The AIFMD effect

How is the far-reaching Alternative Investment Fund Managers Directive impacting GPs' fund domicile selection process? **Crestbridge** chief executive **Graeme McArthur** provides *pfm* an inside view

In July, fund managers reacted positively to news that the European Securities and Markets Authority (ESMA) was interested in seeing individual EU country's private placement regimes (NPPRs) continue beyond 2018. The landmark announcement also provided valuable insight into how the Alternative Investment Fund Managers Directive (AIFMD) is evolving where "third countries" are concerned – the advice ESMA gave to the European Commission recommended extending the AIFMD passport to a small number of well-regulated such countries.

In a keynote interview with *pfm*, Crestbridge chief executive Graeme McArthur explored these developments and shared insights into how the Directive is reshaping GPs' opinions of key fund domiciles.

It's worth noting that, at this stage, ESMA has only assessed six jurisdictions – Guernsey, Hong Kong, Jersey, Singapore, Switzerland and the US. The advice concluded that no obstacles exist to the extension of the passport to Guernsey and Jersey, while Switzerland could remove any remaining obstacles with the enactment of pending legislation. Meanwhile, no definitive view was reached on the other three jurisdictions.

AIFMD: causing ripple effects throughout the industry

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Whilst the announcement was welcome progress overall, there are still unanswered questions regarding ongoing access to European investor capital for non-EU funds.

A story of growth

Nevertheless, fund domiciles in Europe continue to report strong figures. The latest data for Luxembourg (June 2015) reflected an upbeat funds industry, revealing an increase of 14 percent since January in the net assets under management to €3.528 billion, whilst the Luxembourg Management Company (ManCo) model is proving an appealing option for managers.

Despite original concerns that the Directive might stifle fund activity, McArthur says that "it's been a story of growth" for Luxembourg ManCos, which offer AIFMD marketing passports and give fund managers, including hedge funds and private equity, the means to access capital from professional investors in the EU.

Recent figures for Jersey, meanwhile, show that the net asset value of all regulated funds under administration grew by around 9 percent year on year as at June 2015, in particular the alternative asset classes grew 15 percent in the year.

Indeed, "the endorsement from ESMA in July was a significant development for Jersey's funds community and pointed to genuine confidence in Jersey as a domicile for alternative fund management, domiciliation and servicing," McArthur adds.

So with both the private placement and ManCo options proving popular, which route should a manager choose?

According to McArthur, "the choice is largely driven by what investors are looking for. Many non-EU managers who had been sitting on the sidelines may now bite the bullet and market to EU institutional investors through private placement or by establishing an onshore EU presence directly or via an AIFMD ManCo."

Open trails

With the possibility of an AIFMD passport on the horizon for Jersey, there are also questions around the vitality of national private placement regimes. Evidence would seem to suggest that they will remain a popular option for non-EU managers.

According to latest figures from Jersey's regulator (June 2015), 84 fund managers have now received private placement authorization and 205 Jersey funds are now being marketed into Europe through private placement regimes, an increase of 10 percent over the previous six months.

"We noticed a real reaction by fund managers to the introduction of the AIFMD in 2014," says McArthur. "What we haven't seen though is a move away from traditional [offshore] locations, and Jersey has actually seen a particularly buoyant alternative funds sector."

Being part of the first wave of third countries to be assessed and recommended by ESMA, McArthur believes, has really helped underline Jersey as a serious player in the European alternatives market:

"The feeling overall is that now Jersey has the optionality available, through either NPPR or the potential AIFMD passport, to make sure it has a strong long-term future as a European alternative funds domicile, including real estate and private equity where Crestbridge has specific expertise."

The ManCo solution

In Luxembourg, the third-party ManCo is now a well-established offering in a post-AIFMD era. For fund managers based outside of the EU who do not currently have access to an AIFMD passport to market their funds to EU investors, the use of a parallel fund structure set up and managed within the EU by an authorized third party ManCo acting as AIFM can be an attractive, simple solution.

Already licensed as a UCITS ManCo, Crestbridge was one of the first in Luxembourg to be granted AIFMD licensing to become a provider of ManCo services to authorized fund managers, as McArthur explains:

"We're continuing to see strong uptake in our Luxembourg ManCo, with GPs liking the simple and cost effective solution it provides for achieving pan-European passporting. From our point of view, the ManCo solution is proving attractive to small and medium size managers both in and outside of Europe, including non-EU managers for whom appointing a third party ManCo is more cost effective and quicker to market than it would be to set up an operation of their own."

Meanwhile, in Jersey, Crestbridge has also been seeing growing interest in its management services to Jersey funds. The model means delegating the day-to-day management of a fund to an external agency such as Crestbridge in Jersey, enabling promoters to distribute their funds outside of the EU and outside of any regulations imposed by the AIFMD, whilst distribution into the EU via NPPR is a quick and cost-effective AIF registration process.

"This innovative concept is being well received by promoters who are familiar with Jersey's existing range of fund regimes and see the advantages in basing their structures outside of the EU," says McArthur.

"For different investor requirements, the tried and tested Luxembourg ManCo and the Jersey ManCo concept are useful options for GPs. We have seen interest in both Jersey and Luxembourg for governance and substance solutions to a wide range of fund structures and strategies, to meet specific regulatory requirements or full management company services."

Crystal ball gazing

As the recent ESMA announcement relating to third-country passporting suggests, the AIFMD continues to evolve and GPs now have a number of options at their disposal. So what does the future European fund structuring landscape look like?

A report by IFI Global and sponsored by Crestbridge highlights attitudes to risk management, control and compliance will remain key issues for managers and investors. The report found that AIFMD is prompting considerable growth in manager alliances, third party platforms and related activity to obtain distribution, which will resonate strongly for those in the ManCo arena.

"Whilst the positive response to the role of ManCos is to be welcomed, there is still confusion between risk measurement and risk management, with GPs focusing on the former to the detriment of the latter," says McArthur.

McArthur: AIFMD is not slowing down fund activity

As far as the US is concerned, managers are wrestling with whether the European market is worth their effort. Those that do see genuine opportunities in Europe are looking at private placement, likely to become more popular in the US following ESMA's advice, and the possibility of joining an AIFM ManCo platform for full compliance passporting.

"For the passport to be worthwhile, access to well established and appropriate distribution channels will be essential, and in the experience of our teams in Luxembourg and Jersey, distribution discussions are invariably global," comments McArthur, who believes the future will continue to be influenced by investor requirements:

"Both the offshore and onshore solutions will continue to provide GPs with the frameworks they require. What is important is that GPs listen carefully to what is important to investors to ensure that the structure they choose is appropriate for them." ■