# Preqin Special Report: AIFMD in the Hedge Fund Industry - 2015 Update

July 2015

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Negativity surrounding the AIFMD has reduced over the past six months.

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Over half of US-based fund managers reported they have no plans to market in the EU.

*Based on exclusive interviews with over 150 hedge fund managers worldwide*

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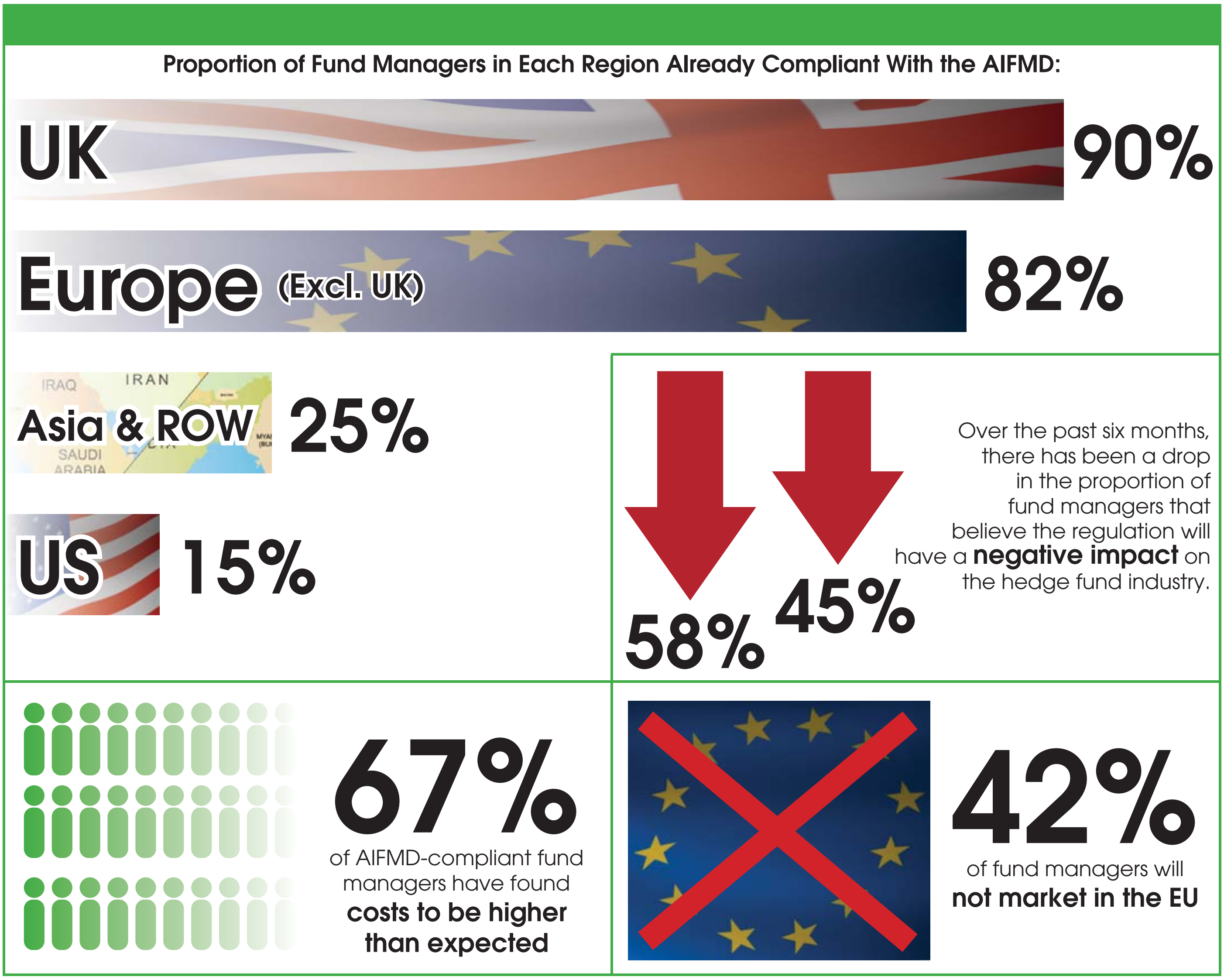
# Foreword

The Alternative Investment Fund Managers Directive (AIFMD), the European Union (EU) regulation introduced to harmonize regulatory standards across all alternative investment managers across the economic region, has been the topic of much debate since it was first approved in 2011. Since this time, Preqin has been conducting regular studies of both fund managers and investors to find out more about their outlook on this divisive regulation as well as to assess the impact this will have on the European fund market. In this report, we present the findings of our latest survey of hedge fund managers, conducted in June 2015. The fund managers that participated in the Preqin survey represent $225bn in assets under management (AUM) and are located across the globe.




# Contents

# Hedge Fund Manager Outlook on Regulation

The introduction of the Alternative Investment Fund Managers Directive (AIFMD) into European law in 2013 was part of a series of moves towards greater regulatory oversight of the hedge fund industry in recent years. In our survey, we asked hedge fund managers for their views on the effect of these new regulations on the industry as well as their expectations about the impact of the AIFMD on their firm over the next 12 months.

The build-up to the compliance deadline for the AIFMD regulation saw negative sentiment towards regulation as a whole increase to high levels; 58% of managers surveyed in both June and December 2014 believed that regulation would change the hedge fund landscape for the worse in the near future (Fig. 1). The proportion of managers expressing this view fell to 45% in June 2015, although this still remains high and almost twice the level of those managers that believe that regulation will change the landscape for the better (23%).

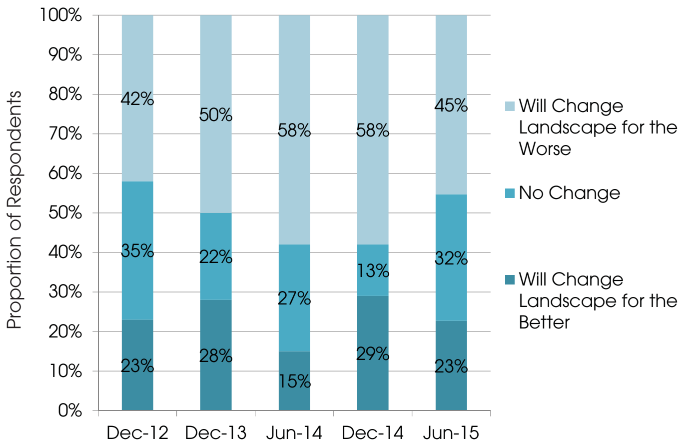
With regard to the AIFMD in particular, Europe-based fund managers (excl. UK) were the most supportive; 55% of European fund managers surveyed believe that the directive will have a positive impact on their firm over the next twelve months and only 9% believe it will have a negative impact (Fig. 2). By contrast, UK-based fund managers were the most negative and 70% of managers surveyed felt that the regulation would have a negative impact on their firm in the year to come. No UK-based hedge funds reported to Preqin that the AIFMD would have a positive impact in the year ahead.

Outside Europe, attitudes towards the AIFMD remain largely sceptical. Thirty-five percent of managers based in the US and 33% of managers based in Asia & Rest of World felt that the AIFMD would have a negative impact on their firm over the next 12 months. This compares to only 5% of US managers and 8% of Asia & Rest of World-based managers that felt that the regulation would have a positive impact on their firm over the next 12 months.

## In Brief:

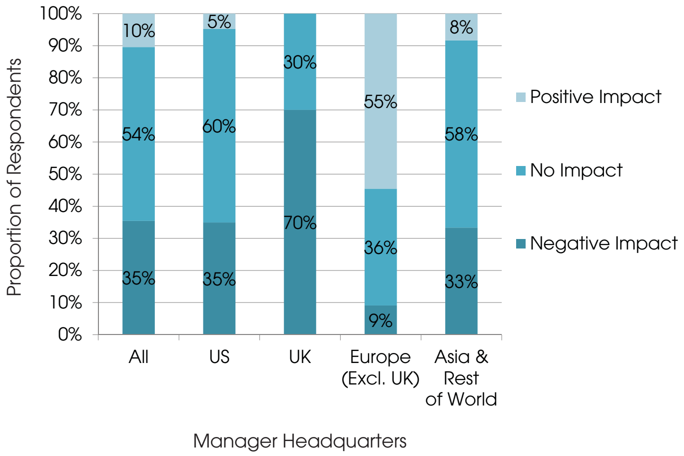
- Negativity surrounding the AIFMD has reduced over the past six months.
- A European split has emerged, with UK-based managers having the most negative outlook on the regulation and the rest of Europe the most positive.
- The US, Asia-Pacific and Rest of World have a similar outlook on the regulation, with approximately 60% of fund managers in these areas believing the European directive will have no effect on their business.

**Fig. 1:** Fund Managers' Perceptions of the Impact of Regulation on the Hedge Fund Landscape, December 2012 - June 2015




*Source: Preqin Fund Manager Surveys, 2012 - 2015*

**Fig. 2:** Fund Managers' Perceptions of the Effect of the AIFMD on Their Firm over the Next 12 Months by Manager Headquarters




*Source: Preqin Fund Manager Survey, June 2015*

### Preqin's Hedge Fund Online

Preqin's **Hedge Fund Online** has information on over 5,000 institutional investors actively investing in hedge funds from across the globe. Whether you have acquired the AIFMD passport and are looking for more data on EU investors, or are searching for investors from beyond the EU, Preqin's award-winning database can help you.

Hedge Fund Online is updated on a daily basis by teams of skilled research analysts based around the world.

For more information, please visit: www.preqin.com/hedge

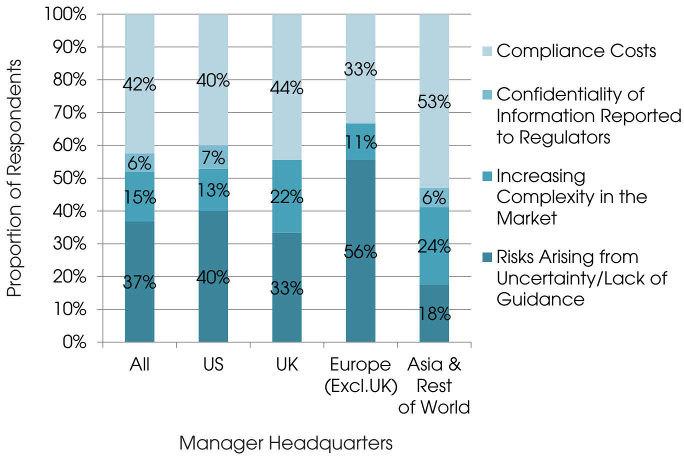
# Hedge Fund Manager Concerns Surrounding the AIFMD

While there has been a drop in the level of negativity surrounding the impact of regulation on the industry over the past year, there remains a significant proportion of fund managers (35%) that believe that the AIFMD regulation will have a negative impact on their firm over the next 12 months. In this section, we address the main concerns fund managers have about the AIFMD and the effect that these regulations are having on their business.

The cost of compliance remains the single largest difficulty for managers, with 42% citing this as their primary concern about the AIFMD (Fig. 3). This is not surprising as two-thirds of managers surveyed reported that their costs to date have been higher than initially expected, an increase from 57% this time last year (Fig. 4). No managers reported that their costs had been lower than initially expected. Compliance costs are particularly important to smaller managers with limited operations budgets; 51% of managers with less than $100mn in AUM cited compliance costs as their greatest concern about the AIFMD (Fig. 5).

Among larger managers, the risks arising from uncertainty surrounding the regulations and a lack of guidance from regulators are another major issue. Forty-seven percent of managers with over $1bn in assets under management described this as their primary concern about the regulations. Variations in the implementation of the rules in the law of different EU member states and, for non-European managers, the lack of clarity surrounding the limits of reverse solicitation is one of the areas where guidance has not been entirely clear. For managers, this raises fears of regulatory bodies making examples of firms which are inadvertently on the wrong side of the regulation, with larger managers having more to lose if they are found breaking the new EU laws.

**Fig. 3:** Primary Concerns Fund Managers Have Regarding the AIFMD by Manager Headquarters



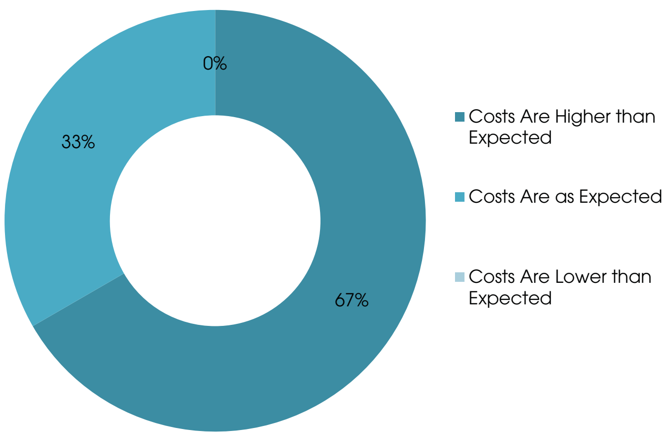

*Source: Preqin Fund Manager Survey, June 2015*

## In Brief:

- Cost of compliance is a leading concern of fund managers regarding the AIFMD…
- … except for Europe-based managers (excl. UK), where risks arising from uncertainty or lack of guidance lead their concerns.
- Two-thirds of fund managers that are AIFMD-compliant reported that the costs of complying were higher than expected.

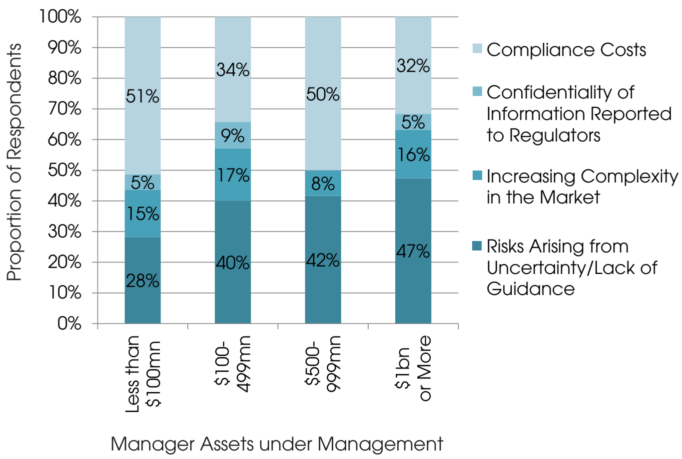


**Fig. 4:** Fund Managers' Experiences to Date of Costs of AIFMD Compliance




*Source: Preqin Fund Manager Survey, June 2015*

**Fig. 5:** Primary Concern Funds Managers Have Regarding the AIFMD by Manager Assets under Management




*Source: Preqin Fund Manager Survey, June 2015*

# Hedge Fund Managers' AIFMD Compliance Status

One year after the deadline for authorization, most UK- and Europe-based hedge fund managers are now AIFMD-compliant. By contrast, continued uncertainty about aspects of the regulations and how they apply to non-European managers has slowed uptake among firms from beyond the EU's borders, which have sought other methods to access European capital. In this section, we examine the current state of AIFMD compliance and how this varies among different segments of the industry.

Ninety percent of UK-based managers and 82% of Europe-based managers surveyed are already compliant with the AIFMD (Fig. 6). This is a large increase from this time last year, when many fund managers were still awaiting approval for their applications. The proportion of hedge fund managers that were already compliant stood at 43% for UK-based managers and 48% for Europe-based managers. Outside Europe, fewer managers are opting to comply with the regulation; only 15% of US managers and 25% of managers based in Asia & Rest of World are already compliant.

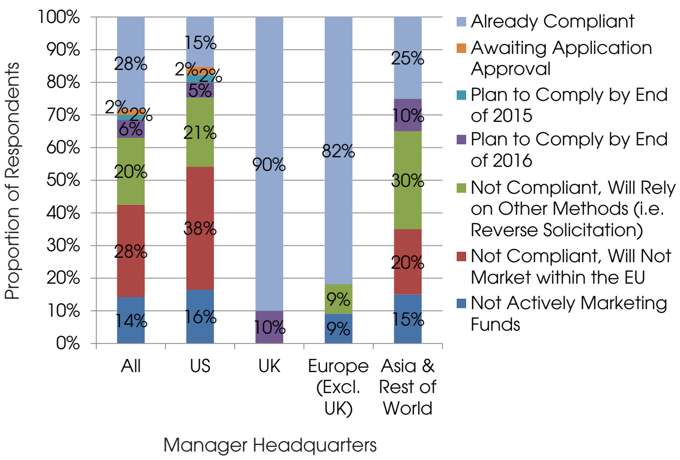
Compliance status varies greatly with manager size, with 46% of managers with over $1bn in AUM already compliant with the regulation, compared to 19% of managers with less than $100mn (Fig. 7). The largest managers are also less likely to be relying on other methods such as reverse solicitation to access European capital, with only 21% of managers with over $1bn in assets stating that they would do so.

Fund managers that have larger proportions of their assets from institutional investors are also more likely to be compliant with the AIFMD. Forty percent of fund managers with 75-100% of AUM from institutional investors are already compliant with the regulation, compared to only 20% of managers with less than 25% of AUM from institutions (Fig. 8). The greater transparency increasingly demanded by these investors mirrors some of the requirements of the AIFMD and fund managers with more institutional capital may also have chosen to comply to access the large quantities of capital available from European institutional investors.

## In Brief:

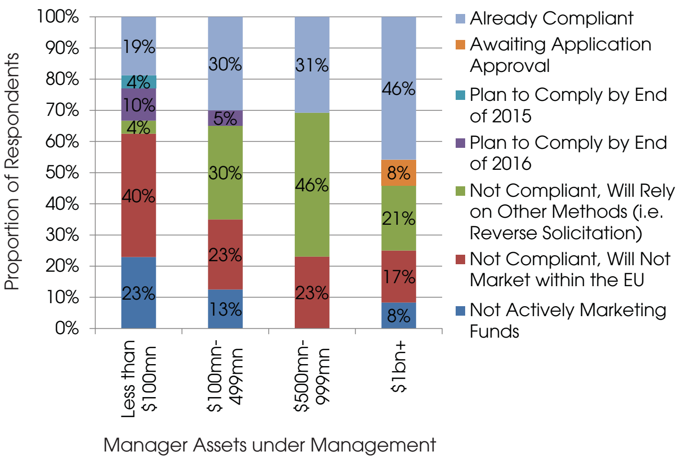
- There has been significant growth in the number of European managers complying with the AIFMD over the past year.
- Over half of US-based fund managers reported they have no plans to market in the EU.
- The largest fund managers are more likely to be compliant with the AIFMD regulation; 46% of fund managers with more than $1bn in AUM are compliant, compared to 19% of those with less than $100mn.

**Fig. 6:** Hedge Fund Manager AIFMD Compliance Status by Manager Headquarters



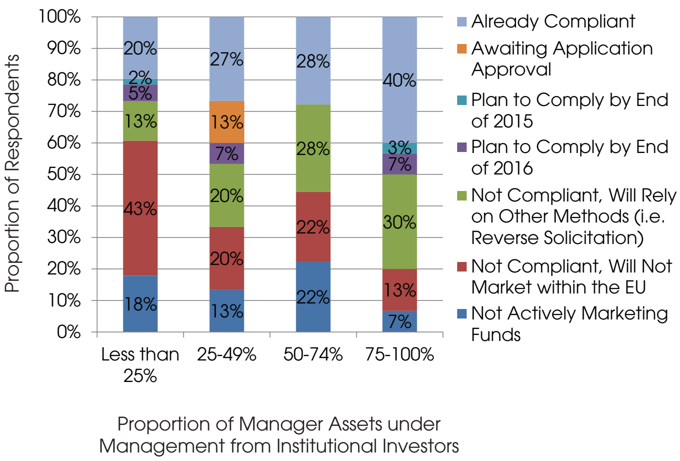

*Source: Preqin Fund Manager Survey, June 2015*

**Fig. 7:** Hedge Fund Manager AIFMD Compliance Status by Manager Assets under Management




*Source: Preqin Fund Manager Survey, June 2015*

**Fig. 8:** Hedge Fund Manager AIFMD Compliance Status by Proportion of Capital from Institutional Investors




*Source: Preqin Fund Manager Survey, June 2015*

# How Are Hedge Fund Managers Responding?

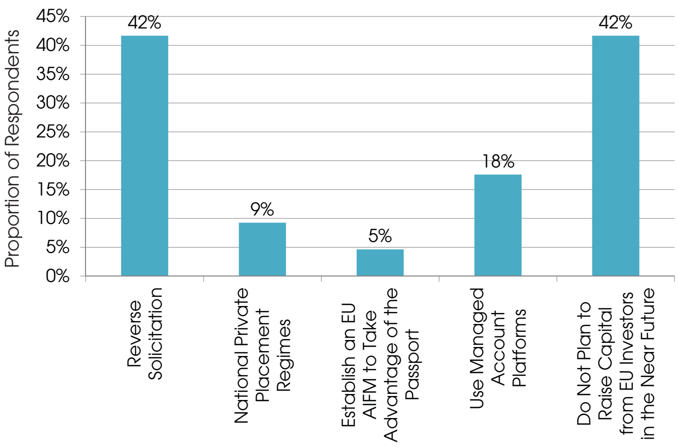
The introduction of the AIFMD has made the process of raising capital in Europe more complex, particularly for non-European hedge fund managers. With National Private Placement Regimes for non-European fund managers not due to end until 2018 at the earliest, these managers currently have to choose between a range of options to access European investors during this transitional period. With this in mind, we asked hedge fund managers whether they were seeking access to European investors and, if so, how they intended to reach them.

Forty-two percent of non-EU-based managers reported that they have no plans to raise capital from EU-based investors in the near future (Fig. 9). Reasons for their decisions varied, and although 41% of managers cited business reasons unrelated to the AIFMD, the additional time and expense involved in complying with the regulation has clearly been a factor in discouraging non-European managers from targeting European investors; 38% cited this as the main reason for their decision (Fig. 10).

For those managers that are still seeking European investment there remain a number of options for raising assets. With a large proportion of non-European managers remaining non-compliant, it is unsurprising that the most commonly cited method is reverse solicitation (42%) (Fig. 9). In contrast, only 9% of managers said that they would be taking advantage of the National Private Placement Regimes (NPPR). The variations between different regimes mean that non-European fund managers are more likely to target specific jurisdictions when marketing, with 65% of fund managers stating that they would only seek to access capital from between one and four member states and 19% only targeting the UK (Fig. 11). Just 15% of managers stated that they would be targeting more than four member states.

Only 5% of managers surveyed said that they would be establishing an EU AIFM in the next 12 months to take advantage of the possibility of passporting their funds across several member states (Fig. 9). The additional requirements applied by certain member states have perhaps made the passport seem less appealing than it might otherwise be; other managers may simply be applying a 'wait and see' approach and these will observe how their peers fare when marketing in the EU before making a decision.

**Fig. 9:** How Non-EU-Based Fund Managers Intend to Raise Capital from EU-Based Investors in the Next 12-18 Months

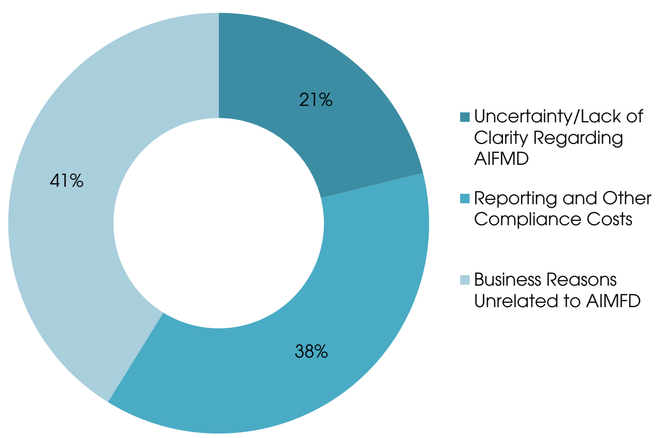



*Source: Preqin Fund Manager Survey, June 2015*

## In Brief

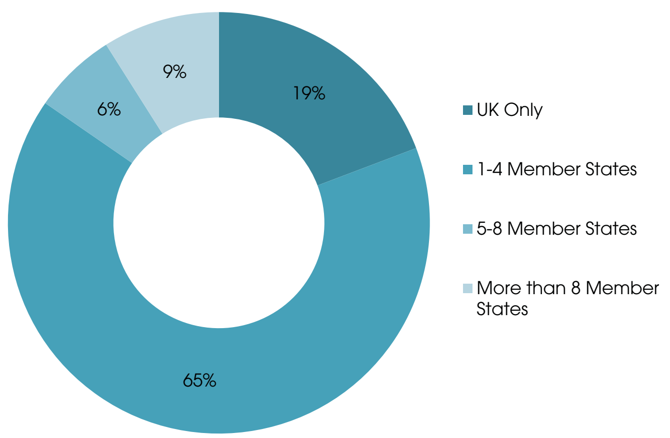
- Investors may face a reduced choice of funds as a result of the AIFMD: 42% of non-EU-based fund managers will not market in the EU.
- However, 41% of fund managers not marketing in the EU are doing so for business reasons unrelated to the directive. For the remaining managers, it is the cost of compliance that is the leading deterrent.
- The reduced competition from overseas fund managers could account for the more positive outlook on the AIFMD by European (excl. UK) hedge funds (see page 3).

**Fig. 10:** Reasons Why Fund Managers Are Choosing Not to Market in the EU




*Source: Preqin Fund Manager Survey, June 2015*

**Fig. 11:** Number of Member States Managers Will Be Involved in When Relying on Reverse Solicitation or Private Placement




*Source: Preqin Fund Manager Survey, June 2015*

# Preqin Special Report: AIFMD
## July 2015

## Preqin: Global Data and Intelligence

With global coverage and detailed information on all aspects of the hedge fund asset class, Preqin's industry-leading Hedge Fund Online service keeps you up-to-date on all the latest developments across the hedge fund universe.

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