Distributing our knowledge
Fund distribution: UCITS and Alternative Investment Funds (AIFs)

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Executive summary

Welcome to the fifth edition of our report on the distribution of Undertakings for Collective Investment in Transferable Securities (UCITS) funds. This is the first edition of the report since the implementation of the Alternative Investment Fund Managers Directive (AIFMD) which introduced the ability to passport Alternative Investment Funds (AIFs) for sale to professional investors across the 28 member states of the European Union (EU). As a result we have expanded this report to look at the registration of AIFs for sale in the EU. We have also included a comparison of the procedures for passporting UCITS and AIFs around Europe. A new section on European fund sales has also been added where we look at the net sales of funds across Europe by fund type.

The alternative investment fund industry includes fund types such as private equity, real estate and hedge funds. In this report we have only focused on hedge funds as this group represents a sizeable portion of the alternative investment fund industry in Europe.

- Overall in 2013, net assets of UCITS increased by 9% with 23 countries recording an increase in net assets. Twelve countries recorded double-digit percentage growth during the year.
- The top ten countries of distribution in Europe are; Germany, Switzerland, the UK, Austria, the Netherlands, France, Italy, Spain, Sweden and Finland.
- The top countries of distribution for UCITS outside of Europe are; Singapore, Hong Kong, Macau, Taiwan, Chile, Peru, Bahrain, Korea, Japan and South Africa.
- Ireland is a centre of excellence for UCITS products with 80% of Irish domiciled funds falling under the UCITS regime. It is the fastest growing major cross border UCITS domicile globally and is the leading jurisdiction in Europe for two of the main types of UCITS – Exchange Traded Funds (ETFs) and Money Market Funds.
- The top 10 countries for the distribution of Irish UCITS are; the UK, Germany, Switzerland, the Netherlands, Austria, Spain, France, Italy, Sweden and Finland.

Highlights

UCITS

67,000 registrations in Europe making it the most popular market for UCITS funds – it has over 10 times more that the next highest investing region, the Asia Pacific.

86 the number of countries of distribution for UCITS funds - 20 new countries since 2009.

35,000 UCITS funds in existence with approximately EUR 6.9 trillion in assets, at the end of 2013.

20 countries registered net inflows into UCITS funds in 2013, with 14 countries recording net inflows greater than EUR 1 billion.

80% of Irish domiciled funds are UCITS.

AIFs

$2.5tn is the size of the global hedge fund industry as of 2013 – representing the largest 12 month increase since the financial crisis in 2008.

$449bn in hedge funds in Europe making it the 2nd largest region for hedge funds in the world.

20% of global hedge funds are domiciled in Ireland making it the largest in Europe.

16 countries are confirmed as open for private placement under AIFMD.

50% of the top 10 European hedge fund managers have set up hedge funds in Ireland.

- Final figures for 2013 put the growth in global hedge funds in relation to performance-based gains and net asset inflows for the year at US$103 billion and US$137 billion respectively.
- France, The Netherlands, Sweden, Liechtenstein, Spain, Austria, Finland, Switzerland, the UK and Italy are the top ten markets for hedge fund distribution in Europe.
- 16 countries are confirmed as open for private placement, they are: Austria, Bulgaria, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Ireland, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Sweden and the UK.
- The UK, Ireland and Luxembourg are part of a group of countries that have not imposed additional conditions for private placement. They have applied the minimum AIFMD standards.
- Ireland is a jurisdiction that is synonymous with hedge funds. It is the largest hedge fund domicile in Europe with over 2,000 funds and over USD 200 billion in assets.
- According to Lipper, some of the main countries where Irish hedge funds are sold are Germany, Italy, Luxembourg, Singapore, Sweden, Switzerland and the UK.

We hope you find this report useful. We are happy to discuss any of the points raised. Please see contacts listed at the end of our document.

Other highlights

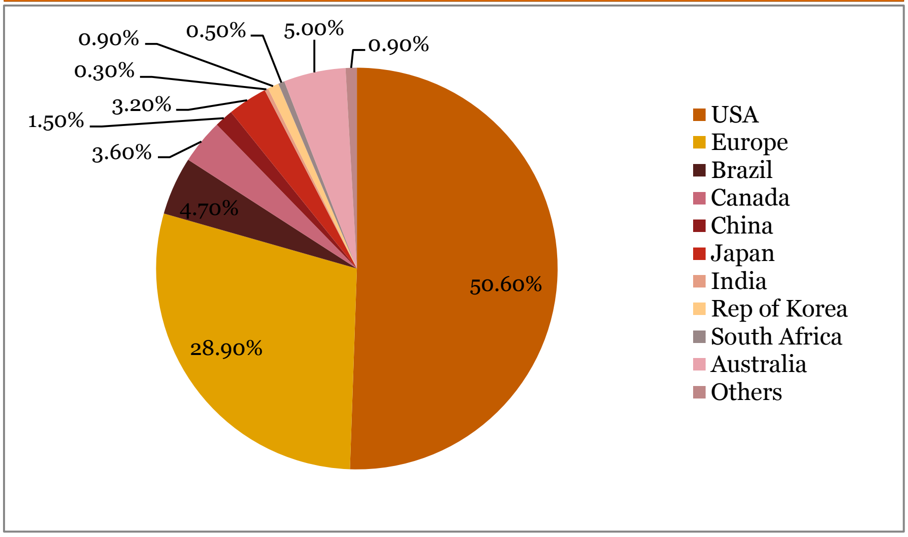
- In a number of European countries there has been a decline in domestic fund sales over the last four years and the subsequent growth of cross border fund sales. France is a clear example of this where there has been a large increase in the sale of foreign funds over the last two years which followed a decline in domestic funds sales in the two previous years. The UK is another large market that has seen some notable growth in cross border fund sales over the last two years.
- There has been over EUR 500bn in European investment fund net sales over the last 4 years, of which EUR 400bn was in bond fund sales and EUR 100bn in equity fund sales.
- Looking at the largest markets in Europe over the last four years, we see that the UK, Sweden and Norway have had the greatest amount of net sales. Italy, Germany and Spain saw growth in 2013 after experiencing net outflows in prior years. The Netherlands, France and Belgium have all experienced significant outflows over the last four years.
- Europe is a very fragmented market when it comes to fund distribution channels. In Central and Eastern Europe funds are mainly distributed through retail banks. In Switzerland and the Nordics, distribution is through the private banking sector. Continental Europe is still retail bank dominated but with continued growth in the private banking channel expected. The Independent Financial Advisors (IFAs) channel, prominent in the UK and Germany, may be replaced with other channels due to upcoming regulation.
- By 2020 we predict that four distinct regional fund distribution blocks will have formed which will allow products to be sold pan-regionally. These are: North Asia, South Asia, Latin America and Europe.
- A number of countries have put in place local legislation to ban inducements – these include; the Netherlands, Germany, the UK, Sweden and Switzerland.
- In recent years, several European jurisdictions, such as Austria, Switzerland, Belgium, Germany, Italy and the UK, have either introduced new tax reporting regimes or modified existing ones.

UCITS

Overview

Worldwide assets in mutual funds stood at EUR 23.79 trillion at the end of 2013, according to the European Fund and Asset Management Association (EFAMA). Looking at the worldwide distribution of mutual fund assets, the US and Europe account for two of the largest markets in the world. Australia, Brazil, Canada, Japan, China, Rep. of Korea, South Africa and India follow in this ranking.

Top Countries/Regions of Worldwide investment fund assets



Other countries include:

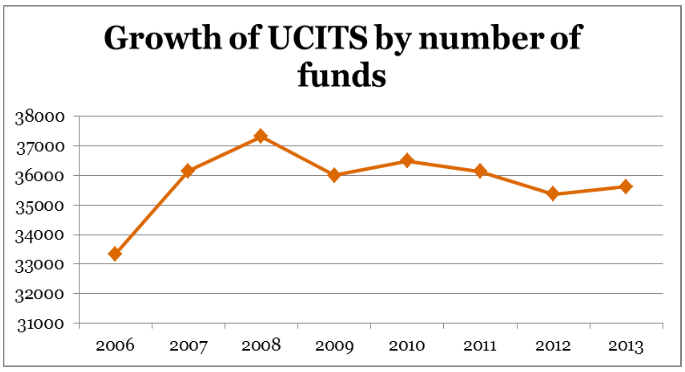
Argentina, Chile, Costa Rica, Mexico, Trinidad and Tobago, New Zealand, Pakistan, Philippines and Taiwan.

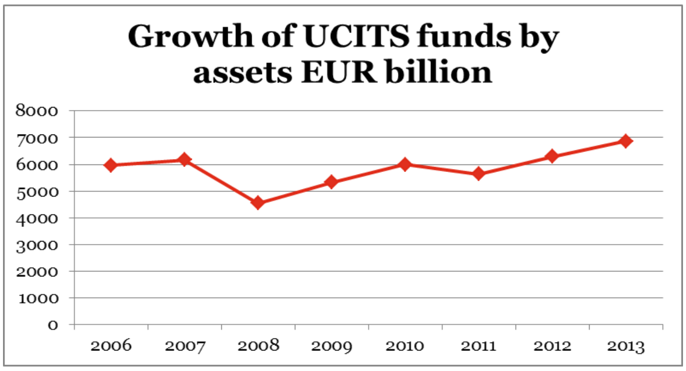
Source: *EFAMA International Statistical Release Q4 2013*

Mutual fund industries differ greatly from region to region. This report focuses on Europe where the majority of mutual funds are set up as Undertakings for Collective Investment in Transferable Securities (UCITS) which are governed by European legislation. UCITS benefit from an EU wide "passport" which means that once they are authorised in one EU member state, they can be sold in any other EU member state without the need for additional authorisation. Due to the necessity to comply with a common European standard, UCITS are now regarded globally as very well regulated funds, with robust risk management procedures, a strong emphasis on investor protection and coming from a stable environment. As a result, the UCITS brand is recognised beyond the EU and UCITS products are accepted for sale in Asia, the Middle East and Latin America.

UCITS funds are domiciled in 27 European countries, the largest being France, Germany, Ireland, Luxembourg and the UK. Overall in 2013, net assets of UCITS increased 9%, with 23 countries recording an increase in net assets. Twelve countries recorded double-digit percentage growth during the year.

The UCITS product has had huge success since its inception in 1985. Now almost 30 years old, UCITS have gone from strength to strength, with over 35,000 UCITS funds with approximately EUR 6.9 trillion in assets, as of the end of 2013, according to EFAMA. While the number of UCITS funds has reduced since 2011 the size of assets has increased. This is due to some fund managers rationalising their fund ranges following the adoption of UCITS IV in 2011 which introduced fund mergers and master/feeder structures into the UCITS framework.





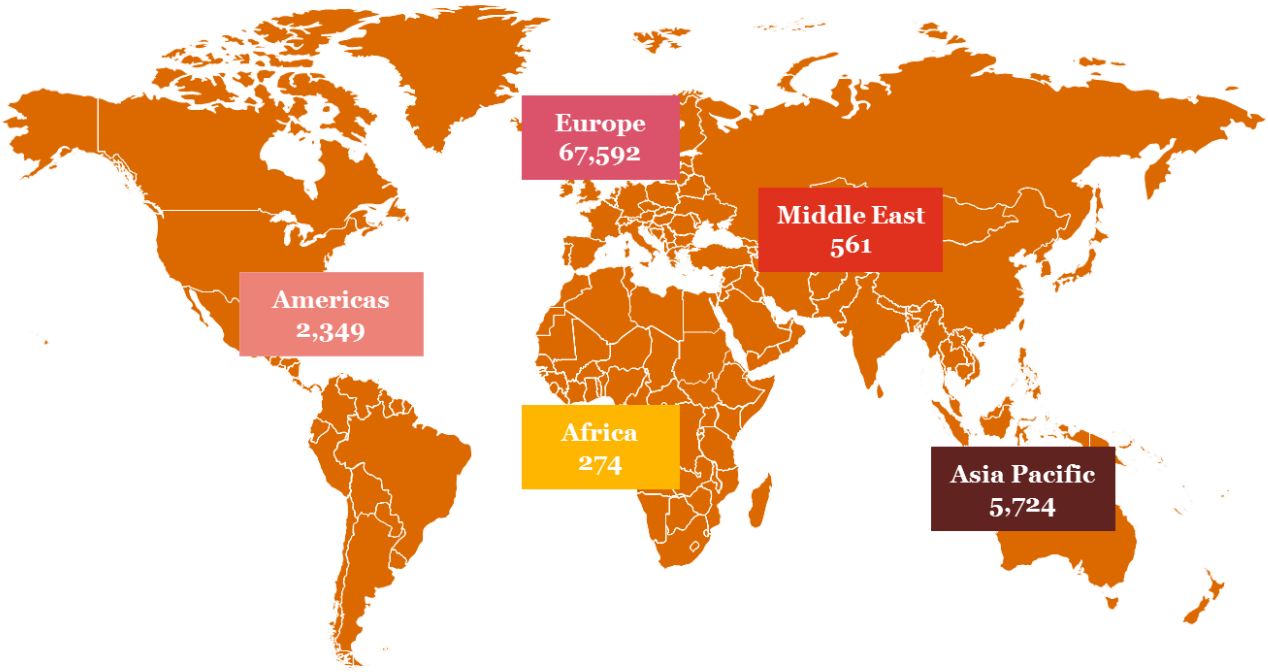
Source: *EFAMA Statistics*

Key markets

Europe is the most popular market for UCITS funds with over 67,000 registrations. This is over 10 times more than the next highest investing region, the Asia Pacific region, followed by the Americas and then the Middle East/Africa region. The top ten countries of distribution in Europe are; Germany, Switzerland, Austria, France, UK, the Netherlands, Spain, Italy, Sweden and Finland. The top countries for distribution outside of Europe are; Singapore, Hong Kong, Chile, Macau, Taiwan, Peru, Bahrain, Korea, South Africa and Japan. The tables on the following pages give a complete ranking for all the main regions mentioned above.

It is important to note that registrations do not necessarily mean sales of UCITS. When a UCITS wishes to market into a particular country it must register with the country's local regulator. This is a requirement of the UCITS Directive. The UCITS IV Directive streamlined this process amongst EU member states. This process is outlined in detail on page 13. Therefore, the statistics below are in relation to the number of UCITS which are registered for sale in each of the individual countries. However, the number of registrations for a country does passively correlate to the sales activity for that particular country.

Which regions attract the greatest number of UCITS?



Source: *Lipper for Investment Managers (LIM), December 2013*

This report was first produced in 2009 and given that this is our fifth edition we thought it would be interesting to examine the growth in UCITS registrations over the last five years.

Looking at Europe all of the top ten countries have had over 20% growth since 2009, two markets had over 50% growth namely Switzerland and Finland. Looking at the other European markets outside of the top ten, some countries have had sizeable increases; Denmark (180%), Greece (70%), Slovakia (80%), Hungary (91%), Cyprus (177%), Malta (73%) and Bulgaria (183%). Only two countries in Europe have seen decreases; Czech Republic (-20%) and Guernsey (-9%).

Outside of Europe the countries with the largest growth include; Argentina (2700%), United Arab Emirates (267%), Lebanon (331%) and Mauritius (817%). It is worth noting that all of these markets had less than 50 registrations in 2009. Looking at the larger markets those with growth more than 30% include: Peru (30%), Macau (35%) and South Africa (61%). Some of the larger markets have experienced decreases such as Hong Kong (-19%) and Bahrain (-52%).

Our analysis highlights a number of new countries for distribution of UCITS since 2009. There are 20 new countries in total including; Barbados, Bermuda, Botswana, British Virgin Islands, Brunei, Cayman Islands, Croatia, Faroe Islands, Greenland, Kuwait, the Netherlands Antilles, Nigeria, Oman, Qatar, Romania, San Marino, Saudi Arabia, Swaziland, Ukraine and Zimbabwe.

Which countries have had the greatest UCITS growth over the last five years?

Europe				
Ranking 2013	**Country**	**Number of registrations 2009**	**Number of registrations 2013**	**% Growth since 2009**
1	Germany	5,329	7,403	39%
2	Switzerland	3,792	5,689	50%
3	Austria	4,282	5,382	26%
4	France	3,671	5,261	43%
5	UK	3,482	5,144	48%
6	Netherlands	3,678	4,986	36%
7	Spain	3,559	4,297	21%
8	Italy	3,081	4,232	37%
9	Sweden	2,538	3,628	43%
10	Finland	1,904	3,027	59%
12	Belgium	1,927	2,477	29%
13	Norway	1,727	2,262	31%
14	Denmark	1,071	1,932	80%
15	Portugal	1,043	1,497	44%
16	Greece	551	938	70%
17	Liechtenstein	533	677	27%
18	Czech Republic	831	661	-20%
19	Slovakia	323	583	80%
20	Jersey	472	525	11%
21	Hungary	255	486	91%
22	Poland	427	441	3%
23	Estonia	296	433	46%
24	Cyprus	150	416	177%
25	Latvia	258	348	35%
26	Guernsey	354	321	-9%
27	Gibraltar	217	320	47%
28	Iceland	221	310	40%
29	Lithuania	212	298	41%
30	Malta	143	248	73%
31	Other	165	204	24%
32	Bulgaria	46	130	183%

Other includes: *Andorra, Croatia, Faroe Islands, Isle of Man, Greenland, Monaco, Netherlands Antilles, San Marino, Slovenia, Romania and Ukraine.*

Asia

Ranking 2013	Country	Number of registrations 2009	Number of registrations 2013	% Growth since 2009
1	Singapore	2,420	2,418	0%
2	Hong Kong	1,430	1,155	-19%
3	Macau	646	875	35%
4	Taiwan	790	818	4%
5	Korea	297	327	10%
6	Japan	79	90	14%
7	Other	113	38	-66%

Other includes: Australia, Brunei, Cook Islands and New Zealand.

Americas

Ranking 2013	Country	Number of registrations 2009	Number of registrations 2013	% Growth since 2009
1	Chile	1,317	1,466	11%
2	Peru	589	767	30%
3	Other	15	58	287%
4	Trinidad & Tobago	63	52	-17%
5	Canada	54	44	-19%
6	Argentina	1	28	2700%

***Other includes:** Bahamas, Barbados, Bermuda, Brazil, British Virgin Islands, Cayman, Panama and the USA.*

Middle East

Ranking 2013	Country	Number of registrations 2009	Number of registrations 2013	% Growth since 2009
1	Bahrain	903	434	-52%
2	Lebanon	16	69	331%
3	United Arab Emirates	9	33	267%
4	Other	80	29	-64%

***Other includes:** Kuwait, Oman, Qatar, Saudi Arabia and Turkey.*

Africa

Ranking 2013	Country	Number of registrations 2009	Number of registrations 2013	% Growth since 2009
1	South Africa	122	197	61%
2	Mauritius	6	55	817%
3	Other	1	25	2,400%

***Other includes:** Botswana, Egypt, Nigeria, Swaziland and Zimbabwe.*

***Source:** Lipper for Investment Managers (LIM), December 2013*

Number of new registrations/de-registrations per country each year

The following table shows the number of new registrations / de-registrations for each country from 2009 up until the end of 2013. A de-registration occurs when a fund stops marketing to the public in a particular country.

If we examine the trends in new registrations and de-registrations over the last five years we can see that all of the top 10 markets for UCITS in Europe have had consistent number of new registrations each year. The top ten countries at the end of 2013 were; Germany, Switzerland, Austria, France, the UK, the Netherlands, Spain, Italy, Sweden and Finland. France was particularly strong in 2013 with the largest of number of UCITS registrations taking place there - a total of 916 registrations.

Looking at the top markets outside Europe, we see that Asia experienced de-registrations across the majority of markets in 2013. Singapore has seen a significant decline in the number of fund registrations in 2013 compared to the prior year. Other key markets outside of Europe which have had notable changes in their registration numbers are Chile which has seen an increase in registrations over the last two years and Bahrain which has experienced a significant amount of de-registrations in 2013.

Cyprus, Malta, Mauritius and Lebanon have had an increase in the number of registrations in 2013 compared to previous years. Hungary and Portugal have experienced increases in the number of registrations in 2013 after experiencing a large number of de-registrations in the two previous years.

New registrations/de-registrations per region

Europe						
	2009	2010	2011	2012	2013	Total
Andorra	0	9	-1	0	0	8
Austria	-23	365	210	376	172	1,100
Belgium	35	224	259	-28	60	550
Bulgaria	30	-6	-3	3	60	84
Croatia	0	0	0	12	0	12
Cyprus	-11	14	55	0	196	254
Czech Republic	51	-143	-96	19	-1	-170
Denmark	-148	315	440	162	92	861
Estonia	12	-6	180	-16	-33	137
Finland	324	32	297	204	266	1,123
France	113	9	37	515	916	1,590
Germany	132	387	192	962	401	2,074
Gibraltar	-13	-4	65	37	18	103
Greece	-3	165	154	-1	72	387
Greenland	0	0	0	0	-1	-1
Guernsey	-38	2	-45	5	43	-33
Hungary	-6	165	-39	-8	119	231
Iceland	-3	-9	28	-14	87	89
Ireland	36	97	115	337	98	683
Italy	190	324	161	354	122	1,151
Isle of Man	-15	-16	-16	10	-16	-53
Jersey	-44	130	-49	-6	22	53
Latvia	26	-6	106	-14	-22	90
Liechtenstein	-29	240	-24	0	-43	144
Lithuania	17	16	-2	35	20	86

Europe

	2009	2010	2011	2012	2013	Total
Luxembourg	-78	96	96	439	162	715
Malta	-9	-3	7	-3	113	105
Monaco	1	1	1	0	1	4
Netherlands	85	345	42	768	68	1,308
Norway	-81	-4	37	267	316	535
Poland	121	-76	-40	8	1	14
Portugal	495	174	-172	-319	276	454
Romania	0	0	0	-23	9	-14
Slovakia	364	-66	-63	0	25	260
Slovenia	-2	-4	0	3	3	0
Spain	-136	464	196	134	80	738
Sweden	40	373	109	271	297	1,090
Switzerland	271	532	441	485	168	1,897
UK	20	350	492	662	138	1,662

Asia Pacific

	2009	2010	2011	2012	2013	Total
Australia	-20	-2	13	-4	-25	-38
Hong Kong	-221	15	16	-26	-54	-270
Japan	-2	7	5	2	1	13
Korea	-47	3	27	48	-1	30
Macau	-67	327	49	-20	-60	229
New Zealand	-34	0	4	-2	1	-31
Singapore	-120	-236	61	284	9	-2
Taiwan	47	13	5	9	-46	28

Americas

	2009	2010	2011	2012	2013	Total
Argentina	0	0	0	0	28	28
Canada	-15	-8	-1	6	0	-18
Cayman Islands	14	1	-3	-2	-1	9
Chile	120	-175	-191	206	189	149
Columbia	0	0	0	1	0	1
Mexico	6	-2	0	-1	-1	2
Panama	1	1	0	185	0	187
Peru	1	-66	44	-3	14	-10
Trinidad & Tobago	-3	-1	-4	0	0	-8
United States	-3	0	4	4	1	6

Middle East

	2009	2010	2011	2012	2013	Total
Bahrain	-102	-62	-150	13	-168	-469
Kuwait	0	0	0	0	3	3
Lebanon	0	1	-13	0	65	53
Oman	0	0	0	0	1	1
Qatar	0	0	0	0	5	5
Turkey	-12	-35	0	-9	-12	-68
United Arab Emirates	0	-1	6	32	-13	24

Africa

	2009	2010	2011	2012	2013	Total
Botswana	0	0	0	-2	0	-2
Egypt	0	0	0	0	-2	-2
Mauritius	-5	1	0	1	53	50
South Africa	108	-16	9	-19	-7	75

Source: *Lipper for Investment Managers (LIM), December 2013*

Marketing process

How does the UCITS passport work?

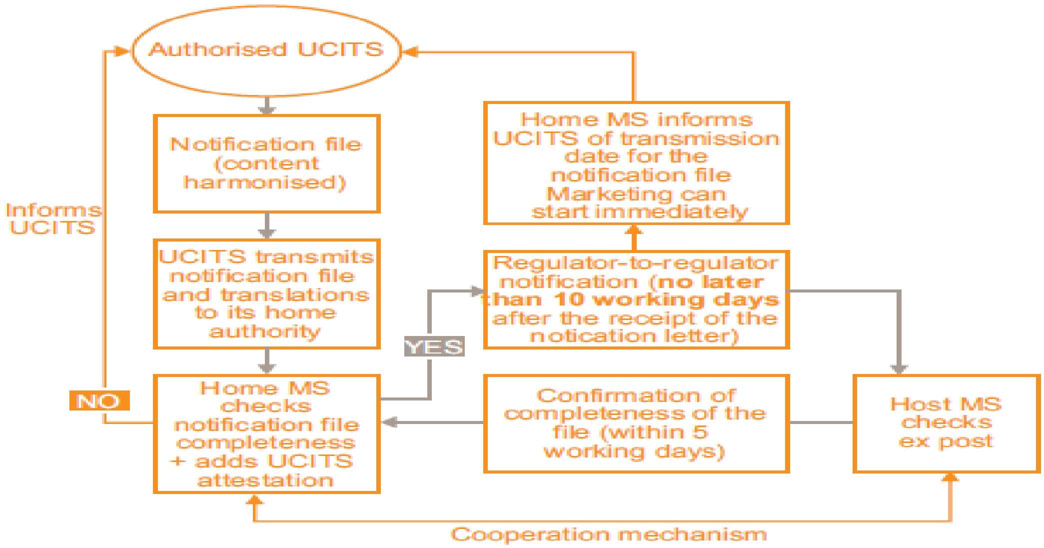
UCITS funds benefit from an EU wide "passport" which means that once they are authorised in one EU member state, they can be sold in any other EU member state without the need for any additional authorisation. How do they obtain this authorisation? This is called the notification procedure. This procedure for EU countries is as outlined below. Some countries may require additional documentation in the form of a prospectus supplement/addendum or may have specific service provider requirements. The procedure for selling UCITS funds outside of the EU is country specific.

The process of notification requires that where the fund is to be marketed in a host EU member state for the first time (either the umbrella, a sub-fund within that umbrella not previously notified or a single fund), a notification letter, together with all required attachments, must be submitted to the home state regulator of the UCITS.

Then the UCITS fund's home state regulator will review the submitted notification file and verify whether the documentation submitted by the UCITS or its delegated representative is complete before it is transmitted to the host state regulator. The home state regulator has 10 working days from the receipt of the notification file to notify the host state regulator.

Upon the transmission of the documentation, the competent authorities of the UCITS home state shall immediately notify the UCITS. The UCITS may then access the host state market in question as from the date of that notification.

The host state regulator has at most 5 working days to confirm to the home state regulator that the notification file has been received and the documents are printable and readable. The notification process is outlined in the diagram below.



List of documents to be provided:

- A notification letter - this is in a standard format and contains three sections of information relevant to the UCITS itself and the proposed marketing of the UCITS in each host EU member state. There must be a notification letter for each host EU member state in which the UCITS wishes to publicly market its shares or units;
- Fund rules or its instruments of incorporation;
- Prospectus;
- Latest annual report and any subsequent half-yearly report; and
- Key investor information document (KIID).

The notification letter for the attention of the host regulator to market a fund in a particular country must provide the following information:

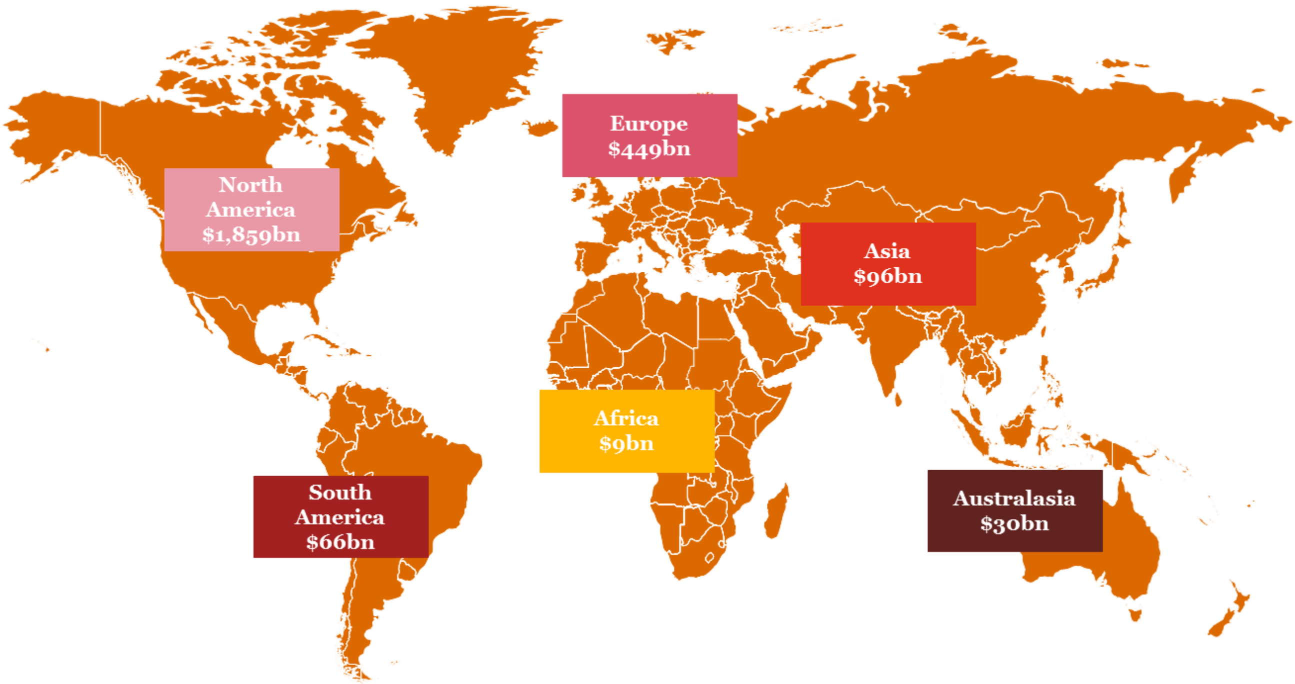
1. Type/name of the entity in charge of the marketing of units of the UCITS in the particular country.
2. Details of the paying agent.
3. Details of any other person from whom investors may obtain information and documents.
4. Name and place of the entity where investors may obtain the net asset values, issue and redemption prices, the last prospectus, the last financial reports, the fund rules/articles of incorporation and, as far as enabled, access to the contracts arranged with the UCITS.
5. Any other information required by the host regulator in terms of details of any information disclosed to unit holder or their agents.
6. Details of the use of any exemptions that are available in a country in relation to marketing arrangements.

Alternative Investment Funds (AIFs)

Overview

The alternative investment funds industry is very different to the mutual funds industry – it includes hedge funds, private equity, venture capital and real estate funds. For the purposes of this report we have limited our focus to hedge funds only. Globally the hedge funds industry accounts for USD 2.5 trillion- this figure marks an increase of almost 13.5% from the figure at the end of 2012. This represents one of the biggest 12-month increases since the financial crisis erupted in 2008. The map below shows a breakdown of hedge fund assets by region as of the end of 2013. We can see Europe is the second largest region for hedge funds in the world with USD 449 billion.

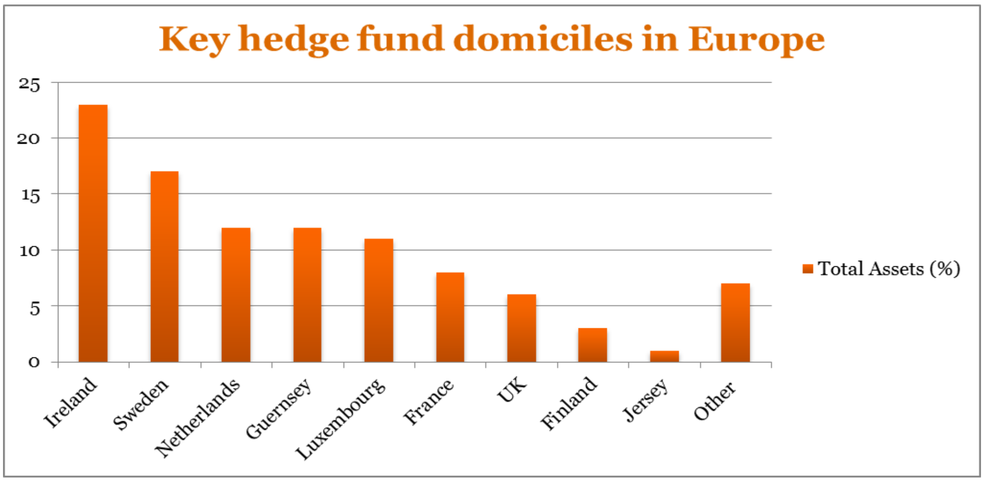
Global Hedge Fund Assets by Region



Source: *HedgeFund Intelligence 2013*

Final figures for 2013 put the growth in global hedge fund in relation to performance-based gains and net asset inflows for the year at US$103 billion and US$137 billion respectively. (Source: Eurekahedge)

Assets in hedge funds are mostly domiciled offshore or structured as limited partnerships in the US. Key domiciles for hedge funds outside of Europe are the US, Cayman, Australia and Brazil. The key domiciles within Europe are outlined in the chart below.

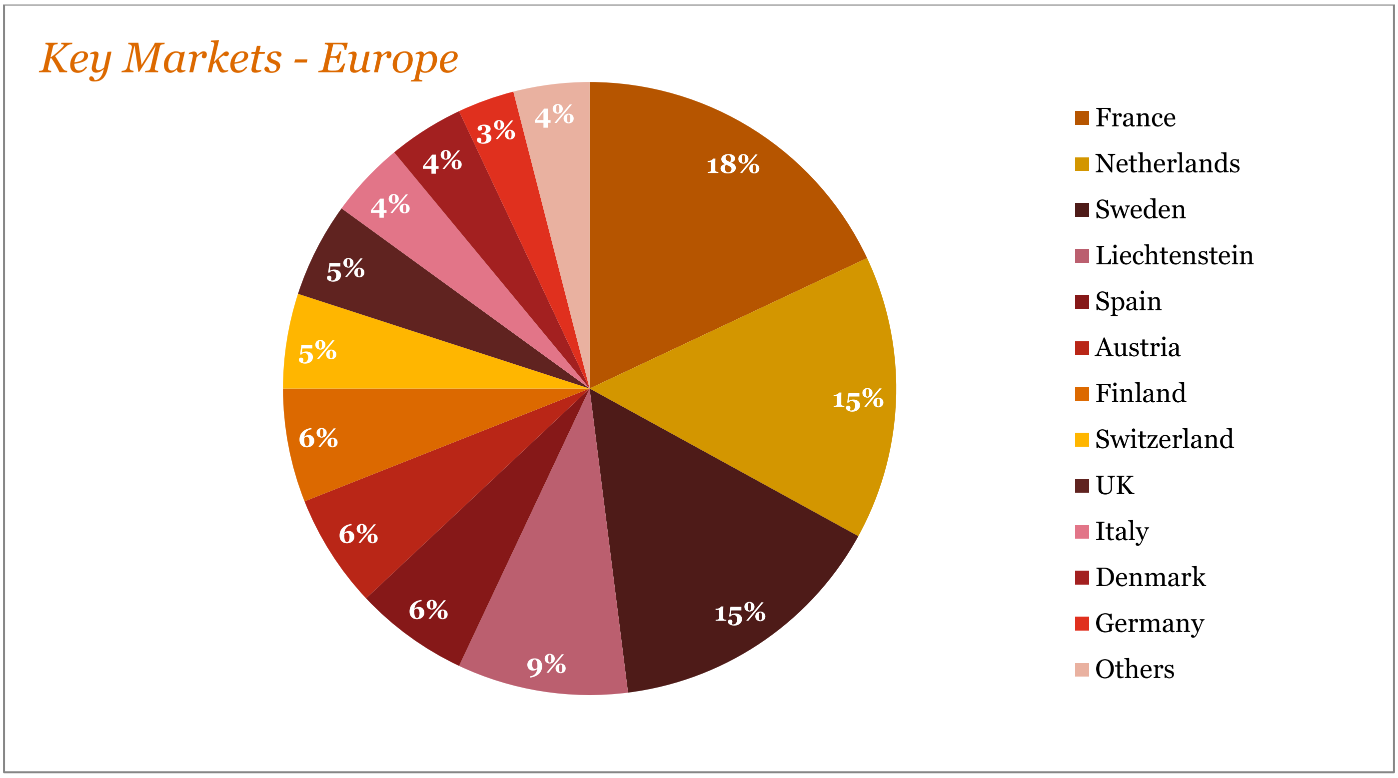


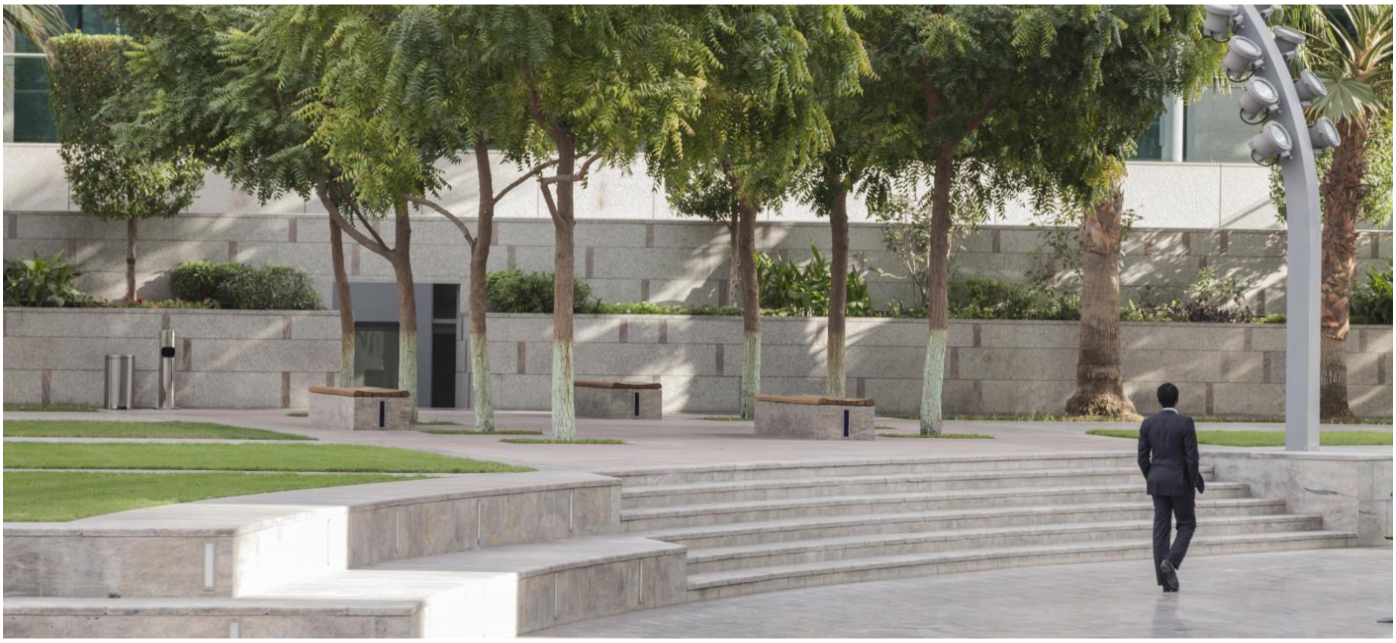
Other: *Austria, Belgium, Cyprus, Denmark, Germany, Gibraltar, Greece, Isle of Man, Italy, Liechtenstein, Macedonia, Malta, Monaco, Poland, Portugal, Spain and Switzerland.*

Source: *Lipper for Investment Managers (LIM)- November 2013*

Key markets

Hedge funds are sold mainly on a private placement basis to professional investors and high net worth individuals. As they are not sold to retail investors, quantifying the key markets where they are sold is no easy task. UCITS fund managers register their funds for sale in the most popular markets where they know there are retail investors available to invest. Locating investors for hedge funds is more complicated. To date there has been little transparency in relation to the sale of hedge funds, because, unlike UCITS it has not been necessary to register hedge funds in every market where they are being sold. This will change under the AIFMD. The introduction of the passport for alternative investment funds will make the distribution process in Europe similar to the UCITS process. There are over 7,600 hedge funds listed in the Lipper for Investment Manager (LIM) database of which 1,700 share some details on where they are currently registered for sale. This gives some insight as to where these hedge funds are currently being sold.





Marketing process

Under the AIFMD, European alternative fund managers can now avail of a marketing passport to distribute alternative investment funds (AIFs) within the EU, similar to the UCITS Directive. Currently, AIFs are sold on a private placement basis with various different rules for different countries. AIFMD will harmonise how AIFs are sold in the long term.

Currently there are two ways to sell AIFs to European investors:

1. The AIFMD passport can be used if a fund promoter has an Alternative Investment Fund Manager (AIFM) based in an EU member state with a European domiciled AIF or alternatively the fund promoter establishes a European domiciled self-managed AIF (which is authorised both as the fund and the AIFM). From 2015, EU /non-EU AIFMs may also have the possibility of using the marketing passport for non-EU AIFs.

2. Non-EU structures may continue to be distributed in various European countries using National Private Placement Rules (NPPRs) for as long as they remain available for use. However, these NPPRs are constantly evolving across territories and are due to be assessed by the European Commission between the end of 2017 and July 2018 which could potentially result in the phasing out of such NPPRs.

The table below outlines the marketing options available depending on location of AIF and AIFM.

Domiciles / marketing	Does AIFMD apply?	Marketing Arrangements
EU AIFM/ EU AIF – marketed in EU	Yes	EU Passport (July 2013)
EU AIFM/ EU AIF – not marketed in EU	Yes	None
EU AIFM/ Non-EU AIF – marketed in EU	Yes	NPPRs (2013 to 2018) EU Passport (from mid 2015) *
EU AIFM/Non-EU AIF – not marketed in EU	Yes	None
Non-EU AIFM/ Non-EU AIF – marketed in EU	Yes	NPPRs (2013 to 2018) EU Passport (from mid 2015) *
Non-EU AIFM/ Non-EU AIF – not marketed in EU	No	None
Non-EU AIFM/ EU AIF – marketed in EU	Yes	NPPRs (2013 to 2018) EU Passport (from mid 2015) *
Non-EU AIFM/ EU AIF – not marketed in EU	Yes	None

*Dependent on assessment by European Securities and Markets Authority (ESMA)

How does the AIFMD passport work?

The passporting procedure under AIFMD is similar to that as outlined previously for UCITS funds. Once an AIFM is authorized in one EU member state, the passport permits the AIFM to market units or shares of any EU AIF that it manages to professional investors in the home member state of the AIFM as well as any other EU member state.

For passporting purposes, a professional investor must meet the definition of professional investor set out in the Markets in Financial Instruments Directive (MiFID). According to MiFID, a professional client is a client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs. In order to be considered a professional client, the client must comply with criteria outlined in Annex II of the MiFID Directive.

In practice, to gain this authorization, the AIFM must notify its home state regulator who will transmit their request to each host state regulator in which the AIFM wishes to market. The AIFM must provide the following documentation to gain authorization to use the passport:

- Notification letter;
- AIF rules or instruments of incorporation;
- Identification of depositary;
- Description of information on EU AIF available to investors;
- Information on where the master EU AIF is established if it is a feeder EU AIF;
- Indication of the Member State in which it intends to the market the EU AIF;
- Pre-investment information to be made available to investors (as set out in Article 23(1) of AIFMD). This includes information such as details on investment strategy and objectives, fees, latest net asset value or market value, latest annual report etc.; and
- Where relevant , the information on the arrangements in place to prevent the units or shares in the EU AIF being marketed to retail investors including in the case where the AIFM relies on the activities of independent entities to provide investment services in respect of the EU AIF.

The AIFMD states that within 20 working days following receipt of a complete notification file, the AIFM's home state regulator will inform the AIFM if it may start marketing the EU AIF. Where a positive notification is received, the AIFM can start marketing with effect from the date of receipt. The AIFM's home state regulator can prevent marketing only if the AIFM's management of the AIF does not or will not comply with the terms of the AIFMD or the AIFM otherwise does not or will not comply with the terms of the AIFMD.

Where there is a material change to any of the documentation submitted as part of the passport application, the AIFM has to provide its home state regulator with at least 1 months' notice of the change where the change is planned by the AIFM or immediately after an unplanned change.

Non-EU AIFM seeking an EU passport post-2015

It is possible that non-EU AIFMs may be able to apply for authorization to market EU/non EU AIFs under the passport system from 2015 onwards. However, please note that the availability of the passport is subject to a positive decision to extend the passport to non-EU AIFM by the ESMA (which is not certain at this time).

Additional conditions will apply for a non-EU AIFM:

- the non-EU AIFM must comply with all of the provisions of the AIFMD;
- the non-EU AIFM must seek authorization as an AIFM from its member state of reference ("MSR") which is the EU member state where the AIFM intends to "develop effective marketing" for most of its AIFs. It must also have a "legal representative" established in its MSR which is to be the official point of contact for the MSR regulator and will be responsible for "the compliance function relating to the management and marketing activities performed by the AIFM under AIFMD together with the AIFM";
- appropriate cooperation arrangements must be in place between the regulator of the MSR and the regulators of the countries where each of the non-EU AIF and the non-EU AIFM are established;
- neither the country where the non-EU AIFM nor the non-EU AIF are established must be listed as a Non-Cooperative Country and Territory by the Financial Action Task Force; and
- the countries where the non-EU AIFM and the non-EU AIF are established must each have signed a tax information sharing agreement with the MSR which complies with the OECD model tax convention.

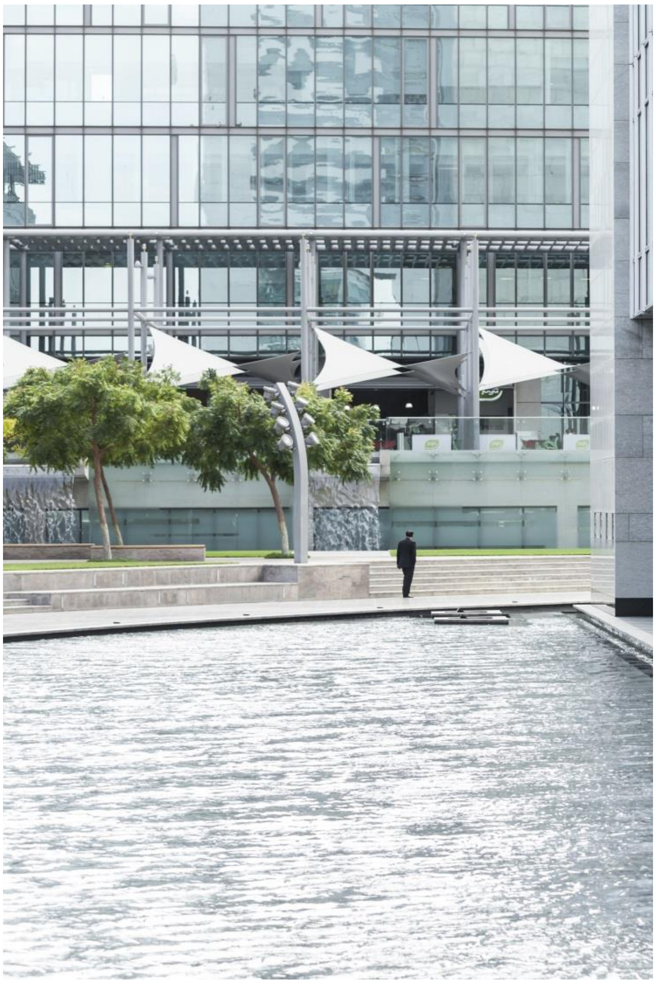
How do the NPPRs work?

National Private Placement Rules (NPPRs) must be used by non-EU AIFMs that cannot avail of the European passport in order to market their AIFs in Europe. However, individual member states may move to abolish or restrict the use of NPPRs, now that the AIFMD is in force.

The majority of EU countries intend to allow some form of private placement but the requirements vary among member states. All countries that intend to allow private placement will apply at least the minimum AIFMD standards outlined below and require notification from to the home state regulator of the intention to market in the country.

- the manager must comply with the provisions of the AIFMD relating to the annual report and disclosure to investors (including disclosure as to aggregate remuneration);
- the manager must comply with detailed reporting requirements under the AIFMD to national Regulators in each of the member states in which they intend to privately place their AIFs. Such reporting must be completed quarterly, semi-annually or annually depending on the value of the assets under management of the AIFM. The reporting requirements includes details on the principal markets on which an AIFM trades, instruments traded, principal exposures, important concentrations, illiquid assets, special arrangements, risk profiles, risk management systems, stress testing results, list of all AIFs managed, leverage in the AIFs and sources of leverage. Individual Member States may impose stricter reporting rules;
- if the manager manages an AIF which acquires control of a non-listed company, the provisions of the AIFMD relating to major holdings and control must be complied with;
- appropriate cooperation arrangements must be in place between the regulator of the member state where the AIF is marketed and the regulator of the AIFM's non-EU country;
- appropriate cooperation arrangements must be in place between the competent authorities of the member state where the AIF is marketed and the country where the non-EU AIF is established; and
- the non-EU country must not be listed as a Non-Cooperative Country and Territory by the Financial Action Task Force.

Some countries have additional requirements to what is outlined above. For example, France has elected to impose such significant additional requirements on non-domestic AIFMs seeking to market under France's private placement regime that it could be extremely difficult to market AIFs in France. Germany is one of a small number of EU countries that will require non-EU AIFMs of non-EU AIFs to appoint an entity to carry out the so called "depositary-lite" duties of cash monitoring, safekeeping of assets and oversight and verification, a requirement under the Directive applied only to EU AIFMs marketing non-EU AIFs. Austria has imposed a tax treaty condition for non-EEA AIFs. The UK, Ireland, Luxembourg and Sweden are part of a group of countries that have not imposed additional conditions. The list of countries that are open for private placement are as follows: Austria, Bulgaria, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Ireland, Lithuania, Luxembourg, the Netherlands, Romania, Slovakia, Sweden and the UK.



European Fund Sales

The European fund market can be divided in two categories; domestic and cross border. Domestic markets are where funds are set up and sold in the same country due to the large volume of potential local investors. The cross border fund business in Europe mainly focuses around Ireland and Luxembourg. Initially, it was unfavourable tax laws in some European countries and the availability of the UCITS passport that triggered the establishment of funds into these jurisdictions. However, over time the experience and expertise in both locations has solidified the choice of these two countries as the European domiciles of choice for cross border fund distribution in Europe. The cross border market is comprised of funds set up in these locations but sold in various other countries around Europe and beyond.

The tables below outlines the domestic and foreign sales split in key markets over the last four years.

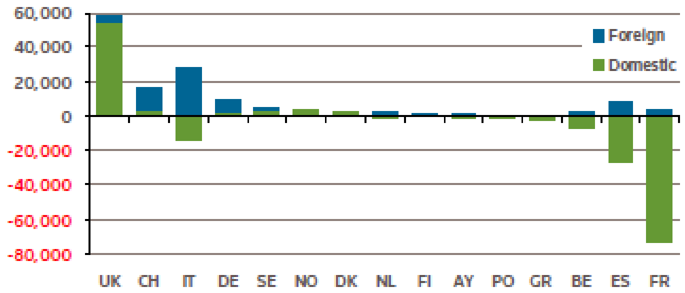
- Green - Domestic sales e.g. Italian domiciled funds selling in Italy; and

- Blue - Foreign sales e.g. Irish/Luxembourg domiciled funds selling in Italy.

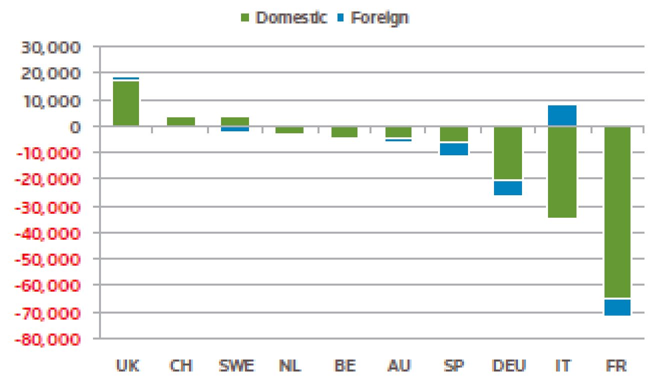
Interestingly, the graphs clearly show the decline of domestic sales over the last four years and the subsequent growth of cross border sales. France is a good example of this where we can see the dominance of foreign fund sales over the last two years and a big decline in domestic sales in the two previous years. The UK is another big domestic market which has seen some notable growth in cross border fund sales over the last two years. Italy, Germany and Spain seem to be leaning towards a more even split between domestic and foreign sales. Belgium and Switzerland are also experiencing some dominance in relation to foreign sales.

Foreign share of sales in Europe – Net sales of cross-border groups by market over last 4 years (€M)

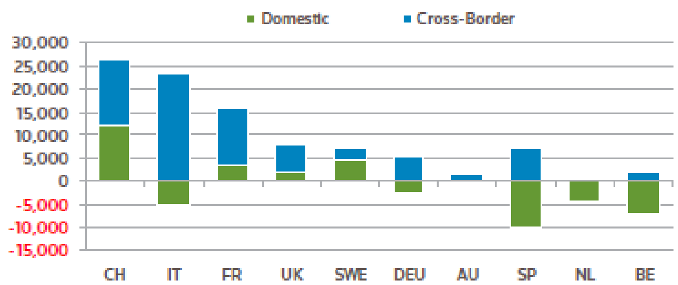
2010



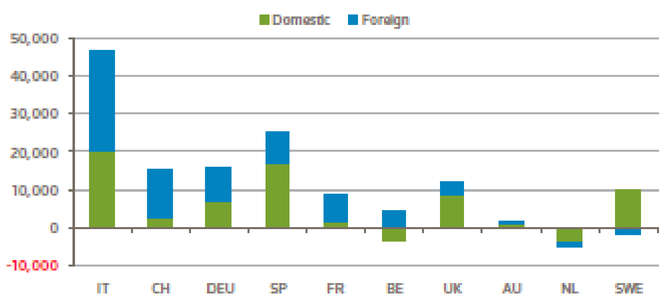
2011



2012



2013



Source: *Lipper – European Fund Market Reviews 2011-2014*

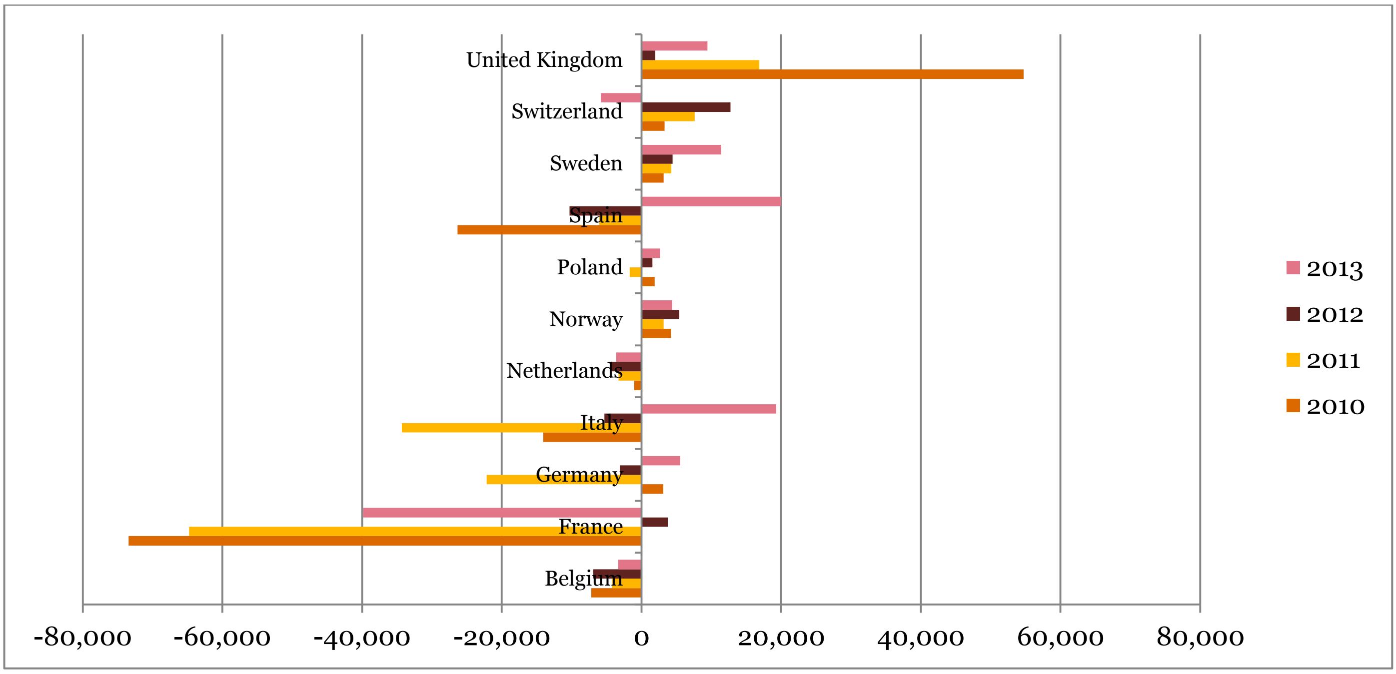
The table below lists net sales per country. A fund is allocated to a specific country if more than 80% of the assets are sourced from that country. If less than 80% are sourced from one country i.e. a fund is cross-border and sold in various countries, this fund is categorized as International. So for example, a fund domiciled in Belgium selling into Czech Republic, will be counted in the Czech Market, not Belgian. A Luxembourg/Ireland fund selling on a cross-border basis will be counted as International, regardless of the number of countries from which sales are sourced. There has been over EUR 500bn in fund net sales in Europe over the last 4 years, EUR 400bn of which has been in bond fund sales and EUR 100bn in equity fund sales.

Estimated net sales per country (€m)

Country	2010	2011	2012	2013	Total 2010 - 2013	Ranking Based on Total
Austria	-947	-4,503	224	487	-4,739	28
Belgium	-7,198	-4,178	-6,891	-3,339	-21,606	30
Bulgaria	25	-3	2	59	83	18
Croatia	155	-170	97	43	125	17
Czech Republic	-40	-180	469	671	920	12
Denmark	2,727	-1,465	1,165	473	2,900	9
Estonia	-41	-15	-31	55	-32	23
Finland	222	-1,362	1,314	1,397	1,571	11
France	-73,421	-64,791	3,766	-39,847	-174,293	33
Germany	3,131	22,161	-3,112	5,553	27,733	3
Greece	-1,443	-975	-166	-707	-3,291	27
Hungary	1,240	-709	109	2,482	3,122	8
International	220,752	45,938	182,223	157,019	605,932	1
Italy	-14,032	-34,287	-5,285	19,295	-34,309	32
Latvia	10	-25	2	-4	-17	22
Liechtenstein	119	138	-33	-52	172	16
Lithuania	6	-13	-4	4	-7	20
Luxembourg	518	96	518	-435	697	13
Malta	-10	-85	-12	176	69	19
Netherlands	-1,041	-3,296	-4,537	-3,615	-12,489	29
Norway	4,247	3,181	5,406	4,427	17,261	6
Poland	1,908	-1,656	1,582	2,659	4,493	7
Portugal	-2137	-1,668	777	585	-2,443	26
Romania	511	275	344	762	1,892	10
Russia	-27	26	-126	416	289	14
Slovakia	274	-517	-6	508	259	15
Slovenia	63	-31	-89	-84	-141	24
Spain	-26,348	-6,012	-10,285	19,979	-22,666	31
Sweden	3,159	4,277	4,477	11,407	23,320	4
Switzerland	3,309	7,612	12,762	-5,796	17,887	5
Turkey	238	-866	-758	-527	-1,913	25
Ukraine	-0.7	-3	-5	-4	-13	21
United Kingdom	54,729	16,894	1,997	9,441	83,061	2
Overall Total	**170,657**	**-26,212**	**185,894**	**183,488**	**513,827**	

Source: *Lipper – European Fund Market Reviews 2011-2014*

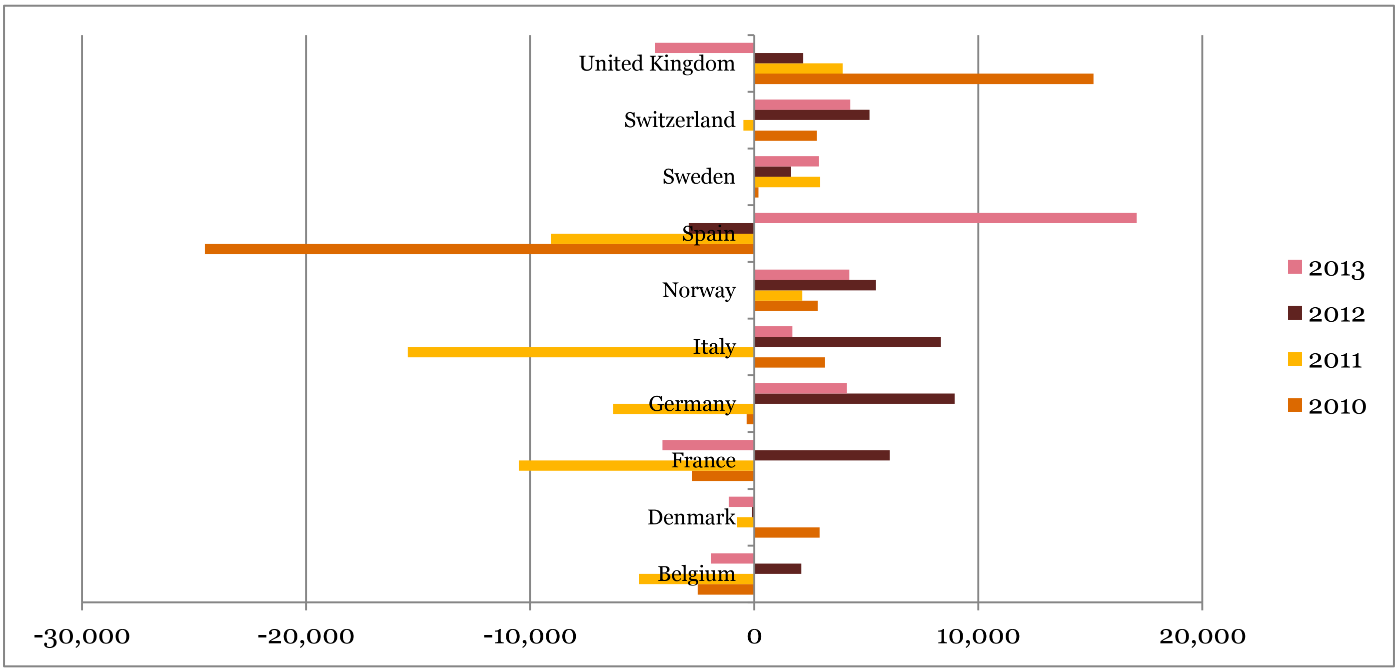
Estimated net sales per country (€m) for key markets (excluding international markets) - Overall



Source: *Lipper – European Fund Market Reviews 2011-2014*

If we examine some of the largest markets in Europe over the last 4 years in the above chart, we see that the UK, Sweden and Norway have had the greatest amount of net sales. Italy, Germany and Spain have seen growth in 2013 but net outflows until this point. The Netherlands, France and Belgium have all experienced net outflows over the last four years. The top ten markets of 2013 as per the table on the previous page are; International, Spain, Italy, Sweden, the UK, Germany, Norway, Poland, Hungary and Finland.

Estimated net sales per country (€m) for key markets (excluding international markets) – Bond Funds



Source: *Lipper – European Fund Market Reviews 2011-2014*

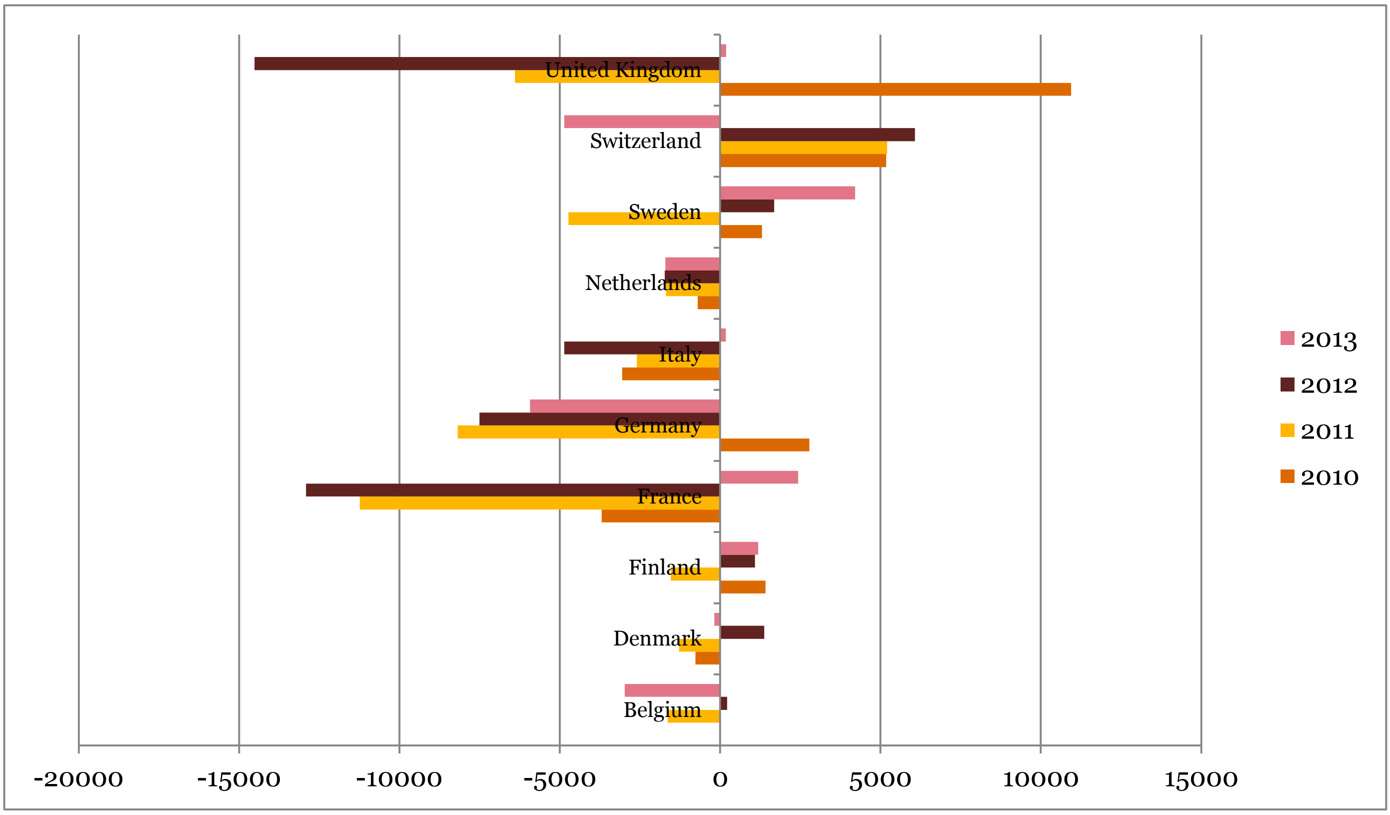
The chart on the previous page shows that bond funds are selling well in Switzerland, Sweden and Norway. They have also experienced good sales in Germany and Italy over the last two years and had a big year in Spain in 2013. Net sales of bond funds have not fared as well in France, Denmark and Belgium. The table below outlines net sales for bond funds for all markets in Europe over the last four years. The top ten bond markets in 2013 were; International, Spain, Norway, Germany, Sweden, Italy, Hungary, Finland, Russia and Romania.

Estimated net sales per country (€m) – Bond Funds

Country	2010	2011	2012	2013	Total 2010 - 2013	Ranking Based on Total
Austria	-1,206	-3,362	728	236	-3,604	30
Belgium	-2,527	-5,148	2,105	-1,943	-7,513	31
Bulgaria	4	-5	2	15	16	18
Croatia	77	-66	-39	19	-9	23
Czech Republic	38	114	527	39	718	13
Denmark	2,917	-773	-92	-1,132	920	11
Estonia	3	4	2	-5	4	20
Finland	-178	-882	1,089	827	856	12
France	-2,775	-10,511	6,050	-4,091	-11,327	32
Germany	-333	-6,298	8,937	4,134	6,440	6
Greece	-388	-370	-210	-412	-1,380	27
Hungary	-0.6	-45	143	1,127	1,224	8
International	130,723	26,212	182,123	71,848	410,906	1
Italy	3,160	-15,461	8,335	1,704	-2,262	28
Latvia	9	4	2	16	31	16
Liechtenstein	14	-22	33	-49	-24	24
Lithuania	3	0.6	2	2	7.6	19
Luxembourg	-104	-78	-65	-131	-378	25
Malta	0	-44	14	79	49	15
Netherlands	-428	-1,235	-826	-731	-3,220	29
Norway	2,826	2,143	5,434	4,241	14,644	3
Poland	761	49	3,664	-408	4,066	7
Portugal	-527	-266	130	-191	-854	26
Romania	193	191	267	530	1,181	9
Russia	85	112	246	648	1,091	10
Slovakia	107	-109	6	44	48	14
Slovenia	24	15	2	-13	28	17
Spain	-24,510	-9,076	-2,920	17,074	-19,432	33
Sweden	183	2,945	1,640	2,884	7,652	5
Switzerland	2,783	-481	5,142	4,282	11,726	4
Turkey	-79	-656	562	175	2	21
Ukraine	1	0.7	0	-0.3	1	22
United Kingdom	15,136	3,942	2,189	-4,435	16,832	2
Overall Total	**125,991**	**-19,156**	**225,222**	**96,382**	**428,440**	

Source: *Lipper – European Fund Market Reviews 2011-2014*

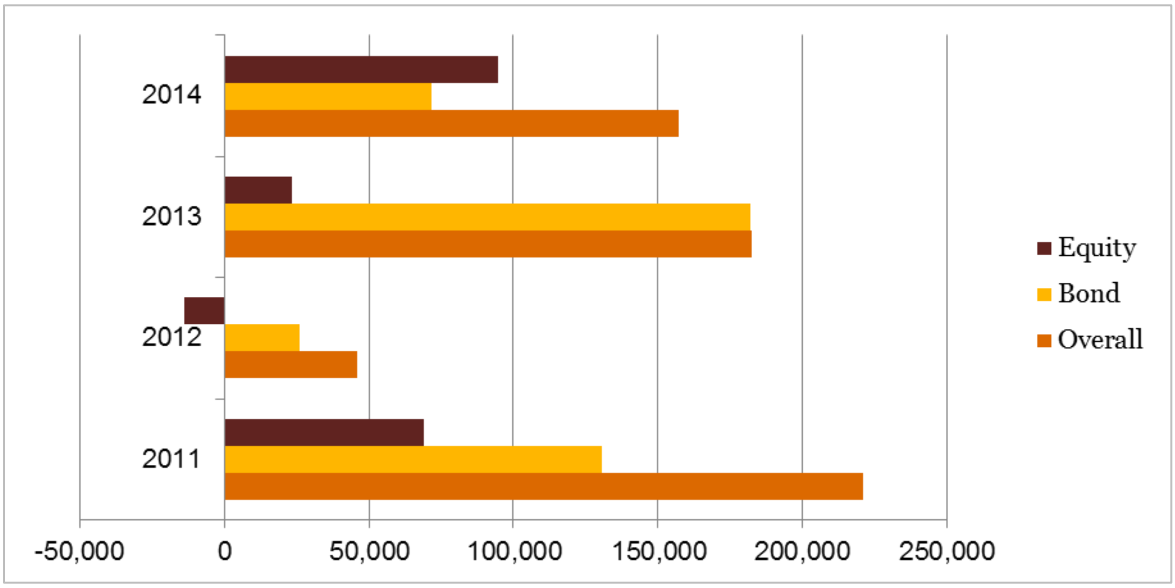
Estimated net sales per country (€m) for key markets (excluding international markets) – Equity Funds



Source: *Lipper – European Fund Market Reviews 2011-2014*

The chart above shows that equity funds are selling well in Sweden and Finland. Bond funds were selling well in Switzerland but have seen a dip in 2013. Generally, it would appear that equity funds have not been selling well in any of the other key markets. France has seen a slight uptake in 2013. A table outlining net sales for equity funds for all markets in Europe over the last four years is included on the next page. The top ten equity markets in 2013 were; International, Sweden, Spain, France, Norway, Finland, Poland, Czech Republic, Luxembourg and the UK.

Estimated net sales (€m) for international markets



Source: *Lipper – European Fund Market Reviews 2011-2014*

Estimated net sales per country (€m) – Equity Funds

Country	2010	2011	2012	2013	Total 2010 - 2013	Ranking Based on Total
Austria	156	-1,015	8	300	-551	22
Belgium	1	-1,638	221	-2,974	-4,390	28
Bulgaria	-0.7	-2	2	10	9.3	14
Croatia	-6	-46	-46	-23	-121	20
Czech Republic	63	30	140	235	468	8
Denmark	-767	-1,275	1,378	-179	-843	27
Estonia	-24	-19	-34	60	-17	18
Finland	1,417	-1,538	1,088	1,187	2,154	5
France	-3,691	-11,239	-12,914	2,435	-25,409	33
Germany	2,786	-8,183	-7,510	-5,932	-18,839	32
Greece	-53	-110	-67	-117	-347	21
Hungary	3	-671	-63	-36	-767	26
International	68,938	-13,984	23,256	94,524	172,734	1
Italy	-3,055	-2,594	-4,860	182	-10,327	31
Latvia	4	-2	0.7	0	3	15
Liechtenstein	53	122	-56	27	146	10
Lithuania	-2	-4	-3	-2	-11	17
Luxembourg	42	21	248	217	528	7
Malta	-0.1	-0	-0.5	21	20	13
Netherlands	-700	-1,692	-1,727	-1,713	-5,832	29
Norway	799	-409	729	1,247	2,366	4
Poland	-91	-758	-473	683	-639	24
Portugal	24	-271	-343	-50	-640	25
Romania	19	24	-9	-3	31	12
Russia	-78	-60	-287	-158	-583	23
Slovakia	33	-18	-13	38	40	11
Slovenia	33	14	-32	-62	-47	19
Spain	-313	-375	-597	2,831	1,546	6
Sweden	1,305	-4,734	1,684	4,213	2,468	3
Switzerland	5,176	5,203	6,078	-4,860	11,597	2
Turkey	139	127	-47	127	346	9
Ukraine	2	-0.2	-0.2	-0.3	1	16
United Kingdom	10,940	-6,402	-14,520	188	-9,794	30
Overall Total	**83,152**	**-51,498**	**-8,769**	**92,415**	**115,300**	

Source: *Lipper – European Fund Market Reviews 2011-2014*

Distribution channels

The table below outlines the main distribution channels in the key fund distribution countries in Europe. Banks are the largest channel by far. There has been much debate over the years as to whether this dominant channel will eventually be out ranked by other channels.

Key Fund Distribution Channels

	Banks Private & Retail	Insurance/ Wrappers	Fund of Funds (FOFs)	IFA/platforms/ Distribution companies	Other financial institutions i.e. pensions
Austria	✓	✓	✓	✓	✓
Belgium	✓	✓			
Denmark	✓			✓	✓
Finland	✓	✓	✓	✓	✓
France	✓	✓	✓	✓	✓
Germany	✓	✓	✓	✓	✓
Gibraltar	✓	✓	✓	✓	✓
Guernsey	✓	✓	✓	✓	✓
Ireland	✓	✓	✓	✓	✓
Isle of Man	✓	✓	✓	✓	✓
Jersey	✓	✓	✓	✓	✓
Italy	✓	✓	✓		
Luxembourg	✓	✓	✓	✓	✓
Malta	✓		✓	✓	✓
Netherlands	✓	✓		✓	
Portugal	✓				✓
Spain	✓	✓	✓	✓	✓
Sweden	✓	✓	✓	✓	✓
Switzerland	✓	✓	✓	✓	✓
UK	✓	✓	✓	✓	✓

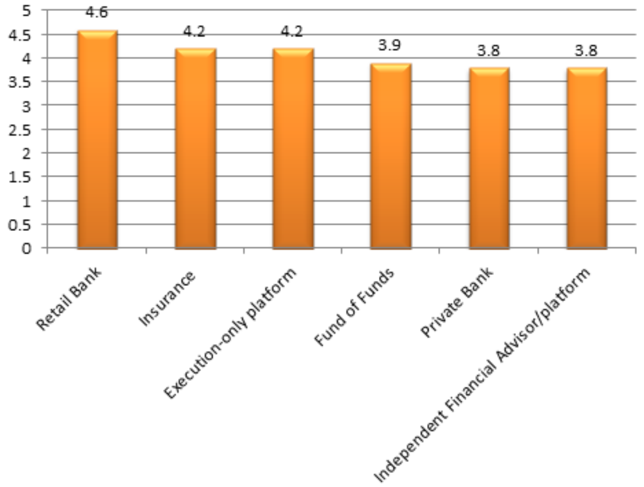
Source: *PwC Research*

Over the years, most distributors have shifted from the integrated old model to an “open architecture” model, which allows clients to choose from a whole range of third party funds. The vast majority of European platforms operate in an open architecture environment. Private banks and fund supermarkets have also adopted this model. Retail banks and Independent Financial Advisers (IFAs) have shifted toward the guided architecture model and put in place distribution agreements with a few selected asset management houses which they trust. Fund managers generally still operate in a closed architecture environment. Will we see an increase in demand for open architecture solutions across Europe? It remains to be seen, but smaller boutique managers may need to move to platforms in order to survive and compete against the bigger brands. A platform offers them the opportunity to access important distributors and outsource non-core activities.

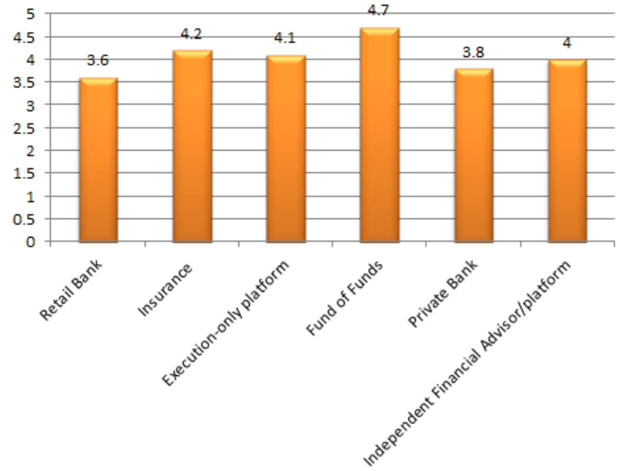
Europe is a very fragmented market when it comes to distribution channels. In Central and Eastern Europe it’s all about retail banks. In Switzerland and the Nordics, it is all about the private banking sector. The UK is dominated by the IFA channel. This is set to change due to the new Retail Distribution Review (RDR) regulation, which is discussed in more detail in the Regulatory Impacts section of this document. Banks are not as big a channel in the UK as in other countries and other channels such as fund of funds or insurance companies may take the place of IFAs over time. Continental Europe is still bank dominated but continued growth in the private banking channel is expected.

The results below are from a survey completed by The Platforum in February 2013. Survey respondents were asked to rank 6 different distribution channels according to perceived growth potential and to allocate a score between 1 and 7. Separate countries and regions were identified and respondents were asked to rank growth potential by region and channel.

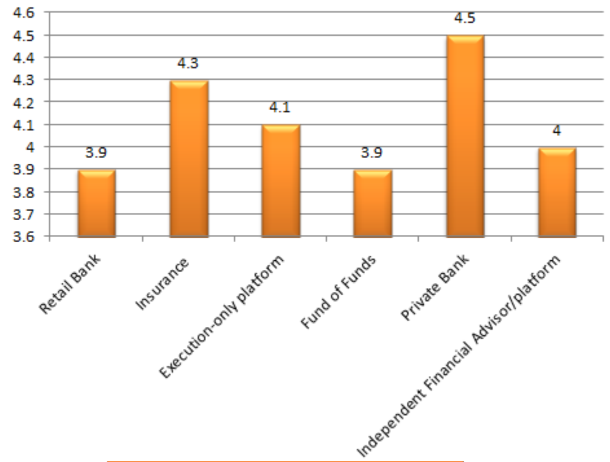
Europe - Overall



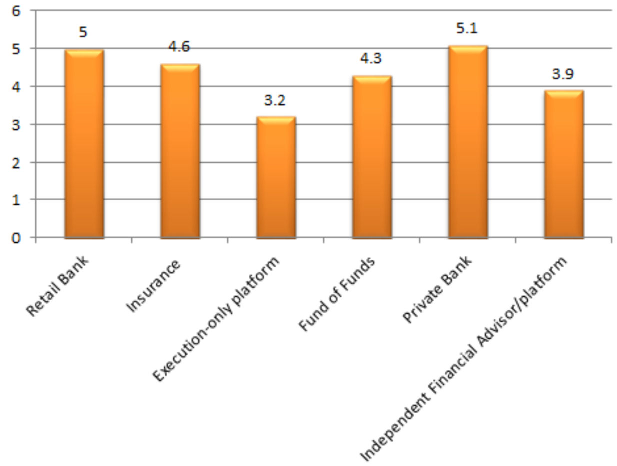
The UK



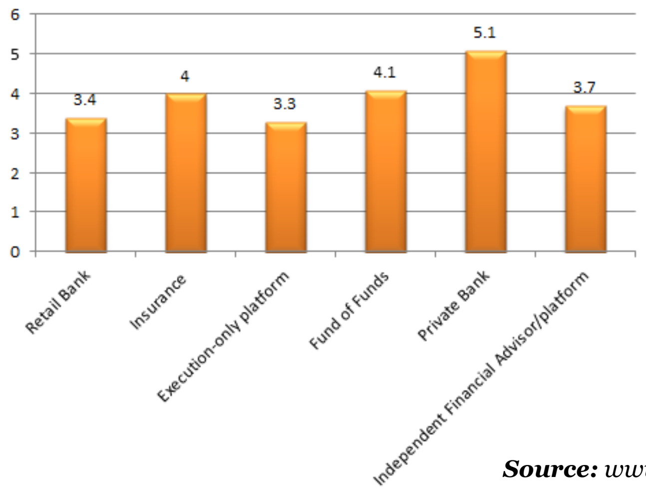
Europe - Continental



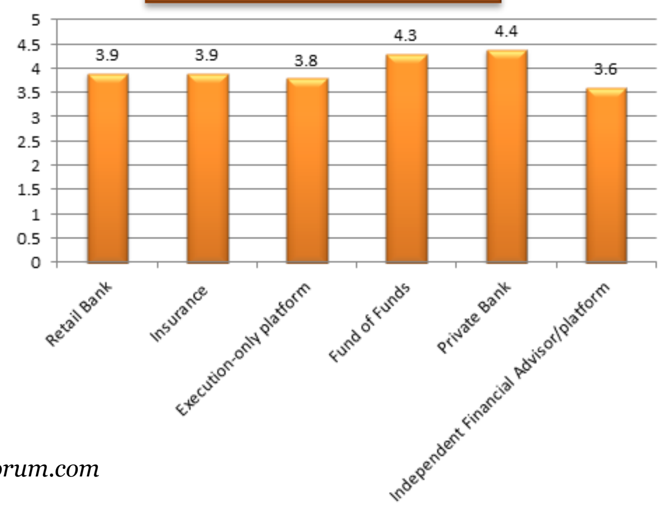
Europe – Central & Eastern



Switzerland



Nordics



Source: *www.platforum.com*

The Future of Fund Distribution

Our 'Asset Management 2020 – A Brave New World' report launched in February 2014 outlining our views on the future of fund distribution. It states that by 2020, four distinct regional fund distribution blocks will have formed which will allow products to be sold pan-regionally. These are: North Asia, South Asia, Latin America and Europe. As these blocks form and strengthen, they will develop regulatory and trade linkages with each other, which will transform the way that asset managers view distribution channels.

The US will most likely not be a part of these developments as it continues to adhere to its existing investment company Regulatory model. Reciprocity within the four regions will facilitate far greater global distribution opportunities for AM firms. While interblock linkages will begin to form, we believe they will be rare until after 2020. So how will these blocks form and the linkages between them develop?

First, there will be far greater Regulatory integration within the Greater China bloc including China, Hong Kong and Taiwan. The Hong Kong–China mutual recognition will be fully established and the framework will have been adjusted to enable flexible product with retail distribution from Hong Kong into China. Taiwan will also have joined the link-up.

In South-East Asia, the ASEAN countries' efforts to create a structure that allows recognition of mutual funds in all countries of the region will be well-established by 2020. The original ASEAN platform of Singapore, Thailand and Malaysia will now include Indonesia, the Philippines and Vietnam, all emerging countries with large numbers of wealthy middle-class investors.

Both the North Asia and South Asia regions will, by 2020, have created initiatives that facilitate cross-selling of investment funds. The APEC Asia Funds Passport initiative will be in existence, with the first fund launched in 2016 by the founding members – Australia, New Zealand, Singapore and Korea. By 2020, other countries such as Japan will have come into the fold. As a result, the regional cross-border fund passporting regimes will have started to enter interregional bilateral agreements, paving the way for an integrated passport at a quasi-global level and allowing asset managers to distribute products across Asia.

At the same time, most of Latin America will have agreements which will allow funds established in one country to be distributed in another without the need for full registration – and all the expense and resource this entails.

Meanwhile, the UCITS structure, which binds the European investment landscape will continue to gain traction within Europe and in Asia and Latin America, where it has already established strong roots. Reciprocity between the SAAAME (South America, Asia, Africa and Middle East) markets and Europe will be developing quickly by 2020, building on the reciprocity of the AIFMD model, which allows non-EU alternative funds to be distributed in Europe. Already by 2013, 70 memoranda of understanding for AIFMD had been signed by the European Securities and Markets Authority.

The move to regionalisation will not result in the immediate creation of fund flows. The recognition and adoption of global platforms will be slow but steady. UCITS, which is the only regional platform that currently exists, saw assets rise steadily rather than spectacularly in the early years. Since the introduction of the Directive in 1988, UCITS have grown to 41% of total assets managed in Europe and above 50% of net sales. It is likely that other investment funds will benefit from this precedent in terms of cross-border or global distribution. Europe has an opportunity to open itself up to greater flows by 2020 and it is to be hoped that regulation focusing on protectionism does not impact this potential growth. Although, this concern exists in 2014, we do not feel it will materialise in the longer term.

Beneficiaries in these burgeoning linkages will be territories that can demonstrate a framework of long-term stability and commitment to serving an international fund industry. This is likely to be the so-called gateway locations of Ireland, Luxembourg and, increasingly, Hong Kong and Singapore. They are small enough to ensure a limited domestic agenda and have demonstrated a proven record in providing experienced resources to service the industry. In a world of increasing focus on systemic global risk, however, the price of such a position will be greater scrutiny by foreign Regulators. We will also see some of the traditional offshore locations, such as Cayman or the Antilles, retool themselves as secure and regulated jurisdictions, and then potentially accessing the Mercosur block (Argentina, Bolivia, Brazil, Paraguay, Uruguay and Venezuela). Traditional asset management hubs, such as London, New York, Frankfurt, and Paris will continue to dominate the management landscape, but this will begin to change as new centres of asset management emerge with the shift in global assets.

The huge global platforms that will be created may be unwieldy and also involve considerable concentration in small locales. But this will be balanced by the benefits of scale and speed to market for new products. Managers will need to determine early which jurisdictions to focus on to establish their platforms and the product set which should be aligned to each.

Asset managers will require "boots on the ground" because a rapport will have to be established with policymakers and standard setters in every jurisdiction of operation. Although there will be greater linkages at a Regulatory level between many countries and regions, due to pressure from international standard setters, Regulators will remain idiosyncratic in some areas. The types of employees required by asset managers for these roles may be different from those currently operating in foreign jurisdictions. The soft skills of diplomacy and cultural knowledge and understanding will be as important as traditional functional skills.

The scale of opportunity combined with increased cross-border access will provide the backdrop for a number of fast growing SAAAME-based competitors to emerge and not only take on the global managers in SAAAME regions, but in developed markets too. As asset management moves centre stage, a great many players will seek to get in on the act.

Fee Models

We also undertook research in relation to fee models in our 'Asset Management 2020 – A Brave New World' report. We found most markets today operate with a model that embeds distribution and management fees in some shape or form and misaligns distributor objectives with those of the investor. This may be through embedded fee arrangements, such as in Europe or front-end fees as in Japan.

By 2020, virtually all major territories with distribution networks will have introduced regulation to better align interests for the end customer. This will mainly be achieved through some form of prohibition on the asset manager allocating to distributors as evidenced in the UK's Retail Distribution Review (RDR) and MiFID II. This will increase the need for transparency on asset managers and will have a substantial impact on the cost structure of the industry.

RDR was conceived back in 2006, based on a 'fair deal' for retail investors to provide greater transparency and value-to-cost for the customer. Implemented in the UK in December 2012, RDR was designed to end the potential conflict of interest that arose when investors used independent financial advisors to source funds. The UK Regulator believed some of these advisers were directing their clients to funds that would provide the largest commissions for the advisers. In short, investors were not necessarily receiving the best investment advice. The new regulation increases transparency by making firms outline the fees that an adviser is charging a customer.

RDR is now spreading, particularly in Europe, but also in other regions. Versions of RDR have already been created in India and Australia, and are in the process of being created in Switzerland, Germany, Italy, the Netherlands and South Africa. We believe by 2020, RDR or similar regulation on fee models and the related disclosures will apply to all major markets including Asia.

To access the full 'AM 2020: A brave new world' report go to the below link

http://www.pwc.com/gx/en/asset-management/publications/asset-management-2020-a-brave-new-world.jhtml

The main implications for fund managers of this shift are:

- Investment firms will increasingly use different models for the mass affluent – it will simply be too expensive for many firms to service retail investors, so they will offer more self-directed services. They will instead move up the curve to wholesale platforms and High Net Worth Individuals (HNWI);
- The mass affluent market will become increasingly self-directed, which will benefit online direct retail platforms;
- It will drive a lower cost model across the asset management spectrum, since a whole raft of commissions will be taken out of the structure;
- The absence of distribution commissions based on a management fee will eliminate any incentive for distributors to sell products with high-expense ratios that have no incremental value, further opening up the market for passive and other low-cost products, such as ETFs;
- Simple-to-explain products will benefit as advisers spend less time explaining strategies;
- Solutions that are demonstrably targeted to investor needs will become the norm as advisers and managers work together to provide a compelling overall value proposition. This will provide an opportunity for alternatives managers to participate more broadly in the DC market and retail marketplace, as they will be the alpha engines, albeit at a reduced fee from their historical levels; and
- Increased focus on financial education initiatives, both as a means for managers to establish brand and for distributors to explain the value of advice.

Regulators may go further than RDR and regulate fees in their entirety. In India, a cap already exists and in the UK, the Financial Conduct Authority is currently carrying out a review of fee levels. The European Parliament recently suggested creating pan-European standards of fund fees. While Regulators are already starting to compare and cooperate, by 2020 there could be full-scale 'contagion' and a global Regulatory consensus could well be underway. With the unbundling of the value chain for products, asset managers will see decreased margins, placing the emphasis on scale and operational efficiencies.

In many countries, these reforms are directional in nature, with greater specificity expected in the years ahead. However, the message is clear: cost matters; transparency is key; and the firms who adapt quickly to this environment will be the winners in 2020.

Regulatory developments impacting fund distribution

UCITS update

UCITS IV provisions aimed at incentivising funds in Europe to become bigger by encouraging existing funds to merge in order to provide greater economies of scale. Fund managers have been availing of the UCITS IV provisions in relation to mergers and master feeder structures to help rationalise their fund ranges.

UCITS IV introduced some improvement on the fund notification process. There is now a streamlined procedure for regulator to regulator notifications. However, firms have complained about undue delays because of specific demands from local regulators. Despite the improvements regarding the time to market, entry to certain countries is still difficult due to low harmonization of local marketing rules. Additionally, only the initial notification procedure has been harmonized (the maintenance process and prospectus update are still in the hands of the host member states). UCITS VI aims to address some of the concerns in relation to the notification process.

The UCITS V reform focuses mainly on depositary liability, sanctions and remuneration. The EU has proposed clear rules on the remuneration of UCITS managers - they should not be remunerated in ways that encourage excessive risk-taking, and remuneration policies should be better linked with the long-term interest of investors.

The EC has also proposed a precise definition of the tasks and liabilities of all depositaries acting on behalf of a UCITS fund and a common approach to sanctions. These include introducing common standards to the levels of administrative fines to ensure the fine always exceeds the potential benefits derived from the violation.

PRIPs

The Packaged Retail Investment Products (PRIPs) legislation will see the UCITS Key Investor Information Document (KIID) abolished and replaced with a new document for all so-called PRIPs products, which include UCITS funds, unit-linked life insurance products and structured products.

Under the proposals, a new Key Information Document (KID) would be introduced – a measure that would create a level playing field between UCITS funds and other investment products. The new three page document will include basic information about the product, its expected risk and return and the overall cost of the investments.

EU policymakers have reached a final agreement on plans to introduce a mandatory key information document (KID) for all packaged retail investment products. In addition to the agreement on the KID, the Council and Parliament have also reached a consensus on the introduction of a complexity label for certain PRIPs. However, EU policymakers still need to agree exact definitions of which products will be covered by the label.

The draft PRIPs rules were apprived by the European Parliament in April 2014. The Council of the EU also announced that it now expects to formally adopt the proposed regulation.

MIFID II

MIFID II is set to impact on asset managers' distribution practices by introducing a ban on inducements for independent financial advisers across Europe.

A number of countries have already put in place local legislation in relation to the ban on inducements – these include; the Netherlands, Germany, the UK, Sweden and Switzerland.

In addition to a ban on inducements, fund houses face the prospect of a complexity label for certain structured UCITS funds which can be sold to retail investors without financial advice.

Firms will also need to ensure they have clearly defined target markets when they design new products and they must ensure these products are distributed only to that intended market.

EU policymakers reached a political agreement on MIFID II in January 2014 following three years of negotiations.

MIFID II was approved by the European Parliament in April 2014. The text must now be finalised in all European languages before legislation can be finally adopted by the European Council.

The European Securities and Markets Authority will be responsible for providing technical advice on the measures to adopt under MIFID II.

Netherlands

In December 2013, the Ministry of Finance published the final text of the commission ban on investment firms as defined in the Decree of Financial Corporations. The ban applies to every type of investment service to non-professional investors' e.g. advisory services, execution only and asset management. Hence, investment firms, e.g. asset managers, banks, independent advisors and brokers shall no longer receive commissions from a third party directly or procure via third parties through investment services to the customer.

Germany

In June 2013, Germany's Federal Council voted in the Act on Promoting and Regulating Fee-Based Advice on Financial Instruments (Fee Based Investment Advice Act). This law promotes investment advice that is independent and based exclusively on fees. Fee based investment advisors are not allowed to receive commissions from the companies or third parties whose products they sell.

Sweden

In May 2013, the Swedish FSA submitted a final proposal to the Government recommending the introduction of a ban on commissions paid directly in conjunction with the signing of agreements from the provision of financial products and insurance policies. The aim of this ban is to prevent transaction based advice that over time weakens the customer's capital.

Switzerland

In October 2012, a Swiss Federal Court decision stated that any commission/retrocession received by banks from third parties for distributing financial products e.g. shares of collective investment schemes and structured products should be returned to investors (in the context of asset management mandates) except if the investor has waived its rights to the retrocessions a bank receives from entities of the same group.

UK

Since December 2012, the retail distribution review (RDR) has introduced a number of changes to the retail investment market in the UK to boost the confidence of UK investors. From 31 December 2012, an adviser, providing a personal recommendation to a UK retail investor must be paid an adviser charge agreed between adviser and the investor instead of receiving a trail commission from the fund/product providers. All UK based and foreign funds authorised as restricted schemes in the UK (foreign funds authorised to publicly distribute their units/shares to the UK) selling their units/shares to UK retail investors must comply with the RDR rules from 31 December 2012.

Taxation considerations for fund distribution

Investor tax reporting

A comprehensive approach to tax reporting is a must for investment funds that want to be tax-efficient for investors. Nevertheless, tax reporting for investment funds is a very demanding and constantly evolving area. In recent years, several European jurisdictions, such as Austria, Switzerland, Belgium, Germany, Italy and the UK, have either introduced new tax reporting regimes or modified existing ones. Indeed, Europe is far from adopting a harmonised approach to tax reporting for investment funds spread across multiple countries. As a result, it is increasingly difficult for the fund industry to keep up with developments in the various countries.

Looking ahead it is likely that more EU countries will introduce their own specific tax rules for foreign funds in order to obtain a specific tax status to make them attractive to local investors. We have outlined below the current tax reporting regimes in the European Union and the United States.

Germany

In Germany the tax treatment for German investors is significantly better if they are investing in a transparent fund (i.e. a fund that has met the local German tax reporting obligations). For this reason most potential German investors require funds to have transparency status. In order to achieve tax transparency status the fund must satisfy various filing and reporting requirements, which include publication requirements in the German Electronic Federal Gazette ("Bundesanzeiger") and obtaining a certificate from the German tax authorities that the fund's German tax reporting is in compliance with German tax law.

Tax information must be certified by a tax auditor and published in the German electronic federal gazette within four months of the financial year end. In addition to annual reporting Germany requires daily reporting for certain parts of the fund's income. Funds which fulfil the complete range of annual and daily reporting requirements are regarded as tax transparent. The consequence of being labelled non-transparent negatively impacts the tax treatment of German resident investors.

Austria

From an Austrian tax point of view, investment funds which carry out Austrian tax reporting are considered transparent, meaning there is a direct allocation of income of the fund to investors. This is more attractive to investors than lump sum taxation which applies where a fund does not have tax reporting.

In Austria, foreign funds may appoint a local tax representative who along with the Fund administrator calculates and provides information (within certain timeframes) to the *Oesterreichische Kontrollbank* (OEKB) on deemed distributed income, net interest income and information on the taxable portion of the distributions paid to investors.

United Kingdom

In order for non-UK investment funds to achieve preferential treatment in the UK, it is important that investment funds obtain UK reporting status. Under the Fund Reporting Regime, a fund is required to obtain confirmation from the UK tax authorities prospectively that it meets the eligibility criteria to be considered for Reporting Fund Status. Once Reporting Fund Status is obtained a fund must then comply with the reporting requirements set out in the regulations which require that it reports 100% of its income returns (calculated under the UK tax rules) to UK investors and the UK tax authorities on an annual basis. Where a fund has Reporting Fund status, UK investors will be taxed under the Capital Gains Tax (CGT) regime upon realisation of their investment in the fund, rather than as offshore income gains taxable at investors' marginal tax rate which would otherwise apply if UK reporting status was not achieved.

Switzerland

Swiss individual investors require tax reporting so that they can declare their taxable income and the value of the investment in their tax return. If Swiss tax reporting is not undertaken, investors will suffer prohibitive income tax in Switzerland. Foreign funds are treated like Swiss funds if they pass certain equivalence criteria. If the foreign fund is to be distributed in Switzerland, an up-front authorization by the Swiss Financial Markets Authority (FINMA) must be obtained.

The tax reporting involves the preparation of a calculation to separate the taxable income from tax exempt capital gains in the hands of the Swiss investor based on Swiss taxation principles. The taxable income and net asset value per share for income tax and personal net wealth tax purposes can be provided to the Swiss Federal Tax Administration (FTA) which then publishes these values in the official rates list. No tax information is required to be published for institutional or corporate investors.

Belgium

There is no investor tax reporting in Belgium as such, but it is required that tax is payable on the net assets of funds in Belgium and an accompanying return submitted to the Belgian tax authorities ("UCI Certification"). The Belgian Net Asset Tax is due on the net amounts invested in Belgium which equates to subscriptions (net of redemptions) made through a Belgian financial intermediary.

Where Belgian residents subscribe via foreign intermediaries, these subscriptions are excluded from a fund's taxable base, irrespective of whether or not the fund is registered with the Belgian Banking, Finance and Insurance Commission. The applicable tax rate is 0.08% and the tax is due and payable by 31 March each year.

Italy

Italian tax reporting was introduced with effective from 1 January 2012. From this date, profits deriving from Italian and certain other funds became subject to a 20% tax rate. The increase from 12.5% to 20% of the tax rate applicable to profits deriving from investments funds mainly affected Italian resident private individual investors and certain non-Italian resident investors.

In order to preserve the reduced 12.5% taxation in certain instances, tax reporting is required in Italy to identify the portion of profits/losses associated with "indirect" investment in eligible bonds. It is necessary to determine an average percentage on the basis of the ratio between the value of the eligible bonds and the total asset value based on the two last available financial statements of the fund.

US tax reporting

Various tax reporting requirements apply to both US taxable and tax-exempt investors. As such, consideration must be given to whether opening up an investment fund to US investors creates additional reporting obligations and costs for the investment manager. The US tax reporting landscape is changing rapidly as US Treasury and the IRS ensure investors are paying their fair share of taxation. There is greater emphasis on compliance with local US rules otherwise penal taxes may apply as illustrated with further US tax reporting requirements under FATCA.

US tax reporting requirements that are applicable to a certain investors depend on several factors, such as the investor's own tax profile, the location of the investment fund, classification of the investment fund for US tax purposes, the stake of the investment fund held by the US investor and the type of income earned.

FATCA and Other Exchange of Information Requirements

The Foreign Account Tax Compliance Act of 2009 ("FATCA") which came into law in the US in March 2010 and generally covers payments made after 30 June 2014 (previously 31 December 2012), will have a significant impact on the US information reporting and withholding requirements with respect to direct and indirect investments in US assets.

Generally FATCA imposes a 30% withholding tax on any "withholdable payment" made to a Foreign Financial Institution ("FFI") or to a Non-Financial Foreign Entity ("NFFE"), if the FFI or NFFE fails to comply with new reporting, disclosure, and related requirements. This includes among others, US source interest, dividends, rents, salaries, premiums, annuities, and the gross proceeds from the sale of US equities/property that produces dividend equivalent payments.

In order to comply with the provisions of FATCA, a number of countries have entered into intergovernmental agreement ("IGA") and a new tax information exchange agreement with the United States.

It should be noted that the release of the Common Reporting Standard (CRS) in February 2014 by the OECD will require financial institutions around the globe to play a central role in providing tax authorities with greater access and insight into taxpayer financial account data including the income earned in these accounts. The introduction of the CRS may give rise to additional reporting requirements for Funds.

Looking ahead

It is unlikely that the tax reporting burden will decrease any time soon as Governments around the globe are looking for increased transparency and reporting of cross border investments held by investors. With the introduction of FATCA in 2014 and the Common Reporting Standard proposed to be introduced soon by the OECD, information reporting for tax purposes is set to increase even further in the years ahead.

Case study - Ireland

UCITS

€1 trillion

...of UCITS assets located in Ireland

3,000

...the number of Irish UCITS funds approved for cross border distribution

70

...the number of countries where Irish UCITS are distributed

Ireland is a centre of excellence for UCITS products with 80% of Irish domiciled funds falling under the UCITS regime. It is the fastest growing major cross border UCITS domicile globally and is the leading jurisdiction in Europe for two of the main types of UCITS - ETFs and Money Market Funds. Most of the largest global asset managers have UCITS funds domiciled in Ireland.

As at December 2013 the number of Irish UCITS funds stood at 3,345 which is up 6% since the end of 2012. Net Assets in UCITS funds were EUR 1,044billion which was 8% up on the position at the end of 2012.

Hedge Funds

40%

of the global hedge funds are serviced in Ireland making it the largest hedge fund administration centre in the world

50%

of the top 10 European hedge fund managers have set up hedge funds in Ireland

$200bn

is the total amount of Irish domiciled hedge fund assets

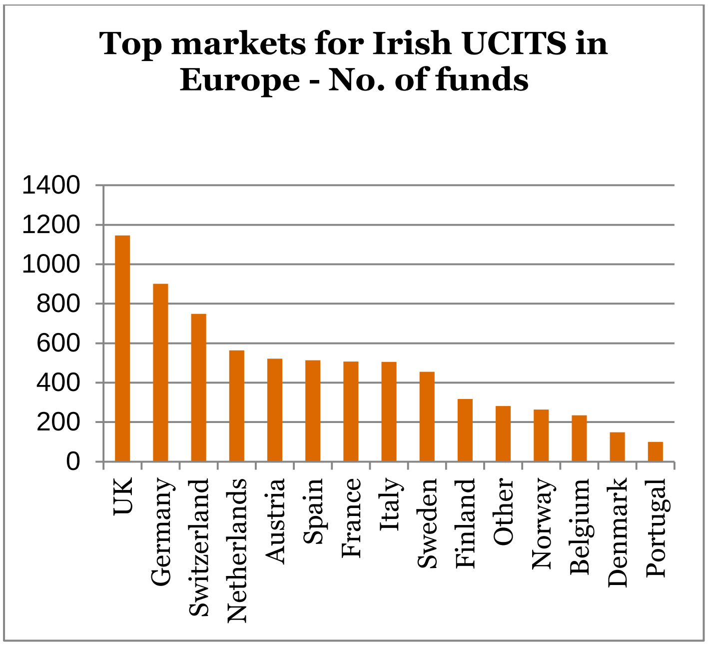
Ireland is a jurisdiction that is synonymous with hedge funds, it is after all the largest hedge fund domicile in Europe with over 2000 funds with approximately USD 200 billion in assets. Over 40% of global hedge funds are serviced in Ireland accounting for over USD 1 trillion in assets. Ireland was the first regulated jurisdiction to provide a regulatory framework specifically for the hedge funds industry and remains at the forefront in preparing for, and reacting to, regulatory and market developments.

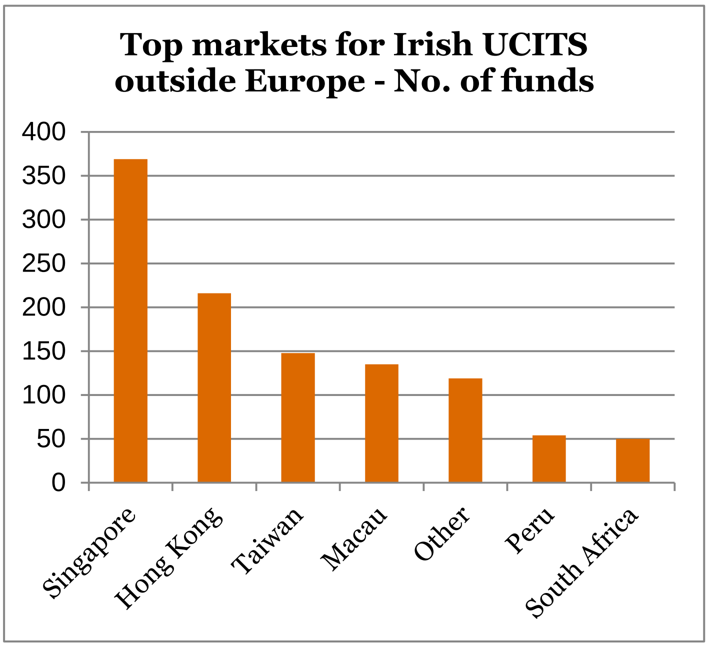
More recently, Ireland became one of the first jurisdictions to implement the Alternative Investment Fund Managers Directive (AIFMD), a directive that regulates the hedge fund industry for the first time. The Irish regulatory regime recognises two types of Alternative Investment Funds (AIFs) reflecting not only the provisions of the Directive but also building on the previously known Irish Qualifying Investor Fund ("QIF") structure which, to date has been the principal Irish scheme used for hedge funds.

The two types of AIFs which can be established are the Qualifying Investor Alternative Investment Fund (the “QIAIF”) and the Retail Investor Alternative Investment Fund (the " RIAIF”). QIAIFs are subject to a EUR 100,000 (or equivalent in other currencies) minimum subscription requirement and can only be “marketed” (i.e. using the passport) to “professional investors”, There is a higher EUR 500,000 for QIAIFs which invest more than 50% of net assets in unregulated funds.

Distribution

Irish domiciled funds are distributed to a large number of countries across Europe, the Americas, Asia and the Pacific, the Middle East and Africa. The charts below outline the key markets in which Irish UCITS are distributed in and outside Europe. According to Lipper, some of the main countries where Irish hedge funds are sold include the following:
Germany, Italy, Luxembourg, Singapore, Sweden, Switzerland and the UK.



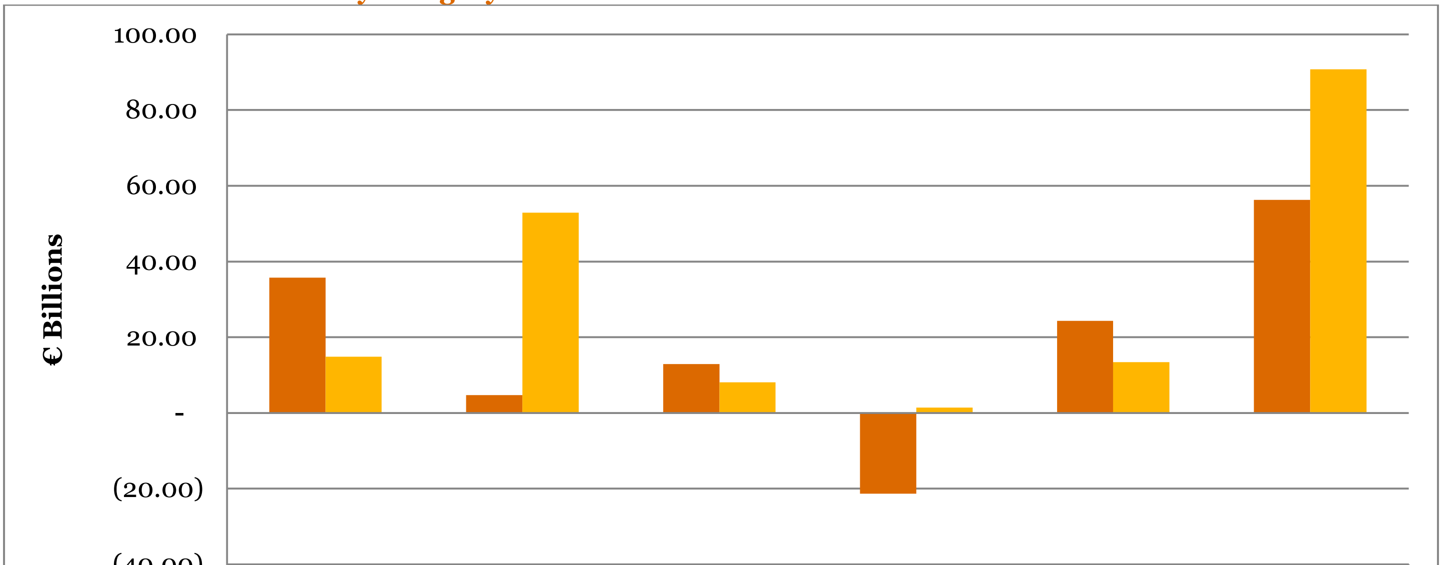


Other countries in Europe include: Czech Republic, Cyprus, Estonia, Iceland, Isle of Man, Guernsey, Greece, Hungary, Isle of Man, Jersey, Latvia, Liechtenstein, Lithuania, Malta, Monaco, Poland and Slovakia.

Other countries outside Europe include: Australia, Bahamas, Bahrain, Canada, Cayman Islands, Chile, Japan, Korea, Mexico, New Zealand, Panama, Turkey, United Arab Emirates and the USA.

Source: *Lipper for Investment Managers (LIM) December 2013*

Net Sales of Irish UCITS by Category



	Equity	Bond	Balanced	Money Market Funds	Other	Total
2013	35.72	4.67	12.89	(21.30)	24.31	56.29
2012	14.86	52.90	8.08	1.44	13.44	90.73

Source: *EFAMA Statistics*

How can we help?

We have the knowledge and experience to assist you with your audit, tax, regulatory, distribution and consulting needs across all the main types of funds including hedge funds, private equity, UCITS, ETFs, money market funds, real estate/property funds, Islamic funds and more.

Fund Distribution

Private Placement **-** As AIFMD has been implemented in each member state there have invariably been differences in approach to certain areas where permitted. The fund registration process therefore varies from country to country and must be considered on an individual basis when making applications to ensure that all the requirements of each member state are met.

- We can assist you with initial country registrations under the NPPR in each EU Member State;
- We can identify the requirements of each member state where you wish to sell ;
- We will prepare and file the notification for sale on your behalf in each country and we manage queries from the regulator;
- We will communicate with you throughout the process to ensure that you are aware of the status of each application and likely finalisation date; and
- We identify the requirements for further notification/communication with each country and ensure any required filings of updates for each country are performed.

Passporting – Currently for EU AIFMs who may use passporting for distributing throughout the EU, once an AIF is authorised in one EU member state, it can be sold in any other EU member state without the need for additional authorisation similar to the UCITS Directive. In practice to gain this authorisation, the AIFM must notify its Home State Competent Authority who will transmit their request to each Competent Authority in which the AIFM wishes to market. The AIFM must provide certain documentation to gain authorisation to use the passport. The below services are consistent with those offered for UCITS funds.

- We can prepare and file the notification for sale on your behalf with the Home Regulator and manage any follow up queries; and
- We can assist you to ensure that all ongoing regulatory reporting required to maintain the initial registration of your funds are identified in each host market and that these obligations are satisfied.

Setting up a fund

We can help with all aspects of setting up a fund. This includes developing your market entry strategy, regulatory, accounting, tax and operational advice on initial fund setup and project managing the fund setup process.

Fund tax

We have a dedicated group of tax professionals, specialising on the international and local tax issues facing fund managers. We have a wealth of resources and expertise to assist you in addressing the various tax challenges such as: investor tax reporting, withholding taxes review, financial transactions taxes, transfer pricing, FATCA, international tax consulting services, EU withholding tax reclaims, global tax compliance services and VAT services.

Regulatory assistance

Keeping up to date with the constantly evolving regulatory landscape is essential. We can provide you with clear guidance on regulatory compliance and help you to identify the impact of relevant regulations on your business, your processes and your people.

Fund audit

Trust is an important factor in gaining and keeping the confidence of your investors. Using our experience and proven track record we can provide the stamp of approval needed to give comfort to you and your investors.

Asset management consulting

The asset management sector is constantly changing. Whatever your focus is on - growing revenue, integrating successfully, creating insight, removing complexity, operating globally, improving efficiency or reducing cost - we can help.

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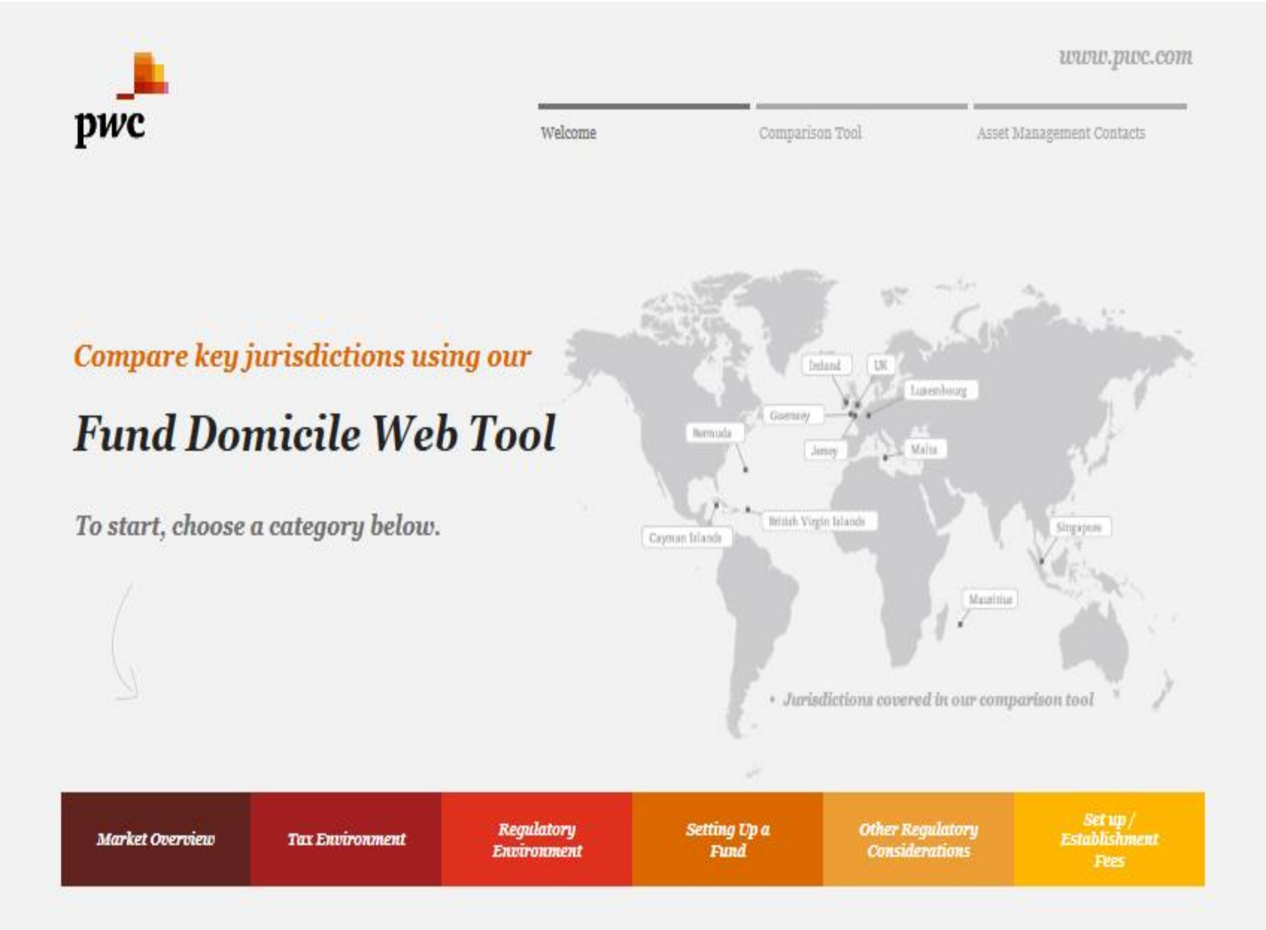
Need help in deciding where to set up your fund?

Use our Fund Domicile Comparison web tool



This tool compares 11 global fund jurisdictions answering over 40 questions in key areas such as regulation, tax, set up fees, service providers and key statistics.

To access go to: www.fundjurisdictions.com