Deutsche Bank
Markets Prime Finance

Hedge fund COOs rise to new regulatory hurdles

Passion to Perform

Mini-poll results of US and European funds on legal, compliance & regulatory developments

Fall 2013

Executive summary

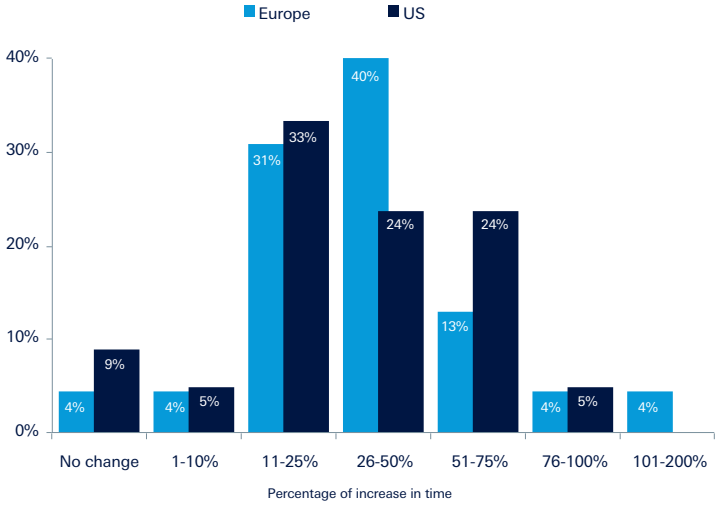
- In July 2013, 44 European and US hedge fund managers were surveyed, representing nearly $325 billion in assets under management ("AUM").
- The amount of time that COOs dedicate to legal, compliance and regulatory matters has increased substantially over the past two years. Globally, a COO's time spent on legal and regulatory matters has increased up to 50% more for the majority of managers surveyed.
- Over the past two years, more than 40% of respondents have hired more than one non-investment full-time equivalent ("FTE") to help prepare for and manage new regulatory requirements.
- Globally, the majority of managers surveyed estimate that their non-headcount related costs have increased up to 25% over the last two years.
- The UK Financial Conduct Authority (FCA) has given hedge fund managers until July 2014 to become authorized under AIFMD. 82% of hedge fund managers are preparing now to submit their authorization applications in 2014, in line with the FCA's recommendations.
- 39% of the managers surveyed are still uncertain as to whether AIFMD will bring additional investment from institutional allocators.
- Marketing to European investors continues with a significant proportion of managers in Europe (35%) and the US (43%) choosing to utilize transitional marketing provisions. Alternatively, half of managers have decided to respond only to incoming investor requests for information regarding their funds until they have further clarity on marketing into Europe under AIFMD.

Impact of changing regulation on hedge fund managers' operations and infrastructure

COOs are dedicating an increasing amount of time on legal, compliance and regulatory issues.
61% of European managers and over half of US managers estimate that their COO dedicates over 25% more time on legal, compliance and regulatory issues than two years ago.

Notably, in the US, almost a quarter of COOs have seen an increase of up to 75% in the time that they dedicate to addressing such issues. The regional difference is most likely attributed to the fact that US managers had to prepare for SEC and CFTC registration and reporting before their European counterparts were required to comply with AIFMD.

By how much has the COO's time dedicated to legal, compliance and regulatory issues increased over the past two years?

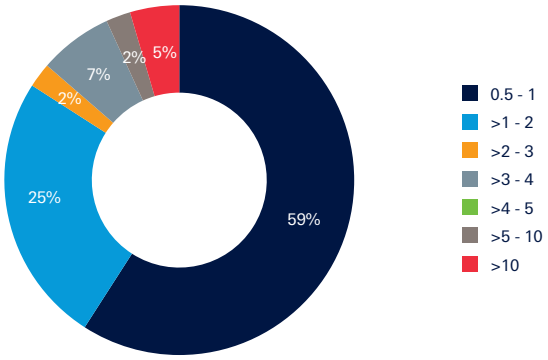


Source: 2013 Deutsche Bank Survey

Managers are growing the size of their non-investment teams amid increasing regulatory requirements.

To help prepare for and manage new regulatory requirements, 41% of managers surveyed have hired more than one non-investment FTE (including contract workers) over the past two years. Results show minimal regional difference.

By how much has your firm's non-investment headcount (including contract workers) increased over the past two years in order to prepare for and manage new regulatory requirements?



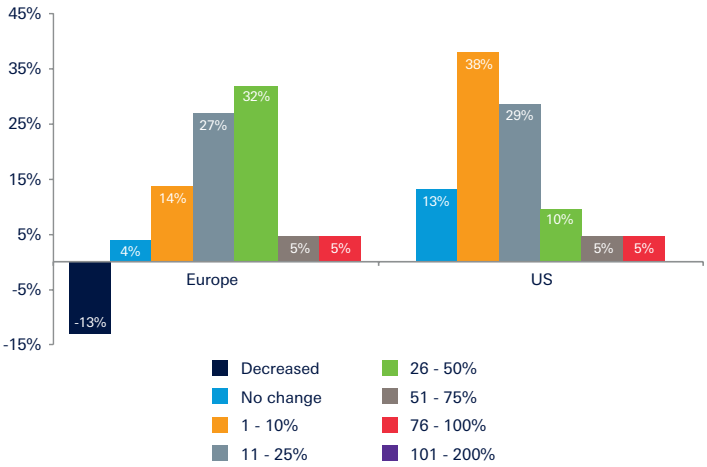
Source: 2013 Deutsche Bank Survey

European and US managers are growing their budget for costs related to legal, regulatory and compliance matters.

42% of European respondents say that their overall non-headcount related costs have increased by more than 25% over the past two years. These costs include technology, external legal, compliance, tax, regulatory reporting and other external consulting. The majority of US managers (67%) say costs have increased by only 1 – 25%. This is inclusive of 38% who said overall costs had only increased by less than 10%.

It was surprising to see that a small proportion of European managers (13%) report that costs have actually decreased over the past 2 years; however, those had hired internally and in-sourced much of the related work.

Over the past two years, by how much have non-headcount costs increased overall?



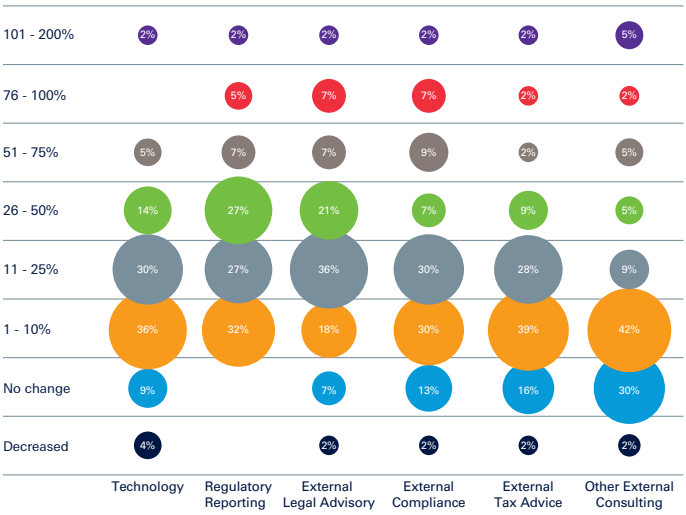
Source: 2013 Deutsche Bank Survey

Regulatory changes are driving up costs, namely around regulatory reporting and external legal advisory.

Approximately 40% of managers report that expenditures for regulatory reporting and external legal advisory have increased by more than 25% over the past two years. For technology, along with external compliance, external tax advice and other consulting-related costs, the majority of respondents report an increase of between 1 – 10%.

European managers report a greater increase in expenditure for technology and regulatory reporting over the past two years than their US peers.

Percentage increase in costs by catergory (all respondents)



Source: 2013 Deutsche Bank Survey

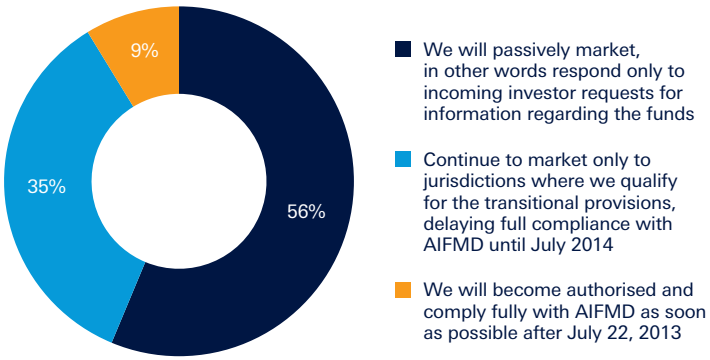
Marketing into Europe under AIFMD

European managers

The majority of European managers have decided to respond only to incoming investor requests for information regarding their funds.

35% of European managers continue to market in the EU within the jurisdictions where they qualify for the transitional provisions, delaying full compliance until July 2014. However, the large majority (56%) have decided to respond only to incoming investor requests for information regarding their funds. Less than 10% of managers say that they are planning to become authorized as soon as possible.

How do you plan to market your non-European fund to European investors after July 22, 2013?

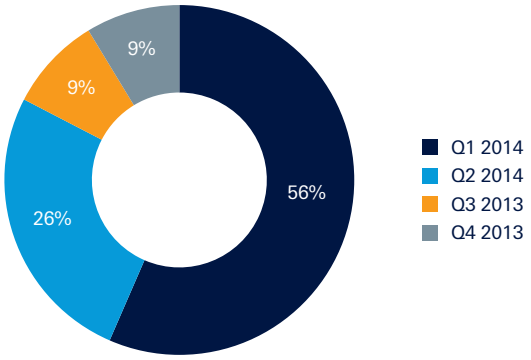


Source: 2013 Deutsche Bank Survey

The majority of European managers are planning to submit their application for AIFMD authorization in 2014, in line with UK FCA guidance.

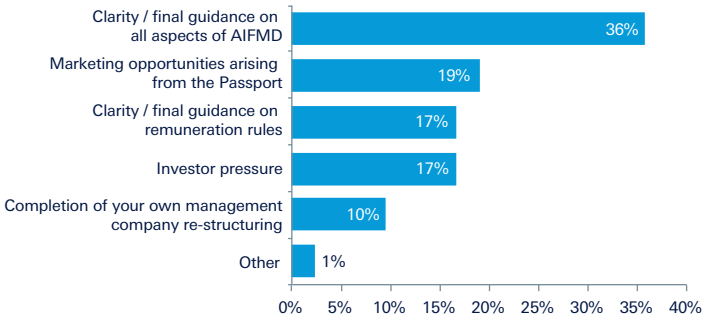
82% of European managers responding to the survey intend to wait until 2014 to apply for AIFMD registration. That said, 36% of European managers say that they may register earlier than anticipated provided they have further clarity and guidance on all aspects of AIFMD. 19% would consider early registration if marketing opportunities arise from the EU passport.

When do you intend to apply for AIFMD registration?



Source: 2013 Deutsche Bank Survey

Which of the following may cause you to register earlier than currently anticipated?

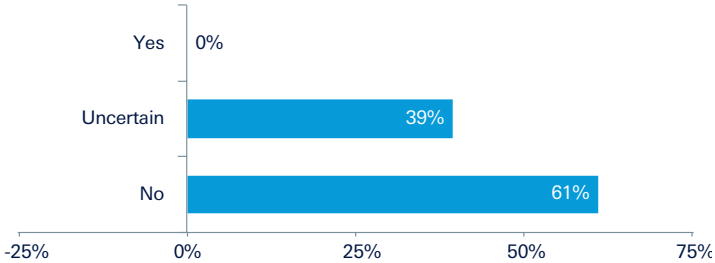


Source: 2013 Deutsche Bank Survey

Managers remain uncertain as to whether AIFMD will have a positive impact on capital raising in Europe.

61% of the managers polled say that they do not believe that AIFMD will provide new sources of investment from institutional allocators. Another 39% of managers polled stated that they were "uncertain."

From your firm's perspective, will AIFMD provide new sources of investment from institutional allocators?



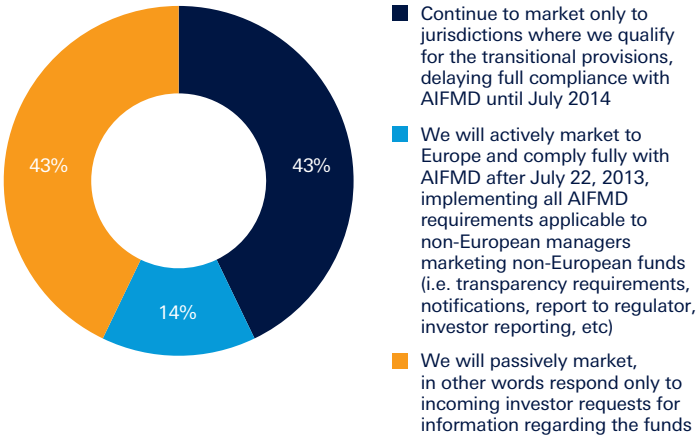
Source: 2013 Deutsche Bank Survey

US Managers

US managers continue to seek investment from Europe after July 22, 2013.

US managers are split in how they are approaching marketing into Europe. Over 40% of US managers continue to market into Europe under transition provisions, while an additional 43% state they will respond only to incoming investor requests for information regarding their funds. Only 14% have chosen to comply fully with AIFMD requirements concerning non-European managers marketing non-European funds, including the transparency provisions set out in Articles 22-24 of AIFMD.

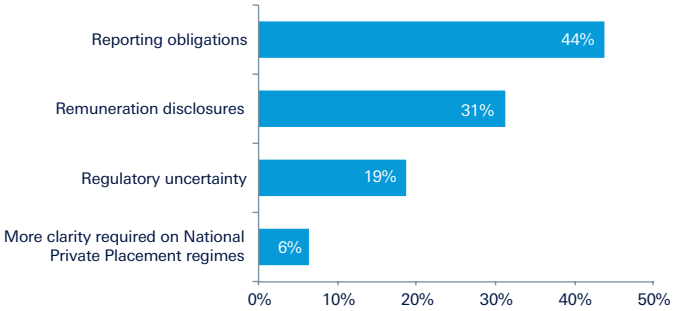
How do you plan to market your non-European fund to European investors after July 22, 2013



Source: 2013 Deutsche Bank Survey

Of those respondents who do not intend to actively market to Europe, 44% highlight that reporting obligations were a key factor in contributing to their decision. The second most prevalent reason was remuneration disclosures (31%).

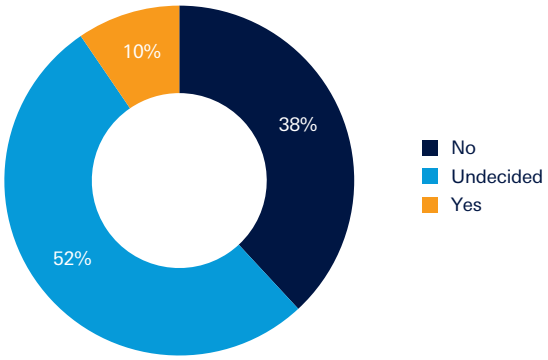
If you do not plan to continue marketing to European investors after July 22, 2013, what are the factors contributing to your decision (check all that apply)?



Source: 2013 Deutsche Bank Survey

US managers were also asked whether they would consider fully complying with the AIFMD directive if the marketing passport was extended to non-European managers. The majority of respondents either would not be interested or they are undecided about the passport.

If the marketing passport is eventually extended to non-European managers with non-European funds, do you intend to register your entity, thereby fully complying with the AIFMD directive including remuneration rules and depositary liability for your fund, in order to access the benefits of that passport?



Source: 2013 Deutsche Bank Survey

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