AIFM made easy: What you need to know

Appointing an AIFM makes fundraising in Europe more accessible, and compliance with EU regulations easier. But what exactly is an AIFM, why do you need one, and what do they do? ***Paul Conroy*** *and* ***Tomas Tobolka*** *from Aztec's AIFM Services team take you through everything you need to know.*

For alternative investment managers establishing funds or raising capital in Europe, compliance with AIFMD – the principal legislation regulating the alternative funds industry in Europe – is likely to be required. To be compliant, managers can either establish an AIFM themselves or appoint a third-party AIFM – a service now provided by the Aztec Group.

Appointing a high quality, third-party AIFM can be advantageous for investment managers for several reasons, below we outline why. First, some context.

The alternative fund regulatory landscape in Europe

The Alternative Investment Fund Manager Directive (AIFMD) is the principal piece of legislation governing the establishment and management of alternative investment funds (AIFs) in Europe. Its primary purpose is to protect investors and reduce the systemic risk that funds could pose.

A central requirement for AIFs established under AIFMD is to appoint an Alternative Investment Fund Manager (AIFM). The AIFM has a broad range of responsibilities related to the central oversight, compliance and risk management of a fund, and includes ensuring that the fund:

- Operates in line with its investment strategy and objective
- Has relevant risk and operational controls in place
- Is marketed appropriately to investors within Europe
- Adheres to AIFMD and other regulatory requirements

An AIFM allows a fund to market to professional investors in its home Member State, as well as other EU Member States – something known as cross-border 'passporting'.

What exactly is an AIFM?

An AIFM is an entity that is approved by a European regulator (in Luxembourg this is the CSSF) to provide AIFM services for alternative investment funds, allowing it to market to eligible investors across Europe. It is likely that this approval will also determine what services can be provided and how the AIFM's operations are structured. There are two types of AIFM, an Authorised AIFM or a Registered one. Aztec is an Authorised, Luxembourg-based AIFM, allowing us to deliver a broader range of services.

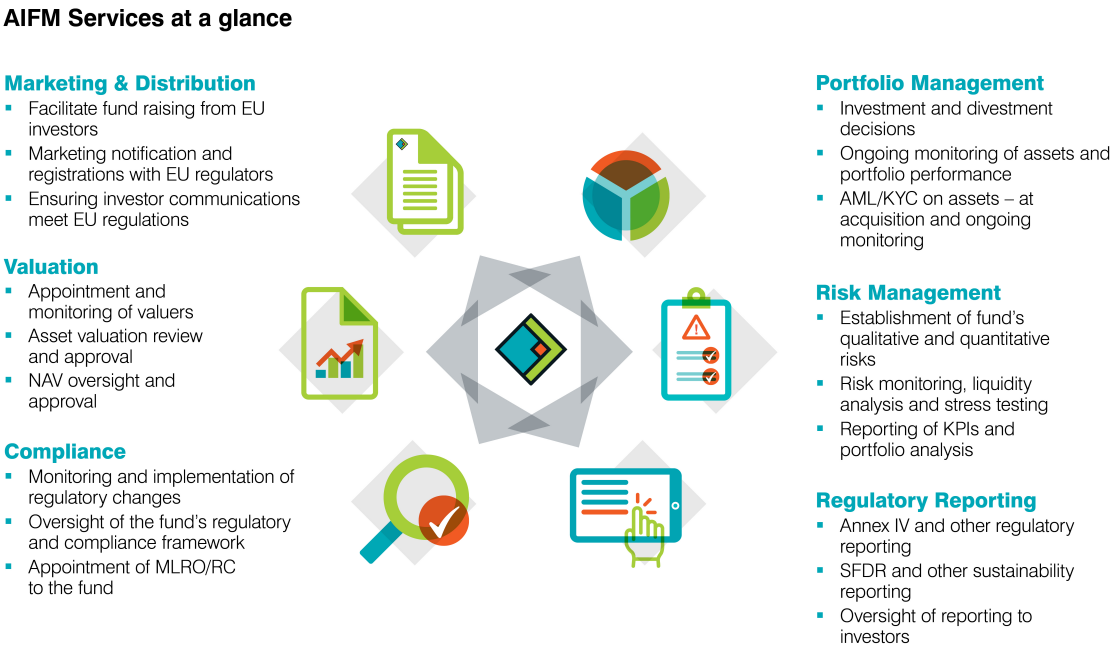
Asset classes in scope of the 'alternative investment funds' definition include private equity, private credit, real estate, infrastructure, venture capital and fund of funds structures that have raised capital from professional – or eligible – European investors.

An AIFM can either be:

- A company within the investment manager's organisation (known as an "in-house model"); or
- A third-party company that provides only management services to liquid and illiquid funds ("super ManCo model"); or
- A third-party company from a group that also provides fund administration and depositary services ("Single Partner Model" – as in Aztec's case); or
- The fund itself ("self-managed model").

An AIFM provides, at a minimum, portfolio management and risk management services to the funds it manages.

In addition, it is likely that the AIFM will also perform the following services



In establishing its operating model, it is common for the AIFM to:

- Delegate the performance of certain operations to appropriate specialists; or
- Seek specialist advice from third parties.

For example, portfolio management could be delegated to an investment manager (typically also the fund's promoter) to manage the assets in accordance with the fund's investment strategy. An alternative would be for the AIFM to retain the responsibility for the performance of portfolio management activities, and to appoint the investment manager to provide investment advisory services to the AIFM.

Both options would require the investment manager to hold an appropriate regulatory permission in their home country to provide portfolio management or investment advisory services.

Why do managers appoint a third-party AIFM?

Assessing whether to establish your own in-house AIFM or to appoint a third-party AIFM will be an important consideration for many investment managers. Many promoters elect to appoint a third-party AIFM for a variety of reasons, including:

- **Speed to market** – establishing an AIFM can take several years. By appointing a third party AIFM, you can establish a new fund in a matter of weeks.
- **Cost saving** – establishing and operating an AIFM involves high operating costs and will typically only become cost effective when the manager's AUM is over €4 billion.
- **Regulatory capital requirements** – an AIFM is required to hold regulatory capital / liquidity (in Luxembourg this is 3 basis points of AUM).
- **Flexibility**: Outsourcing provides flexibility to resource up or down, accessing different investment strategies, reducing key dependency risks while providing access to specialist technology.
- **Regulatory specialisation** – the AIFM regulations are complex and continuously evolving. A third-party AIFM has the specialised skills and scale to take on the regulatory and compliance burden, allowing you to focus on investment management activities.

How can we help?

The Aztec Group provides clients with a Single Partner Solution, ensuring fund and promoter receive an integrated administration, depositary and AIFM partnership, while the appropriate conflicts of interest and regulatory segregations are respected.

As Europe's leading independent fund services provider, we have extensive expertise and experience in the management and operation of private equity, real estate, venture capital, private credit, infrastructure and fund of fund structures, which we can apply directly to your funds.

Aztec AIFM has invested in market-leading technology that facilitates automation and data management, allowing you to access these technologies without the development or licensing costs, or the ongoing resourcing.

If you're looking to establish funds or raise capital in Europe and are interested in leveraging the support of an external AIFM and fund services provider, please contact **Paul Conroy** or **Tomas Tobolka** from our AIFM Services team.

Note: References above to Europe are in relation to the European Union and the wider European Economic Area