

## BUSINESS INSIGHTS

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### **US Managers: How to access capital and market funds in Europe**

**Managers seek to broaden their investor base more easily and for greater value – but regulatory restrictions and business economics make it impossible for any one partner to serve all markets on their own. While gaining entrance to the European market with a fund marketing passport is relatively easy, attracting fund selectors and institutional investors is not. To gain access to European capital, allying with the right partners is key.**

Due to the increasing regulation and perception of investors, distributing and marketing a non-EU fund is getting increasingly difficult, if not even impossible. Still, there are good reasons to target European capital for US Managers if they wish to grow in size and global presence. Especially institutional investors have a preference for US-based hedge funds. Known as the hub of the hedge fund industry, US fund managers often show attractive track records and investment experience and offer funds which are at the forefront of the asset class.

#### **Two major fund regimes to consider**

Regulatory changes in tax, reporting, depositary and market infrastructure have increased the demand for transparency and security; consequently the requirements on regulated vehicles have also changed. UCITS (Undertakings for the Collective Investment of Transferable Securities) have been successfully established as a trusted brand not only in Europe, but worldwide. The related distribution passport has contributed greatly to this successful establishment. UCITS is the investment regime of choice for many investors globally, who are attracted by its regulated format and the transparency and liquidity that it offers.

The alternative to setting up a UCITS would be to launch an alternative investment fund (AIF) under the Alternative Investment Fund Managers Directive (AIFMD). This has reshaped fund management and marketing regulation, most radically due to its “one-size fits all” approach to alternatives. The AIFMD applies to fund managers and all funds that are not covered by the UCITS directive and are managed, domiciled and/or distributed within the European Union – like hedge funds, private equity funds, property and commodity funds, amongst others.

The AIFMD prescribes corporate-level risk management and governance by asset managers, including through a manager and depositary, creating an EU regulatory framework for AIFs and their Alternative Investment Fund Managers (AIFMs).



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**Investors preference for EU fund structures**

Raising capital from European investors still depends on the strategy of each investment adviser as well as the fund structure and types. Managers with traditional equity or debt strategies might find they can take advantage of the UCITS brand without significant changes to their strategies, while those pursuing highly specialized alternative strategies, including direct lending and private equity, will find the AIF regime amenable to a number of sophisticated partnership structures.

**“Choosing the right structure for the investment strategy is key for managers seeking to diversify their clientele in the global markets and meet investors’ needs.”**

EU domiciled UCITS funds and AIFs have access to a marketing passport that allows them to distribute across the European Union. Due to investor preferences for these highly regulated vehicles, an increasing number of US managers are setting up their existing investment strategy – be it a Delaware 40 Act fund, British Virgin Island (BVI) or Cayman fund structure – alongside an EU domiciled fund. While managing two products that follow the same strategy and invest in parallel creates additional costs, the increased marketability of the fund in Europe often outweighs this burden.

**Finding the right partner in Europe**

Setting up an EU-domiciled fund requires appointing a European-based management company, generally either as a subsidiary of the US manager or as a third-party service provider. Given that launching a product independently and setting up a separate management company can be an expensive and resource-intensive process with a high level of complexity, many investment managers outsource these responsibilities to an external management company and concentrate on their core competencies: asset management and return generation.

The majority of emerging managers developing their business in Europe therefore select a third-party service provider or a management company platform in order to meet their AIFMD or UCITS compliance obligations for their investment strategies. External management companies and platforms provide a relatively fast and cost efficient solution to European compliance, and managers do not have to commit to large amounts of capital and resources to establish such structures. External management companies provide services like risk management oversight, while the portfolio management function would be delegated to the US investment adviser.

An overview of the UCITS or AIFM platforms available on the market reveals that independent or boutique platforms are often predominant. Such independent service providers have gained in popularity and have been successful in attracting and retaining new managers and funds. Boutique service providers provide a high degree of flexibility when structuring an investment solution for clients, providing managers with access to structures designed for an array of strategies, from long/short equity investment to direct lending and private equity.

Creating easy access for investors to multidisciplinary, local and regional investment strategies through a single global platform under internationally recognized regulatory standards like the AIFM or UCITS regimes can aid a manager’s expansion. In addition, management company solutions enable managers to take advantage of existing resources in Europe, such as middle office and back-office functions to potential capital introduction services. While gaining entrance to the European market with a fund marketing passport might be a relatively easy project, attracting fund selectors and institutional investors is not, and having the right partner can make all the difference.

**Facing the challenge of successful fund distribution**

The question of how to engage efficiently and successfully with institutional fund buyers and fund selectors is more important than ever as the value chain of fund distribution is shaken up. Increasing pressure from risk and audit departments, cost saving and efficiency requirements, as well as a shortage of time and centralized decision-making underpins the importance of streamlined operations and easily accessible information. Furthermore, digitalization continues to transform the asset management services sphere. The demand for lower operational costs and information on an ever-changing environment requires an enhanced level of interaction and communication. This will further increase in the future, making easily accessible information and transparency essential for fund selectors.

Getting access to a global distribution network consisting of placement agents, capital introduction firms, lead and event providers, consultants and last but not least investors themselves is crucial. Together with selected partners, asset management firms can then develop and optimize their fund distribution approach in a smart, practice-focused and cost-efficient manner.

Platforms for UCITS funds and alternative investment strategies that offer access for independent regional and local managers to a multinational platform of global investors will continue grow in importance to markets in the future.

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