How to access Europe using third party AIFMs

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Alternative fund managers wishing to continue to market their funds into Europe have to navigate unchartered territory. The AIFMD only really kicked in last July at the end of the grandfathering period, since when both EU and non-EU AIFMs have started to treat the directive more seriously.

This is a complex piece of regulation and, in a similar fashion to the UCITS framework, managers have multiple options available to them. This report considers one option in particular – appointing a third party AIFM (or Management Company), and the fund distribution benefits that this can bring; be it for new funds launches or redomiciled funds.

“The broad scope of the directive changes the management and fund raising regulatory landscape dramatically for an AIF Manager who chooses to offer and place shares of an AIF inside the European Economic Area ("EEA"),” says Simon Hookway, Consultant, Bruton Street Consulting LLP, a leading London-based provider of outsourced and consultancy services.

The Bank of New York has suggested that full compliance with AIFMD, whereby the manager takes on the responsibility in-house, adds approximately USD300k to USD1m per annum to operating costs (depending on AuM). One-off set up costs range between USD100k and USD250k. The AIFM needs substance – including physical offices, senior management officials, a CCO and risk manager, reporting mechanisms, not to mention the appointment of multiple service providers including an independent depositary.

“ESMA uses the directive as a means to impose further complexity, costs and time constraints on AIF Managers, further raising the performance bar which managers must achieve before investors, who the directive seeks to protect, begin to benefit (their original reason for investing),” adds Hookway.

When faced with such a prospect, the third party AIFM route becomes highly desirable.
"We see some tremendous interest in our AIFM services, both in terms of having a sub-fund on our platform – MS SICAV SIF – and in terms of being appointed as the third party AIFM. Regarding the latter, we’ve been successful converting a few managers who fell below the EUR100m threshold and therefore remained out of scope. Now they are ready to comply in full with the directive but they don’t want to go through the pain and hassle of the regulatory process of getting approved, or having to make changes to their processes and structures.

"Also, these managers are EU and non-EU domiciled and have decided to appoint us as the AIFM whereby we delegate the portfolio management back to them and we retain the risk management, administration functions and so on," explains Kavitha Ramachandran, Senior Manager, Business Development and Client Management, Maitland Luxembourg.

A lot of non-EU managers realise that the sands of time for reverse solicitation are fast running out.

By 2018, any AIFM, EU or otherwise, will have to have an AIF for marketing and distribution purposes. The benefit of appointing an external ManCo is that a New York-based manager can safely enter in to a sub-advisory relationship, where they join a platform and the Investment Manager delegates the portfolio management function back to them. At the same time, that manager can freely market their AIF, in full knowledge that all the regulatory and compliance demands are taken care of by the outsourced AIFM.

And that is a major advantage to US managers as it immediately circumvents one of their biggest fears: namely complying with remuneration rules.

“What we’ve done at ML Capital is to provide a complete solution set. One being the Montlake QIAIF platform, the second being the launch of ML Management Ltd, which is our AIFM ManCo.

“The idea is that by doing all the heavy lifting, we allow the manager to focus on running their strategy, whilst we take care of operating the new fund structure for them and supporting their asset raising ambitions. For managers operating in the US, by using a third party AIFM and platform, it removes the risk of them getting caught up in the

“The broad scope of the directive changes the management and fund raising regulatory landscape dramatically for an AIF Manager who chooses to offer and place shares of an AIF inside the EEA.”

Simon Hookway, Bruton Street Consulting


The firm has been running its Dublin-domiciled Montlake UCITS platform since 2010. Last December, it set up the Montlake QIAIF platform. Whilst some platforms are happy to support start-up managers, in a kind of incubation arrangement, this is not what ML Capital is bringing to the table.

“We are not trying to provide regulatory arbitrage for managers trying to get up and running and learn what it means to operate under the directive. We focus on managers running existing structures but who do not have an onshore European solution. If you look at our client roster, 95 per cent of clients we work with are long-established fund managers,” adds Day.

An important consideration for managers when selecting an AIFM is the depth of operational expertise in areas such as Annex IV reporting. At Cordium, they have created what they call the Cordium Total AIFM Solution (CTAS); a Malta-based AIFM solution.

“Annex IV is a challenge. That’s the one area that managers have been struggling with. The point of using something like CTAS is that the manager doesn’t have to worry about the burden of Annex IV as they know our team at Mirabella Financial Services will take care of it. The idea of the report is to provide systemic information in an aggregated form. The FCA has had IT issues getting their reference numbers and access to GABRIEL in a timely fashion, some managers have received messages telling them to submit via email while others have had access to GABRIEL but the scheduling has not been right.
ESMA needs to clarify specific Annex IV issues

Interview with Dan Connell

Ask any AIFM what the key regulatory challenge is under AIFMD and the response is unanimous: Annex IV reporting.

The first deadline, 31 January 2015, has passed. But there are still many points to clarify on a substantial transparency report; one that any manager, EU or non-EU, must file regardless of whether they are using the AIFMD passport or merely privately placing their offshore fund in one or two markets.

“EU-based AIFMs left it to the very last minute to begin the process and there was a mad scramble to gather a range of disparate data from all their service providers and counterparties. In many cases, AIFMs have left themselves little time to review and reconcile ESMA guidance with FCA guidance. That’s what is consuming a lot of my time now; for the first time people are looking closely at the reporting obligations and trying to make sense of them,” says Dan Connell, President at New York-based ConceptONE LLC.

ConceptONE specialises in regulatory and risk reporting. The firm has developed a regulatory enterprise risk management solution – RegERM™ – specifically to meet the regulatory reporting challenge. A holistic solution, it arms managers with the tools needed to meet today’s myriad reporting needs: not just Annex IV, but Form PF and CPO-PQR under Dodd Frank, as well as EMIR and ESMA short selling.

ConceptONE typically works with large established managers, who by default fall under the full scope of the directive.

“For non-EU managers, most are facing confusion over how to file Annex IV. In the UK, for example, non-EU managers that were not previously registered with the FCA do not yet have all of the necessary identifying information to file via GABRIEL (the FCA’s online reporting hub). Other Member States like the Netherlands and Norway have said that AIFMs do not have to submit their first filings until Q2 because they themselves are not yet ready to process them,” explains Connell.

Another key issue with Annex IV that needs clarifying is the master/feeder look-through requirement. Under article 24.2 of the directive, the reporting obligations apply only to AIFs that a manager markets into the EU. Most managers market feeder funds but the aim of Annex IV is to capture systemic risk by receiving details on the fund’s trade positions, leverage, counterparty relationships, etc; basically, all the key information that resides in the Master Fund.

“The only Member State that has provided clear clarification on this is the UK. They have instructed EU-based AIFMs to look-through into the underlying investments of the Master Fund. Non-EU AIFMs have no such requirement. Germany and the Netherlands have publicly stated that they will not expect look-through whilst Belgium has stated they expect both EU and non-EU AIFMs to provide look-through,” says Connell.

Everything in Europe, from usernames and passwords to what version of XML needs to be used for the report, has been decentralised and as a result is quite disorientating for managers, says Connell, who stresses that how to calculate the AuM and the look-through requirement are the two key issues that need to be harmonised by ESMA as soon as possible.

“We feel that for EU managers in particular, this whole exercise of compiling data for Annex IV will create a lot of demand for RegERM moving forward,” concludes Connell.
“So aside from the complexities of the report, there are implementation issues for managers to deal with as well. Everybody has been struggling to get to grips with the content and also the submission challenges,” explains Bobby Johal, Managing Consultant at Cordium.

The CTAS solution is interesting. On the one hand, managers can become their own AIFM. On the other hand, they use an outsourced AIFM. With CTAS, however, Cordium sets up the AIFM on behalf of the manager, thereby allowing them to retain full ownership, and takes care of everything from an operational standpoint.

One of the key elements of the directive, in relation to risk management, requires managers to have an intimate working knowledge of the strategies they propose to market in Europe. As such, any hosted AIFM solution must have highly qualified risk professionals that can work with a spectrum of investment strategies; PERE funds as well as hedge funds.

“We’ve written countless manuals, upscaled our operational procedures, developed different risk reporting frameworks. We’ve got an array of documentation and monitoring programmes that try to anticipate different variations in clients’ strategies. We’ve embraced that challenge, as any hosted AIFM should,” states Johal.

Timothe Fuchs is the CEO of Luxembourg-based Fuchs Asset Management. In his opinion, managers must ensure that every counterparty used by the AIFM is experienced and proficient.

“The ultimate goal is to avoid a manager who appoints us having to change the way they do business internally. You have to be as flexible as possible. That comes with working with professionals that know their business. It allows us to focus on running the ManCo business, organising the life of the fund, making the administrative/legal/risk aspects efficient. We don’t need to go against the portfolio manager, as they are the ones running the fund. It’s about giving the manager full independence and allowing them to stay true to who they are,” emphasises Fuchs.

“For bigger institutions they can separate out a lot of the functions and operate as an AIFM but for medium-sized managers - up to USD1bn in AuM - I think it makes more sense to go with an outsourced solution. If you outsource some of the functions, you get the advice of a professional that understands your business and will help you in different situations.”

Pierre-Yves Augsburger, Director of Fuchs Asset Management notes, quite rightly, that managers shouldn’t try and do everything themselves.

“The world is getting more complex. It’s better to pay for an external AIFM than to pay for internal problems, such as friction within the team that could arise from dealing with compliance/regulatory issues that they have no expertise in,” says Augsburger.

“Administrator-type platforms don’t really have the ability to comment on whether an investment decision is appropriate or not. You need to understand the underlying investment. That’s where we’ve had a lot of success. We’ve had clients come to us after collecting a series of quotes and what they’ve said is that they want to work with a platform that has bona fide markets people as opposed to administration professionals.”

Bobby Console-Verma, Tower Gate Capital
The alternative route

The AIFMD may seem daunting to some – but not to those who choose to outsource the burden to us.

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maitlandgroup.com
Extending AIFM license to PE and real estate funds

Interview with Kavitha Ramachandran

Last May, MS Management Services SA, a Luxembourg-based subsidiary of the Maitland group, received authorisation from the CSSF to act as a third-party AIFM to alternative investment funds. At the same time, it established its own umbrella fund platform, MS SICAV SIF, to support managers wishing to fast track the process of launching an AIFMD-compliant fund in Europe.

Although less than a year in operation, there are already plans to extend the AIFM license capabilities to support private equity and real estate managers, in addition to hedge funds.

“We already provide administration services for PERE funds. Also, we have the accounting and administration infrastructure in our corporate services teams to handle the SPVs typically used in these vehicles,” explains Kavitha Ramachandran, Senior Manager, Business Development and Client Management, Maitland Luxembourg.

“We see this as a real growth area. We’ll follow a similar strategy to the existing one for hedge fund managers; that is, to have a platform product that will cater for these more illiquid asset classes, as well as offer outsourced AIFM services to managers running their own AIFs.”

Maitland’s platform has onboarded a number of clients with several more AIFs currently going through the approval process.

“When we get an enquiry, the client always asks for information on both the ManCo stand-alone services and the platform. However, I’d probably place greater weight on the product platform in terms of the level of future growth. The main factor that drives managers to use MS SICAV SIF is speed to market,” says Ramachandran.

One aspect that PERE managers who are looking to market in Europe need to be comfortable with when using a third party AIFM is just how important a role they will play. PERE funds have been lightly regulated structures; hedge funds have at least had a few years under Dodd-Frank and MiFID I to get used to regulation.

“Overall, the fund board is still responsible but suddenly they have to start dealing with an AIFM who has just as much authority to tell the manager what they need do as the board,” says Ramachandran, adding that the valuation model used by Maitland in respect of its hedge fund and FoHF clients would be robust enough to give comfort to PERE managers.

“Typically, with PERE funds you can’t really appoint an external valuer in the true sense of the Directive for liability reasons. The fact is that external valuers or property appraisers don’t value the structure up the entire chain; their only responsibility is providing a valuation of the ‘real’ assets but there might also be swaps and other instruments being used in a PERE fund. This requires a more comprehensive valuation function and solid technology infrastructure.”

In addition, any third party AIFM to a PERE fund will need to effectively monitor the entire structure, including any SPVs being used. That requires having the right processes and procedures in place and as Ramachandran notes: “The AIFM has to provide and demonstrate a more intensive level of governance to handle the additional risk involved.”

“Moving forward, we will continue to refine our processes in line with new developments under AIFMD. What we know about Annex IV reporting today, for example, is different to that of six months ago. We’ve also incorporated an integrated FATCA service into our AIFM solution which is a significant value add for our clients.”
they want to make an investment they provide notice, we attend the IC meeting and reach an agreement on that investment decision. It’s another invaluable service you are providing because at the end of the day it’s the platform that bears significant risk. The platform has got to be incredibly well run and you have got to have the right blend of people,” states Console-Verma.

From August onwards last year, Console-Verma observes that interest was building among PE managers in particular, even among managers with up to USD1bn in AuM who have no desire to go down the costly route of getting regulated.

“To run an in-house AIFM costs three times more than it would to go down the platform route. That doesn’t even take into account the time savings. It’s a sensible, logical route and managers are starting to understand this. My prediction is that we’ll see more real estate companies becoming interested in the Tower Gate Platform in 2015. We are currently in discussion with one RE manager with assets north of USD1bn to act as the AIFM,” confirms Console-Verma.

According to Hookway, important considerations when doing due diligence on platforms established to host services include:
• The scope of the host’s AIFMD licence;
• Portfolio management capability;
• Risk management experience and tools;
• Advisory and marketing tools;
• Service provider framework and relationships.

“Platforms such as Integra offer Non-EEA managers who wish to operate inside the EEA the opportunity to take advantage of the services offered by professionals and market leaders such as PwC and SS&C Fund Services, while continuing to be able to market their existing track record. Non-EEA Managers can establish a cell under the platform umbrella which then leverages off the passporting facility previously available only to EEA-based AIF Managers,” comments Hookway.

Expanding on the key considerations when performing due diligence on an outsourced AIFM, Peter Northcott of KB Associates, an operational consulting firm, adds: “I would suggest that the investor checks that the AIFM is well capitalised, that’s critical. You want to avoid reputational damage. You should have some sense of who the other users of the AIFM are.”

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Peter Northcott, KB Associates
Owning an AIFM without the operational burden

Interview with Bobby Johal

Cordium, one of the industry’s leading regulatory and compliance firms, has devised a new offering for the European market to help managers overcome the marketing challenges of AIFMD.

Entitled the Cordium Total AIFM Solution (CTAS), the objective is to establish a fully functioning AIFM in Malta on behalf of the managers to support their plans to launch AIFMD-compliant funds.

Managers currently have two choices under the directive: to either operate their own AIFM and take on the management company responsibility, or to use a hosted AIFM solution. Where CTAS differs is that the manager retains full ownership of the Malta AIFM, whilst Cordium takes care of all the operational and compliance demands.

“This is relatively new but it’s generating a lot of interest. Our MiFID hosting solution run by Mirabella Financial Services has been working well for 10 years; while AIFMD required a necessary evolution of that business line which is why we created CTAS. It’s still early days but we’re optimistic,” says Bobby Johal, Managing Consultant at Cordium.

As time goes by, the option could be for non-EU managers to use Cordium’s Malta AIFM – separate from CTAS - in a similar fashion to how the UK FCA-regulated Mirabella platform works.

“The idea of the Malta platform as a hosted solution would be to support people looking to launch funds in Europe, including non-EU managers who currently are unable to avail of the fund passport, but which could become available in the next year or two; though this remains a politically charged issue,” says Johal.

Apart from regulatory benefits there are also potential tax-related benefits which come from operating an AIFM in Malta.

For now, CTAS is a way for existing managers to maintain their fund distribution activities in a safe and, importantly, compliant fashion, and be their own AIFM.

“With our knowhow in operations, compliance and risk management, it removes the stress. And that is the fundamental idea of a hosted AIFM solution.”

“The premise of CTAS is that the client owns the AIFM and we operate it. CTAS is not a fund platform solution on which managers can launch sub-funds. We don’t get involved in the distribution side of things at all; that’s the front-office responsibility of the manager,” says Johal.

Moving forward, the Mirabella team could onboard new managers to the Malta platform, where it would act as the investment manager in a similar incubator-type arrangement to that which exists with its UK AIFM.

“CTAS allows managers to keep doing what they need to be doing i.e. portfolio management and asset raising, while we take care of the heavy lifting to ensure they remain in compliance with AIFMD. We have risk management experts who have been working with AIFMD rules for the last few years. Our risk teams in the UK and Malta are working ever more closely with Cordium’s compliance experts. What CTAS does is bundle them together to provide a complete AIFM solution,” says Johal.

“The directive is a complex piece of legislation, there are certain onerous obligations brought to bear but it shouldn’t necessarily be a barrier to entering Europe and doing business. Commercially, AIFMD is not something to fear. That was the message I was putting across to US managers last year.”
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Setting up a hedge fund under AIFMD

Interview with Gerhard Grueter & Daniel Maycock

The AIFM Directive may not be universally welcome but with greater focus being applied to compliance and operational risk oversight within the fund management industry, it is at least ensuring a new breed of higher quality fund manager; which for investors is good news.

"On the one hand AIFMD raises the threshold for new managers, but on the other hand once you’re AIFMD-compliant it makes things much easier from a capital raising perspective. The reason we exist is to help managers overcome that threshold and make the transition from a pre-AIFMD local framework to a pan-European standard," comments Gerhard Grueter, co-founder of Lawson Conner, a market leader in compliance solutions for the investment fund industry.

Lawson Conner operates a specialist fund manager platform and is providing FCA license coverage as well as compliance and regulatory oversight on behalf of alternative fund managers.

When it comes to complying with AIFMD, investment managers have to be in safe hands. The reputational risks are too high. This might seem overwhelming to new managers entering the market, particularly as falling under the full scope of the directive only applies when the manager is running a minimum of EUR100m in assets. But as Grueter explains: "We work with emerging managers and start-ups on two levels: on the first level, we offer an integrated AIFM solution allowing new managers to launch their funds in a cost-efficient manner. We provide the full infrastructure for them to get up and running, on average within four to five weeks. This gives the fund manager the freedom to focus on what they are good at: trading, generating alpha, and raising capital. Everything else they can leave to Lawson Conner.

"On the second level, we provide ongoing consultancy services on the compliance and regulatory front. This applies more to established managers who want to attract additional institutional investor capital."

By working with an established AIFM platform, emerging managers can present themselves in a more positive light to investors. This is where the directive could benefit everyone moving forward, as European investors will take reassurance allocating to a small manager that they know has a compliance specialist and fund manager working with them.

“Research suggests that smaller managers tend to be better alpha generators. The advent of AIFMD has created more of a level playing field from a risk and governance perspective, which in theory should mean that outperformance is easier to notice,” adds Daniel Maycock, Director, Investment Management Services with Lawson Conner.

To further expand on how a hosted AIFM is raising the level of integrity in the marketplace, Grueter comments: “Investors seek out emerging fund managers for their unique investment ideas, which results in superior performance. However, operational risk is probably the biggest hurdle for any institutional investor to overcome with an emerging manager - how can they be sure that in a year’s time, the team will still be together? At the beginning, emerging managers are often overwhelmed with the operational aspect of fund management, such as legal, compliance, HR, IT, infrastructure, which does not leave them much time to do what they are good at: trading and generating alpha.

“The solution is for the manager to come onto the fund platform where they are able to outsource most of the operational issues. In addition, the investor faces a much larger entity with a stronger balance sheet, a larger team in place with tried and tested risk management processes in place. That gives investors the confidence that the chances of something going wrong with the manager are greatly reduced.”
“I was in Chicago recently. A German pension fund said they had a USD500m allocation in a Chicago-based fund. They wanted to know that they could continue having a relationship with the manager and they said that having the depositary guarantee (under AIFMD) was important to their end investors. They told the manager that they wanted to put their USD500m allocation into an EU-regulated fund.

“We now have four funds on our AIFM platform that have come as a result of that market sentiment among investors,” confirms Derek Delaney of DMS Offshore Group.

Although still early days, the point made by Delaney suggests that AIFMs could benefit from considerable asset raising in Europe under the Directive. Key to doing this, for many managers, is to join a platform and, depending on the size of the AIF’s assets, launch either a bespoke fund or a more generic sub-fund.

“Platforms are good for smaller managers with low AuM who are looking to build a track record and grow their business, and at some stage go independent. The issue with platforms is that you’ve got contamination risk and you have no choice over which service providers are used. You have to accept the fund directors, lawyers and so on for the sub-fund. So it does diminish the control aspect,” comments Peter Northcott of KB Associates.

London-based Lawson Conner, a market leader in compliance solutions for the investment fund industry, not only offers a fund platform for distribution under AIFMD, it also provides specialist advice, particularly to non-EU AIFMs looking to distribute funds in Europe without having to use a European fund vehicle.

“We provide fund marketing and distribution support whereby we advise investment managers regarding the appropriate fund placement strategies across European jurisdictions and compliance with the AIFMD and other regulatory requirements.”

By James Williams
environments. We ensure from a regulatory and compliance perspective that funds have got all the relevant tools to go and market into a particular jurisdiction in a fully compliant way.

“Often, when we speak to US and Swiss managers, for example, when we ask them where they intend to distribute their fund it’s usually only into the key markets; UK, Switzerland, and possibly the Netherlands. However, managers are missing out on a large number of potential funding sources. We can help market in those often neglected markets because in our view, the funds marketing passport under AIFMD should not be seen as the be-all and end-all,” says Gerhard Grueter, founding partner of Sapia Partners LLP (an FCA-approved AIFM) and co-founder of Lawson Conner.

Of course, having a European institution approach a manager and say, ‘We love your strategy, we want to invest, but we want a regulated AIF, here’s a ticket for EUR500m’, is the Holy Grail. No manager is going to refuse that.

But the reality is this rarely happens. Which is why fund platforms, just as in the UCITS world, are seen as an important solution for alternative fund managers who want to piggyback on a third party AIFM’s license, launch a sub-fund, and freely avail of the passport.

Daniel Maycock, Director, Investment Management Services with Lawson Conner, notes that the level of independence and governance oversight also offers a clear benefit to investors.

“Compliance and risk management, independent of the fund manager, are key for investor protection. Investor protection can be greatly enhanced by funds operating on an AIFMD platform, which provides risk and compliance oversight over the fund managers’ daily trading activities and which is in no way commercially incentivised by the fund performance. This removes or greatly reduces a lot of the risks when investors are looking to identify new managers,” comments Maycock.

From a distribution perspective, therefore, platforms can act as the gatekeeper to good governance, which can only strengthen the arm of managers as they bring new products to market. Independent oversight is something that investors welcome, and this makes asset raising a potentially easier task.

ML Capital has been operating its MontLake UCITS platform since 2010. The fact that it is a distribution-led business made it perfect sense to roll out the MontLake QIAIF platform last December for those looking for an AIFMD distribution solution.

“We have 12 people on the ground in Dublin operating our structure. We’ve good real substance, something that both UCITS and AIFMD really look for in the jurisdiction you operate out of. To put things into perspective, we started 2014 with four employees in Dublin; we ended the year with 12, following a strong year of growth and gearing up for AIFMD,” says COO Richard Day.

ML Capital has both an in-house direct sales team and a European client servicing team that looks after the different products on its platform.

“When fund managers join us they get the expertise of highly experienced sales professionals in various European geographies,” adds Cyril Delamare, CEO and founder of ML Capital. “That’s key to a US manager trying to access the European market. A lot of times, managers might go down the route of becoming regulated themselves but then they realise they have to figure out where the money is. The solution we offer gives managers economies of scale from an operational perspective, and once you get set up you then get access to a sales team which is experienced in the UK, Ireland, and continental Europe.”

If a manager chooses to launch a sub-fund, typically this will come with co-branding to reflect the name of the host platform. The other option is to request the platform to build a standalone fund, which many are happy to do. This frees up the manager to choose their own service providers and

“We now have four funds on our AIFM platform that have come as a result of that market sentiment among investors.”

Derek Delaney, DMS Offshore Group
BRINGING HARMONY TO YOUR PROJECTS.
The art of orchestration as a European AIFM
Interview with Timothé Fuchs & Pierre-Yves Augsburger

Luxembourg-based Fuchs Asset Management is not your typical AIFM provider. Its heritage is firmly rooted in wealth management. Having now grown into a team exceeding 100 people, it took the decision to diversify its offering and set up an AIFMD-compliant management company, receiving its license from the CSSF last June.

“With the substance needed to run an AIF today, a lot of mid-sized managers are now thinking: are we going to take on the burden of running our own AIFM, or are we going to use a third party?

“We now have the size and scale to consider such an AIFM hosting business,” says Pierre-Yves Augsburger, Director of Fuchs Asset Management.

With its ManCo service, FAM provides the substance and the knowledge (from a compliance, risk distribution and monitoring perspective) for asset managers, private banks, fund managers and family offices, or simply entrepreneurs who want to create their vehicle to comply with the directive, but are frankly overawed.

“We are able to offer them a tailor-made solution and bring a family office approach to small and medium-sized institutional clients. As the AIFM, we propose the structure, the licenses and the regulatory knowledge. There is a clear separation of tasks and responsibilities but it has to be done as a close partnership in the best interests of the managers and their investors.

“We like to think of ourselves as the conductor of an orchestra. That’s what a hosted AIFM should be in our view,” explains CEO Timothé Fuchs.

In Fuchs’ view, the core focus of a fund’s portfolio management team should remain portfolio management and building/ maintaining client relations.

“That’s why it is important for the market to offer the third party AIFM solution, which is more an administrative, legal, risk management and compliance solution. Portfolio managers may not be comfortable or have any experience or particular interest in that side of things,” adds Fuchs.

The firm wanted to be in a position to offer a high-level of service from day one and took pains to hire a raft of risk and compliance specialists while setting up the ManCo; constructing each section of the orchestra as it were.

“The right hand has to know what the left hand is doing. If a client has a specific request, we are ready to provide a full and prompt response. It doesn’t go through a committee of 25 different people,” adds Augsburger.

There are three solutions available to managers who partner with FAM:
- To launch a UCITS-compliant sub-fund
- To launch an AIFMD-compliant sub-fund
- To launch a dedicated fund and appoint Fuchs Asset Management as the AIFM.

“Our AIFM solution is open architecture. We know most of the main service providers in Luxembourg and Europe. Large banks might insist on only working with funds with at least EUR100m in assets, in which case the manager needs other options,” says Augsburger.

This is where a hosted AIFM can bring added value to managers. By leveraging their network, they can help to ensure that any new AIF launched by a client appoints the most suitable service providers.

“For a private equity client of a certain size, we’ll offer one set of recommendations, while for a real estate fund we’ll offer a different set of recommendations. We continue to search for the right universe of counterparties to meet our clients’ needs,” concludes Fuchs.
the fund would launch under their name. By appointing a third party AIFM like ML Management Ltd, the name of the ManCo would appear discreetly in the fund’s documentation.

“When it comes to marketing and distribution it should be their logo, their company name on marketing materials, their footprint on the fund. We don’t grab the investment strategy, the investors; it’s the manager’s business. We run the fund from a compliance and regulatory perspective only.

“We are finding that the approach works really well. Prop traders come out of large organisations, be they banks or existing hedge funds, and they want to run their own business. The last thing we want to say to them in that situation is, ‘Okay, you’re about to become part of another large firm again’. It’s a hands-on approach from a compliance and regulatory perspective but from an investment strategy and distribution perspective, it’s very much hands-off,” comments Maycock.

One sub-fund that has recently launched on MontLake QIAIF is managed by New York-based Centurion Investment Management; the Centurion Short Term Trading Fund.

The QIAIF launched with north of USD50m seeded by Old Mutual Global Investors.

“The strategy didn’t easily fit into UCITS because it has an underlying commodity component so we structured it as a QIAIF. The only concern of the investor was that the product was registered for sale in the UK and was eligible for UK fund reporting status, something that is catered for under AIFMD.

“The investor had to sign off on the platform of choice. They were happy to appoint us as they’d already worked with us previously on the Montlake UCITS platform. The overall TER of our platform is also compelling,” explains Delamare.

Timothe Fuchs is the CEO of Luxembourg-based Fuchs Asset Management. The firm has a strong heritage in wealth management but Fuchs is very clear to point out that they will not help managers seed their fund(s).

“We are independent. From one activity to another there is no conflict of interest. It could be at a later stage that a fund run by one of our ManCo clients gets introduced to one of our wealth management clients but we will not push this. This is something we are very clear on,” says Fuchs.

“However, what we can propose on a case-by-case basis is to help clients find investors, depending on the strategy. We have been developing our network of counterparties that can help us with distribution and widen our exposure in Europe. We know a few seeders. We are happy to make the contact between manager and seeder/investor, but it’s then up to the manager to raise the assets,” adds Pierre-Yves Augsburger, Director of Fuchs Asset Management SA.

Fund administrator Maitland Group received its AIFM and platform license last May in Luxembourg. According to Kavitha Ramachandran, Senior Manager, Business Development and Client Management, Maitland Luxembourg, the firm is looking at around 50 opportunities on a regular basis.

“The areas of demand we see include managers based in South Africa, Latin America, the US, the UK and Asia. One group of sub-funds, for example, was launched for a manager in Hong Kong and this has led to a number of enquiries from Asia Pacific, in particular China and Hong Kong.

“We’ve also been approached by some Swiss managers as well as Nordic managers and it’s a combination of interests; some want to launch their own SIFs because they have a wide investor base or product range that they want to cater for. In this instance they use us purely as the third party AIFM. Others want the quick and easy solution
ML Capital is your structuring expert for UCITS and AIFMD fund solutions. Helping clients bring new products to the market simply and cost effectively is just one way that we deliver value. Our specialist team will structure and operate your fund, while our experienced sales team will support your asset raising ambitions.

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Hedge fund managers have two options when looking to bring a regulated fund product to Europe. The first is to go the UCITS route, the second is to establish an AIF, under the much more recent AIFMD Directive, which is a far less trodden path than the UCITS regime.

ML Capital has two platforms to offer a complete regulated fund solution. The Dublin-domiciled MontLake UCITS platform has been operating since October 2010 while the MontLake QIAIF platform was established last December.

"It really is the strategy that is driving managers down one route or the other. If the strategy is sufficiently liquid and able to meet the UCITS rules, then we believe it’s best to go that route. However, the reality is, there is a whole raft of managers whose strategies do not fit the UCITS framework. That’s where you need to create an AIFMD solution. Managers can either become a self-managed AIFM or appoint an external ManCo. We’ve launched products that cater to both scenarios," comments Richard Day, COO of ML Capital.

ML Capital’s ManCo, MLC Management Ltd, was rolled out in January. This is particularly important for US managers as appointing a third party ManCo helps avoid one of the key areas of concern under AIFMD; namely getting caught up in the remuneration rules.

As a European fund structuring and distribution house, ML Capital has created a product offering that enables managers to continue to operate freely under the AIFMD.

Managers can either choose to launch a sub-fund on MontLake QIAIF or launch their own bespoke fund. The latter choice is likely to only apply to managers with significant capital commitments. Day suggests that managers who are nervous about the remuneration rules will opt for a sub-fund.

“For managers that are less concerned around remuneration rules and have sufficient scale, they may opt for a customised fund,” says Day.

Having operated successfully within the UCITS world, it was a logical extension for ML Capital to broaden its offering to AIFMD. “The ability to service the liquid regulated end of the market but also the more illiquid side was an important development for us. “We’re trying to come up with a suite of products that meet the increasing needs of managers. For example, we will eventually expand the platform offering to Luxembourg as well as Ireland,” confirms Cyril Delamare, CEO of ML Capital.

Managers need to be aware that over the next few years, AIFMD distribution will be the only way to market hedge funds to European investors. Provisionally, private placement rules are due to be phased out in 2018.

"In today’s world, if you want to be accepted on the big distribution platforms, whether they are banks or intermediaries, they will require you to have products that are AIFMD-compliant. They will not look at non-AIFMD products anymore and that’s a big driver of the market. None of the distribution platforms can afford to have non-AIFMD products," states Delamare.

There is a lot, for firms like ML Capital, to be bullish about in this new era of regulation. Over the last 12 months the group’s AuM has grown from EUR400m to north of EUR1bn.

“Our growth targets for 2015 are to get to EUR2bn. I suspect that we’ll see half of that growth come from our AIFMD solution, and the other half from our UCITS solution,” concludes Day.
to be mindful of is that they conform to the correct frequency period when reporting Annex IV. Quarterly filings apply to AIFs with EUR1bn of notional assets or a single AIF with EUR500m in assets.

“The manager – be they EU or non-EU – needs to calculate the AuM of all the funds they manage, not just the ones they market into the EU,” stresses Connell.

“Say you are a US manager with EUR3bn of AuM, and marketing a EUR10m AIF into the EU; in that situation, you’re a quarterly filer. The bulk of the information that US manager would have to file would only be for the AIFs that are marketed (i.e. the EUR10m fund) but the frequency is determined by the total AuM of all AIFs being managed.”

In terms of distribution opportunities in Europe, AIFMD hasn’t had a significant impact yet because the passport is only available to EU-based AIFMs running EU-based AIFs. There aren’t that many that fall into that category at the moment. The vast majority of hedge fund managers are still managing offshore AIFs.

“The key issue that everyone is waiting to hear about is the extension of the passport to non-EU AIFMs and AIFs, which is currently being considered by ESMA with a recommendation due later this year. That will dramatically change the landscape.

Meanwhile, EU AIFMs running an EU AIF should currently be enjoying strong asset raising conditions, but that is not yet obvious - although it is still early days,” concludes Northcott.