are consistent with the code.

Base Erosion/Profit Shifting (BEPS)
In April and May 2014 AIMA responded to actions 2 and 6 of the BEPS project. AIMA wrote to HM Treasury to express concerns at the implications of the BEPS project for the fund management industry. AIMA submitted a response to an OECD consultation on the prevention of treaty benefits in inappropriate circumstances (action 6 - treaty abuse). We also responded to the discussion draft on preventing hybrid mismatch arrangements (action 2) and attended a public session on this at the OECD in Paris. In the last months of 2014 and during 2015 more recommendations and final drafts for BEPS actions are due to be released and we will continue to argue the need to take account of the asset management industry’s specificities.

Automatic exchange of information & Foreign Accounts Tax Compliance Act (FATCA)
FATCA came into practical effect on 1 July 2014, when new account on-boarding procedures were effective and pre-existing account due diligence commenced. The next significant date is 31 December 2014, which is the deadline for FFIs to complete the registration process, failing which their US source income will be subject to 30% withholding tax. Some 40 jurisdictions have now signed IGAs with the US Treasury to implement FATCA through domestic legislation.

In October 2014, AIMA provided comments to HM Revenue & Customs on the implementing agreements under the global standard on AEOI to improve tax compliance. The consultation was focused on UK domestic tax regulations which are intended to embrace the Common Reporting Standard (CRS) developed by the OECD, while seeking to minimise the additional compliance burden among FFIs and ensure the highest level of consistency with FATCA is achieved. AIMA will continue to engage with HMRC to raise the key concerns among our members.
Financial Transactions Tax (FTT)
AIMA has continued to actively follow the EU Commission’s proposal for a FTT to be adopted by 11 Member States by means of the enhanced co-operation procedure. Progress has been slow in the face of concerns voiced by both participating and non-participating Member States concerning the scope of the tax and the factor triggering the taxable event (issuance vs. residence principle). It seems unlikely that a draft proposal will be agreed fully in 2014, and as a result FTT is unlikely to come into effect before 2016 (at the earliest). AIMA will be ready in case a political agreement may develop for its adoption to advocate a tax with the least disruptive effect on the economy, to limit its objective and territorial scope, and maintain consistency with some of the features that national FTTs present.

Investment manager regime (IMR)
AIMA, working with the Managed Funds Association, has continued to engage with the Australian government during 2014 to advocate for amendments to the proposals for the IMR. AIMA submitted two responses to the exposure draft on Tax and Superannuation laws amendment in February and April 2014 to describe the elements that an investment manager regime might contain.

Sound Practices and DDQs

DDQ for Hedge Fund Managers
In September AIMA published an updated edition of its flagship due diligence questionnaire (DDQ), the AIMA DDQ for Hedge Fund Managers. We consulted with a broad range of hedge fund managers and institutional investors during the drafting of the new DDQ, and their input was integral to the new revisions.

Guide to Sound Practices for Selecting a Prime Broker
In December, AIMA published an updated Guide to Sound Practices for Selecting a Prime Broker, which incorporated changes to the regulatory framework that affects the relationship between managers and prime brokers, including reporting requirements and other new measures introduced under the Dodd-Frank Act in the US and Europe’s AIFMD and EMIR.

Guide to Sound Practices on OTC Clearing
In July 2014, AIMA published a new Guide to Sound Practices for OTC Derivatives Clearing. This provides guidance on the new regulatory framework in the US and European Union, which affects most OTC derivatives transactions cleared globally. The Guide to Sound Practices is supplemented by a Due Diligence Questionnaire for Clearing Members, which is intended to help asset managers during the process of evaluating different clearing members and clearing houses.
Against the backdrop of a debate into hedge fund performance, AIMA published “Apples and Apples: How to better understand hedge fund performance”, in April 2014.

The guide said that comparing hedge fund performance to the S&P 500 was an “apples and oranges” comparison and proposed five steps to improving understanding of hedge fund performance:

1. **Look at risk-adjusted returns:** The guide revealed that hedge funds consistently outperform US equities (as measured by the S&P 500), global equities (MSCI World) and global bonds (Barclays Global Aggregate ex-USD Index) on a risk-adjusted basis, a crucial measure for investors. Even during the stock-market rally of 2009-2013, hedge funds performed better on a risk-adjusted basis than the S&P 500 and MSCI World.

2. **Look at long-term data:** The guide said that short-term data such as monthly comparisons can be misleading and argued that greater clarity could be gained by looking at long-term figures. It pointed out that hedge funds outperformed the main standalone asset classes over the 10 years to the end of 2013 both in terms of “headline” returns and on a risk-adjusted basis.

3. **Look at the returns by strategy:** The guide explained how hedge fund strategies are enormously diverse and have different characteristics which can play different roles in investor portfolios. It also stressed that hedge funds are not an asset class and that there is no such thing as the “average” hedge fund.

4. **Compare with the most relevant asset class:** The guide said that reference should be made to how different strategies perform in relation to the most relevant asset class to that strategy. In other words, it may make much more sense to be comparing a particular strategy to bond performance than equities.

5. **Be aware of differences between hedge fund indices:** The guide noted that during the five years to the end of 2013, the main hedge fund indices produced notably different results, reflecting variations in constituency and methodology.
The evolving relationship between hedge funds and their investors was explored in “The Extra Mile: Partnerships between Hedge Funds and Investors”, which AIMA and Barclays published jointly in June 2014.

The publication of this paper came at an important time in the evolution of the hedge fund industry globally. Amid the ongoing process of institutionalisation (a theme that was first addressed in AIMA’s Roadmap to Hedge Funds in 2008), institutional investors were found to be actively pursuing a more direct engagement with the underlying hedge funds in which they are invested.

This paper explored the changing relationships between hedge fund managers and investors. As the title of the paper implied, both parties were found to be properly investing in these relationships - they are going the extra mile - and, in doing so, are achieving significant benefits for both sides.

The paper, based on a survey of investors and managers, found that investors increasingly are striking partnerships with hedge funds, underlining the closer collaboration taking place between the hedge fund industry and its investor base. These partnerships, the survey found, take many forms, including the sharing of knowledge on expertise and risk management, the building of more customised products, co-investment solutions, product seeding and equity investment.

More than three-quarters of managers and two-thirds of investors who took part in the survey said they had entered into partnerships. Benefits cited by the investors we spoke to included:

- Improved knowledge and understanding
- Better alignment of interest with managers
- Better value for money

Both larger and smaller managers and hedge funds of all strategies were found to be striking partnerships. Benefits to managers included:

- “Stickier” or more loyal investors
- Support for new product development
- Cross-selling opportunities
- Investor references
Research reports

The Case for Hedge Funds: 
A compendium of AIMA’s thought leadership reports

Ever since the onset of the financial crisis, AIMA has worked tirelessly to demonstrate the case for hedge funds to policymakers, regulators, investors and the media. We pulled these various arguments and pieces of research together into a major compendium of our work, called “The Case for Hedge Funds: AIMA’s Post-Crisis Thought Leadership”. It was published in August 2014.

It summarises the themes that AIMA has explored since 2008 as it has sought to demonstrate the value of the world’s hedge fund industry to investors, financial markets and the broader economy.

It includes excerpts from AIMA’s key research papers, including:

- The “Roadmap to Hedge Funds”, the first guide about hedge funds to be produced collaboratively by the industry and investors
- “The Cost of Compliance”, a global survey of managers that revealed the significant investments they are making in order to comply with the new regulatory requirements
- “Beyond 60/40”, which demonstrated the different roles that hedge funds play in institutional investors’ portfolios

There are also extracts from many of AIMA’s white papers and articles on a range of topics including the industry’s social utility, the impact of institutionalisation, shadow banking, short selling and the industry’s reputation. AIMA is also well known for its comprehensive range of tools and guidance for members like our due diligence questionnaires and our suite of sound practice guides, which are available for members on the website.

The work of demonstrating the value of the industry, of course, continues. We have more research in the pipeline which will enable us to continue to demonstrate the value of the hedge fund industry to the broader economy. AIMA will continue to make the case for hedge funds during 2015 and beyond.
Events

AIMA Annual Conference 2014
AIMA’s fifth Annual Conference was held in London on 7 October 2014. The event drew more than 370 attendees from more than 15 countries and was sponsored by CME Group, PwC and Simmons & Simmons. Speakers included Loïc Fery, Founder, CEO & Co-CIO, Chenavari Investment Managers; Tim O’Brien, Partner, General Counsel and CCO of Pine River Capital Management LP; and Jack Inglis, CEO, AIMA. Videos of the keynote speeches and panel discussions at AIMA’s fifth Annual Conference are available for members to view on our website.

Delegate feedback
“Another excellent AIMA Annual Conference.”
“Overall — a very high quality event, as is now customary with AIMA.”
Global Policy and Regulatory Forum

AIMA’s Global Policy and Regulatory Forum 2014, our flagship regulatory event, drew over 200 people to 10 on the Park at the Time Warner Center in New York on 6 March 2014. Regulators and policymakers from around the world participated, including senior representatives from the IMF, IOSCO, SEC, FSOC, US Treasury, New York Fed, ESMA, the European Parliament, the FCA, HM Treasury, Banque de France, Central Bank of Ireland, Hong Kong SFC and ASIC.

There were keynote speeches by Michael Piwowar and Norm Champ of the SEC, Manmohan Singh of the IMF, Michelle McGregor Smith of British Airways Pension Investment Management and Jamie Dinan of York Capital.

Delegate feedback

“I want to extend a thank you to all at AIMA who put together this conference. I found the speakers informative, the panel topics of great interest, and I made a few good contacts.”

“I really enjoyed the event. The programme was well put together, the speakers absolutely outstanding and I learned a lot. Congratulations on a successful conference!”
Other news in brief

Jack Inglis completes first year as CEO of AIMA
We were delighted to welcome Jack Inglis as CEO of the organisation on 1 February 2014. Jack has been involved with hedge funds for 25 years and has held leadership positions in prime brokerage at both Morgan Stanley, where he served for 16 years, and Barclays, where he was prior to joining AIMA. From 2007 to 2010 he was CEO at the convertible bond specialist, Ferox Capital Management. He began his career in 1983 and has extensive experience across origination, distribution and trading across the capital markets. He holds a Master of Arts in Economics from Cambridge University.

Regular webinars and training sessions for members
AIMA held regular webinars and hedge fund manager training sessions in 2014. For managers in London, AIMA offered twice monthly hedge fund manager training sessions. For managers in New York, AIMA has offered monthly hedge fund manager training sessions. These sessions are available to manager members only. In terms of webinars, AIMA hosted on average one webinar each month, on such topics as AIFMD, FATCA, EMIR reporting and MiFID/MiFIR.

Marketing and private placement events
In November 2014, AIMA put on two full day conferences, one in New York and the other in London, on “Navigating Private Placement Regimes Around the World”. These programmes were designed to focus on capital raising in key jurisdictions around the world and provide a common framework for understanding what is required in each country.

AMAC Memorandum of Understanding
AIMA signed a Memorandum of Understanding (MoU) with AMAC, the Asset Management Association of China, in Beijing in June 2014. The agreement was the first of its kind signed by AMAC with an international organisation. It outlines areas of future cooperation between the associations and highlights their joint commitment to strengthening the exchange and cooperation of the Chinese and international fund management industries.

The MoU signing was part of a five-day trip to Beijing by senior AIMA representatives during which AIMA was also appointed to AMAC’s newly formed International Partners Committee (IPC). The IPC’s inaugural meeting was followed by AMAC’s annual conference at which AIMA CEO Jack Inglis gave a keynote speech on the regulation of hedge funds in capital markets.

AIMA-AMAC 1st International Hedge Fund Leadership Forum, Beijing
Following on from the success of its inaugural event for onshore managers in Shanghai (AIMA China Hedge Fund Managers Forum 2014), AIMA partnered with the Asset Management Association of China (AMAC) to co-host the 1st International Hedge Fund Leadership Forum in Beijing. This was their first joint event and followed the signing of a Memorandum of Understanding between the two associations, the first of its kind signed by AMAC with an international organization. Devised to provide an overview of the international regulatory, tax and operational challenges typically facing the international community, the two conferences were conducted primarily in Mandarin. Some 250 onshore and international industry practitioners attended the conferences, which were organized with the help of our “Friends of AIMA China” group.

continued ►
AIMA Japan Hedge Fund Forum 2014
AIMA Japan held its annual Hedge Fund Forum at the Tokyo Stock Exchange on 5 June 2014. The half-day educational forum saw over 110 hedge fund managers, investors, regulators and other senior industry professionals come together to share the latest research, news and developments in the Japanese and global hedge fund industry. The seminar culminated in a networking cocktail party for AIMA Japan members and their guests.

AIMA Australia Hedge Fund Forum 2014
The AIMA Australia Hedge Fund Forum 2014 was held at the Sydney Sofitel Wentworth on 16 September. The full day event showcased the skill of local managers, their approach to business and their market views to local and international delegates. Discussion also focused on how the Australian hedge fund industry can better engage with investors, and touched on the regulatory and market forces that are shaping the industry’s future. Nearly 300 investors, managers and service providers attended the forum, making it the largest of its kind in Australia.

AIMA Cayman luncheon
AIMA CEO Jack Inglis and Deputy CEO and Head of Government & Regulatory Affairs Jiri Krol were among the speakers at an AIMA Cayman luncheon in April during the GAIM Ops Cayman event at the Ritz-Carlton, Grand Cayman. FATCA and BEPS were among the themes of the lunch, which drew an audience of close to 200 people.

AIMA Canada supports overseas receptions
AIMA Canada supported a host of overseas receptions and ancillary sessions in November, organised by the Government of Canada’s Department of Foreign Affairs, Trade and Development (DFATD). The events in Washington, London, Dubai and Geneva featured local investors and Canadian hedge fund managers. A number of side-sessions were also arranged dealing with local government and regulatory matters.

AIMA Canada Research Award
The AIMA Canada Research Award (ACRA) and its $10,000 cash prize was won this year by Peter Christoffersen of the Rotman School of Management, University of Toronto, and Xuhui (Nick) Pan of the Freeman School of Business, Tulane University. The winning paper, “Equity Portfolio Management Using Option Price Information”, can be downloaded here.
Event highlights

In 2014, AIMA held around 180 events globally - an increase of 50% on 2013.

A selection of some of our key events follows:

Getting Ready for EMIR Reporting, London, January

Global Regulatory Update, New York, February

AIMA’s Global Policy and Regulatory Forum 2014, New York, March

Hedge Fund Capital Raising in Canada: Canadian Investor Trends and Relevant Regulations/ Structuring, New York, April

AIMA Lunch at GAIM Ops, Cayman, April

AIMA China Hedge Fund Managers Forum 2014, Shanghai, May

The Extra Mile: Exploring the concept of partnership between hedge funds and investors, London, May

AIMA-AMAC 1st International Hedge Fund Leadership Forum, Beijing, June

AIMA Japan Hedge Fund Forum 2014, Tokyo, June

Summer Drinks Reception, London, June

AIMA Next Generation Manager Forum 2014, London, June

Capital Markets Research Paper Roundtable, Berlin, June


AIMA Swiss Briefings, Geneva & Zurich, July

Shanghai-Hong Kong Stock Connect, Hong Kong, July

AIMA Thank You Drinks Reception, London, September

Cybersecurity, the AIFMD and Other Hot Topics, San Francisco, September

AIMA Australia Hedge Fund Forum 2014, Sydney, September

AIMA Annual General Meeting, London, September

AIMA Canada Annual Debate, Toronto, September

Fifth AIMA Annual Conference, London, October

The Future of Dealing Commission and Independent Research, London, October

AIMA Hedge Fund Investors Summit, Dubai, October

AIMA France Briefing, Paris, October

Navigating Private Placement Regimes Around the World, New York & London, November

AIMA Ireland Briefing, Dublin, December
AIMA’s Global Review of the Year 2014

AIMA’s Global Review of the Year 2014

Speaking engagements

AIMA principals spoke at over 50 non-AIMA industry conferences and events during 2014, including the following events:

HFM Allocator Summit, UK, January
Goldman Sachs 3rd Annual Asia Trading Conference 2014, Hong Kong, February
Bloomberg Regulatory Forum, London, February
HFM Asia Operational Leaders’ Summit, Macao, February
15th Annual International Conference on Private Investment Funds, London, March
GAIM Ops Cayman, Cayman, April
EuroHedge Summit, Paris, April
FOW Derivatives World Asia 2014, Hong Kong, April
AsiaHedge Forum 2014, Hong Kong, April
Deacons 6th Annual Investment Products and Regulatory Forum, Hong Kong, May
CZ Funds Conference, Slovakia, May
23rd Annual Securities Finance and Collateral Management Conference, ISLA, Berlin, June
Bloomberg Hedge Fund Forum, Singapore, June
GAIM International, Monaco, June
25th Annual Conference on the Globalisation of Investment Funds, Paris, June
WAISC Niagara Falls, Toronto, September
17th Hedge Funds World Asia 2014, Hong Kong, September
AsiaHedge China Forum, Hong Kong, September
4th CITIC Hedge Fund Summit, Hangzhou, China, September
HFM European Operational Leaders Summit 2014, UK, September
GAIMOps, Ireland, October
PwC Asset Management Conference, Hong Kong, October
Global Fund Distribution Asia, Hong Kong, October
Albourne’s HedgeSpock, Houston, November
ACA Compliance Regulatory Horizon, London, November
Allianz Liquid Alternatives Forum 2014, London, November
EY Global Hedge Fund Symposium, London, November
ASIFMA Annual Conference 2014, Singapore, November
3rd Annual Compliance Summit Asia, Hong Kong, November
Fund Focus Conference, Cayman, November
GAIM Regulation and Fund Governance, New York, December
Meet the global AIMA team

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AIMA Council

As of December 2014, the members of the AIMA Council are as follows:

**Chair**
Kathleen Casey, Patomak Global Partners / Director, HSBC Holdings

**CEO**
Jack Inglis, AIMA

**Directors**
Olwyn Alexander, PwC
Andrew Bastow, AQR Capital Management
Fiona Carpenter, EY
Stuart Fiertz, Cheyne Capital Management
Simon Lorne, Millennium Management
Tim O’Brien, Pine River Capital Management
Martin Pabari, CQS
Christopher Pearce, Marshall Wace Asset Management
Eva Sanchez, Citadel
Henry Smith, Maples and Calder
Philip Tye, HFL Advisors
Karl Wachter, Magnetar Capital
Choo San Yeoh, Albourne Partners

AIMA would like to take this opportunity to once again thank those Directors who stepped down in 2014 for their contributions and support. They were as follows:

- James G. Dinan, Founder, Chairman & CEO, York Capital Management
- Robert De Rito
- Paul Sater, Partner, EY
- Phil Schmitt, President, Summerwood Capital
- Mark O’Sullivan
# AIMA’s regulatory and tax submissions, summaries, briefing notes and position papers in 2014

All the following documents are on the AIMA website at [www.aima.org](http://www.aima.org).

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Communications

Selected press releases in 2014

For all our press releases from 2014, visit the AIMA website at www.aima.org

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Articles by AIMA Principals in 2014

**Comment: Jack Inglis (HFMWeek)**
23 Oct 2014
In his quarterly column for HFMWeek, AIMA CEO Jack Inglis says that the case for including hedge funds in institutional investor portfolios has never been stronger.

**Building the case for hedge funds (HedgeFund Intelligence)**
01 Oct 2014
AIMA CEO Jack Inglis discusses the value of the hedge fund industry in HFI’s Autumn 2014 Global Review.

**Case remains strong for hedge fund investment (Financial Times)**
25 Sep 2014
Following CalPERS’ decision to close down its hedge fund programme, Jack Inglis says that the case for including hedge funds in institutional investor portfolios has never been stronger.

**The opportunity in China (HFMWeek)**
23 Jul 2014
The MoU that AIMA has signed with the Asset Management Association of China represents a significant step forward in cooperation with China in the fund management sphere and highlights our two organisations’ commitment to strengthening cooperation between the Chinese and international fund management industries, writes Jack Inglis.

**Of apples and oranges (Funds Europe)**
18 Jul 2014
At a time when many commentators have claimed that hedge fund performance is “disappointing”, investor satisfaction levels continue to rise. Jack Inglis says that seeking to explain why was one of the inspirations behind AIMA’s research paper, ‘Apples and apples’.
Articles by AIMA Principals in 2014

Understanding hedge fund performance better (InvestHedge)
09 Jun 2014
It is all too common today for comparisons between aggregated hedge fund indices and equity indices like the S&P 500 to be made, argues Jack Inglis in this op-ed for InvestHedge.

Hedge funds and the real economy (HFI Global Review)
22 Apr 2014
Jack Inglis says that the hedge fund industry is making a positive contribution to the ‘real economy’.

Helping capital markets flourish (HFMWeek)
17 Apr 2014
Jack Inglis discusses the findings of AIMA-commissioned research into capital markets and economic growth.

Hedge funds do not pose a systemic risk (Financial News)
07 Apr 2014
Jack Inglis says that data from the UK Financial Conduct Authority suggests that no individual hedge fund or manager is systemically important to the extent that its failure would endanger financial stability in Europe or globally.

Capital markets and the EU’s growth strategy (EU Reporter)
25 Mar 2014
Adam Jacobs, Director, Head of Markets Regulation, discusses the findings of AIMA-commissioned research into capital markets and economic growth.

Valedictory column by Andrew Baker (HFMWeek)
31 Jan 2014
In his final column for HFMWeek before stepping down as AIMA CEO, Andrew Baker says he is leaving an organisation that has been changed forever by the financial crisis and its aftermath - and one that, thanks to the efforts of its members, directors and staff, has been greatly strengthened by the experience.

Hedge funds meet portfolio objectives (Financial Times)
10 Jan 2014
In a letter to the FT, Andrew Baker responds to a recent article which questioned why institutional investors are invested in hedge funds.
AIMA wishes to thank its Sponsoring Members and Global Partners for their support in 2014

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State Street
UBS
Wells Fargo

AIMA’s Global Review of the Year 2014
AIMA has more than 1,500 corporate members in over 50 countries and is present in all of the major financial centres globally

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

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

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

**Regulatory updates**
AIMA members receive comprehensive regulatory updates and tools.

**Sound Practices and DDQs**
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We consistently have a high membership renewal rate.

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

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

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