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I am delighted to introduce our Global Review of the Year for 2015, 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**
A very significant number of our members now directly and routinely access our strong bench of senior staff for guidance and we continue to widen our one-to-one interaction wherever possible.

**Policy and regulation**
Our proactive and constructive engagement with policymakers and regulators across the full suite of legislation impacting our industry globally continues to secure improvements to initial proposals. In 2015, AIMA engagement helped to secure notable progress across a raft of proposed measures including remuneration proposals in Europe, the global ‘SIFI’ issue, MiFID II, the IMR in Australia, cross-border derivatives rules in the US and securitisation across the EU.

**Compliance & training**
We have expanded our library of due diligence questionnaires and sound practice guidance for AIMA members this year, and increased the number of training programmes for hedge fund staff globally. Of particular note have been our published guides on cyber security, liquid alternatives and fund directors.

**Industry image**
We have commissioned an independent firm to conduct research into the industry’s reputation. This will inform how we can best direct our efforts to improve the standing of the industry amongst multiple audiences. At the same time we continue to publish evidence-based thought leadership to demonstrate hedge funds’ value proposition to investors, markets and the economy.

**Global influence**
Every year we set new records for the number of conferences, seminars and webinars we organise worldwide, which help our members tackle the important issues that affect their businesses. In 2015, we organised more than 200 such events in the key financial hubs across EMEA, North America and Asia-Pacific, with well over 11,000 attendees combined.

**Member engagement and networks**
More than one-in-10 of our 10,000 member contacts regularly participate in our committees and working groups and many more attend our events around the world. Such levels of involvement facilitate significant productivity in our work while the networks provide great opportunities for “peer-to-peer learning” which members truly value.
**Improved synergies**
AIMA’s formal collaboration with the Managed Funds Association (MFA), which we announced in October, promises to produce significant efficiencies and synergies in 2016 - enabling us to deliver better targeted and more effective services to our members globally.

**Pipeline for 2016**
Finally, I want to take this opportunity to look ahead to 2016. 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](#) including the ‘AIMA in Asia’ conference in Hong Kong in January and the sixth Global Policy & Regulatory Forum in London in May
- Numerous [research reports](#) including a series of papers explaining the value of hedge funds to pension trustees
- 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 2016.

Jack Inglis, CEO, AIMA
# AIMA’s year in numbers

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<tr>
<th>Figure</th>
<th>Description</th>
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<tbody>
<tr>
<td>1,706</td>
<td>Corporate members</td>
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<tr>
<td>10,000+</td>
<td>Member contacts</td>
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<tr>
<td>57</td>
<td>Countries where our members are based</td>
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<tr>
<td>$1.5 trillion+</td>
<td>AUM of manager members</td>
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<tr>
<td>329</td>
<td>New corporate members joined</td>
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<tr>
<td>537</td>
<td>Member firms represented on AIMA working groups and committees</td>
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<td>Individual participants on working groups and committees</td>
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<tr>
<td>93</td>
<td>Committees and working groups worldwide</td>
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<td>AIMA events worldwide</td>
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<tr>
<td>11,000+</td>
<td>Attendees at AIMA events globally</td>
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<tr>
<td>50+</td>
<td>Speaking engagements by AIMA principals at industry (non-AIMA) conferences globally</td>
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<tr>
<td>108</td>
<td>Regulatory/tax submissions, position papers and briefing notes</td>
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<td>169,000+</td>
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<td>Downloads of the AIMA DDQ for Hedge Fund Manager Selection</td>
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<td>Followers of AIMA on Twitter</td>
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<td>2,400</td>
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<tr>
<td>11,000+</td>
<td>Our most-viewed update on LinkedIn: AIMA’s 25th anniversary publication - ‘25 Years in Hedge Funds’</td>
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*Figures correct as of 1 December 2015*
Government and Regulatory Affairs highlights

Asset Management Regulation

AIFMD

During the course of 2015 AIMA engaged with ESMA and the European Commission as well as a number of national regulators in relation to a variety of outstanding issues regarding the Alternative Investment Fund Managers Directive (AIFMD). This included the following:

Passport

At the beginning of the year, AIMA submitted a response to ESMA’s call for evidence on the AIFMD passport and third country AIFMs. Thereafter, AIMA continued to engage with ESMA in order to ensure the greatest amount of clarity possible regarding the process that ESMA was adopting to assess the eligibility of third countries for the AIFMD passport.

Valuation

AIMA continued to engage with the FCA in relation to the valuation function under the AIFMD. The FCA has consulted on Q&As on the valuation function, which as initially drafted could have led to significant disruption with respect to contractual arrangements currently in place between AIFs, their external fund administrators and their AIFMs. The FCA has delayed publishing the final Q&As and is continuing to engage with AIMA in relation to this.

Asset segregation

AIMA responded to the ESMA consultation on its guidelines on asset segregation under the AIFMD. Thereafter AIMA, along with the Association for Financial Markets in Europe (AFME), Irish Funds (IF) and the Association of Global Custodians (AGC), continued to meet with ESMA as well as a number of European competent authorities to explain that ESMA’s proposed preferred models for asset segregation would entail a restructuring of the prime brokerage, custody and sub-custody market, to the detriment of AIFs and investor protection. AIMA, AFME, IF and the AGC have continued to argue that in order to entail such upheaval there would need to be a very clear statutory footing for this change, which is not present in the AIFMD. ESMA has not yet made a decision as to the best method of asset segregation, meaning that the industry has not yet had to implement any changes to their asset segregation models.

Reporting

AIMA 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. We also held bi-weekly calls with AIMA’s AIFMD reporting forum in order to assist members with their reporting queries.

Leverage

AIMA submitted a letter and thereafter continued to engage with the European Commission regarding the measure for calculating leverage under the AIFMD.

Remuneration

AIMA responded to the European Banking Authority (EBA) consultation on its Draft Guidelines on Sound Remuneration Policies under the fourth Capital Requirements Directive (CRD IV) and responded to the ESMA consultation paper setting out guidelines on sound remuneration policies under the fifth Undertakings for Collective Investments in Transferable Securities Directive (UCITS V) and the AIFMD. The EBA and ESMA have divergent views on the correct interpretation of the proportionality principle and AIMA is seeking to ensure that the current interpretation of proportionality, which is supported by ESMA and permits asset managers to disapply certain provisions of the remuneration guidelines if it is proportionate for them to do so, remains in place. Neither the EBA nor ESMA have issued their final guidelines yet. AIMA will continue to engage with the EBA and ESMA in the coming year as the remuneration guidelines are developed.

Securitisation

AIMA has engaged with a variety of regulators in relation to the development of the securitisation markets. In particular, AIMA has been interacting with the EBA and the European Commission in relation to the development of a new Securitisation Regulation. AIMA has produced a position paper which it has shared with a number of European politicians. AIMA will continue to engage with regulators in the coming year to seek to ensure that the Securitisation Regulation is a beneficial regulatory development for asset managers.
Non-bank non-insurance systemically important financial institutions

AIMA responded to the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) second public consultation paper entitled Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs). AIMA continued to engage with the FSB and other regulators in order to persuade them that the original methodology of assessing systemic risk arising from funds or management activities was deeply flawed. The FSB subsequently made an announcement that it will postpone finalising the assessment methodologies for NBNI G-SIFIs with IOSCO due to the problems highlighted by AIMA and the rest of the asset management industry.

The FSB is now looking at the risks associated with market liquidity and asset management activities as well as potential structural sources of vulnerability associated with asset management activities in order to develop activities-based policy recommendations (as opposed to developing methodologies for designating funds and management firms as SIFIs). Then, jointly with IOSCO, the FSB will further analyse and finalise the NBNI G-SIFI asset management assessment methodology, with a focus on any residual entity-based sources of systemic risk from distress or disorderly failure that cannot be effectively addressed by market-wide activities-based policies.

CPO/CTA reporting

At the end of 2014 AIMA, in conjunction with the Investment Adviser Association (IAA) and the Investment Company Institute (ICI), submitted a letter to the Commodity Futures Trading Commission (CFTC) regarding CFTC Form CPO-PQR and CFTC Form CTA-PR and to the National Futures Association (the NFA) regarding NFA Form PQR and NFA Form PR jointly seeking guidance in the form of questions and answers. In 2015, the CFTC published a document setting out responses to Frequently Asked Questions Regarding Commission Form CPO-PQR and CTA-PR, which dealt with a number of issues raised by AIMA, IAA and ICI.

Beneficial ownership

AIMA engaged extensively with the UK Department for Business Innovation and Skills (BIS) in relation to the development of its register of persons with significant control (the “PSC Register”), arguing that persons with a purely economic interest in a discretionary investment fund (i.e. passive investors) should be exempted from the PSC Register obligation on the basis that only persons who exercise “effective control” over the fund’s activities should be disclosed on a company’s register as a beneficial owner. This point was recognised in House of Lords debates, where it was stated that clarification that companies will not need to look through every investor in a fund to check whether there is a PSC would be dealt with in guidance.

ELTIF

AIMA engaged extensively with the European Commission, European Parliament and the European Council in the development of Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (ELTIFs). In particular, AIMA successfully argued that the hedging rules in the ELTIF Regulation would need to be sufficiently flexible to permit ELTIF managers to use financial derivative instruments for the purpose of hedging a variety of risks inherent to other investments of the ELTIF, and should not be limited to interest rate and currency risk, as was originally proposed.

Markets Regulation

MiFID2

2015 saw significant AIMA work on the overhaul of the MiFID framework. At a European level, our efforts have centred on the issue of the use of dealing commission to pay for investment research. We organised a series of member meetings in Brussels to encourage the European Commission to take a more accommodating stance on commission-sharing agreements. Our latest intelligence suggests that the final text is likely to move away from the more restrictive stance of the European Securities and Markets Authority (ESMA). Also at an EU level, we responded to ESMA’s consultation on draft technical standards to define the detail of the new regime. AIMA pushed for improvements on a number of key aspects of the new regime, including best execution, transaction reporting and commodity position limits. ESMA’s final technical standards, which were published in October, demonstrate that we were able to shift the debate and help move ESMA to adopt more workable positions. In the UK, both HM Treasury and the Financial Conduct Authority (FCA) ran consultations on the UK implementation of the new rules, and AIMA took the opportunity to highlight some of the key concerns of the hedge fund industry, including issues relating to the client classification of local authority pension schemes and telephone taping. Alongside our engagement with policymakers, we
have also organised a number of events for members on MiFID2, attracting high-profile speakers from the regulatory community and providing an important insight into their views on how the new regime should be built out. Looking ahead to 2016, AIMA is launching a MiFID2 implementation project, which will comprise various strands of work on the topics that matter most to our members. As well as developing guidance material, we will also provide an open discussion forum for members to exchange perspectives, whilst engaging closely with ESMA to solicit guidance on areas of uncertainty. With a delay in MiFID2 application date looking pretty much certain, industry is now in a stronger position to implement the new regime in a timely manner.

OTC derivatives reforms

Work on global OTC derivatives market reforms continued during 2015, with AIMA remaining engaged in the EU, US and Asia. Margin standards for non-centrally cleared OTC derivatives have been a principal focus following the re-publication of international non-cleared margin standards by BCBS-IOSCO in March 2015, with AIMA responding to a second joint European Supervisory Authority (ESA) consultation on draft technical standards covering EMIR margin for non-cleared derivatives in July. AIMA also submitted a joint response alongside the MFA to an ESMA discussion paper on the particular margin period of risk used for CCP client margin calculations in omnibus segregated accounts - currently required to be two days using either a net or gross model. The response highlighted the importance of a swift reciprocal recognition of rules between the EU and US before the EU clearing obligations under EMIR and MiFIR enter into effect, noting that further work towards harmonisation of rules would be beneficial. 2015 also saw the kick-off of the mandatory EU review of EMIR, with a European Commission consultation published in May seeking industry views on and experiences of almost all aspects of EMIR to date. AIMA submitted a response focusing on the issue of equivalence for investment funds subject to the rules of, but not established in, an equivalent jurisdiction, as well as our strong preference for single-sided reporting, among many other issues. This consultation process saw AIMA represented on a panel covering EMIR reporting at the European Commission’s open hearing. During 2015, AIMA also stepped up its efforts to encourage the European Commission to expedite equivalence determinations under EMIR regarding third-country derivatives regimes and CCP prudential rules. To this end, we contributed alongside an alliance of trade associations to a letter to Lord Hill, the European Commissioner for Financial Stability, Financial Services and Capital Markets Union. The letter highlighted the challenges facing market participants active in non-EU jurisdictions and/or with non-EU counterparties upon the implementation of the EMIR and MiFIR clearing obligations in absence of timely equivalence determinations and recognition of non-EU CCPs.

In Asia, regulatory reforms in the OTC derivatives space continue to keep pace with global developments. AIMA has been active across the region in responding to various regulatory consultations as well as engaging in member education. In Hong Kong, we responded to proposed changes to capital and prudential requirements for licensed corporations engaged in OTC activity. There was another consultation pertaining to mandatory clearing and reporting but as it primarily related to the sell side obligations, AIMA has determined that no response was required on behalf of its hedge fund membership. In Singapore, AIMA submitted responses relating to proposed amendments to the Singapore’s Securities and Futures Act (to the extent they impact trading of derivatives contracts) and as well as changes to the regulatory framework for dealing in OTC derivatives contracts. AIMA also responded to draft regulations for mandatory clearing of derivatives contracts and proposals to implement margin requirements for non-centrally cleared OTC derivatives.

Capital Markets Union

2015 saw the launch by the European Commission of its flagship Capital Markets Union project. It has stated objectives to: develop a more diversified financial system to complement bank financing with deep and developed capital markets; unlock currently frozen capital around Europe and put it to work for the economy, giving greater choices for both savers and businesses; and establish a genuine single cross-border capital market in the EU. The intended policy actions to meet these objectives include: legislative measures on high quality securitisation; the implementation of the Regulation on European Long-Term Investment Funds (ELTIF); a review of the Prospectus Directive; additional credit information on SMEs; and rules on private placement of securities. The CMU directly addresses themes that AIMA has been working on since 2014, when we published a research paper exploring the linkages between capital market depth and economic growth levels. Over the course of 2015 we have since published follow-up studies exploring the specific contributions to economic activity made by credit funds and activist funds. We have used this extensive work to feed into the European Commission’s
CMU work, organising a high-level member meeting with Commissioner Lord Hill, as well as educational events for Brussels-based policymakers. We have also fed into to the Commission's public consultations on the CMU project, both to identify areas of opportunity and to highlight aspects of the existing regulatory framework - including reporting rules and marketing rules - that are not working effectively and could be changed. The EU Commission's final Action Plan on the CMU has cited AIMA's research work in support of its proposed policies.

**Basel III**

The publication by the Basel Committee on Banking Supervision (BCBS) in late 2014 of *final standards in respect of the Net Stable Funding Ratio* (NSFR) has shifted the attention from the global debate to how those standards will be implemented at the national and regional level by BCBS members. In light of this, AIMA organised member meetings with the European Banking Authority, European Commission, Banque de France and Bank of England to make the case for an approach to implementation that recognises the importance of prime brokerage relationships. To offer an informed perspective on the impact of Basel III standards, we also ran a survey with S3 Partners to gather extensive data from members on how their financing relationships are changing in light of the overhaul of bank capital rules, with more work planned on this for 2016.

**REMIT**

2015 saw the entry into effect of the first reporting obligation for wholesale energy and natural gas contracts by ‘market participants’ under the regulation on energy market integrity and transparency (REMIT). However, the precise definition of a ‘market participant’ remained unclear until very close to the reporting start date of 7 October 2015. AIMA made the case to ACER that buy-side participants without a membership of a trading venue that transact in in-scope contracts through an executing broker or through DMA should not be treated as market participants. We were successful in encouraging ACER to adopt this as its final position ahead of reporting go-live, effectively scoping out many of our members from REMIT reporting rules.

**CCP recovery and resolution**

2015 has been a year of delay for CCP recovery and resolution rules as other priorities have stepped in front of the anticipated publication by the Commission of a formal EU legislative proposal on CCP recovery and resolution, which was first expected in 2013, but has yet to be released. AIMA published its own white paper setting out AIMA priorities for any legislation on the issue in April. The paper was well received by officials including MEPs and Council representatives. We also attended a meeting with the FCA, Bank of England and HM Treasury to discuss the buy-side’s position on CCP recovery and resolution, focusing on the need to avoid hardwiring the prospect of client margin haircutting into any eventual recovery framework.

**Australian investment manager regime**

Australia has taken a decisive step in its progress towards becoming a global investment market with the long awaited passage of the investment manager regime (IMR) legislation through the Australian Parliament. The IMR legislation is the result of consultations between the Australian Treasury and the financial services industry which began in 2012. The IMR has, through that process, developed into a measure that should be capable of delivering what it was proposed to achieve - the development of Australia as an attractive destination for foreign capital and fund trading operations.

AIMA, working through the AIMA Australia National Group and the AIMA Tax Committee, participated in the several rounds of public and informal consultations from the outset when it became clear that Australian tax rules produced potential liabilities for non-resident investors. Our representations were developed with other Australian and international industry representative bodies, principally the Managed Funds Association in the US and the Financial Services Council in Australia, so that a consensus was made apparent on the measures the industry wished to see adopted. Our ability to explain the mechanics of similar regimes in other jurisdictions from our members’ own experience was invaluable and encouraged the Treasury under successive governments to move away from early unsatisfactory proposals and decide to model the IMR on the UK’s investment management exemption.

The regime provides two broad tax exemptions for non-Australian entities that either: (i) invest directly in Australia (IMR direct concession) or (ii) invest via an Australia fund manager (IMR indirect concession). Provided that an IMR entity meets the requirements of the direct or indirect IMR concession, returns or gains from an “IMR financial arrangement” would be exempt from Australian tax. We expect that during the
implementation process it will become apparent that there are aspects of the IMR that could be improved, so we hope that we will be able to consider these with the Treasury.

Base Erosion and Profit Shifting (BEPS)

A combination of increased media attention on tax avoidance and the need to shore up governments’ tax receipts in difficult economic conditions has led to the tax arrangements of multi-nationals being put in the spotlight. The OECD’s Base Erosion and Profit Shifting (BEPS) project is intended to address some of the fundamental issues that affect international tax rules from keeping pace with the way businesses are structured in the current globalised economy. The aim is to align taxation rights with where the economic activity takes place. The proposed framework operates as a combination of minimum standards, reinforced international principles and best practices, and includes these areas: (i) the interaction between different domestic tax rules (such as controlled foreign company regimes, hybrid mismatch arrangements); (ii) the substance of international tax provisions and model tax conventions (anti-avoidance provisions to prevent treaty abuse, changes in the definition of a permanent establishment, transfer pricing principles); and (iii) transparency and certainty of MNE tax liabilities (country-by-country reporting).

One of the biggest concerns for the asset management industry is action 6 - preventing the granting of treaty benefits in inappropriate circumstances. The final report presented by the OECD in October sets out new rules to restrict the ability of entities to access double tax treaties unless they have sufficient connection with the jurisdiction in which they are tax resident. In particular, the measures include the application of a limitation on benefits (LOB) clause and/or a principle purpose test (PPT). The draft LOB clause offers limited protection for regulated collective investment vehicles (CIVs) and does not provide for a carve-out for non-CIVs such as alternative funds. The final report now acknowledges the general principle of tax neutrality on which collective investment depends, and the treatment of non-CIVs is to be developed further by the OECD in 2016.

AIMA made several representations during 2015 and participated in public consultations held by the OECD at its Paris headquarters in order to make the case for non-CIVs’ treaty access. AIMA intends to keep pressing the case for alternative funds and to address concerns expressed by the OECD that non-CIVs are used by investors that are not themselves entitled to treaty benefits and that investors may defer recognition of income through non-CIVs.

FATCA & AEOI

FATCA came into practical effect in 2014, and the first reporting requirements applied during 2015. The deadlines imposed have proved challenging, both to the financial services industry and to taxation authorities, to the extent that certain jurisdictions such as the Cayman Islands and Luxembourg decided to delay reporting deadlines. The Internal Revenue Service (IRS) and the US Treasury made some important announcements. Under notice 2015-66 they announced that they would extend FATCA transitional rules for gross proceeds, foreign passthru payments, limited branches and limited FFIs, and sponsored entities. Where a partner jurisdiction has entered into a Model 1 IGA, or has committed to do so, but has not yet completed domestic legal or administrative processes to enable it to exchange information relating to 2014 by 30 September 2015, FFIs resident in the jurisdiction will be regarded as compliant if the jurisdiction commits to providing the information by 30 September 2016. Of particular interest is the extension of the date for when withholding on gross proceeds and foreign passthru payments will begin to a date after 31 December 2018. In addition to FATCA, funds will have a significant increase of reporting obligations, due to the OECD’s Common Reporting Standard (CRS) which will come into effect in a few weeks. The first CRS deadline is approaching - from 1 January 2016 financial institutions (FIs) established in participating jurisdictions must implement due diligence procedures when a new account is opened. The evolution from FATCA to the broader automatic exchange of information under CRS will be challenging, and AIMA will continue to take up members’ concerns with the OECD, the EU Commission and tax authorities, while encouraging sound practices in the industry. AIMA has responded to consultations on regulations implementing CRS and associated guidance in Hong Kong, the UK and elsewhere.

Disguised investment management fees / carried interest

2015 has seen more measures in the UK concerning the taxation of managers’ receipts from funds. Following the 2014 Autumn Statement, the government introduced new rules on disguised investment management fees (DIMF) and in the 2015 Summer Budget in the new Parliament implemented significant changes to the carried interest tax regime and announced a consultation on further reform. These measures address the taxation of sums arising to individuals
directly or indirectly as a result of managing investment funds. The DIMF rules are intended to ensure that amounts representing management charges are taxed as income in the hands of UK resident individuals, in whatever form they are received. The rules entered into force from 6 April 2015, following a consultation in which AIMA participated. The measures introduced in the Summer Budget interlock with the DIMF regime and address aspects of the capital gains tax (CGT) treatment of carried interest. They remove with immediate effect the so-called “base cost shift” and prevent “cherrypicking” and other devices which reduce the taxable amounts included in a receipt of carried interest. Individuals will pay the effective CGT rate on their economic gain from their receipt of carried interest. In many cases the ability of non-domiciled individuals to claim the remittance basis of taxation for amounts received as carried interest will be lost, if the carried interest arises in connection with services performed by the individual in the UK. AIMA made written submissions to HMRC outlining the main issues of concern to members and a meeting with HMRC took place in September to discuss these.

Financial Transaction Tax (FTT)

AIMA has continued to follow the EU Commission’s proposal for a FTT to be adopted by 11 Member States by means of the enhanced cooperation procedure. FTT has not seen any significant progress in 2015. While some discussion of the proposals for the FTT took place in the last ECOFIN of 2015, it is not clear that any significant progress was achieved nor that a consensus will be found. The 11 Enhanced Co-operation Procedure Member States (“ECP MS”) have clearly not met their self-imposed deadline for application of the FTT as from January 2016, and, though they have now given themselves a further six months to reach agreement, a January 2017 commencement would be unlikely. The 11 ECP MS disagree on the core aspects that would define the levy and differences remain when satisfying the requirements of smaller against larger participating jurisdictions (in particular, the issuance and residence principles). AIMA will stand ready in case political agreement develops for adoption of the FTT, to argue for a tax with the least disruptive effect on the economy and to limit its objective and territorial scope.

Corporate governance reform in A-Pac

Regulators and investors alike have driven an increased focus on corporate governance within Asia’s capital markets this year; as further clarity has been sought regarding the interactions between, and obligations of, exchanges, listed companies and their investors. In Japan, the Corporate Governance came into effect on 1 June 2015, establishing five General principles (and a number of sub-principles) for effective corporate governance at listed companies. A review of Japan’s Corporate Governance regime was posited as one of the measures of the ‘Japan Revitalisation Strategy’ and the core principles included securing the rights and equal treatment of shareholders; appropriate cooperation with stakeholders other than shareholders; ensuring appropriate information disclosure and transparency; responsibilities of the board; and dialogues with shareholders. We were pleased to make Japan’s new Corporate Governance framework the key focus of our 10th Japan Hedge Fund Forum (June 2015) as well as work with both the Japan Economic Revitalisation Bureau and the Japan Stock Exchange on education events to further inform our members around the region. Meanwhile in Hong Kong, 2Q15 saw the SFC lead a consultation on some proposed Principles of Responsible Ownership, intended to provide guidance to investors on how they should fulfill their ownership responsibilities in relation to their investment in a listed company. (In other jurisdictions, these types of responsibilities are also known as Stewardship Codes.) Here, AIMA was pleased to respond on behalf of members and awaits the SFC’s conclusions with keen interest. 2016 will continue to see AIMA work with stakeholders throughout the region to further corporate governance reform.

India - Minimum Alternate Tax (MAT)

In the course of 2015, much concern arose from a policy decision by the Indian tax authorities to impose the MAT (which applies to Indian companies and to non-resident companies with a permanent establishment or equivalent presence in India) on non-resident investors, including a number of funds. Legislation included in the Finance Act to limit its future application did not adequately address prior periods to which the MAT might be charged and it was uncertain that the outcome of an appeal in the Indian courts would resolve the issue. The Government set up an inquiry under Mr Justice AP Shah to report speedily on the issue, in the context of the Indian foreign investor regimes. AIMA made representations to the inquiry. The decision of the inquiry, which the Government has accepted, was that the MAT does not apply to non-residents that qualify foreign institutional investors or foreign portfolio investors. The Government intends to legislation to confirm also that the MAT does not apply to other non-resident companies that hold investments in India but do not have a business presence there.
Cyber security guide

AIMA published a Guide to Sound Practices for Cyber Security in October. This guide seeks to enable those responsible for the implementation of a cyber security programme to understand the universe of problems as well as to consider what is and what is not applicable to them. The guide also tries to differentiate between what are seen as advanced defensive techniques and those which are simpler to enable some selection to be made between base layer protection and something more complex. While there is an acknowledgement of the most sophisticated of cyber threats and protection techniques, the focus of this guide is to concentrate upon doing the straightforward things really well. Along with the guide, AIMA also published a Sample Personal Security Guidelines Presentation and a Cyber Security Checklist. Regular updates to the guide are planned for 2016.

Liquid alternatives guide

AIMA in October published a new guide about setting up and managing a liquid alternative fund. The AIMA Guide to Liquid Alternative Funds summarises a range of issues that hedge fund firms and other asset managers face in setting up a UCITS fund in Europe or a mutual fund in the United States. It outlines practical considerations for managers wishing to establish liquid alternative funds, takes account of major regulatory and tax developments, and addresses some of the different requirements and practices affecting funds established in Ireland, Luxembourg and the US, among the most common domiciles for liquid alternative funds. A range of issues are covered in the guide including investment strategy restrictions, liquidity, operational and governance matters, distribution, tax and financial reporting, the role of service providers and revenue streams and costs.

Side letters guidance

AIMA published guidance on side letters in September. It sets out some guidance which members of a fund’s governing body should take into account when considering requests to enter into side letters. The guidance supersedes AIMA’s 2006 guidance on side letters and seeks to give guidance which should be globally applicable. The guidance covers issues such as (i) the fund documents; (ii) understanding the terms of a side letter; (iii) a director’s duties; (iv) listed funds; (v) parties and signatories to a side letter; and (vi) disclosure requirements.

Fund Directors’ Guide

In April, AIMA published an updated Fund Directors’ Guide, which was last published in 2008. The updated guide takes account of regulatory and tax reforms since the financial crisis, such as the AIFMD and FATCA, which have brought significant changes to the role and responsibilities of fund directors and boards. The guide is designed to be used by investment managers, fund promoters and existing and prospective fund directors. New sections have been added covering, among other topics, the general approach to fund governance, monitoring of trading practices and business continuity planning. As with all AIMA guides, the electronic version of this guide is reserved for members only. Members and non-members can purchase hard copies via this executive summary for a fee.

DDQ for Fund of Funds Managers

In June, AIMA published a revised version of its Illustrative Questionnaire for Due Diligence of Fund of Hedge Funds Managers, which was last updated in 2009. The AIMA DDQ for Funds of Hedge Funds Managers is used by prospective investors prior to making an allocation and is considered to be the industry-standard template. By having a standardised set of questions, the DDQ also helps managers of funds of hedge funds to respond efficiently to requests for information from multiple investors. AIMA consulted with a broad range of hedge fund managers and institutional investors during the drafting of the new DDQ. Overall the revisions and additions to the questionnaire have been designed to assist investors and managers further in the due diligence process and to reflect regulatory changes since the DDQ was previously updated in 2009. To request the updated DDQ, click here.

DDQ for Prime Brokers

In May, AIMA published a revised version of its Illustrative Questionnaire for Due Diligence of Prime Brokers, which was last updated in December 2011. This due diligence questionnaire (DDQ) accompanies the AIMA Guide to Sound Practices for Selecting a Prime Broker which was updated in December 2014 (available here). Overall the revisions and additions to the questionnaire have been designed to assist managers in getting a clearer and more complete picture of the service offering and regulatory status of the prime brokers they are using or considering. To request the updated DDQ, click here.
Research reports

The way ahead:
*Helping trustees navigate the hedge fund sector*

During Q1, AIMA and the CAIA Association jointly published the first of a series of educational papers about hedge funds for pension fund trustees and other fiduciaries at institutional investors.

The paper, titled ‘The Way Ahead: Helping trustees navigate the hedge fund sector’, sets out to give practical guidance about how existing investors have managed issues and challenges associated with their hedge fund investments as well as detailing the advantages of allocating to hedge funds.

Among the findings of this paper:

- Roughly one in every four dollars managed by the global hedge fund industry today - well over $700 billion in total - is invested by public and private pension plans, and this proportion is increasing.
- Uncorrelated and risk-adjusted returns are among the most important objectives cited by investors who invest in hedge funds.
- Investors have earned a combined $1.5 trillion after fees from hedge funds in the last 10 years.

Portfolio transformers:
*Examining the role of hedge funds as substitutes and diversifiers in an investor portfolio*

Hedge fund diversification and the particular benefits that hedge funds offer to a variety of investors was highlighted in a report published in Q4 by AIMA and the CAIA Association. ‘Portfolio Transformers: Examining the Role of Hedge Funds as Substitutes and Diversifiers in an Investor Portfolio’, details the specific qualities that different types of hedge funds offer to institutional investors, the main source of capital managed by the hedge fund industry today.

The research is based on a “cluster” analysis of the risk and return characteristics of the main hedge fund investment strategies. Key findings included that some investors no longer see hedge funds as a standalone allocation but rather as substitutes for investments in equities and bonds or as investments that bring particular diversification benefits. It also identifies substitute (those that could replace a long-only allocation to stocks, bonds and other asset classes) and diversifier strategies (those that are particularly uncorrelated to the underlying asset class).
Unlocking value: The positive role of activist hedge funds

Activist hedge funds globally are driving improvements in the share price, operating performance and governance of the companies in which they invest, according to a paper published jointly by AIMA and Simmons & Simmons in February 2015. ‘Unlocking value: The positive role of activist hedge funds’ found that:

• Activist engagement by hedge funds is positively correlated to improvements in the share price and operating performance of targeted companies.
• Activist hedge funds seek higher standards of corporate governance from the companies in which they invest, which improves alignment of interest between management, shareholders and other stakeholders.
• Activist hedge funds leave a positive and lasting legacy, with a 25% improvement on average in the share price of targeted companies two years after an exit.
• Activist hedge funds are long-term shareholders, with an average holding period of about two years, compared to the equities market average of just three months.
• Contrary to popular belief, most engagement by activist hedge funds is collaborative and constructive.

Financing the economy: The role of alternative asset managers in the non-bank lending environment

AIMA found that hedge fund firms and other alternative asset managers are playing an increasingly important role in financing the economy in the paper ‘Financing the economy: The role of alternative asset managers in the non-bank lending environment’, published in May 2015.

The paper says that private debt funds such as hedge funds now manage around $440 billion in assets, with some $64 billion of new capital allocated to the sector in 2014 alone. It also found that the most popular borrowers of non-bank private debt are small and medium-sized enterprises, typically too small to raise capital through the public corporate bond market and having difficulty borrowing from the traditional banking sector since the crisis.

Refinancing existing loans, pursuing acquisition and expansion plans and improving working capital are all common uses of such private finance. The sector still mostly comprises US-based funds, but European and Asian funds have become more prominent since the financial crisis. The paper also found that private debt funds typically use little or no leverage and are structured so as to prevent bank-style ‘runs’ or other systemic problems.
Research reports

Distribution disrupted: 
Spotlight on Alternatives

Around half of hedge fund firms intend to launch a new hedge fund by the end of next year and most are reporting rising assets, concluded a paper published in Q4 by AIMA and PwC entitled ‘Distribution Disrupted: Spotlight on Alternatives’. The report was based on a survey in mid-2015 of 146 AIMA members which manage traditional hedge funds, or liquid alternative funds, or both. The respondents to the survey manage around $550 billion in hedge fund assets. The key findings included:

- 61% reported rising assets in their hedge funds, while more than 80% of firms that have liquid alternatives funds said those products were also growing.
- 44% of managers said they would launch a new hedge fund by the end of 2016. In the same period, almost one-third of US managers and 50% of UK managers said they would roll out a new liquid alternatives fund.
- In terms of distribution models, managers said their own direct sales channel was the most productive source of growth followed by prime brokers’ capital introduction teams, investment consultants and referrals.
- The impact of AIFMD was assessed as varied. Around three-quarters of managers had changed where or how they market non-EU funds to EU investors as a result of the directive.

Growing up:
A new environment for hedge funds

The hedge fund industry is transforming, with managers increasingly focused on customised products and solutions, new investors, and emerging markets, according to a report published in March by AIMA, the MFA and KPMG titled ‘Growing Up - A New Environment for Hedge Funds’. The report was based on global research with more than 100 hedge fund managers representing approximately $440 billion of assets under management. Their views reflect fundamental shifts occurring in the hedge fund industry. The key findings included:

- A majority of hedge fund managers expect a significant shift in their primary sources of capital to pension funds over the next five years.
- Almost 70% of managers said they offer, or plan to offer, custom investment solutions.
- More than two-thirds of managers anticipate using specialised fee structures to attract investment.
- More than four in 10 managers expect to change the mix of countries where they invest, with more than a third targeting emerging and frontier markets.
- Regulation is seen as the biggest threat to the growth of the hedge fund industry, as cited by more than three-quarters of managers.
AIMA Annual Conference 2015

AIMA’s 25th Anniversary Annual Conference on 24 September 2015 drew 400 attendees to the Guildhall in London and featured an address by the Rt. Hon. Greg Hands, the UK’s Chief Secretary to the Treasury, who spoke of the important role that the hedge fund sector plays in the UK economy.

The conference - sponsored by Simmons & Simmons, EY and State Street - also featured David Wright, the Secretary General of IOSCO, as well as a number of senior representatives of fund management firms.

The half-day event was held under Chatham House rules. Among the topics covered:

- Investor requirements
- Cyber security
- AIFMD
- MiFID
- Remuneration
- Systemic risk
- Corporate governance
- The reputation of the industry

Delegate feedback

“I thought the conference was first class - very well balanced and full of high quality content”
“The ‘manager issues’ panel was excellent - very engaging”
“A well-organised and executed conference”
Global Policy and Regulatory Forum 2015

On 16 April 2015, AIMA hosted its annual Global Policy & Regulatory Forum in New York. The forum, which addressed a number of regulatory, policy and operational focus areas, and attracted close to 300 attendees. The event opened with a keynote from Martin Wheatley, formerly of the FCA. Other speakers included Daniel Gallagher of the SEC; Mark Wetjen of the CFTC; Carolyn Wilkins of the Bank of Canada; Peter Lindner of the IMF; Kay Swinburne of the European Parliament; Marianne Thiery of France’s Finance Ministry; and Jean-Paul Servais of the Belgian FSMA.

Panel discussions addressed the impact of regulatory changes on hedge fund products and businesses, new trading rules, potential rules to address systemic risk, CCP resolution regimes, dealing commission/soft dollar rule changes, and the impact of banking regulations on hedge funds, among many other issues.

Delegate feedback

“Very topical and relevant - had many good take-aways”

“Congratulations on a super event. The line-up was so impressive and a testament to you and your reputation in the industry, particularly amongst policy makers and regulators”

“I was very pleased and impressed by this event. The speakers were top-notch, and the coffee break structure allowed for casual networking throughout the programme”
Popular AIMA events in 2015

1. AIMA Annual Conference 2015 (London): 330 attendees
2. AIMA Australia Annual Conference 2015 (Sydney): 300 attendees
3. AIMA Cayman CRS seminar (Grand Cayman): 300 attendees
4. MiFID 2: Transforming the EU landscape (London): 294 attendees
5. AIMA in Asia 2015 (Hong Kong): 286 attendees
6. AIMA 25th Anniversary dinner (London): 280 attendees
8. AIMA Summer Drinks (London): 215 attendees
9. AIMA Networking Drinks (Hong Kong): 206 attendees
10. AIMA Canada Hedge Fund Conference (Toronto): 187 attendees
AIMA’s 25th anniversary

AIMA marked its 25th anniversary in 2015 with a special one-off publication titled ‘25 Years in Hedge Funds’, which looked back at the last quarter-century for both AIMA and the global hedge fund industry.

We are hugely proud of everything which AIMA and the industry have achieved over the last 25 years, a period for hedge funds marked of course by globalisation, institutionalisation and increased regulation. In that period, from humble beginnings, AIMA has grown into a truly global organisation, with offices in every region of the world and close to 1,600 member firms in 55 countries.

It is of course our members who are the backbone of the association. They comprise both the largest and smallest firms around the world, all contributing to important output such as responses to regulatory consultations, updates to DDQs and new industry guides. It is that support that allows us to continue to deliver all the services our members ask us for; and to undertake, with the help of the members who volunteer their time, all our work on behalf of the industry around the world. From small European beginnings, an impressive international network encompassing Asia-Pacific, EMEA and the Americas has been constructed. The US has the dominant market share in the industry and represents over 50% of the aggregate AUM of our global membership; our Americas presence is further augmented by the existence of our National Groups in Canada and Cayman as well as our activities in Brazil. In Asia-Pacific, we have National Groups operating in Hong Kong, Singapore, Japan and Australia, combined under a single regionally-focused operation.

As we explain in ‘25 Years in Hedge Funds’, the international nature of investing, trading and regulation means it has never been more necessary for the hedge fund industry to have a global representative. The next 25 years will doubtless see even more change - but ever present will be AIMA, representing and speaking up for alternative asset managers, large and small, wherever they are based.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1990</td>
<td>EMFA (the forerunner of AIMA) established</td>
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<tr>
<td>1991</td>
<td>AIMA becomes AIMA, first AIMA DDQ published; AIMA Journal launched</td>
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<tr>
<td>1992</td>
<td>AIMA sets up operations in Canada and South Africa</td>
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<tr>
<td>1993</td>
<td>EMFA becomes AIMA; first AIMA DDQ published; AIMA Journal launched</td>
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<td>1995</td>
<td>AIMA expands to Hong Kong, its first international branch</td>
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<td>1996</td>
<td>AIMA establishes a presence in Australia and Japan</td>
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<td>1997</td>
<td>AIMA launches a qualification with the CSSM</td>
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<td>1998</td>
<td>AIMA establishes Singapore branch</td>
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<tr>
<td>1999</td>
<td>AIMA creates Cayman Islands branch</td>
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<td>2000</td>
<td>AIMA membership rebounds</td>
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<tr>
<td>2001</td>
<td>AIMA membership declines 10% following the crash</td>
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<td>2002</td>
<td>Global hedge fund assets approach $1.5tr</td>
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<td>2003</td>
<td>AIMA member assets exceed $1tr for first time</td>
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<tr>
<td>2004</td>
<td>AIMA member assets exceed $1.5tr; more than 1,500 firms</td>
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<tr>
<td>2005</td>
<td>AIMA membership rebounds</td>
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<tr>
<td>2006</td>
<td>AIMA opens an office in New York</td>
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<td>2007</td>
<td>AIMA launches a new international branch</td>
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<td>2008</td>
<td>Markets start to recover</td>
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<td>2009</td>
<td>Lehman collapse</td>
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<td>2010</td>
<td>Global financial crisis</td>
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<td>2011</td>
<td>Credit crunch starts</td>
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<td>2012</td>
<td>Eurozone crisis starts</td>
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<tr>
<td>2015</td>
<td>Global hedge fund assets approach $3tr</td>
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Other news in brief

Over £125,000 raised for NSPCC at AIMA 25th anniversary event

AIMA marked its 25th anniversary in September with a charity dinner for member firms that raised over £125,000 ($190,000) for the NSPCC, the children’s charity. Close to 300 guests attended the AIMA 25th Anniversary Charity Dinner at the Guildhall in London. The funds raised will enable the NSPCC to reach 25,000 more children through its pioneering Schools Service, delivered by trained volunteers who go into primary schools across the UK to talk to children about abuse and how to stay safe. The Charity Dinner, which featured keynote speeches by Emmanuel “Manny” Roman, the CEO of Man Group, and Peter Wanless, the CEO of the NSPCC, was one of a number of events to mark the Association’s 25th anniversary.

AIMA and the Managed Funds Association form joint Global Steering Group

The AIMA Council and the MFA Board announced in October the formation of a joint Global Steering Group (GSG) with the goal of achieving synergies that will benefit the combined membership and the alternative investment industry globally.

The GSG will serve as a joint steering committee to guide the most effective operational relationship between AIMA and MFA and will be mandated to ensure coordinated policy development and messaging and an efficient use of resources while seeking to leverage the distinct strengths of each association.

AIMA Canada update

The Canadian hedge fund market has continued to show robust growth in terms of number of managers, strategies employed, number of Canadian and global service providers and interest and allocation by noted institutions, family offices and accredited investor/retail investors. Overall, the hedge fund ecosystem has been aided by an appropriate regulatory regime (which does not distinguish between hedge fund and long-only managers), a culture of compliance in the industry, and Canada’s stable economic, political and banking environment. AIMA Canada sees continued adoption of hedge fund strategies domestically in general and the introduction of long-awaited “retail hedge funds” allowing a greater number of investors to benefit from these typically lower-risk and low-correlation return streams.
AIMA principals spoke at over 50 non-AIMA industry conferences and events during 2015, including the following events:


**HFMWeek Breakfast Panel**, London, February

**HFM Asia Operational leaders Summit**, Macau, February


Deutsche Bank: Thought Leadership Seminar: Building your Business to attract institutional capital, Hong Kong, March

**Bloomberg Regulatory Forum**, London, March

**TSAM Europe 2015**, London, March

**6th Annual Alternative Investment Outlook Forum**, Vancouver, March

**Morningstar Investment Conference 2015**, Amsterdam, March

**IIR Hedge Fund Startup Forum**, New York, March

**ALFI Conference 2015**, London, April

**Hedge Fund Business Forum**, London, April

**GAIM Ops Cayman**, Cayman, April

**EuroHedge Summit**, Paris, April

**Hedge Fund Startup Forum**, London, May

**Goldman Sachs 10th Annual Asian hedge Fund Leaders Conference**, Hong Kong, May

**FT Equity Leaders Conference**, Hong Kong, May

**19th Annual Funds Summit**, Toronto, May

**ISLA’s 24th Annual Securities Finance and Collateral Management Conference**, Lisbon, June

**GAIM Monaco**, Monaco, June

**Deutsche Bank: Equity planning - designing and implementing shareholder agreements**, Hong Kong, June

**Salzburg Global Seminar**, Salzburg, June

**CISI Forum**, London, June

**Canada China Finance Forum**, Toronto, July

**Bloomberg Hedge Fund Forum**, Hong Kong, September

**Bloomberg Hedge Fund Startup Conference**, New York, September


**3rd Annual Hedge Fund Americas Forum**, New York, September

**HFM European Operational Leaders Summit 2015**, UK, September

**RiskHedge Annual Conference**, London, September

**Private Credit US**, Chicago, September

**GAIMOps**, Ireland, October

**PwC Asset Management Conference**, Milan, November

**Bloomberg MiFID II panel event**, London, November

**Aberdeen Asset Management Symposium**, London, November

**RCA Women in Asset Management Symposium**, London, November

**AIEP Annual Conference 2015**, Venice, November

**Goldman Sachs: Valuation of Securities in Difficult Market Conditions**, Hong Kong, November

**InvestoReg Hedge Fund Conference**, London, December
AIMA has more than 1,700 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 1,700 corporate members in over 50 countries.

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

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

Regulatory updates
AIMA members receive comprehensive regulatory updates and tools.

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

Loyal members
We consistently have a high membership renewal rate.

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

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

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

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