U.S. Asset Managers Raising Assets in Europe

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Common European Distribution Models

U.S. investment managers offer investment advice to European investors primarily using at least one of the following structures:

- **Separate accounts (institutional investors only)**
  - Institutional investor investment adviser (per country)
  - AIFMD-exempt (i.e., "out of scope") (pan-European)
- **Non-registered investment funds (institutional investors only)**
  - Private placements (per country) (e.g., U.S., Cayman, Luxembourg and/or Irish domiciled)
    - Supervision by a third-party management company (assuming responsibility for MiFID II disclosure, due diligence, and compensation requirements) with investment management delegated to U.S. manager
  - AIFMD-compliant (pan-European) (European domiciled only)
- **Registered investment funds (institutional and retail investors)**
  - Registered offering (per country) (European domiciled only)
  - UCITS-compliant (pan-European) (European domiciled only)

Common European Distribution Models *(continued)*

Not all European distribution models require establishing an office in Europe

- **Separate Accounts**
  - Institutional investor investment adviser exemption
    - *Available in some countries (e.g., U.K.), but not others (France, Germany)*
  - Investors must be AIFMD "out-of-scope"
- **Non-registered investment funds relying on individual country private placement regimes**
  - But not all European countries have private placement regimes that are easily navigated (e.g., France, Germany)

BUT: *U.S. investment managers/fund promoters that deal directly with E.U. clients are subject to MiFID/MiFID II and local marketing regulations*

Common European Distribution Models *(continued)*

When a local presence is required, U.S. Managers may either

- **Establish/acquire their own E.U.-based investment managers and/or fund management companies and E.U.-domiciled fund**
- **Contract with a third party to provide a fund management company and/or E.U.-domiciled fund**
  - AIFMD-compliant funds (whether per private placement regime or pan European)
  - UCITS-compliant funds

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Common European Distribution Models *(continued)*

Can you still rely on "reverse solicitation"?

- **Although not expressly prohibited by MiFID/MiFID II or the AIFMD, reverse solicitation is not practical as a long-term distribution strategy**

Note: "Reverse Solicitation" occurs when an E.U.-based investor initiates contact with a U.S.-based fund manager rather than the U.S.-based fund manager initiating contact with the E.U.-based investor. Before 2011, to avoid E.U. regulation, U.S. managers commonly claimed that E.U.-based investors found them based on the managers' reputations – that is, reverse solicitation – rather than any directed marketing effort into the E.U.

Integrating European Distribution with Global Distribution

Products primarily intended for European investors also can be distributed (subject to conditions) in certain Asian/Pacific, South American and Middle Eastern countries

- Korea, Taiwan, Hong Kong, Japan
- Australia
- Chile, Peru
- UAE, Qatar

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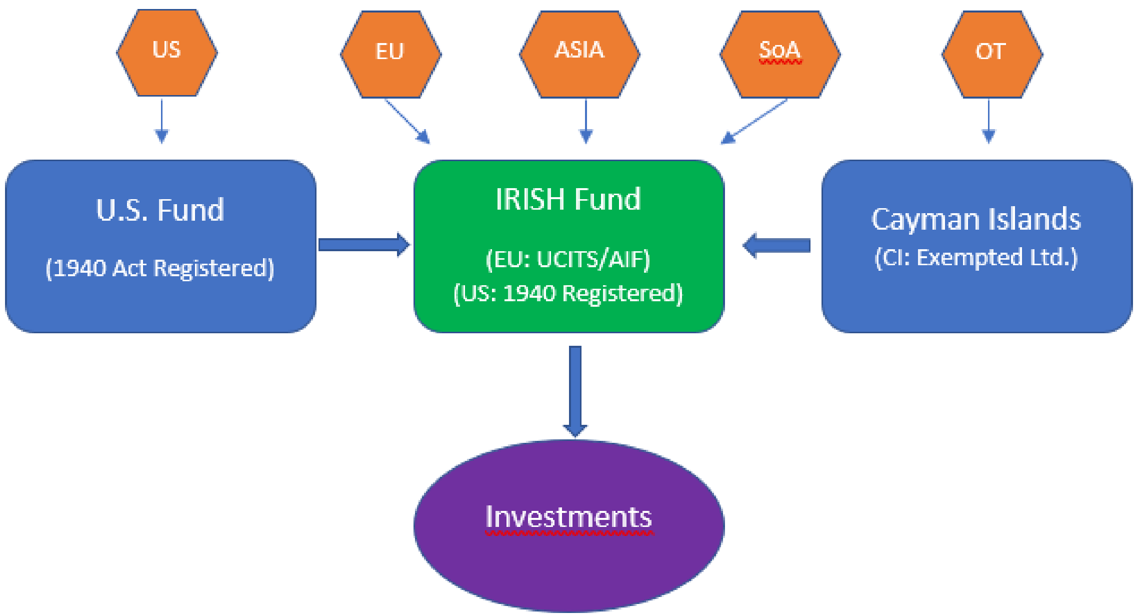
Integrating European Distribution with Global Distribution *(continued)*

UCITS- and AIFMD-compliant funds also may be used as master funds with feeder funds organized in EU and non-EU countries (e.g., U.S., Cayman Islands, Bermuda)

Example:



European Distribution Opportunities

Current focus of many European investors is retirement savings, creating opportunities for U.S. managers with:

- Government and quasi-government pension funds
- Private pension funds
- Insurance companies
- Banks

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European Distribution Opportunities *(continued)*

European distribution is becoming more integrated

- Shares of investment funds are being included with insurance and other types of products to provide products specific for pensions and retirement savings (focus on guaranteed rates of return and preservation of capital)
- Fund distribution platforms (primarily operating between fund promoters and fund distributors) are becoming more common
- Platforms specific to alternative funds are still in their infancy
  - *Many platforms are now requiring participating investment products to have a cross-border passport, i.e., UCITS or AIFM. Before, many investment products could rely on the "reverse solicitation" exemption*

European Distribution Opportunities *(continued)*

Retail distribution, however, remains difficult . . .

- Banks still control about 80 percent of retail fund distribution in most countries, other than the U.K.
- ETFs have eroded the European market for actively managed funds (UCITs and AIFs) in the same manner as they have eroded the U.S. market for actively managed funds (especially 1940 Act funds and hedge funds)

. . . and is now in flux

- MiFID II, with its onerous marketing requirements, is having a profound effect on retail fund platforms, and more generally on retail fund distribution

Successful Distribution Strategies

- Focus on the institutional market
- Offer investment strategies that are
  - Easily differentiated in the market
  - Complement other investment products
- Build out gradually, but with an eye to the future
  - Start with the “low hanging fruit”
    - *Large pensions funds (especially, the Netherlands, Australia, Chile, Peru)*
    - *Insurance companies*
    - *Your existing institutional clients*
    - *Firms similar to your existing institutional clients*
  - Consider initially using third-party services rather than building your own

Successful Distribution Strategies *(continued)*

- Create a fund structure that can be
  - Easily integrated into your existing distribution program
  - Easily adapted to new opportunities
- Be prepared for the long term (at least five years)
  - Europeans want to know that you are committed
  - Invest in marketing
  - Visit/contact potential customers and distribution channels frequently
    - *To quote Woody Allen, "Eighty-percent of success is a result of showing up."*

Moving Forward

- Determine what strategies you want to offer and to what types of investors
- Determine where those investors are located and how they want to purchase those strategies (e.g., separate account, AIFMD-compliant fund, UCITS-compliant fund)
- Determine what infrastructure you need – your own or a third party's – in order to deliver the strategy in the form required
- Determine if there is actual interest for the strategy from those investors

Moving Forward *(continued)*

- Building out a fund structure to market into the EU will take time (e.g., 9 to 16 months)
- Consider how E.U. distribution will affect your existing operations
  - New personnel in the U.S. and/or Europe
  - Any E.U. distribution will likely require changes to your compliance program
    - *Marketing*
    - *Disclosure*
    - *Compensation*
    - *Trading/best execution*
      - MiFID II requires brokers to separate research costs and trading costs, which is inconsistent with U.S. practice and requires adjustments by U.S. managers
    - *U.S. federal income taxation/tax treaties with different EU countries*

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