CONTENTS

1. History of cross-jurisdictional investing 3

2. The current state of the European asset management space 4

3. What do managers need to know about marketing into Europe? 6

4. What are the impacting regulations? 8

5. Summary 10

6. What to look out for… 11

7. Global Reach, Local Presence 12

8. Glossary of terms 13
The history of investing in Europe dates back as far as the 1600s. The development of the Amsterdam Stock Exchange, in addition to a number of other similar institutions forming in Europe around that time, demonstrates a deep-seated history in the region for formalizing investment practices. On the other side of the Atlantic, the concept of a fund and raising assets was also filtering into society through religious institutions with the formation of the Presbyterian Minsters’ Fund in 1759 Philadelphia, USA, now widely accepted as the beginnings of the pension fund concept.

Investment evolution across geographies has been continually developing for hundreds of years. Fast forward to today and we are living in an increasingly globalized investment space, a situation that mirrors our experience of an increasingly globalized world. The financial collapse of 2008 combined with the digital revolution, has fundamentally altered the investment management space. Asset managers today face intensified regulation, including both global standards and regional directives, resulting in a complex cross-jurisdictional compliance landscape. Yet the rise of the global manager, and for those that embrace compliance and get a head start on understanding the regulations, returns are up and new technologies mean plenty of opportunity.

Adaptability and agility are becoming synonymous with success. Modern investing has seen the rise of various new investment vehicles such as mutual funds, to ETFs in addition to disruptive new currencies and methods of payment through crypto-currency and blockchain. Technology and accessibility have changed the landscape of investment management and more recently this trend, particularly in Europe, has seen the number of companies listed on public markets reducing as interest in the private markets increases. Asset managers are now looking to diversify their portfolios to create more hybrid structures through investing in real assets such as real estate and forestry, plus managing cross-jurisdictional investments. This report will focus on the impacts and opportunities for investors looking to leverage one of the largest investment management regions in the world, Europe.
2. THE CURRENT STATE OF THE EUROPEAN ASSET MANAGEMENT SPACE

The European Fund and Asset Management Association (“EFAMA”) reported that assets under management in Europe reached EUR 25.2 trillion in 2017, a historic high. There has continued to be a healthy flow of investments into funds in Europe since 2008 which has supported this growth, alongside the good performance of the equity and bond markets. Assets in Europe are currently pooled in seven key jurisdictions (Figure 1 and 4). Although Brexit may soon change the percentages as uncertainty in the UK may see the prediction of £800bn in assets moving from London to other European financial hubs, Europe as a region remains attractive and the market favors the institutional investor (Figures 2 and 3). The main influences propelling this relocation of assets center around passporting rights and the ability to market funds on a pan-European basis. With this in mind, both UK fund managers and other overseas investors must consider the regulatory requirements for investing in the European market.

**Figure 1:** European AuM at End 2016
(EUR billion and percent of total)

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<table>
<thead>
<tr>
<th>Country</th>
<th>AuM</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>8,093</td>
<td>35.4%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>4,493</td>
<td>19.7%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,646</td>
<td>7.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>2,093</td>
<td>9.2%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,326</td>
<td>5.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>1,229</td>
<td>5.4%</td>
</tr>
</tbody>
</table>
```

Figure 2: Breakdown of AuM in Europe (end 2016)

<table>
<thead>
<tr>
<th>Country</th>
<th>Net Assets (€bn)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>8,093</td>
<td>35%</td>
</tr>
<tr>
<td>France</td>
<td>3,971</td>
<td>17%</td>
</tr>
<tr>
<td>Germany</td>
<td>2,093</td>
<td>9%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,646</td>
<td>7%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,326</td>
<td>6%</td>
</tr>
<tr>
<td>Italy</td>
<td>1,229</td>
<td>5%</td>
</tr>
<tr>
<td>Denmark</td>
<td>386</td>
<td>2%</td>
</tr>
<tr>
<td>Spain</td>
<td>314</td>
<td>1%</td>
</tr>
<tr>
<td>Belgium</td>
<td>301</td>
<td>1%</td>
</tr>
<tr>
<td>Austria</td>
<td>132</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>3,360</td>
<td>15%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>22,851</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3: Evolution of the Breakdown of AuM in Europe

Figure 4: Key European Investment Jurisdictions to Consider
3. WHAT DO MANAGERS NEED TO KNOW ABOUT MARKETING IN EUROPE?

Traditionally the UK has maintained its position as the second largest asset management centre after the US, managing a reported £3.1 trillion in assets managed for overseas clients alone¹. Yet the disruption Brexit has brought reaches far beyond the European Union, meaning larger overseas firms who operate globally will undoubtedly be impacted and must therefore understand the immediate challenges. Both in the short and the long term, uncertainty around how managers will continue to operate in a post-Brexit environment extends beyond UK domiciled managers, to those marketing there. Larger regulatory and economic forces are at play and there are various different outcomes that could become a reality as the UK executes its departure from the EU. A key deciding factor for investment managers in the context of Brexit will pertain to the UK’s membership in the European Economic Arena (“EEA”), which currently permits UK firms to distribute investment products across Europe. Capital Markets have been volatile and most UK managers have been implementing contingency plans for funds elsewhere in Europe. Investors must remain well informed via distribution channels and implement a process-orientated approach early on. It is likely that private equity firms with European portfolio companies could have increasingly complex business models due to the nested nature of portfolio company operations in comparison to hedge or mutual funds.

For US managers specifically, Deloitte details five key areas of implication for business models and two for regulatory strategy implication (Figures 5 and 6).

Figure 5:

<table>
<thead>
<tr>
<th>REGULATORY STRATEGY</th>
<th>Scale of impact</th>
<th>Likely impact on US investment management firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duplication of development</td>
<td></td>
<td>Firms may have to maintain EU regulatory compliance while preparing for UK regulatory scrutiny.</td>
</tr>
<tr>
<td>Country-level coordination</td>
<td></td>
<td>Asset managers face potential cost increases stemming from regulatory compliance with differing country level agreements for firms with centralized UK-based operations.</td>
</tr>
</tbody>
</table>


¹ Asset Management in the UK 2017-2018, The Investment Association Annual Survey, September 2018
Luxembourg and Ireland have been jostling for position as the domicile of choice for cross-border fund distribution. Both jurisdictions have significant expertise in a broad range of international funds and have strong reputations for political and financial stability. In Luxembourg, RAIFs and Parallel Fund Structures present an interesting proposition for US/Asian Managers with vehicles in offshore domiciles. Similarly Irish structures with familiarity with Anglo Saxon law have been a ‘tried and tested’ domicile for fund structuring utilizing service providers in Europe where off-shore or on-shore domiciles have been used.
4. WHAT ARE THE IMPACTING REGULATIONS?

For US managers looking to market an investment fund into the EU, they must first understand and explore the three regimes currently in force (AIFMD, UCITS and PRIIPs) and consider the benefits and costs to select the approach best suited to their strategy.

1) Alternative Investment Fund Manager Directive - AIFMD

The Alternative Investment Fund Manager Directive (“AIFMD”) was a significant moment in the asset management industry and the start of a domino effect of numerous regulations being rolled out in the European Economic Area over subsequent years. AIFMD is not restricted to EU domiciled managers, those marketing non-EEA funds in one or more member state or managing any funds domiciled in the EU must also comply. Example: A US domiciled fund manager, marketing a Bermuda-based fund into EU based investors, falls into the scope of AIFMD. Member states have implemented the directive slightly differently and applied varying rules, therefore fund managers must determine the requirements of the private placement regime in each relevant jurisdiction. The key impact for offshore managers center around the fact that they are subject to specific disclosure rules, including ‘no asset stripping’ requirements when controlling investments in EEA portfolio companies. The Passporting rights available to EU based AIFMs marketing EU AIFs are currently not available to non-EU managers or funds (AIFMs or AIFs). It is still possible to market without a passport as a non-EU AIFM or AIF through private placement, yet this is at the discretion of each individual member state.

2) National Private Placement Regime - NPPR

What is marketing through Private Placement?

Member states can chose to allow non-EU AIFMs to market non-EU AIFs under their own National Private Placement Regime (“NPPR”). The same is true for EU AIFMs marketing non-EU AIFs. The NPPR negates the need for a domestic passporting regime; however the minimum standards applicable for AIFMD must still be applied. The UK will become a “third country” under AIFMD when it exits the EU and therefore may lose certain rights that it currently has as a member state. UK domiciled managers will need to prepare for this through either setting up a super ManCo or AIFM in another EU member state, or utilize third party platforms to maintain access.

What steps should a non-EU manager take to market into Europe under AIFMD?

1) Appoint a Depositary
2) Notify the local regulator
3) Comply with transparency rules;
   a) Annual report disclosure
   b) Disclosure to investors
   c) Periodic reporting to authorities
3) **Packaged retail Investment and Insurance-based Products - PRIIPs**

The Packaged retail Investment and Insurance-based Products regulation came into force a year ago (January 2018). PRIIPs requires a KID (Key Information Document) to be prepared for each PRIIP that is made available to retail investors within the EU. It does not matter which jurisdiction the manager is based in, the regulation applies to all fund managers marketing their fund(s) to retail investors within the EU. If fund managers do not wish to market to retail investors within the EU they must take steps to ensure that it is not possible for them to invest in the fund; including placing relevant selling restrictions in fund documentation, notifying distributors, placement agents and sales teams that the fund is not to be offered or sold to retail investors in the EU and putting internal controls in place.

4) **Undertakings for the Collective Investment in Transferable Securities - UCITS**

Undertakings for the Collective Investment in Transferable Securities (“UCITS”), is a regulatory framework which intends to deliver a harmonized regime throughout the EU for the management and sale of mutual funds. UCITS funds are well understood products in the institutional space and are useful to utilize in tightly controlled regulatory environments. Managers should look to work with service providers delivering cross-jurisdictional capabilities and a solid local understanding of the requirements for depositary solutions. Offshore managers can leverage a ‘Master-Feeder’ structure under UCITS IV to distribute funds across the EU. UCITS structures should aim to amass an AuM of approximately $50m to reach critical mass for operating effectively and to ensure that the Ongoing Charges Figure (“OCF”) doesn’t impact profitability.

5) **Luxembourg Parallel Fund Structures**

Luxembourg Limited Partnerships continue to increase in popularity as parallel structuring delivers more options for investors to optimize outcomes with a suitable fund location and legal structure. Multiple parallel funds are able to share ownership of a common investment pool and large private equity funds, with international distribution requirements are now utilizing this structure as common place. For investors looking to maximize returns a multi-domicile parallel fund structure is an attractive option. Capital is often raised more quickly from a broad set of investors and a single investment pool delivers more efficient management of the assets. The flexibility of this kind of structure can bring additional complexities and therefore the utilization of local expertise and robust service provision is paramount.
5. SUMMARY

While Brexit has been leading debate inside the EU, the considerations for non-EU managers remain the same. A non-EU manager would typically appoint an administrator, depositary and a regulated AIFM within Europe. As aforementioned, the two major players that have risen to the top in the wake of Brexit’s impact on the UK as a domicile are Luxembourg and Ireland. Yet many EU member states have various different types of solution for offshore investments and there are a range of well established service providers with solid expertise and the ability to support the nuances of all types of ‘domicile dependent’ alternative fund structuring. Managers can leverage these providers to ensure they put the best strategy and structure in place to maximize returns, including utilizing simpler tax reporting and efficiencies dependent on jurisdiction or finding a jurisdiction they are more comfortable with i.e. investors who prefer ‘continental’ servicing solutions due to legal and cultural familiarity. There are a range of regulated and unregulated fund structures and those that mirror master/feeder structures, therefore accessing local knowledge can add genuine value to any investor considering the European market.
6. WHAT TO LOOK OUT FOR...

As an offshore investor looking to market in Europe, it is important to work with a partner that not only understands your local requirements but also understands the complex regulatory environment within the EU.

The service providers should be able to provide the support and expertise the Manager requires, and demonstrate both the right reputation and scope of services to incite confidence in investors and allocators. It is also invaluable to be able to engage with a global provider that can deliver value through a local team, speaking your language and in your timezone, supported by a wider cross-jurisdictional team based in relevant European jurisdiction(s). This global reach and connected service model adds an additional level of comfort and expertise.

Your service provider should become a valued business partner and an extension of your team: strengthening the investment proposition, enhancing oversight and transparency plus supporting the right structure and set-up to achieve your investment goals.

Evaluating your Administrator:

- **Turnover** - Assess the level of turnover at the provider; high turnover could impact your investment objectives.
- **Client Service Levels** - Investigate the provider’s performance in ‘client voted for’ independent surveys.
- **Experience and Expertise** - Consider the provider’s level of expertise in your particular asset class and desired investment strategy.
- **Capabilities** - What level of global connectivity does the firm have? In an increasingly globalized asset management space, it is important to consider the knowledge of the administrator across all jurisdictions. Global providers with an office in your locality, in addition to a team in your chosen investment jurisdiction(s) adds genuine value.
- **People** - Speak to the team – a service provider that is focused on client service above all else will provide better service and work with you to scale alongside your business.
7. GLOBAL REACH, LOCAL PRESENCE

The Apex Group, established in Bermuda in 2003, is now the world’s fifth largest fund administrator with over 40 offices worldwide. The Group has continually improved and evolved its product suite and offers a full service solution to its clients: from fund administration, middle office, banking, custody and depositary solutions to corporate services and fund platforms. Apex now administers the investments of some of the largest funds and institutional investors in the world.

To enquire about Apex’s services please Click Here to contact us.

www.apexfundservices.com
8. GLOSSARY OF TERMS

**AIFM**
An AIFM is defined as an entity that provides, at a minimum, portfolio management and risk management services to one or more AIFs as its regular business irrespective of where the AIFs are located or what legal form the AIFM takes. The AIFM can either be an external manager appointed by or on behalf of the AIF, or the AIF itself (any delegate managing assets should not therefore be an AIFM).

**PRIIP**
A PRIIP is defined as: an investment where, regardless of its legal form, the amount repayable to the retail investor is subject to fluctuations because of exposure to reference values or to the performance of one or more assets that are not directly purchased by the retail investor; or an insurance-based investment product which offers a maturity or surrender value that is wholly or partially exposed, directly or indirectly, to market fluctuations.

**KID**
Key Information Documents (KIDs) are documents designed to help investors to understand investment products behaviour and support comparison with other similar investment products.

**Passporting**
Authorised fund managers located within the EU are permitted to market their EU funds to professional investors in any EU member state under what the AIFMD calls a passport. The reporting requirements of the AIFMD apply to all AIFMs who manage or market alternative funds within the EU.

**Private Placement**
A private placement regime allows alternative investment fund managers (AIFMs) to market alternative investment funds (AIFs) that otherwise cannot be marketed under the AIFMD domestic marketing or passporting regimes.

**ManCo**
The concept of the third-party management company has its origins in the UCITS world—every UCITS fund (other than a self-managed one) requires a ‘management company’ to manage the fund (generally referred to in the industry as a ‘ManCo’).

**ETF**
An ETF, or exchange-traded fund, is a marketable security that tracks a stock index, a commodity, bonds, or a basket of assets.