

>> Fund management and distribution in the new investment landscape under AIFMD <<

A number of new legislative developments impacting the European asset management industry have been recently introduced, the most significant being the “Alternative Investment Fund Managers Directive” (AIFMD), which is widely regarded as the most radical reshaping of fund management and marketing regulation in the European Union since the introduction of the UCITS directive (Undertakings for Collective Investment in Transferable Securities).

The AIFMD aims to protect EU investors, limit systemic risk and ensure sound risk management by asset managers through creating an EU regulatory framework that regulates and supervises Alternative Investment Fund Managers (AIFM) and therewith also indirectly Alternative Investment Funds (AIF). The directive takes a “one-size fits all” approach, applying to fund managers and all funds that are not covered by the UCITS directive and are managed, domiciled and/or distributed within the European Union – like hedge funds, private equity funds, property and commodity funds amongst others.

>> AIFMD – impact at a glance <<

The AIFMD significantly impacts the structures, strategies, operations, reporting and distribution methods of alternative investment fund managers and stipulates a number of key requirements.

>> Delegation requirements

AIFMs are required to functionally and hierarchically separate the functions of portfolio management, risk management and valuation from the operating units. Appropriate service providers for valuation and risk management as well as portfolio management are needed if the functions are not undertaken internally. Under AIFMD, risk and portfolio management are core functions of the AIFM and can not be delegated to third parties in any circumstances.

>> Risk and Liquidity Management

The AIFM must establish and maintain a permanent risk management function, which may be performed by a third party. It must implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each AIF's investment strategy.

>> Valuation

AIFM are also required to establish appropriate and consistent procedures for each AIF that they manage in order to ensure that a proper and independent valuation of the AIFs' assets can be performed in accordance with applicable national rules. Valuation can be either performed by an independent and qualified external valuer or the AIFM itself but it needs to be independent from portfolio management. The AIFM remains reliable for proper valuation.

>> Depositary

The directive requires the appointment of a single depositary for each EU or non EU AIF marketed as of 2013 that is managed by an AIFM.

>> Remuneration policy

The remuneration policies and practices shall be consistent with sound and effective risk management. Fixed and variable components of remuneration must be balanced. Performance-based remuneration must be based on an assessment combining individual and overall results, include non-financial criteria and must be set in a multi-year framework. The category of staff that is covered by this policy includes senior management, control functions and risk takers.

>> Transparency

The content and format of the annual report is set out by the regulation. It has to be compliant with local accounting standards and e.g. has to provide more information on remuneration disclosure.













>> Marketing and distribution



The scattered legal framework for private placements across the EU which has been historically governed by national law will change under the AIFMD. One of the main changes is the creation of a

single market for the marketing of AIFs to professional investors in the EU. During a defined period of time the directive foresees two regimes in respect to marketing – the European marketing passport and the national private placement regime.

The table below illustrates the different scenarios and corresponding requirements under the AIFMD and the overview of access to the EU markets.

Cross-border distribution of alternative investment funds

| AIFM | AIF | Target distribution country | Marketing Passport Regime | National Private Placement Regime |
|---|---|---|----------------------------------|-----------------------------------|
|  |  |  | ✓ | ✗ |
|  |  |  | ✗ May be available from 2015 (*) | ✓ Available until 2018 (*) |
|  |  |  | ✗ May be available from 2015 (*) | ✓ Available until 2018 (*) |
|  |  |  | ✗ May be available from 2015 (*) | ✓ Available until 2018 (*) |

 EU based
  Non-EU based

(*) Subject to ESMA approval

Source: Ernst & Young 2013

>> Re-domicile your fund onshore <<

In some cases, it makes sense to re-domicile a fund to another jurisdiction. It may be advisable for non-EU managers to consider re-domiciling the managing entity to Luxembourg especially if the European Union is a key source of capital for a non-EU AIF.

Luxembourg has established itself as a market leader in product innovation for UCITS and non-UCITS. Being the major international platform for the distribution of cross-border funds Luxembourg-domiciled funds are more readily accepted by financial regulators in other parts of the world, especially Asia, Latin America and the Middle East.

Based in Luxembourg, Alceda offers a simple and straightforward process for re-domiciliation of investment funds onshore and provides a broad range of investment structures appropriate to different investor profiles.

Depending on the strategy and the key investor preferences an alternative to re-domiciling could also be the establishment of master-feeder-structures that mirror the strategy of the existing offshore fund.

>> Luxembourg as a hub for AIFs and AIFMs:

Your gateway to Europe and beyond <<

Luxembourg offers a flexible approach which allows you to efficiently accommodate possible legacy structures and limit the impact of changes required by the same token.

Luxembourg has decided to take a pragmatic and business-oriented approach to the implementation of the AIFM Directive. As part of this approach, the current toolkit available to alternative industry players for setting up their funds in Luxembourg has been enhanced with the introduction of the new Special Limited Partnership regime. This new regime is tax transparent and offers great contractual freedom.

Luxembourg now offers a comprehensive and consistent product range for alternative players willing to distribute their products across Europe and fully benefit from the AIF marketing passport introduced by the AIFM Directive.

Given Luxembourg's track record, supporting environment for alternative industries and leading position as an alternative investment funds domicile, there are many good arguments in favor of Luxembourg being your preferred EU hub for structuring your AIFs and establishing your AIFM for a pan-European reach.

Last but not least: Luxembourg is a renowned brand: Luxembourg UCITS are distributed in more than 80 countries, including the most important markets in Asia, the Middle East and Latin America, 75 % of the world's cross-border funds are Luxembourg funds making the country the leading pan-European and global distribution platform. It is expected that AIFMD-compliant funds will become a new marketing brand like UCITS.

>> Managing the world of alternatives with Alceda <<

Alceda is a leading independent structuring specialist in Europe dedicated to the structuring of both traditional and alternative investments. Alceda provides asset and fund managers, banks and family offices as well as pension funds amongst others with tailored structuring solutions and global access to investors and distribution partners. In addition, Alceda offers institutional investors the choice of a range of innovative investment strategies from highly specialised fund boutiques worldwide as well as access to real assets.

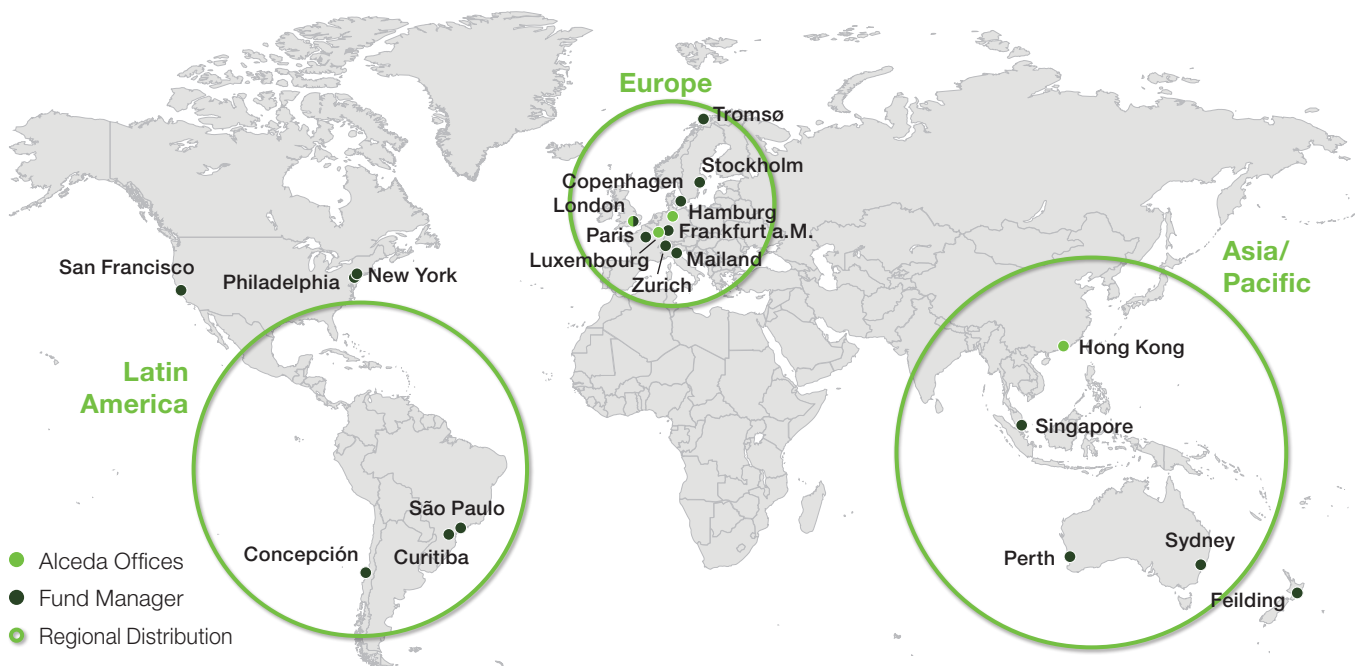
From July 2013, all EU AIFs are required to appoint an AIFM. Operational requirements imposed on AIFMs are similar to those of existing UCITS management companies and service providers and therefore are equally as costly and resource-intensive. Outsourcing therefore can be an attractive alternative for asset managers seeking to limit the costs associated with the organisational and risk management requirements imposed by the AIFM.

Alceda has significant expertise in the structuring of alternative investment solutions, which is demonstrated by its:

- >> track record operating as a regulated Management Company in Luxembourg;
- >> recognised position as a leading pan-European distribution platform for UCITS funds;
- >> significant experience in alternative investment vehicles including hedge funds, alternative UCITS, real estate and private equity as well as real assets.

As an authorised AIFM in Luxembourg and Germany Alceda provides managers with the key advantage of cost efficiency and streamlining of operations as organisational and risk management requirements imposed by AIFM have already been met, resulting in significant economies of scales for managers.

>> Alceda – Connecting investors and managers globally <<



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Luxembourg Fund
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Sachwerte und Invest-
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