

# GROWING DEMAND

WE CATCH UP WITH **MICHAEL SANDERS** OF **ALCEDA** TO FIND OUT ABOUT THE OPPORTUNITIES THAT EXIST UNDER THE AIFMD AND HOW NON-EUROPEAN MANAGERS CAN ENTER THE EUROPEAN MARKET UNDER THE NEW REGULATION



**Michael Sanders** is chairman of the board at Alceda where he is responsible for the company's overall corporate strategy and business development. He has more than 25 years' experience in the structuring of complex investment products and asset management.

**HFMWeek (HFM): What distribution opportunities exist under the AIFMD?**

**Michael Sanders (MS):** The scattered legal framework for private placements across the European Union, 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 alternative investment funds (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 (NPPR).

Navigating the sophisticated marketing and distribution regimes for AIFs will be a key challenge. From a legal point of view, there are three opportunities. First, until 2018, managers can deal with the local or domestic private placement regimes, which can cause a lot of legal work because every document needs to be prepared for the particular market. The second one is reverse solicitation. The issue of 'anti-distribution' needs to be considered when proving that managers did not contact the investors directly, but that it was the other way around. The third option is to comply fully with the AIFMD and get AIFM licensed in Europe and then you are free to choose the European passport to distribute your product within the AIFMD construct. There is, of course, also a fourth option for non-EU managers and that is to stay out of the EU and not to cover the European Union as a market.

**HFM: What demand do you expect to see for AIFMs in Asia and Latin America?**

**MS:** There is already massive demand. Every manager that wants to market in Europe needs to comply with either the Ucits or AIFMD regime. The NPPRs that I mentioned earlier will phase out in 2018. Therefore, the only option for non-EU AIFMs looking to market EU alternative investment funds to EU investors will be to comply with all obligations under the AIFMD. The question will always be, in what way do they want to enter the European market? If it is alone, this will pose a lot of challenges due to the cost of setting up operations within the EU or becoming AIFMD compliant. Managers do have the option to use service providers, such as Alceda. This allows the manager to focus on their core business of management and distribution while all le-

gal and technical requirements are covered by a service provider. In this respect, we expect to see continued demand coming from Asia, the US and Latin America over the next few years.

However, demand from Asia is currently greater than Latin America, which is about 10-15 years behind. There are currently more alternative asset managers in Asia and approximately 60% of the assets that Asian managers trade are from the US. However, we have about 20% coming from Europe and the general mind-set, which was echoed by many at the recent *HFMWeek* COO Summit I attended in Macau, is that Europe is an attractive market for Asian investors.

Looking to the next decade, Latin America is set to become increasingly important for European investors.

**HFM: What will be some of the challenges for marketing non-EU funds into Europe? What advice would you give to managers looking to do so?**

**MS:** Managers located outside Europe who wish to target European investors must first develop a deep understanding of the marketing requirements under the AIFMD, including strategically adapting fund structures. The Directive foresees a pan-European marketing regime. Until 2018, NPPRs will remain available for the distribution in Europe of non-EU funds and to non-EU managers. However, individual member states may impose stricter rules.

For a non-EU manager it would make sense to set up European based products. But there are challenges in dealing with the various countries' regulators if you are a non-EU manager.

For example, Germany is one of the most sophisticated markets in terms of regulation. The German authority does not allow a Cayman Island fund to be approved and distributed in Germany. From a US perspective, there is the challenge of understanding the European regulation mindset. For example, the remuneration policies are quite tough compared to the overseas guidelines in the US. Therefore, it can be tough for non-EU managers to comply with regulations in Europe, both in terms of knowledge and understanding as well as the cost of setting up the operations and developing the required workflows and processes to comply with all the regulations.

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Most of the managers I've been speaking with are considering the EU market but they would prefer to partner with a service provider who offers all the necessary European requirements.

**HFM: Do you expect to see more funds being set up or moved onshore as a result of the AIFMD?**

**MS:** Absolutely. It may be advisable for non-EU managers to consider redomiciling the managing entity of their firm either into another non-EU country or the EU, especially if the EU is a key source of capital for a non-EU AIF. Under the AIFMD it will become more complicated not having a fund set up onshore. One of the intended aims of the AIFMD is to avoid particular offshore fund structures, such as Cayman funds. On the other hand, investors are demanding well-regulated fund or investment structures, and this is stronger in the EU than in many offshore jurisdictions.

The Ucits brand is also growing in strength and global recognition. You can go all over the world and talk to investors, and almost everyone knows about the Luxembourg Ucits brand and would feel comfortable investing in these structures. More new fund structures will be set up in Europe, particularly in the bigger fund centres of Luxembourg and Ireland because of their more business-orientated regulated environment.

**HFM: In which ways will Luxembourg provide a gateway for Europe? For beyond Europe?**

**MS:** Given Luxembourg's track record and its supportive environment for alternative industries, and its leading position as an alternative investment funds domicile, there are many reasons why managers may choose it as their EU hub for structuring AIFs and establishing AIFMs with a pan-European reach.

Luxembourg's intention is to have the most compliant funds globally, which really strengthens the brand of Luxembourg fund structures.

We strongly believe that the AIFMD will get the same global standard as the Ucits brand. As regulation increases globally, managers and investors are looking for more regulated products. Financial markets and players globally will get connected with a European structure, to which Luxembourg is a prime choice.

**HFM: What can Alceda offer in structuring alternative investment solutions?**

**MS:** We provide a one-stop shop for all types of managers globally. True to our philosophy that 'form follows function', we offer a broad spectrum of structuring solutions that are ideally suited to the manager's investment strategy and economic goals. Our offering spans the conceptualisation of investment vehicles for classic to complex strategies, to alternative investments to fund redomiciliation, as well as distribution services.

When it comes to any type of Luxembourg-based fund structure, whether it is regular Ucits or alternative investments strategies, we begin by providing the manager with all legal knowledge needed. This includes setting up and drafting the prospectus, filing to the regulator and getting it approved, and we take care of all the distribution registration within the EU, or globally if it is required. Since we founded Alceda seven years ago, we have built a deep



knowledge of traditional asset structures and alternative investment strategies such as liquid alternatives and illiquids such as real assets. Once the fund is up and running and we have found the right structure for both the fund manager and the investor, we help to take care of their day-to-day business such as administration and ensuring that everything within the fund is in line with the legal requirements and guidelines. In essence, we support the manager with everything required to run a fund.

We can also offer an extensive global network of institutional investors and distribution partners that span four continents – Europe, Asia, Australia and Latin America – and we have our own team on the ground in Europe.

By partnering up with Alceda as an authorised AIFM, managers can benefit from cost efficiency and streamlined operations as the organisational and risk management requirements imposed by the AIFMD will have already been met. This results in significant economies of scales for fund managers. ■