



The **Alternative Investor**

**Performance
News
Trends
Regulatory updates**

**Looking
back at
the first
half of this
year...**

In this edition, we look back at the first half of this year, reflect on what's been driving the alternative space, pick-up changes in the regulatory environment with RQC Group and include all our guest features from this period.



A Brodie Consulting publication in conjunction with Capricorn Fund Managers and RQC Group.

H1 REPORT CARD

Good effort but can do better

In the first half of this year, intense geopolitical wranglings, political manoeuvring and diverging interest rates combined to create a high degree of uncertainty. China's protracted property downturn and weak consumer demand negatively impacted growth. Meanwhile, solid demand and job creation led the Fed to resist lowering rates, unlike the EU and Canada.

While private equity deal-making slowed in the first half,¹ overall M&A activity did improve, with the half being the busiest since H1 2022.² There were 17 deals valued at over \$10 billion, totalling \$304.6 billion. Yet this figure is far off H1 2019, which saw 22 such deals totalling \$708.3 billion.

Assets in hedge funds at the end of the half hit an all-time high of \$4.3 trillion,³ an increase of \$11 billion in Q2. Within this world, equity funds performed best among the mainstream strategies, closely followed by global macro.

The HFRI Equity Hedge index closed the half +6.2%, topped by Quantitative Directional +11.5%, primarily driven by technology and communication stocks. While a few equity managers did shoot the lights out – notably Light Street and Whale Rock – many still lagged the equity indices, with the Nasdaq 100 +17.5% and S&P 500 +15.3%.

Event-driven was a tougher nut to crack, with the HFRI index +2.8%. Record global activity from the Activist managers - Lazard's reported 147 campaigns - did not materialise into big returns, with the index up only +0.8%.

Such an environment was better suited to the global macro managers, with the HFRI Macro index +5.4% as various themes played out, across rates, equities, inflation, currencies, monetary policies and geopolitics. Systematic managers, in particular, outperformed with the HFRI Systematic Directional Index +7.9%

There were plenty of successful fundraises in private equity. These successes, however, masked the growing bifurcation between the large, big brands, who continue to see the inflows, and the smaller, lesser-known managers who struggled to gain any real traction. Hellman & Friedman, EQT, Silver Lake, KKR, Cinven, and Brookfield were among

the big brands to raise sizeable funds. But the one shared problem that all private equity houses face are unattractive entry and exit points, and the \$2.6 trillion of uncommitted capital sitting on the sidelines.⁴

Hedge fund fundraising was not much easier, with a few 'big brands' having to lower expectations on launch. The most notable was Jain Global, which launched with \$5.3 billion, having talked up a target AUM closer to \$10 billion. What was very apparent was the large number of hedge and private equity funds opening offices and launching funds in Dubai and Abu Dhabi.

Another trend was the continued growth of private credit, with some of the more prominent alternative funds building out or launching their credit arms from scratch. Goldman Sachs Asset Management raised \$20 billion for senior direct lending, while the more traditional credit house, HPS, raised \$21.1 billion for its latest flagship fund.

There were further moves by alternative businesses to grow their private wealth channels and diversify their investor bases. Particularly active in this space were BlackRock, Carlyle, Blackstone and KKR, with the latter linking up with Capital Group to offer private investors broader access to alternative-type investments.

Turning to the second half of this year and this environment should be well suited to tactical hedge fund strategies, particularly macro hedge funds, less so equities, as rates come down and geopolitics ramps up. We also think it is a better environment for M&A as corporations look to fast-track growth in this slow growth environment, alongside the number of active sellers and that mountain of 'dry powder'. Unless you are a big player, the fundraising environment is still likely to be sticky, although there will always be interest in experienced teams and good stories, strengthening the case for building solid and identifiable brands to stand out in this busy crowd.

Editor

¹Bain; ²S&P Global; ³HFRI; ⁴S&P Global



H1 REGULATION

Regulatory Roundup

Matt Raver, Managing Director, RQC Group

US

The first half of 2024 ended with a series of setbacks for the Securities and Exchange Commission ("SEC"). In a significant development for private fund advisers, on 5 June the US Court of Appeals for the Fifth Circuit unanimously [ruled against](#) the SEC and vacated the Private Fund Adviser Rule ("PFAR") in its entirety, finding that the SEC exceeded its authority.

The PFAR would have added several significant burdens to private fund advisers' disclosure and reporting requirements. These included the Quarterly Statements Rule, Audited Financial Statements Rule and the Adviser-Led Secondary Transactions Rule. However, a lawsuit was filed by trade bodies including the Alternative Investment Managers Association ("AIMA") claiming:

- i. the compliance costs of implementing PFAR far outweighed the regulatory benefits; and
- ii. the SEC had exceeded its statutory authority due to legislation drawing a distinct line between private funds and funds serving retail customers.

The Fifth Circuit was unanimous and decisive in its ruling, and the SEC's next moves are unclear. For now, the PFAR could be viewed as a Risk Alert, highlighting areas of focus that could be relevant in examinations and enforcement proceedings. Therefore, firms should be mindful of the spirit and substance of the PFAR notwithstanding non-adoption of the prescriptive requirements.

Later in June, the US Supreme Court ruled that the SEC's practice of bringing enforcement actions "in-house" is unconstitutional in cases involving civil penalties for securities fraud. This practice had forced the accused to defend themselves in the SEC's administrative court, before an administrative judge, instead of in federal courts with a jury; thereby creating a perceived bias in favour of the SEC.

The Supreme Court ruled that this violated the Seventh Amendment's right to a jury trial.

Around the same time, the Supreme Court overturned the nearly four decades-old Chevron Doctrine, which required courts to defer to an agency's interpretation of a statute when the statute did not clearly define an issue, provided the agency's interpretation was deemed reasonable. By overturning this, courts do not have to defer to the SEC's interpretation of a statute where an ambiguity exists.

These two Supreme Court decisions change the power dynamics, forcing the SEC to charge individuals in district court and without Chevron's protection. Those regulated by the SEC may have more bargaining power regarding settlements. Going to trial always represents an unknown; most lawsuits end in a settlement.

Finally, the SEC's Chair Gary Gensler is in the mire. Whilst he is expected to serve until 2026, Donald Trump has indicated that he would fire him should he become president; the comments made to a Bitcoin conference, the context being a perception that Gensler is too "anti-crypto". It has also been suggested that Kamala Harris may do likewise were she to win the November election.

Despite the setbacks, investment firms should not be complacent. Firms should be mindful of the SEC's [examination priorities](#) and ensure that they are in a good position should they receive an examination request. Correcting violations arising from SEC examinations can be costly and potentially commercially disadvantageous if there's an obligation to report these to stakeholders, notwithstanding the SEC's setbacks in the enforcement arena.



H1 REGULATION



UK & Europe

At the end of 2022, Jeremy Hunt, then UK Chancellor of the Exchequer, announced a set of reforms to drive growth and competitiveness in the financial services sector. Known as the “Edinburgh Reforms”, this took forward the government’s (post-Brexit) ambition for the UK to be the world’s most innovative and competitive global financial centre.

Fast forward 18 months, and progress has been made on various initiatives which generally focus on a combination of fixing regulation that is not working and responding to industry-led advances on products, services and technology. From an asset manager’s perspective this can be seen in initiatives like the creation of the Long-Term Asset Fund regime, revising short selling disclosure thresholds and (most recently) allowing firms to bundle research and execution costs. Ongoing initiatives include a review of the Senior Managers and Certification Regime, updating the Alternative Investment Fund Managers Directive (“**AIFMD**”) and exchange and market reform such as establishing the private intermittent securities and capital exchange system (“**PISCES**”) and reforming the UK Listing Rules.

Underpinning this is a desire for regulatory developments to be “nimble” implemented, by providing the FCA with additional authority to make rules without the need to go through a legislative process. This may be a response to the somewhat dilatory pace of EU updates. MiFID II was conceived post-financial crisis in 2010 with a 2018 deadline for adoption. Earlier this year, the EU’s updates to AIFMD (“**AIFMD II**”) came into force after several years of drafting and negotiations; AIFMD II won’t apply until April 2026.

There was a pause in tangible regulatory developments due to the UK general election in early July, but with signs of an uptick since. The new Labour government’s policy manifesto for financial services broadly follows the same themes as before, with the addition of building a more collaborative relationship with the EU. Hopefully this will lead to a “win-win” situation, with the UK and the EU able to follow their own regulatory paths, but an increased imperative (on both sides) to do away with political squabbling and focus on what’s best for the industry and its clients. Perhaps the “EU MiFID passport” will once again be made available to UK investment firms!

For the asset management and alternative sector, certain FCA communications highlight regulatory priorities for firms. These include: consumer protection (the Consumer Duty regime’s first anniversary was 31 July); product governance; ESG; market integrity; financial crime; innovative products and services; liquidity management; and operational and financial resilience.

The EU is also focussing on some of these, as demonstrated by its ongoing engagement with ESG initiatives, the Markets in Crypto-Assets Regulation (“**MICA**”) and the Digital Operational Resilience Act (“**DORA**”).

Matt Raver, Managing Director, RQC Group

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I personally believe every investor should be a software investor. It gives you access & exposure that's far superior to many other industries, but it also tends to be someone who's thinking about how they want a risk adjusted opportunity set into one of the most powerful economic models that's in existence today.

Rachel Arnold, Co-Head of Vista Equity Partners Endeavor Fund



JANUARY 2024

How to run with the crypto bulls

Vincent Molino, Head of Operational Due Diligence, Bitwise Asset Management

Here's an allegory... Imagine you're about to compete in the famous "running of the bulls" in Pamplona, Spain. Everyone is excited to be part of the action, nervously anticipating the risk and reward you are about to be confronted with once the gates open behind you. You know that in order to win this race you will need to stay ahead — not just ahead of the other racers, but also of what you can hear snorting and stamping behind the gates. As you dash through the streets, pumping your legs furiously, you see friends being knocked down or thrown off the path, but you continue to maintain distance from the masses. Ahead of you is the arena where winners are determined, and you sprint inside. You're relatively unscathed, you're surrounded by cheering, and most importantly, what was on the other side of the start gate is now safely captured in your corral. You take a breath and realize something... you made it through a full crypto bull run cycle.

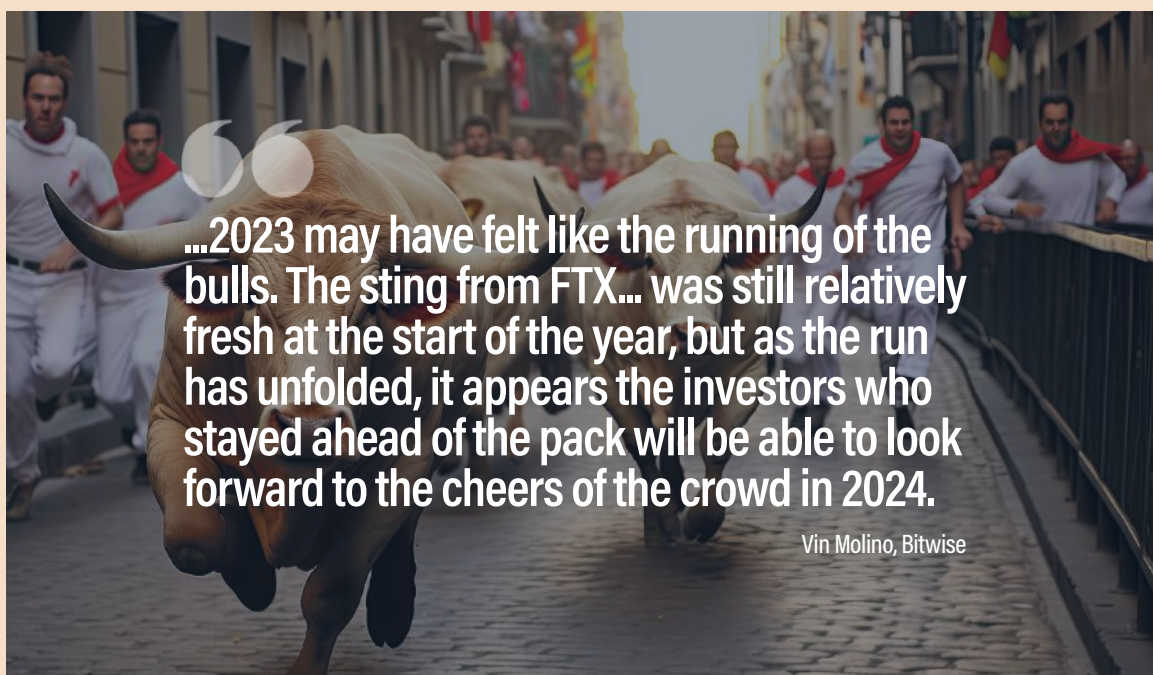
For many in the crypto investment space, 2023 may have felt like the running of the bulls. The sting from FTX (or goring for some) was still relatively fresh at the start of the year, but as the run has unfolded, it appears the

investors who stayed ahead of the pack will be able to look forward to the cheers of the crowd in 2024.

From an operational risk perspective, those who competed in the race and made it through the year focused on counterparty risk management, quickly pivoted to new banking relationships (remember First Republic, Signature and Silicon Valley Bank?), managed audits that were a learning experience for both the investor and the auditor, and are still trying to figure out what custody means. In short, 2023 was running through the streets and away from the charging herd.

As we head into the new year and the next contest within the crypto cycle arena, I'd like to offer some operational considerations for the novice matadors out there, who want to compete in the ring during what looks to be a new crypto bull market.

First, if you've invested (and not speculated) in crypto, you likely have not just looked at blockchains as an opportunity for returns, but their tokens as a down payment on the future of technological innovation throughout numerous industries. Using an example many readers will know, counterparty risk management



JANUARY 2024

should not be “one and done,” but applied with careful oversight, as you may need to make critical decisions on business relationships quickly. Conveniently, if you run a crypto investment firm, the tech you invest in may also be the tech that assists you, as DeFi infrastructure provides some of the transparency and ability to move fast that many have unfortunately found lacking at a centralized intermediary.

Second, as I’ve come to better understand throughout 2023, the concept of asset custody should be broadened beyond just the trio of centralized transaction execution, safekeeping, and data management we are accustomed to. Again, the crypto tech that is already out there, and what’s in the near-term pipeline, points the way to a new baseline: efficient automation and real-time settlement through smart contracts, enhanced security through on-chain analysis tools, and reduced counterparty risk with the deployment of self-custody wallets.

Lastly, with the innovation of various crypto investment products being brought to market, either through ETFs, crypto derivatives, or the emergence of asset tokenization, the means by which one can participate in the space continues to be enhanced for individual and

institutional investors alike. Coupled with a push by numerous global financial regulators to set the rules for investor protections (something we are still waiting for here in the U.S.), the ability to invest with an assumption of safety has only become clearer heading into 2024.

So whether you’re at the starting gates, have made it through the streets, or are in the arena, the year ahead presents an opportunity to compete with the crypto bulls. However, the best way to prepare for the risk is to know how to move quickly, make adjustments to your posture, and use the equipment available. “¡OLÉ!”



Vincent Molino, Head of Operational Due Diligence, Bitwise Asset Management

Vincent is Head of Operational Due Diligence at Bitwise Asset Management, and has worked in the investment industry for over 20 years. Prior to Bitwise, he was Head of Risk within Northern Trust's fintech products and held leadership positions at Mercer, Permal Group, Barclays and J.P.Morgan. Vincent has authored thought leadership pieces on crypto, fintech, risk management, operations and industry trends. He has also spoken at conferences hosted by Bloomberg, the CFA Society, the Managed Funds Association (MFA) and the Alternative Investment Management Association (AIMA). Vincent graduated from St. John's University with a B.S. in Political Science.



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Vin Molino, Bitwise

JANUARY 2024

Family capital: from wealth preservation to opportunity pursuit

Christine Cairns, PwC Tax Partner, & Kam Dhillon, PwC Senior Manager

In an article published in the Alternative Investor in April 2023, I examined the emergence of the “family investment firm”: modern family offices increasingly focused on “wealth creation” rather than traditional “wealth preservation”. This new generation of family offices is seen increasingly competing head-to-head for deals alongside venture capital, private equity and sovereign wealth funds, with family office backed transactions accounting for 10% of the entire deals market for the first time in 2021. In this article I pick up where we left off, and examine the investment trends of “family investment firms” since 2021, backed by a new study of Family Office Deals (published by PwC in late 2023).

Family offices in recent years have become increasingly active and influential players in the global transaction market, pursuing a wide range of investment opportunities across different asset classes, sectors and regions. Their metamorphosis has continued, shifting from a traditional focus on wealth

preservation and maintenance to a more opportunistic and adaptive approach that seeks to access global markets. Furthermore, family offices continue to become more professionalised and sophisticated in their governance, risk management, and deal execution, often collaborating with other investors through club deals or partnering with institutional capital.

Despite this, the straight line trajectory towards ever increasing deal value and volume in family office deals was broken in the first half of 2021 following the COVID-19 pandemic and the economic slowdown that succeeded it, declining in the first half of 202 beyond the low-points recorded at the start of the pandemic. It's also shifting between asset classes. Start-up investments now dominate family office deal volume, accounting for 15% of all family office deals. Start-up investments are also gaining ground in terms of deal value, direct investments still account for the largest proportion of money-flows.

While direct investments/M&A remains the largest asset class in terms of deal volume, family offices have reduced their deal value and volume since early 2022, following a decade-long rising trend.



Christine Cairns, PwC



Start-up investments now dominate family office deal volume, accounting for 15% of all family office deals. Start-up investments are also gaining ground in terms of deal value, direct investments still account for the largest proportion of money-flows.

Christine Cairns & Kam Dhillon, PwC



JANUARY 2024

They have embraced smaller deals and increased their use of club deals to mitigate risk, while targeting tech-driven industries such as computer software and services. The US and India are the most attractive target markets for cross-border direct investments

Family offices have also scaled back their deal value and volume in real estate deals since the second half of 2021, although they have maintained a significant share of the total market value, indicating an opportunistic and adaptive investment strategy. They have selectively pursued large and mega-deals, especially in high-end hotels and Paris real estate, while also opting for club deals in some cases. Asia-Pacific and EMEA are the most prevalent regions for family office real estate investments, while the US still remains the dominant cross-border target market.

Finally, deal value and volume in start-up deals has also declined since the start of 2022, but the average size of deals has increased, and family offices continue to make heavy use of club deals. They have targeted opportunities more selectively in sectors such as SaaS and AI & ML, while maintaining a major share of deal value in industries such as mobile and FinTech. The US remains the leading target region and market for start-up investments by family offices, followed by Asia-Pacific and EMEA.

Market conditions remain volatile and uncertain, especially following the COVID-19 pandemic, but family offices have responded by adapting their strategies

and tactics accordingly. As family offices become increasingly professionalised and their governance continues to improve, they're making smarter and more sophisticated decisions on investments and on the balance between potential risks and returns.

The trends highlighted above evidence the “coming of age” for the family office, cementing their role as influential and sophisticated key players in global investment markets. The shift in focus from preserving wealth to pursuing opportunity, wherever it may be found, will continue, with this change of role and mindset opening up a promising future for family offices

Christine Cairns, PwC Tax Partner, & Kam Dhillon, PwC Senior Manager

Christine Cairns is a tax partner at PwC, focusing on private clients and alternative investment funds. She advises on complex international personal tax matters, as well as on tax issues in connection with carried interest, co-investment, management fees, and the impact of fund and deal structures on investors. Christine works with founders, owners and family offices within the AIF, Fintech, and FS sector more broadly. Over the last few years she has helped a number of her clients structure private investment funds, bringing together her unique expertise and experience in personal tax and funds.

Kam Dhillon is a tax senior manager at PwC, focusing on private clients and alternative investment funds and the FS sector more broadly. Kam works with ultra and high net worth international individuals, family offices and trustees to provide tax planning advice and wealth protection. He has a particular focus on advising alternative asset managers on the UK tax implications of carried interest and Disguised Investment Management Fee rules.



Kam Dhillon, PwC

[Family offices] have selectively pursued large and mega [real estate] deals, especially in high-end hotels and Paris real estate, while also opting for club deals in some cases.

Christine Cairns & Kam Dhillon, PwC

JANUARY 2024

Navigating Competitive Fundraising in 2024: The Crucial Role of Outsourcing Operations

Daniel Trentacosta, Head of Private Markets and Change at MUFG Investor Services

As we enter 2024, fund managers in the alternative investment market face intense competition for capital and challenges in effectively investing that capital. These challenges are not new, yet they continue to be a concern. With changes in various aspects of alternative firms' middle- and back-office footprint, including valuations, human capital, technology, legal and compliance, and operations, it is more important than ever for alternative investment managers to display operational excellence.

Recently, we spoke with Daniel Trentacosta, Head of Private Markets and Change at MUFG Investor Services, who believes that fund managers can position themselves for success in the coming years if they have the right partner to address operational complexities.

"As fundraising continues to be more competitive and managers deal with continued volatility and uncertainty on a macro level, a trusted fund administrator becomes pivotal in addressing the multifaceted needs of fund managers," Trentacosta said.

Data from Preqin shows funds collectively raised \$145.3

billion on their final closes for 2023, a 19% increase on the same period last year,¹ Trentacosta said, adding, "By outsourcing back-, middle- and even some front office functions, fund managers will spend more time driving value and increasing returns for investors."

Increased outsourcing allows them to relinquish certain operational tasks and refocus efforts on fostering investor relationships and strategically positioning their portfolios for greater success.

Strategic Outsourcing: A Competitive Edge

Investors are demanding greater visibility into fund activities. Outsourcing to a specialized fund administrator can help improve transparency and reporting mechanisms. By leveraging the technology and expertise of a fund administrator, alternative managers can focus on raising capital while satisfying investor demand for comprehensive reporting.

The regulatory landscape for fund management is constantly evolving, making it challenging to stay

¹ Preqin 2024 Global Report: Private Equity



JANUARY 2024

Success in fundraising goes hand in hand with strategic decision-making. Outsourcing is not just a solution; it's a roadmap to navigate the path towards generating returns and operational efficiency...

Daniel Trentacosta, MUFG Investor Services

compliant. Working with a trusted partner can help fund managers meet new regulatory requirements, mitigate compliance risks, and proactively adhere to industry standards. With extensive experience across different regulatory regimes and evolving requirements, a reliable fund administrator's team of experts can help ensure managers are covered.

Portfolio Performance Acceleration

Eliminating manual processes and automating operational tasks can reduce risks and costs associated with middle- and back-office operations. Outsourcing functions across the operations spectrum, but also including systems management, data processing, and establishing effective integration with existing technologies, is critical to operational efficiency. For example, MUFG Investor Services offers flexible, scalable, and streamlined solutions to manage complex portfolio strategies, multifaceted fund structures, and evolving global regulations.

When selecting an outsourcing partner for administration, it is crucial to consider the stability and breadth of solutions being offered. Mitsubishi UFJ Financial Group, Inc (MUFG), is one of the world's largest banks with approximately \$3 trillion in assets, and as a result, MUFG Investor Services can offer clients an extensive, dynamic suite of banking services and financing, foreign exchange, and regulatory services in addition to the foundational asset servicing and fund administration. We

customize solutions based on our clients' goals and focus on gaining a deep understanding of their portfolios so we can serve as an extension of their organization. That extension is born from becoming an excellent cultural fit with our clients, especially when they outsource services to us, and our teams collaborate closely with each other daily.

Thriving in Complexity

Given the dynamic fundraising landscape anticipated in 2024, the strategic move for fund managers is clear: Embrace outsourcing to trusted partners as an investment in resilience, adaptability, and sustained growth, enabling them to free up valuable resources to focus on capital raising strategies.

"Success in fundraising goes hand in hand with strategic decision-making," Trentacosta said. "Outsourcing is not just a solution; it's a roadmap to navigate the path towards generating returns and operational efficiency, leading to a more attractive investment for prospective clients."

Daniel Trentacosta, Head of Private Markets and Change at MUFG Investor Services



JANUARY 2024

Trends in the recruitment space over the past year

Max Heppleston, MD US & EMEA, Fredriks Partners

The alternative investment space has seen some significant trends and changes this year, marked by what I think are some of the main themes that will push through into 2024.

This year we have seen a host of firms building out Private Credit platforms, especially across Europe, and Private Equity firms becoming more focused on growing in Private Credit, Special Situations, and Direct Lending strategies as opposed to massive LBOs as higher rates impact the traditional business model.

We have seen the so-called talent wars in the hedge fund space, fueled by the dominance of the large multi-manager funds, firms like Balyasny, Millennium, Citadel, Point72, and others have been fighting for top portfolio managers and analysts around the world.

One of the impacts this has had is the development of internal talent programs and partnerships to grow the talent in-house rather than trying to outbid each other, with Point72 probably leading the charge with their innovative programs.

The success of these funds has led PMs from a host

of smaller funds to join the teams and has contributed to the closure of over 2500 hedge funds over the last 5 years, surpassing the number of launches.

The Middle East, particularly the UAE, has become a focal point for alts, with its beneficial taxes, regulations, and strong investor base that has led to a surge in fund registrations. The congregation of alternative asset managers here has brought the market to a level where it is no longer necessary to parachute your teams in, it's now just as easy to take directly from your competitors, further exacerbating the global talent war.

Private wealth has been taking center stage as well and has been in a major growth period with the larger firms, such as Blackstone, Ares, KKR, and Apollo all making strategic moves, with at least 68 professionals transitioning from private banks and other investment firms to private markets. This has shown up on the radars of firms worldwide, all looking to get in on a piece of the lucrative market. Again, the market here has now reached a maturity where firms no longer have to hire from adjacent industries and can now hire from direct competitors.



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JANUARY 2024

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With demand surging from the private wealth channel, firms that don't have established teams are looking to grow them, and the more established players are looking to create or further develop regional teams across the US and EMEA...

Max Heppleston, Fredriks Partners

With demand surging from the private wealth channel, firms that don't have established teams are looking to grow them, and the more established players are looking to create or further develop regional teams across the US and EMEA, with some exploring further afield markets such as Latam and Japan.

APAC has also been an area focus over the year, with US & European firms building out evermore specialist capital formation teams on the ground, funds have realised how vital it is to have locally based teams and are paying top dollar for them with a quality vs quantity approach. There has also been a recent push into Japan, with firms looking to hire or acquire to break into the market due to a mix of government incentives, robust YoY growth in Private Equity, and demand for alternative investments, especially domestic credit.

Looking ahead to 2024, I think private credit will remain somewhat center stage. 2023 saw a slow rate of deployment which seemed to have gained momentum toward the second half of the year and will continue into 2024 and beyond. The influence of the private wealth dynamic is only going to deepen, talent wars across

the multi-strategy hedge funds will continue to reshape the hedge fund space, from talent to fee structures, and the push into the Middle East, LatAm, and Japan can fuel further growth.

Potentially as all of these trends converge next year it will highlight the range of competencies and skill sets that these firms will eventually need as they expand their teams and drive acquisitions. One will need to keep an eye on these themes and remain adaptable to successfully navigate the possible changes coming next year.

Max Heppleston, MD US & EMEA, Fredriks Partners

Fredriks is a global boutique specialising in strategic consulting, executive search, platform acquisitions and deal introductions across the full alternative investment spectrum.

Max has led alternative investment executive search and consulting practices for the last seven years and currently leads US & EMEA for Fredriks, a global boutique specialising in strategic consulting, executive search, platform acquisitions and deal introductions across the full alternative investment spectrum. Prior to this, he built and led the alternative asset management practice at Lawson Chase, with a focus on hedge funds and private markets. He also advises for TrendUp, a program designed to help people from a range of backgrounds break into the alternative investment space.



JANUARY 2024

AI: the next computing paradigm

Christopher Rossbach, Managing Partner and CIO, J.Stern & Co.

Artificial intelligence (AI) is transforming and disrupting how we do business and how we live our lives. This change is on the same scale as prior industrial revolutions like the steam engine and electricity. It will markedly improve productivity and have a transformational effect on the global economy.

Today, AI is most associated with the technology sector. The huge surge in interest and the excitement around AI is one of the reasons Nvidia was the first semiconductor company to break the trillion-dollar valuation in May 2023. Its GPUs (graphic processing units) are the best technology for AI. But it is not just about the chips: Nvidia's strength comes from the comprehensive AI ecosystem it has built, an interconnected network of products, technologies, and partners. The company has had staggering growth in revenues and profits over the past 12 months, with the only challenge being to secure enough capacity

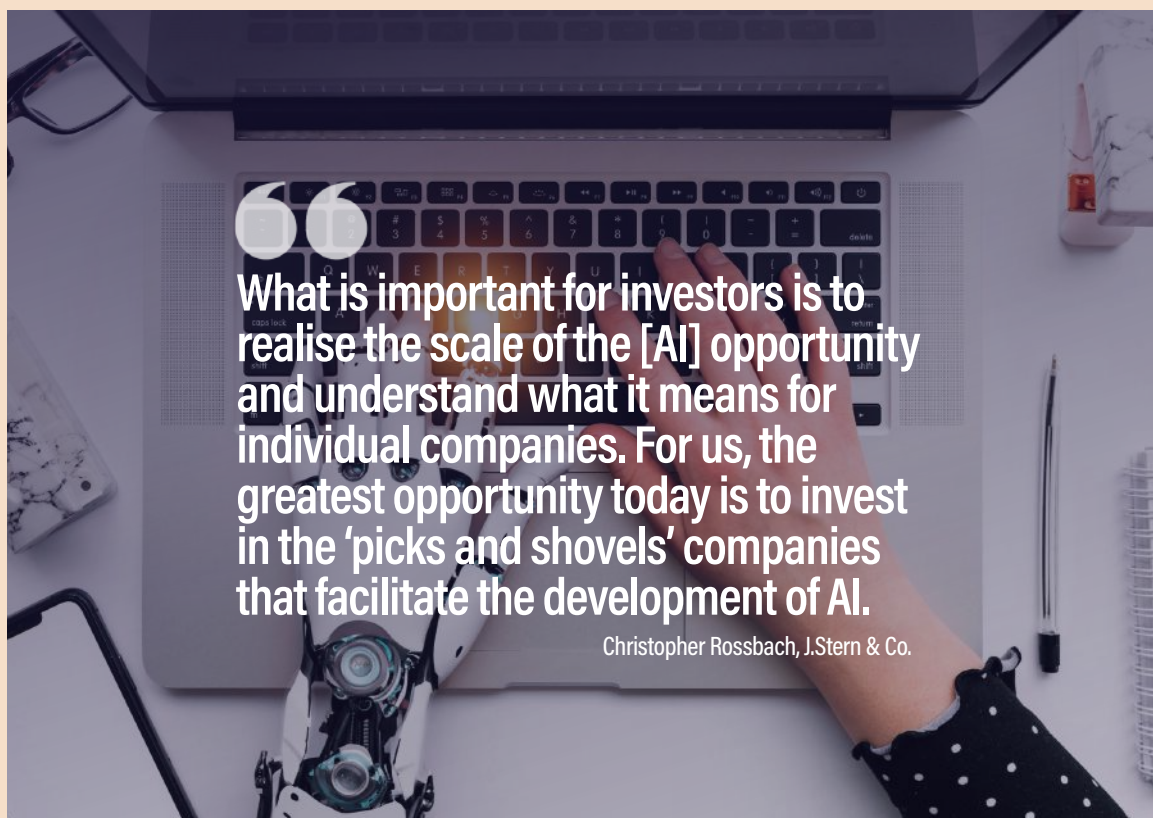
to accommodate the high demand for AI.

AI will create great opportunities across many industries, not just technology. For example, in healthcare, it can speed up drug development and analyse genomic data. Within the energy sector, AI can improve geological modelling, usage analytics and pipeline tools. Within retail and freight, it will have an impact on supply chain management, inventory management, as well as autonomous fleet networks. In customer service, the chatbots and automated phones we use today will be transformed with superior interactions and analytics. The use cases go on and on.

We understand the fears that jobs will be lost to AI, but it will be the same as with all new technologies: new roles will be created, and it is all part of economic development. For example, the internet has brought in many new jobs, such as social media marketing, app development and data scientists that simply did not



Christopher Rossbach, J.Stern & Co.

JANUARY 2024

exist twenty years ago. AI will bring many productivity benefits, new jobs will be created, and this will result in long-term improvements for the global economy.

Nobody knows what AI will look like in 20 years and it is not easy to forecast the eventual winners. If we compare AI to the early days of the internet, most of the first generation of companies and applications are no longer leading the pack. What is important for investors is to realise the scale of the opportunity and understand what it means for individual companies. For us, the greatest opportunity today is to invest in the 'picks and shovels' companies that facilitate the development of AI. To enable AI, there will be a large infrastructure build, particularly for semiconductors. That is why we have positions in Nvidia and in ASML, which manufactures the machinery that is critical for advanced semiconductor manufacturing.

AI is still in its infancy, but we believe it will have a far-reaching impact across the broad economy for years to come. There will be winners and losers, and it will be critical and impactful for companies not only to develop



AI strategies to make the most of the opportunities AI can offer, but to manage the risks of disruption to their businesses. The companies that incorporate AI will succeed and those that ignore it will do so at their peril.

Christopher Rossbach, Managing Partner and CIO, J.Stern & Co.

Chris is a Managing Partner and Chief Investment Officer of J. Stern & Co. Chris is also the portfolio manager of the firm's flagship World Stars investment strategy. Chris manages long-term investments for the Stern family, and for the firm's clients, based on the same principles he has successfully implemented throughout his investment career. As a Managing Partner, Chris leads the firm's investment practice to deliver value to its clients. Chris has 23 years' financial services experience, 19 of which were spent investing in stocks based on a fundamental value approach with Merian Capital, Magnetar, Lansdowne Partners and Perry Capital. Prior to that he was in investment banking with Lazard Frères in New York. Chris speaks German, English, French and Spanish. He holds a BA from Yale University and a MBA from Harvard Business School. Chris also chairs and is a trustee of the Warburg Charitable Trust.

FEBRUARY 2024

The Drive for Consistency and Depth in Impact

Chris Wehbé, CEO, Lendable

As of December 2021, the Global Impact Investing Network estimated that worldwide AUM across Impact Investing managers exceeded USD 1.1 trillion¹. This is roughly equivalent in size to the global private credit market² and therefore, by anyone's standards, an asset class to take seriously.

For the uninitiated, Impact Investing is the practice of investing with the intention to generate positive, measurable social and environmental impact alongside a financial return. The inclusion of these non-financial objectives is an important distinction from ESG strategies, which do not necessarily demand a broader set of outcomes, and therefore creates a need for rigorous impact measurement. This has certainly presented a challenge; unlike financial statements that have long converged to a narrow set of accounting standards, impact reports have been notable for their lack of comparable information.

Thankfully, we think this is now changing. Industry groups such as the UNPRI³ are promoting a unified

approach by proposing standardised terminology and helping shape clear expectations for managers. Whilst this process is still in its infancy, it feels like a tipping point has been reached and there is a clear path to recognised and agreed standards.

Certainly, this is exciting for impact professionals as it will create a more homogenous data environment in which comparative analysis and benchmarking can become productive. However, just as effective financial analysis requires looking "under the hood" and investigating the drivers and sensitivities of headline metrics, we think there is an important parallel need to assess "depth" of impact. In other words, what, why, how and to whom impact accrues. This is not trivial, requiring both analytical resources to understand nuance and ask the right questions, as well as access to end beneficiaries to observe and verify their experience.

¹[Link](#)²BCG report sees Private Credit AUM at USD 1bn in Sep 2020 [link](#).
To note private credit estimated at USD 1 trillion as of Sep 2020 vs USD 1.16bn for impact in Dec 2021.³ See article [link](#)

Industry groups such as the UNPRI are promoting a unified approach by proposing standardised terminology and helping shape clear expectations for managers... it feels like a tipping point has been reached...

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This need is creating an important role for groups that can provide more granular information that allows investors to improve the quality of their impact due diligence and operational value-add. For example, 60 Decibels has established sector-based, social performance measurement products based around surveys of a company's customer base. By sampling across the demographic and geographic spread of a firm, they can provide unique insights into customer experiences and impacts. At Lendable, we instead integrate with the accounting systems of portfolio companies to ingest their anonymised, granular data, which is then audited against bank account transactions. This allows for an on demand understanding of performance on a client-by-client, cohort or segment basis.

Collectively, these various initiatives have the potential to provide both homogeneity in headline reporting, and the

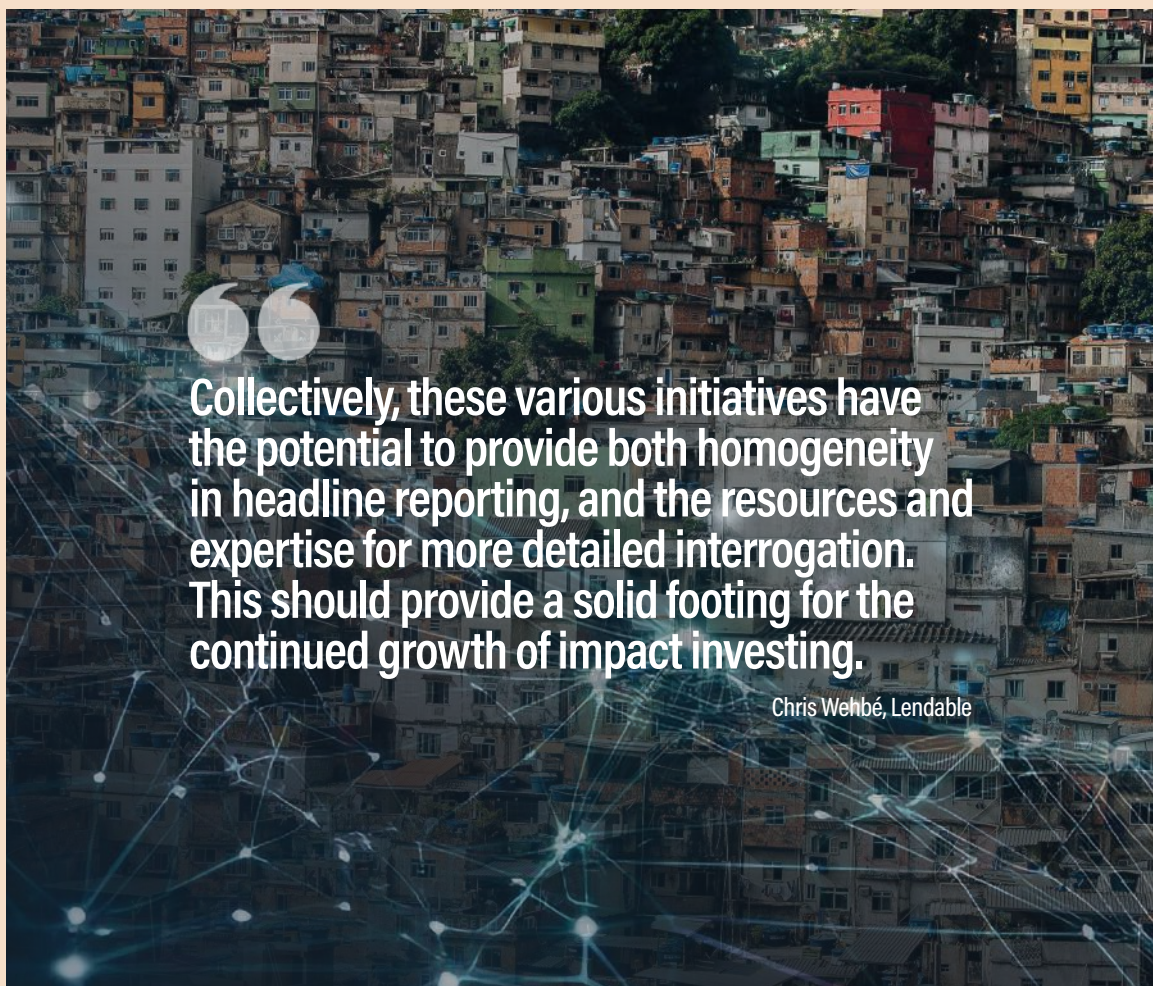
resources and expertise for more detailed interrogation. This should provide a solid footing for the continued growth of impact investing. Given that the UN estimates a USD 4 trillion annual SDG investment gap, the necessity of greater capital deployment to solve social and environmental issues remains overwhelming.

Chris Wehbé, CEO, Lendable

Chris is the Chief Executive Officer of Lendable. Previously, he was a Partner of Arrowgrass Capital Partners where he served as Head of Relative Value globally for the multi-strategy firm, overseeing the Convertible Arbitrage, Volatility Arbitrage, and Capital Structure Arbitrage strategies.

Lendable is a technology enabled investment and alternatives platform that focuses on global impact alternatives. We believe in the power of technology and finance to create a more economically just and environmentally sustainable world.

<https://lendable.io/>



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Chris Wehbé, Lendable

FEBRUARY 2024

Why litigation finance can generate big gains and deliver big change

Rob Ryan, CEO and Head of Impact, Aristata

ESG and sustainable investment continue to attract significant capital inflows globally. Investors from retail to institutional are driving demand for asset classes and products that produce strong returns with clear social and environmental benefits – often easy to ask for, consistently hard to produce. One avenue gaining traction is social and environmental litigation finance—a niche yet growing sector that is drawing attention from conscientious investors. In this note, we explore the landscape of litigation finance, highlighting its potential to generate returns while effecting meaningful change.

In simple terms litigation finance, also known as third-party funding, involves providing capital to claimants or law firms to cover legal costs in exchange for a share of the proceeds if the case is successful. Legal claims, particularly complex commercial disputes or class actions, often require significant financial resources to pursue. With its often non-recourse nature – where repayment hinges on case success – litigation funding

is particularly attractive as returns typically exhibit low correlation with broader market movements, offering investors a way to diversify their portfolios and reduce systemic risk.

The litigation funding market is maturing and attracting ever larger pools of capital - private equity, hedge funds, credit funds, pension funds, and institutional investors are among those committing substantial capital to litigation finance companies on the back of years of investment from family offices and private investors.

As traditional funding becomes mainstream, impact oriented firms are identifying claims that drive both returns and social and environmental impact. By providing capital to claimants pursuing justice in areas such as environmental degradation, human rights violations, and corporate misconduct, investors can align their financial objectives with their values. This alignment is crucial in an era where investors increasingly prioritize environmental, social, and governance (ESG) considerations in their investment decisions.



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Investors seeking to integrate ESG considerations into their portfolios will seek to understand the measurable impacts of their capital allocations. Impact litigation finance offers a direct pathway for investors to deploy capital making a positive difference as well as achieving a return, where the outcome of a case can be reliably linked to impact outcomes. At Aristata, the first litigation fund to integrate clear impact assessment metrics in our investment process, we are motivated by the way our impact-first approach can amplify the voices of marginalized communities. Historically, disadvantaged groups have often been sidelined in legal battles due to resource constraints. However, with financial support, these communities can assert their rights, challenge systemic injustices, and hold powerful entities accountable. Impact litigation finance thus serves as a catalyst for social empowerment, fostering a more equitable legal landscape.

Environmental litigation in particular presents compelling investment opportunities in the era of climate change and sustainability. Cases related to pollution, resource depletion, and climate justice not only address pressing environmental issues but also carry the potential for substantial financial returns. As regulatory scrutiny and calls for corporate accountability intensify,

investing in environmental litigation finance can offer a dual benefit of financial performance and positive impact. For investors doing well financially no longer needs to come at the expense of doing good.

Rob Ryan, Founder, CEO and Head of Impact

Rob is former Director of Development for ClientEarth, Europe's leading public interest law firm, with 15 years of experience developing social impact solutions for high net worth individuals, foundations, and family offices in the US and Europe. Previously Executive Director at CCS in New York, advising family offices and NGOs on impact strategy and fundraising. Robert holds an MBA from London Business School.

Aristata Capital was founded in 2018 and is the first litigation fund dedicated to driving positive social and environmental change with an attractive financial return. Aristata has two key objectives:

1. *Funding high quality litigation in order to achieve measurable social and environmental impact*
2. *Harnessing the power of private capital to drive systemic change at scale*

Aristata invests in a diversified portfolio of litigation cases across a range of impact sectors – including environment, climate change, human rights, justice reform, access to justice, foreign aid and equality - where law can be used as a potent tool for social and environmental change.



By providing capital to claimants pursuing justice in areas such as environmental degradation, human rights violations, and corporate misconduct, investors can align their financial objectives with their values.

Rob Ryan, Aristata



FEBRUARY 2024

The Crypto Wind at Our Backs

Louis LaValle, Managing Director & Head of 3iQ Capital Management

The dynamic landscape of digital asset markets is undergoing a profound transformation. What began as a grassroots movement of individuals in search of an "orange pill," has evolved into a regulated industry experiencing rapid financialization and institutional adoption. As we look ahead to 2024, we anticipate a pivotal moment where institutional allocators recalibrate their focus towards digital assets, recognizing their value for portfolio diversification and return enhancement within a formal regulated asset management framework.

Driving this momentum is the recent surge in regulated trading volumes, propelled by the SEC's approval of spot ETFs in the US and the compelling advantages offered by Bitcoin and digital assets in a challenging macroeconomic environment. Institutions are no longer solely interested in accumulating digital assets; they are also harnessing blockchain infrastructure to develop tokenized products. Early initiatives like Franklin Templeton's tokenized money market fund showcase the potential for reduced costs, enhanced

liquidity, and increased transparency in tokenized asset management. Global regulation has also been a driver of momentum. Jurisdictions such as the UK, Switzerland, Singapore, Hong Kong, and the UAE enhanced their regulatory frameworks over the last 12 months. These proactive measures provide much-needed clarity, boosting confidence and attracting institutional capital into the crypto market.

As the impact of FTX's collapse fades, the industry is better equipped to manage the next round of institutional investment. Banks, custody solution providers, and liquidity venues are integrating traditional financial functionalities into digital assets to meet regulatory standards. Establishing a dependable framework for digital asset custody is crucial for attracting institutional interest and mitigating risks, particularly concerning exchange failure and asset misappropriation. Enhanced infrastructure and risk mitigation strategies signify significant progress in handling crypto counterparty risks, paving the way for wider adoption of improved approaches like off-exchange settlement through tri-



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Louis LaValle, 3iQ Capital Management

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The most notable industry shift is being driven by the financialization of crypto markets, which has steered investment strategies towards active management, replacing the passive approaches predominant in the sector's early days.

Louis Lavalle, 3iQ Capital Management

party agreements. These advancements signal a significant shift towards a stable and growth-oriented digital asset ecosystem as regulatory clarity improves and institutional engagement with digital assets grows.

The most notable industry shift is being driven by the financialization of crypto markets, which has steered investment strategies towards active management, replacing the passive approaches predominant in the sector's early days. Over the past few years, significant shifts in digital asset rankings have made it challenging to maintain passive index strategies, mainly due to the rapid turnover in the top 100 assets (by market cap). The resulting highly fragmented, inefficient, volatile crypto markets that trade globally 24/7 offer a diverse array of innovative financial products (e.g., spot, derivatives, futures, perpetuals) and trading opportunities, attracting interest in active crypto strategies, particularly hedge funds.

As the crypto hedge fund landscape evolves, we find ourselves at the inception of a transformative era in digital asset management, mirroring the rise of hedge funds in the late '90s and early 2000s. Experienced investment professionals are migrating from traditional finance to capitalize on the significant alpha potential within crypto markets akin to the early successes of traditional hedge funds. The universe of strategies includes directional, long/short, quantitative, relative value and special situations with a broad range of styles from systematic to

discretionary and everything in between.

The ongoing transformation of digital asset management heralds a new era of investment possibilities, driven by institutional adoption, regulatory advancements, and the migration of talent from traditional finance. As the sector matures, we anticipate continued growth and innovation, with digital assets solidifying their position as a fundamental component of modern investment portfolios.

Louis LaValle, Managing Director & Head of 3iQ Capital Management

Louis joined 3iQ in 2021 and is responsible for the development, execution, and investment management of 3iQ's institutional investment platform. He is head of the 3iQ Capital Management Operating Committee and serves as Senior Portfolio Manager for the 3iQ Managed Account Platform (QMAP). Louis brings over 20 years of experience advising global institutions on hedge fund, private equity, and digital asset investing. Prior to 3iQ, Louis held senior leadership positions at several alternative investment management firms including Neuberger Berman, EACM Advisors (BNY Mellon), Permal Group (Legg Mason) and SkyBridge Capital. He previously served as strategic advisor to Crescent Crypto Asset Management, a digital asset investment firm that created one of the industry's first suites of investable crypto index solutions. He began career in investment management working with family offices and institutional clients of Morgan Stanley and Credit Suisse. Louis holds a bachelor's degree with honors from New York University (NYU).



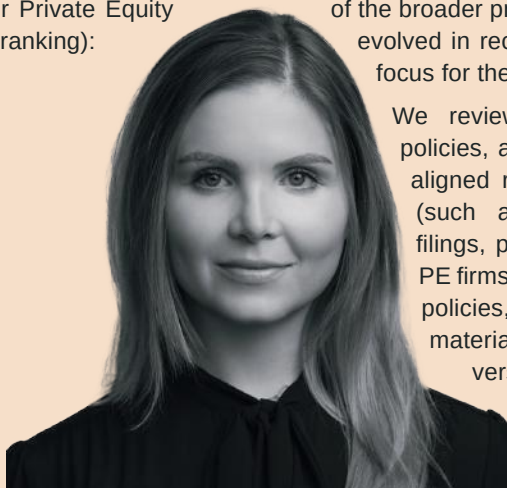
MARCH 2024

Snapshot | ESG Programs and Practices of the Ten Largest PE Firms

Dhruti Patel, Director, Jelmer Laks, Director, & Sabrina Katz, Senior Associate, Blue Dot Capital

In September 2023, Blue Dot Capital (Blue Dot) published our inaugural snapshot of the environmental, social, and governance (ESG) programs and practices of the world's ten largest private equity (PE) firms (per Private Equity International's 2023 PEI 300 ranking):

1. Blackstone
2. KKR
3. EQT
4. Thoma Bravo
5. The Carlyle Group
6. TPG
7. Advent International
8. Hg
9. General Atlantic
10. Warburg Pincus



Sabrina Katz, Blue Dot Capital

The combined assets of the ten largest PE firms span nearly all investable geographies and industries, and we believe a snapshot of the ESG practices of these firms is representative of how ESG practices of the broader private markets ecosystem have evolved in recent years and of the areas of focus for the future.

We reviewed publicly available ESG policies, annual ESG and sustainability-aligned reports, and other information (such as firm websites, regulatory filings, press releases, etc.) of the ten PE firms, distilling insights on their ESG policies, processes, and initiatives. All materials referenced are the latest versions available as of June 30, 2023.

Our analysis shows variation in how the ten largest



MARCH 2024

PE firms are structuring, resourcing, integrating, and reporting on ESG across their organizations and investment strategies, echoing the range of approaches in the space. However, a few commonalities did emerge: six firms have disclosed setting emissions reduction targets for at least some funds and/or strategies, seven firms publish Task Force on Climate-related Financial Disclosures (TCFD)-aligned reporting for at least one of their investment vehicles, and all ten firms are signatories of the Principles for Responsible Investment (PRI).

Since the end of Q2 2023:

- Multiple firms have launched or closed landmark climate-focused funds: Blackstone closed what is reportedly the largest ever energy transition credit fund at its hard cap of \$7.1 billion. Meanwhile, KKR launched its first global climate fund targeting \$7 billion, and Carlyle launched its second renewable energy fund with a \$1.6 billion target and \$2 billion hard cap.
- Firms have pursued alternative strategies and structures to capitalize on climate-related

opportunities: TPG joined BlackRock and Brookfield Asset Management as the inaugural launch partners for ALTÉRRRA, a climate finance fund launched by the UAE during COP28. ALTÉRRRA committed an aggregate \$1.5 billion for the next generation of TPG Rise Climate private equity funds, including the new Global South initiative. General Atlantic announced the acquisition of global sustainable infrastructure investor Actis, citing a global paradigm shift towards sustainability.

- Several firms have released updated ESG reporting, highlighting new portfolio engagement initiatives: Thoma Bravo launched a responsible AI learning cohort in 2023 to help its portfolio companies address this rapidly evolving landscape, provide education, and share best practices. 75% of Thoma Bravo portfolio companies participated in the launch. Warburg Pincus piloted scenario analysis for a subset of its portfolio to evaluate potential exposure and impacts from physical climate risks. Blackstone held the inaugural Blackstone Career Pathways Summit, convening portfolio company leaders, ecosystem partners focused



Dhruti Patel, Blue Dot Capital

MARCH 2024

on workforce development and skill building, as well as other industry leaders and thought partners to share experiences and discuss ways to accelerate their efforts.

As strategic consultants to private markets investors, Blue Dot continues to keep a close eye on how ESG integration and impact investing approaches in private markets are evolving. Materiality, scalability of processes, and operational value creation are recurring themes in our conversations with executive, investment, and ESG teams of private markets firms. We believe that over the next few years, private markets ESG integration will be marked by the need for efficient, streamlined processes and quantifiable value creation and risk management outcomes. Buoyed by technological advancement, policy stimulus, and accelerated learning curves, climate-focused fund formation will continue.

Read our 2023 Snapshot [here](#).

Our 2024 Snapshot of the sustainable investing practices and programs of top global PE firms will be published later this year.

Dhruti Patel, Director, Jelmer Laks, Director, Sabrina Katz, Senior Associate

About Blue Dot Capital

Blue Dot Capital is a sustainable finance consultancy. Blue Dot partners with investment management firms – principally private market firms - on the end-to-end development and execution of ESG and impact investing programs, capabilities, and products.

Since H2 2020, Blue Dot has advised investment management clients with \$1.7 trillion in collective AUM.

www.bluedotcapital.co



Jelmer Laks, Blue Dot Capital



We believe that over the next few years, private markets ESG integration will be marked by the need for efficient, streamlined processes and quantifiable value creation and risk management outcomes.

Blue Dot Capital

MARCH 2024

ESG drives alternative fund managers' investment decisions

Paul Spendiff, Head of Business Development, Funds Services at Ocorian

ESG credentials and strategy are the biggest influencers when it comes to making fund investment decisions, according to research* among alternative fund managers across the UK, US and Europe carried out by Ocorian, specialist provider of alternative fund services and global leader in entity administration, fiduciary and compliance solutions.

It will be harder to launch new funds without a strong ESG focus

Its study found almost all (98%) alternative asset managers agree that it will become harder to launch new funds unless they have a strong ESG focus. Of these, almost two in five (39%) strongly agree with this view.

As well as being central to fund investment decisions,

alternative fund managers believe ESG will have the second biggest impact on innovation in the alternative asset management sector.

The biggest impact, they believe, will come from growing pressure from investors for new solutions and advances in technology. Data analytics will have the third biggest impact, the research found.

The study from Ocorian, which manages over 15,000 structures on behalf of 6,000+ clients globally, shows the UK is ranked as the jurisdiction which will most increase in popularity for alternative fund managers targeting European investors over the next 18 months. This is followed by Jersey, Mauritius and Guernsey.

*Ocorian commissioned independent research company PureProfile to interview 100 alternative fund managers across real estate, private debt, private equity and infrastructure, residing across the UK, US, France, Germany, Netherlands, Sweden, Switzerland, Finland and Norway during April 2023.



The biggest impact, [alternative asset managers] believe, will come from growing pressure from investors for new solutions and advances in technology. Data analytics will have the third biggest impact, the research found.

Paul Spendiff, Ocorian

MARCH 2024

Paul Spendiff, Head of Business Development, Funds Services at Ocorian, said: “Even when faced with tough economic conditions, our research shows that ESG credentials and strategy are now of the utmost importance to alternative fund managers, taking its place alongside more traditional investment decision-making criteria such as the investment manager and capital growth. For an increasing number of fund managers, a strong ESG strategy and credentials ultimately drives strong, long-term performance as well as having a huge impact on innovation in the sector.”

ESG considerations continue to become ever more embedded in all aspects of private markets, with a backdrop of an increasingly complex regulatory landscape, according to commentary from the firm.

The implementation of the EU's sustainable finance disclosure regulation (SFDR) is a transformative and permanent game changer for investors designed to facilitate the

contribution of private capital towards funding an EU wide transition to a net zero economy.

Industry players such as Ocorian are realising partnerships to respond to growing demand for ESG reporting as a result – such as the one the firm recently announced with Treety, a leading ESG SaaS solution.

Paul Spendiff, Head of Business Development, Funds Services at Ocorian

How Ocorian Fund Services can help with your fund administration

Ocorian's fund services team delivers operational excellence across fund administration, AIFM, depositary and accounting services to the world's largest financial institutions along with dynamic start-up fund managers and boutique houses. Its team of over 300 funds specialists work across all major asset classes of alternative investment funds such as private equity, real estate, infrastructure, debt and venture capital, whilst its specialist Islamic Finance team is a leading provider of Sharia-compliant investment structures.



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...our research shows that ESG credentials and strategy are now of the utmost importance to alternative fund managers, taking its place alongside more traditional investment decision-making criteria such as the investment manager and capital growth.

Paul Spendiff, Ocorian

MARCH 2024

Navigating the new terrain of EU ESG standards

Thomas Sharpe, Associate Director, Markets, Governance and Innovation, AIMA

Developments in sustainable finance regulation have come thick and fast under the current European Commission – the most seminal of which has been the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in 2021. The SFDR requires asset managers to disclose the sustainability of their financial products in one of three main categories: Article 6 for funds which have no sustainable objectives; Article 8 for funds which promote environmental or social characteristics; and Article 9 for funds which have sustainability objectives.

Although the EU achieved a world first in requiring sustainability disclosures, AIMA members have borne the brunt of new regulatory and administrative burdens. Compliance with the regime has required a significant investment of time and financial resources. When news came in September 2023 that the European Commission was reviewing SFDR and considering a rewrite of the rules, AIMA members were understandably frustrated. The regime had only been in operation for two and a half years.

The European Commission's review of SFDR is based on the premise that the current regime is not operating as intended. In a public consultation on the issue,

the Commission stated that managers were using sustainability disclosures as de facto product labels – effectively a marketing tool to promote funds' ESG credentials. This was never the EU's intention and the Commission is concerned that continuing with such an approach could lead to greenwashing risks.

The European Commission's public consultation – the first step in the review of SFDR – proposes two possible changes to the current SFDR regime: the first is to introduce minimum standards to disclosures as a means of strengthening the regulation. The second is to supplement disclosures with a new set of product labels, to reassert the boundary between disclosures and labels.

To inform our response to the consultation, we listened to the views of AIMA members who argued a review should create a simpler regime and ease the regulatory burden on managers.

For this reason, we want to see SFDR continue as a principally disclosure-based regime and we do not agree with minimum standards in disclosures. Minimum standards would increase complexity and make SFDR more rigid. Alternative investment managers pursue a variety of investment strategies and the introduction of



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Thomas Sharpe, AIMA

MARCH 2024

minimum standards could limit investment in sustainable funds, particularly those with transition assets.

At the same time, AIMA supports the creation of product labels as a separate regime aimed principally at retail investors. We also recommended that entity-level and website disclosure be removed from the SFDR regime entirely, given that the reporting costs they impose on managers relative to the information they provide to investors is disproportionate.

The SFDR consultation closed in December and we now wait for the European Commission to determine next steps.

Of more immediate effect, is the ESG Ratings Regulation. This is likely to be finalised at EU-level in the coming months and take effect in late 2025 or early 2026. The ESG Ratings Regulation imposes new governance and transparency requirements on ESG rating providers and seeks to avoid conflicts of interest in the services that providers offer to clients. This will be of benefit to alternative managers, with greater transparency over the methodologies used by ESG ratings providers and the costs involved.

The regulation also captures ratings produced

‘in-house’ by asset managers and disclosed to third parties in marketing material. Managers affected will be required to publicly disclose a range of information on the methodology used to produce their ratings. This includes information on whether the methodologies used are forward or backward looking, information on ratings’ objectives and whether the rating is expressed in relative or absolute terms among a long list of other disclosures. The regulation does not apply to private ESG ratings which are not made public or used exclusively for internal purposes.

While we do not anticipate new regulation to come as thick and fast at EU level in 2024, AIMA will continue to monitor developments and always advocate for new sustainability regulations that take into account the sophisticated investment strategies of alternative fund managers.

**Thomas Sharpe, Associate Director,
Markets, Governance and Innovation, AIMA**



MARCH 2024

UK ESG regulation steps up as UK-US ESG tensions rise

Tristram Lawton and Lucian Firth, Simmons & Simmons

Fund managers are continuing to see divergence of approach to ESG on each side of the Atlantic putting strain on their ability to satisfy their international clientbase.

In the US, Republican states have openly challenged managers over the integration of ESG into investment decisions and voting at corporate AGMs, leading many to downplay their consideration of such factors or at least exercise extreme caution as to how they talk about it.

Meanwhile many UK-based managers will be preparing to produce mandatory climate-related financial reports by 30 June, where they will disclose their approach to climate-related risks and opportunities in line with the Taskforce on Climate-related Financial Disclosures ("TCFD") recommended disclosures. New FCA rules require TCFD disclosures for any firm with AUM of at least GBP 5 billion so will capture a sizeable portion of the UK hedge fund market. Importantly,

these rules apply regardless of the manager's stance on ESG and regardless of whether it has any ESG oriented funds. These reports need to be published on the manager's website – and for many it will be the first time they have publicly disclosed in relation to ESG issues. Firms will be looking to tread carefully

– noting that they have a wide audience with potentially diverse views on climate-related financial risks.

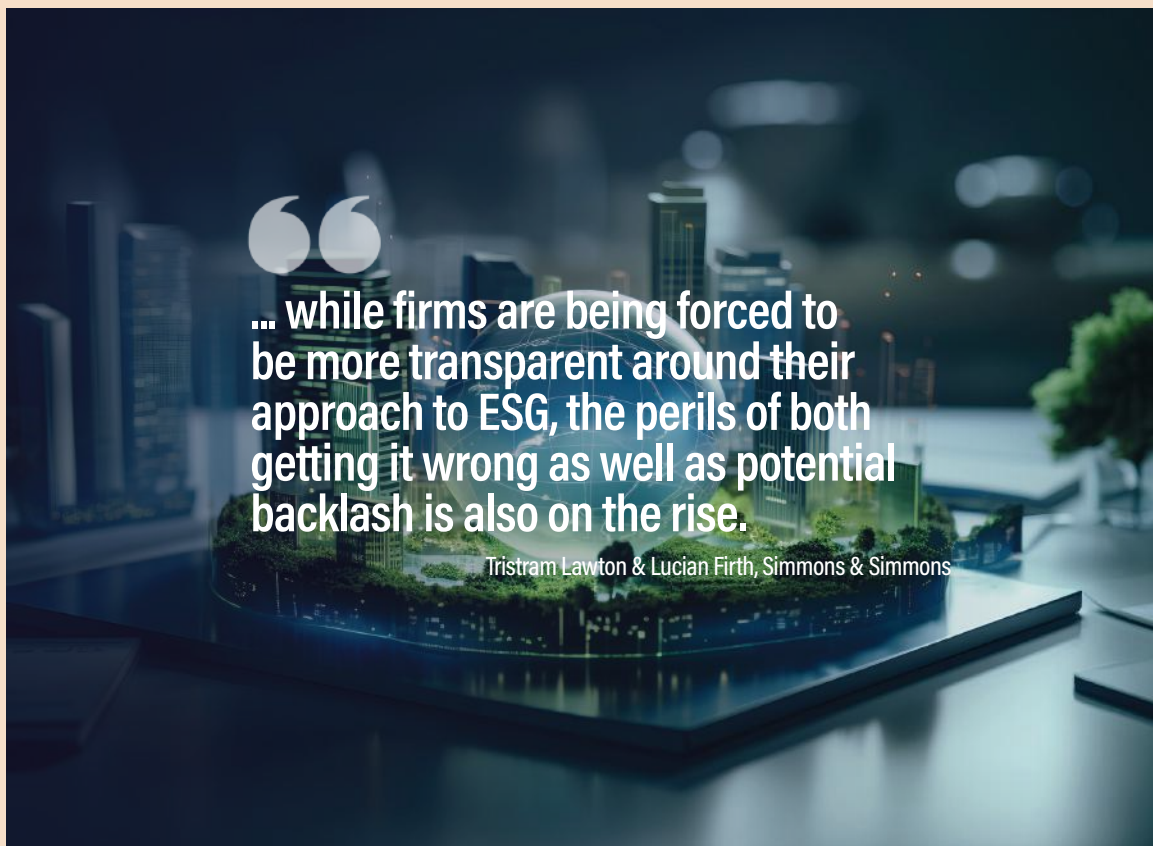
In more recent UK ESG developments, the FCA's new Sustainability Disclosure Requirements and investment labels rules were published in November 2023 and will come into force over the next 3 years. Currently these predominantly apply to UK fund managers of UK funds, and so will have little or no impact on the traditional hedge fund manager. However, one element that will impact all UK managers (regardless of the domicile of their funds) is the anti-greenwashing rule which comes into force 31 May 2024. This new rule (which builds on the existing "fair,



Tristram Lawton, Simmons & Simmons

“... the [FCA's] anti-greenwashing rule which comes into force 31 May 2024... requires all sustainability-related claims relating to a product or service in client communications and financial promotions to be consistent with the sustainability characteristics of the relevant product/service...”

Tristram Lawton & Lucian Firth, Simmons & Simmons

MARCH 2024

clear and not misleading”) requires all sustainability-related claims relating to a product or service in client communications and financial promotions to be consistent with the sustainability characteristics of the relevant product/service, as well as being fair, clear and not misleading.

The FCA has also consulted on guidance to support firms in applying the new anti-greenwashing rule, requiring firms to consider sustainability-related claims in the context of whether they are:

- Correct and capable of being substantiated
- Clear and presented in a way that can be understood
- Complete – they should not omit or hide important information and should consider the full lifecycle of the product or service
- Fair and meaningful in relation to any comparisons to other products or services.

While the rule only applies to UK firms communicating with UK clients and prospects, the EU’s approach to greenwashing will soon be supplemented by the European Supervisory Authorities’ final reports on greenwashing in May 2024 and various global enforcement cases have highlighted the risks of greenwashing in the financial services industry across the globe.

So while firms are being forced to be more transparent around their approach to ESG, the perils of both getting it wrong as well as potential backlash is also on the rise.

Tristram Lawton and Lucian Firth of Simmons & Simmons



Lucian Firth, Simmons & Simmons

APRIL 2024

How democratisation of private markets has become the hot topic of 2024 in the EU and UK

James Tinworth, Partner, Head of Hedge Funds & Regulation in Europe, Haynes Boone

The focus on non-institutional investors has significantly increased in recent years. The “democratisation” or “retailisation” of private markets and funds is this year’s hot topic. These terms can be interpreted differently (NB “true” retail investors are not the only non-institutional investors). In any event, however, it is a big deal. Preqin notes that over the coming years KKR expects between 30% and 50% of fundraising to be from non-institutional investors and Apollo Global Management also aims to raise \$50bn of non-institutional capital.

Much of the activity has been focused on the US but there has been increased interest in Europe because of the recent changes to the EU’s ELTIF and the UK’s LTAF.

The UK abolished the UK’s ELTIF (the LTIF) and focussed on the LTAF. The LTAF is a UK solution; the ELTIF is an EU solution. Unless the UK recognises ELTIFs under the Overseas Funds Regime (OFR), UK divergence will lead to market fragmentation.

The regimes are very similar but were not starting at the same point, not quite solving the same original problem and their approaches diverge.

The ELTIF was always intended for retail investors; the LTAF was intended for DC pension schemes and initially had limited availability for retail investors. The LTAF quickly progressed from being a NMPI to a Restricted Mass Market Investment. It can now be in an Innovative Finance ISA. What next?

Neither regime is the finished article: the EU Commission recently rejected ESMA draft Technical Standards for the ELTIF.

Both seem to struggle with liquidity: the ELTIF is a closed-ended fund that is crowbarring in open-ended features; the LTAF is an open-ended fund that can, in theory, draw on the full range of liquidity management tools to deal with underlying illiquidity.

As things stand, the ELTIF has more chance of replacing the Luxembourg aggregator structures



APRIL 2024

that are currently favoured by the Moonfares of this world... but will they? And will their use be limited to this?

Amidst all the fuss about the LTAF/ELTIF, let's not forget the RVECA/EuVECA (the venture capital fund available to investors who invest a minimum of €100,000), which can be a good option in the right circumstances.

There are now more tools to access non-institutional investors, but they are nascent.

Underlying all of this are the absolutes that are the definitions of "professional investor/client" and "retail investor/client" in UK and EU law.

UHNWIs, the mass affluent and Auntie Doreen are all treated as retail investors. In the UK, this leads to an increasingly complicated set of high-risk rules. The EU, however, is looking at this as part of its Retail Investment Strategy. The Commission is looking at reforming the eligibility criteria for "professional investors" with a view to improving accessibility for sophisticated investors. The European Parliament has even suggested

the introduction of an additional category of "semi-professional investor".

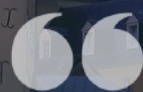
Hopefully, the UK will match or better the EU's approach and, perhaps more hopefully, the UK will recognise more EU fund types under the OFR.

James Tinworth, Partner, Head of Hedge Funds & Regulation in Europe, Haynes Boone

Haynes Boone is an American Lawyer top 100 law firm, with nearly 700 lawyers in 19 offices around the world, providing services for more than 40 major legal practices. We are among the largest firms based in the United States. Our growth has been driven by our client service strengths, especially our problem-solving acumen and our ability to collaborate with clients. Our Investment Management Practice Group is well-equipped to handle the needs of any emerging or established investment manager, private fund or family office. We have extensive experience representing sponsors, managers and funds, as well as investors, in various industries.

James Tinworth is a partner in the Investment Management Practice Group in our London office. His practice focuses on alternative investment funds and related regulatory and corporate issues.

www.haynesboone.com



As things stand, the ELTIF has more chance of replacing the Luxembourg aggregator structures that are currently favoured by the Moonfares of this world... but will they? And will their use be limited to this?

James Tinworth, Haynes Boone

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Unlocking Wealth: The Potential Rise of Private Market Democratisation

Mathieu Scodellaro & Jeremy Evans, PwC Legal Luxembourg

The “democratisation” of private markets has come into increased focus in recent years. Broadly speaking, this refers to the process of making available to private investors certain asset classes traditionally only accessible by professional investors. “Retailisation”, another term often used in the same context, was certainly one of the buzzwords of 2023 – at least in the investments world.

But now with Q1 of 2024 already behind us, have there been any new developments? What benefits (and challenges) might engaging in retailisation present asset managers? What tools do asset managers have at their disposal to pursue it?

What benefits are there to retailisation?

Private equity, real estate, infrastructure, debt and hedge funds, are examples of asset classes – known as “alternatives” – not ordinarily available to private investors. These investments are expensive, carry a high degree of risk, and normally involve long lock-up periods (5-6 years to several decades in some instances): features not generally deemed suitable for the retail base.

So why are private investors looking to partake in these exclusive investments, and why are asset managers eager to oblige them?

Conventional participants of alternative investment funds (e.g. pension funds and other type of institutional investors) are no longer considered to have sufficient resources to be the sole financiers of large state-led projects (usually infrastructure). Additionally, the market has seen institutional investors pull back on new commitments. Asset managers are thus having to search elsewhere for sources of capital when fundraising for new ventures.

In parallel, opportunistic retail investors – cognizant of the typically high returns from alternatives – are focused on availing themselves of these circumstances and following suit, diversifying their portfolios in the hope of maximizing their retirement income prospects.

What tools do asset managers have at their disposal to engage in these strategies?

Asset managers have a few options available to them. One option, employed by large players like Schrodgers and Goldman Sachs, is the European Long-Term Investment Fund – perhaps more widely recognised by the acronym “ELTIF”.

In broad terms, ELTIFs are vehicles that may invest in projects aligned with the EU’s objectives and requiring long-term capital, intended for asset managers seeking to provide these investment opportunities to institutional and retail investors across the EU. Two key advantages of operating ELTIFs are (i) pan-European distribution via the passport and (ii) the ability to execute loan origination in the EU.

But the ELTIF regime also attracted criticism for its strict operational and substance requirements, considerably hindering its success. This prompted “ELTIF 2.0”: the ELTIF regulation’s reform addressing a number of these concerns which was adopted by the European Parliament in February – something welcomed by the industry.

What are the challenges asset managers face with retailisation?

Opening the door to retail investment can present certain challenges for asset managers. Examples might include: the requirement to alter their usual commercial terms (e.g. to improve market



Mathieu Scodellaro, PwC Legal Luxembourg

APRIL 2024

Private market democratisation is an interesting means of unlocking investment capital. One might wonder what could be the catalyst to kickstart its widespread adoption – for now, ELTIF 2.0 is a strong first step.

Mathieu Scodellaro & Jeremy Evans, PwC Legal Luxembourg

accessibility or to tackle liquidity challenges), enhancing their operational procedures (e.g. to address more onerous reporting obligations), taking responsibility for more burdensome administrative duties more commonly associated with a retail client base – and exposing themselves to criticism on social networks by a general public disgruntled by low performances.

Conclusion

Private market democratisation is an interesting means of unlocking investment capital. One might wonder what could be the catalyst to kickstart its widespread adoption – for now, ELTIF 2.0 is a strong first step.

Mathieu Scodellaro, Principal, PwC Legal Luxembourg

Mathieu is the head of the Investment Funds Practice and specializes in issues concerning investment funds, fund managers and the various service providers. Over the last 15 years, Mathieu has assisted numerous international clients in the setting-up, (re)structuring and handling of their organization or projects. He regularly advises his clients on regulatory issues and in their relationships with the regulatory authorities

He has been involved in the creation of a large number of regulated and unregulated investment funds from plain vanilla UCITS

to investment funds investing in illiquid assets (private equity, debt funds, real assets, insurance-linked assets...), with complex investment strategies or with innovative features. His involvement included the structuring of the products, the drafting of the offering documentation, the negotiations with the service providers, potential investors and lenders, the communication with the regulator., etc. He has assisted his clients in the development of their products and dealing with special events (restructuring, liquidation...) impacting their funds.

Jeremy Evans, Associate, Avocat liste VII au Barreau de Luxembourg, PwC Legal Luxembourg

Jeremy is an Associate in the Investment Funds department. He joined PwC Legal Luxembourg in 2024 from London, where he was previously a member of the Alternative Investment Funds legal team at PwC UK.

Jeremy's practice focusses predominantly on assisting sponsors with the structuring and formation of their investment funds, drafting and preparing all pertinent documentation accordingly. He also acts for investors in connection with fund document, side letter and related commercial negotiations.



Jeremy Evans, PwC Legal Luxembourg

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The Evolution of the Alts Industry Is Underway, But Will Take Time

McAllister (Mac) Kirschner, Chief Operating Officer, MUFG Investor Services

The key components driving the transformation of the global alternatives (alts) industry are clear: Unspent capital sitting in private markets and the influx of high-net-worth investors have fund managers preparing for a trillion-dollar tsunami in the alternatives marketplace.

Identifying the potential opportunity was one thing; now fund managers are turning to trusted service partners to reengineer operating models and ensure they have the operational and technology capabilities in place to handle that inflow of clients and capital. For some funds, it will mean fundamentally restructuring the way they do business, which won't necessarily be easy and will take time.

Typically, a handful of institutional investors might be the sole investors in a large fund, which could be documented using Excel spreadsheets and straightforward workflow. Going forward, we're likely to see dozens or hundreds of high-net-worth

investors represented by registered investment advisors who aggregate funds to provide access to alts, or in some instances, those investors will enter the alts market directly. With that growth will come infrastructure, process, and staffing challenges, especially as new products provide easier access to alternatives.

As volumes increase, fund managers are already struggling with services including distribution, traditional fund accounting, client onboarding, Know Your Customer (KYC)/Anti-Money Laundering (AML) compliance, investor notices and reporting, managing large volumes of new data, and asset operations. Determining how to address those operational challenges is critical for fund managers and their service partners, whose roles have grown to encompass back-, middle-, and now front-office functions.

Reconfiguring traditional asset servicing functions means reexamining service level agreements, replacing legacy technology with new automation,



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... as the number of investors grows, funds must introduce scalable infrastructure to manage smaller individual investments and lower revenue-generating opportunities per client.

McAllister Kirschner, MUFG Investor Services

developing new processes, and shifting from generalists to a specialized workforce to ensure that the most skilled employees are performing the highest value tasks.

Many of these discussions revolve around processes to maintain profitability while limiting expenses. For example, as the number of investors grows, funds must introduce scalable infrastructure to manage smaller individual investments and lower revenue-generating opportunities per client. Without cost-efficient infrastructure and straight-through-processing, funds will use more hours to service the larger number of smaller clients, which will drive up costs.

Some partner solutions are already being implemented to address industry pain points. For example, one of industry's largest firms recently began using a new, outsourced platform to eliminate delays in opening client accounts due to KYC/AML onboarding requirements—a lengthy process that is a frequent target of customer complaints.

Increasingly, fund managers are turning to partners to explore ways to introduce technology, process volumes of new data, and explore artificial intelligence to improve performance, services, and the overall client experience.

While some choose to invest resources on proprietary systems, others are

implementing partners' new cloud-based data solutions and platforms, or coordinating to build new pipelines and application programming interfaces to ensure connectivity and efficient data transfer. In some cases, fund managers are maintaining their own systems but bringing in partner teams to staff them.

Establishing strong data management is a vital element of new transparency and disclosure rules from global regulators, often with competing demands across jurisdictions. Partners are implementing new platforms that monitor disclosure requirements, harmonize data, and offer tailored, automated reporting for individual jurisdictions, eliminating the need for multiple submissions of similar information.

As the alternatives markets evolve, fund managers and trusted partners must maintain close working relationships to create new operating models that will enable partners to better serve their clients and fund managers to focus on driving new growth and long-term success.

McAllister Kirschner, Chief Operating Officer, MUFG Investor Services



APRIL 2024

Firms are having to retool as they target HNWI's

Max Heppleston, MD US & EMEA, Fredriks Partners

With traditional managers reporting assets falling, the alternatives space has seen steady growth, peaking broader interest from retail/HNWI's in the search for higher returns, impacting allocation recommendations and breaking down regulatory barriers.

So far this year I can count on one hand the number of managers I have spoken with who aren't exploring or developing their private wealth channels to target HNWI's, whereas there is a well-trodden path to follow from Blackstone, a lot of firms I have spoken with are opting for a leaner approach.

The benefits of Blackstone and other mega funds at the forefront of the business is a tried and tested model to follow, and a lot of preliminary education has been done, but it is still no small task.

From the opportunity, a host of firms have sprung up to help with things from structuring and onboarding to liquidity and governance, however, firms still need to hire rosters of new talent to support this new distribution channel.

The size of the market is pushing firms to develop and evolve their existing offerings to target the wealth channels, but it can be a labour and capital-intensive market to crack. One of the ways that firms have been tackling this is by hiring people who can sit across multiple functions. I spoke with one a while ago who had hired a head of product who was also an incredible fundraiser, and hiring product specialists with strong fundraising skills.

Larger asset managers who have been acquiring smaller alternative firms already have this distribution network in place, allowing them to run with a leaner team too.

Some firms have been leaning on the platforms, but as teams across the space become more developed, the need for external distribution partners is starting to dwindle, and the salespeople from these firms are transitioning into the asset managers themselves.

One core function for these teams is product, an understanding of the alts space and the vehicles that allow distribution to retail is a unique skill set. The



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APRIL 2024

vehicles I have seen pop up the most are evergreen funds, allowing managers to raise capital continuously and provide liquidity, making them easier to use in retail portfolios.

Certain 40 Act structures are common for private credit, like BDC and interval funds, and we are also seeing tender funds for private equity, secondaries, multi-managers, and multi-strat structures.

Perception seems to be changing on evergreen funds similarly to how it did with ETFs, and now evergreen funds not only offer the flexibility needed by a less institutionalised investor, but also high-quality deals.

Products still seem to be in the early stages, and more education is key to the industry's success, both governmental and the advisors.

Demand from retail is there and if advisors don't find a way to allocate, another one will.

On the regulatory side, the US is leading the way, prioritising investor knowledge over net worth, but with ELTIF 2.0 there is hope that Europe can catch up.

Overall, the retail space seems to be set to grow steadily over the next few years, particularly as larger firms build specialist teams to focus on sub-sectors or

territories, i.e. family offices, local banks, RIA specialists, and honing in on specialist salespeople to cover smaller geographies.

However, with the mega-funds growth also comes significant opportunity in this space for the smaller focused shops that can target more niche investments, such as private credit, as well as for those salespeople with networks and experience positioning and selling these products to the private wealth audience.

Max Heppleston, MD US & EMEA, Fredriks Partners

Fredriks is a global boutique specialising in strategic consulting, executive search, platform acquisitions and deal introductions across the full alternative investment spectrum.

Max has led alternative investment executive search and consulting practices for the last seven years and currently leads US & EMEA for Fredriks, a global boutique specialising in strategic consulting, executive search, platform acquisitions and deal introductions across the full alternative investment spectrum. Prior to this, he built and lead the alternative asset management practice at Lawson Chase, with a focus on hedge funds and private markets. He also advises for TrendUp, a program designed to help people from a range of backgrounds break into the alternative investment space.



“... to target the wealth channels... can be a labour and capital-intensive market to crack. One of the ways that firms have been tackling this is by hiring people who can sit across multiple functions.”

Max Heppleston, Fredriks Partners

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Springtime for Tokenization

Vincent Molino, Head of Operational Due Diligence, Bitwise Asset Management

It's once again that time of year where winter's thaw has ebbed, cool showers are raining on warming grounds, and dried brown stems are forming green shoots. However, new growth is not just showing up in our garden beds—it is also renewing itself in both institutional investing and in crypto... but it will require planting the right seeds.

In recent months, financial services organizations have turned their attention to the capabilities of tokenization. For those not yet familiar with the term, it involves creating a unique digital representation of a real thing or asset and recording it on a blockchain. (Ethereum is often the preferred chain for such applications.) Some applications of tokenization that have grown in acceptance are tokenizing real-world assets (RWAs), using token infrastructure to bring existing investment products “onchain,” or as we’ve been hearing from the venture capital community, accepting tokens of startups either as a form of, or in addition to, equity.

No doubt, the token infrastructure for institutions, and the capabilities of the DeFi networks which underpin these projects, have demonstrated a steady pace of acceptance and application for certain use cases. However, the question for an institutional investor should be, “How else can tokenization be applied?”

Well, the average institutional investor reading this is likely familiar with the manual and administrative burden required of investing in private alternative investment funds (hedge funds, private equity, etc.). From completing limited partnership agreements or subscription forms, to providing proof of identity (i.e., AML and KYC) and wiring cash, to eventually receiving and parsing investment statements, all of it requires hours of time and often manual application. Imagine the resources spent on such tasks as collecting investment information into databases for portfolio management and accounting, not to mention the costs of custody and data storage.

Because tokenization provides an immutable record of ownership on a blockchain, it can alleviate some of these administrative burdens. Recent examples of tokenized private equity funds and money market funds have clearly demonstrated the potential efficiencies and solutions that tokenization can provide.

But let’s take the concept of private fund tokenization a step further, by focusing on one of the benefits of tokenized money market funds.

As institutional investors are very much aware, valuing and selling private investment funds is a much different process than doing so with liquid



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MAY 2024

assets. If one wants to transact in a private fund in a secondary market, the time it takes to arrange and complete such transactions, and often the illiquidity haircuts applied throughout the process of selling into a secondary market, produce a good amount of consternation that could otherwise be alleviated if there were a readily available market for investing in—and divesting of—private investment funds.

Conceptually, tokenization can induce a market with implied liquidity and open pricing, creating a crypto-enabled version of a private fund secondary market. The benefits of such a market would include not only real-time pricing and transacting of such funds, but also potential acceptance of such portfolio holdings as a form of collateral placement for leverage (borrowing) or loan purposes, as well as other financing activities. (Indeed, a well-known crypto broker recently announced just such an arrangement, whereby tokenized shares of a large asset manager's money market fund can now be accepted as collateral.)

In fact, in conceiving of such a liquid secondary market for tokenized private fund investments, there is no reason why the impact of illiquidity on the valuations and pricing of such holdings can't be offset by the technical capabilities of blockchains. Using a

"smart contract" (a program that runs autonomously on a blockchain) to calculate the price of a token could keep the token's price closer to the net asset value (NAV) of the respective fund, with perhaps only modest impacts to the price to account for blockchain validator and crypto gas fees.

Therefore, in contrast to current private fund secondary markets, which necessitate illiquidity haircuts, the enhanced liquidity and transparency provided by tokenization—as well as the elimination of administrative repapering of ownership, approval or consent by general partners, fees charged by brokering intermediaries, and other barriers to efficient transacting—would reduce the impact on the true value of the asset (or the actual fund NAV).

In "thawing" the private fund secondary markets through tokenized private investment funds, institutional investors have a way to create a new financial market through either selling, buying or pledging their private fund holdings. This can unlock potential capital efficiency for trillions of dollars in current private fund portfolios, giving both institutional portfolios and the crypto industry the right conditions needed to grow and bloom.



Vincent Molino, Head of Operational Due Diligence, Bitwise Asset Management

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Vincent Molino, Bitwise Asset Management

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Tokenization: Signal in the Noise

Lucas Gaylord, CEO & Founder, Eulith

When is Tokenization Good and When Is It Bad?

"Tokenization" is the application of smart contracts to securities, commodities, real estate, and other asset classes. It is useful when it either:

1. Decreases the cost of using (transferring, trading, lending, etc.) the asset or
2. Increases the productivity of the asset

Good

For example, trading private shares in a pre-IPO company often comes at high legal costs because disagreements can arise between the buyer and seller as to the historical record of ownership for the security. The high legal fees are largely the cost of winning a disagreement were it ever to go to arbitration. "Tokenizing" private shares, allows this



history of ownership to be recorded on a blockchain, which is both impartial and immutable, removing the need for lawyers to keep a detailed paper trail - and the associated costs.

Bad

Tokenization does more harm than good when it increases operating costs without a marginal increase in asset productivity. For example, in many jurisdictions, courts do not recognize smart contracts or on-chain transactions as having legal precedence over conventional paperwork. It is then necessary to maintain the conventional paperwork; consequently, operating costs increase without any marginal benefit in the productivity of the asset.

Nuanced

A common case in which the benefit is more "gray" is real estate tokenization. Many firms look to tokenize real estate with the ambition that it will make their portfolio more liquid



... tokenization has already and will continue to increase transparency and lower costs between individual buyers and sellers, in a market that is dominated by middlemen.

Lucas Gaylord, CEO & Founder, Eulith

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Only in the last year have there emerged the regulatory infrastructure necessary for the creation of secondary trading venues for blockchain native assets... blockchain native secondary markets are next on the horizon for tokenization.

Lucas Gaylord, CEO & Founder, Eulith

or more valuable. This ambition does not seem to be historically informed. In contrast, I believe tokenization has already and will continue to increase transparency and lower costs between individual buyers and sellers, in a market that is dominated by middlemen. Real estate tokenization is a nuanced case - based on my observation, it does not appear to organically increase liquidity or add a premium to large, corporate-owned real estate, but it does appear to increase transparency and decrease costs between individually owned properties.

Secondary Markets: The Future

I have seen a range of assets tokenized, from a traditional fund share class to the future stream of a YouTube influencer's cash flows. What I have not seen are successful secondary markets for these assets. Secondary markets are needed not only to transact more fluidly, but also to make unproductive assets productive e.g. by using them as collateral. Only in the last year have there emerged the regulatory infrastructure necessary for the creation of secondary trading venues for blockchain native assets. While most of these frameworks are still sandboxed or part

of pilot programs, the overall trajectory seems clear - blockchain native secondary markets are next on the horizon for tokenization.

Lucas Gaylord, CEO & Founder, Eulith

The Eulith team has been building in traditional fintech since 1999 and in DeFi since 2017. Their leadership has advised the SEC and led the development of one of the largest Ethereum code bases globally (14,000 Solidity/Yul LOC, ca. 2021).

The breadth and depth of their experience is reflected in their products' robust engineering. Their last enterprise, a digital assets derivatives exchange and CLO market, was acquired by Amber Group in 2021.

www.eulith.com/

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DeFi's Next Catalyst is Not What You Think

Daphne Huang

Decentralized finance (DeFi) is shaking up the financial landscape. The rise of Real World Assets (RWAs) on the blockchain, as evidenced by high-profile launches like BlackRock's recent BUIDL fund, highlights the growing acceptance and excitement surrounding this technology. RWA's applications, ranging from real estate to whiskey barrels, benefit from the inherent characteristics of Distributed Ledger Technology (DLT), which offers superior operational and distribution efficiencies compared to conventional systems.

Optimism about the future of DeFi is well-founded, given the trajectory of technological advancements. However, there is broad recognition that ongoing refinement of DeFi infrastructure is essential for fostering clear, accountable, and reliable financial practices. Without tooling to help users track and account for DeFi activity, the space will stall despite attractive returns and cost savings. But from where I sit, there is a surge of talent and capital clamoring to address DeFi's challenges and make products easier for fund managers and investors to navigate effectively.

Underpinning all of DeFi is smart contract technology. In RWA, the investing lifecycle and rules around what investors can do with tokenized assets (transfers, withdrawals, trading) are governed by a smart contract, or programmable logic enshrining these rules in lines of code. More adventurous flavors of DeFi (say you want to take your tokenized RWA and borrow against it) share a similar construct, with smart contracts governing permissible activity. So, it shouldn't be surprising that the ability to capture and interpret smart contract activity in ways that make this data both useful and actionable is critical. In other words, the real catalyst for DeFi growth is our ability to translate DeFi activity so that it can be relied upon by investors. Reading and translating DeFi data presents real challenges though, here's why:

- **DeFi is Bespoke:** Each new smart contract participation requires a new exercise in understanding how to derive the data required to track and calculate returns accurately. Across several DeFi contracts, this can be a tall task.
- **DeFi is Complex:** DeFi's innovations make it



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particularly complex. For example, the concept of impermanent loss is a unique risk in DeFi liquidity pool participation. DeFi interest income can be accrued via various tokens, and across multiple tokens depending on the product. More recently, the introduction of “points” incentives are a new challenge to track and account for. All of these mechanisms are captured in different parts of the smart contract.

- **DeFi Requires Infrastructure:** Beyond understanding smart contract mechanics, specialized infrastructure is essential to ensure completeness in capturing and accounting for all of the events emitted.

Fortunately, there are teams building solutions to address these hurdles. The key lies in tooling capable of interpreting smart contract activity systematically and in real-time; robust data infrastructure that investors can trust to make informed investing decisions. For example, real-time Net Asset Values (NAVs), to facilitate 24/7 trading in on-chain funds. Tracking DeFi activity efficiently often

requires specialized data services. Such systems automatically process and translate smart contract events into familiar financial metrics, ensuring stakeholders don't miss a beat and are able to fully leverage the real-time nature of blockchain. There is plenty more work to do, but as more assets move on-chain, I'm confident new tools will emerge to simplify on-chain investing and position the DeFi ecosystem for exponential growth.

Daphne Huang

Daphne advises companies on digital assets, product strategy, and growth and was most recently Head of Product at data infrastructure startup OpenPool. Daphne has 20 years of experience in payments, consumer lending, wealth management and investment management having held senior leadership roles at Early Warning Services (Zelle), Citi and Permal Group.



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Daphne Huang

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Retailisation and the role of tokenisation for AIF managers

Robert Mellor, Partner, Alternative Investment Funds, PwC

James Stewart, Partner, Asset & Wealth Management Tax, PwC

The landscape of alternative investment funds is undergoing a significant transformation, as individual investors seek to access non-traditional asset classes and strategies that were once restricted to institutional and professional investors. This trend, known as retailisation, is driven by a combination of regulatory change, investor appetite, and the development of digital-based distribution and investing platforms.

PwC recently published its 2023 research piece on the global Asset and Wealth Manager (AWM) landscape, and undeniably, one of the key enablers of retailisation is tokenisation, the process of creating digital representations of real-world assets or funds on a blockchain or distributed ledger technology (DLT)



Robert Mellor, PwC

platform. With the securities tokenisation market regarded as having one of the highest potentials for growth by the OECD, this comes as no surprise.

Tokenisation can offer several benefits for AIF managers and investors, such as:

- **Enhanced liquidity:** Tokenisation can improve the transferability and liquidity of traditionally illiquid AIF assets, such as private equity, real estate, and private credit, by allowing fractional ownership and secondary market trading. This can also reduce the need for lock-up periods and redemption gates, and enable more flexible portfolio management.
- **Reduced costs:** Tokenisation can lower the administrative and operational costs of AIFs, by automating transactions, streamlining workflows, and reducing intermediaries



Tokenisation can improve the transferability and liquidity of traditionally illiquid AIF assets, such as private equity, real estate, and private credit, by allowing fractional ownership and secondary market trading.

Robert Mellor & James Stewart, PwC

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and fees. This can also increase the scalability and profitability of AIFs, and make them more accessible and affordable for individual investors.

- **Increased transparency and security:** Tokenisation can enhance the transparency and security of AIFs, by providing real-time and verifiable information on asset ownership, performance, and valuation. This can also improve the compliance and risk management of AIFs, and foster trust and confidence among investors and regulators.

However, tokenisation also poses some challenges and risks for AIF managers, such as:

- **Regulatory uncertainty:** Tokenisation is subject to a complex and evolving regulatory framework, which may vary across jurisdictions and asset classes. AIF managers need to ensure that their tokenised products comply with the relevant rules and standards, such as those relating to investor protection, anti-money laundering, taxation, and data privacy.
- **Technological complexity:** Tokenisation requires a high level of technological expertise and infrastructure, which may not be readily available for AIF managers. AIF managers need to invest in developing and integrating the necessary systems and platforms, and

ensure their reliability, interoperability, and security.

- **Cultural change:** Tokenisation may entail a significant shift in the culture and mindset of AIF managers and investors, who may be accustomed to traditional fund structures and processes. AIF managers need to educate and communicate with their stakeholders, and foster a culture of innovation, agility, and ethics.

Tokenisation is a powerful and disruptive force that can reshape the AIF industry and enable retailisation.

While tokenisation does not solve the significant tax and regulatory burdens of taking AIFs to a democratised range of investors, AIF managers who can embrace and harness tokenisation can enhance their performance, reputation, and impact, and become a key driver of the AWM revolution.



James Stewart, PwC

**Robert Mellor, Partner,
Alternative Investment Funds,
PwC; & James Stewart, Partner,
Asset & Wealth Management Tax,
PwC**

JUNE 2024

Empowering Women Entrepreneurs. It's about time!

Alexandra Daly & Peter Soliman, Co-Founders, Arosa Capital

In recent years, the United Kingdom's venture capital scene has been under intense scrutiny, with calls for more inclusive and diversified investment practices. The 2019 Rose Review of Female Entrepreneurship highlighted the persistent gender funding gap and its broader implications for the UK economy. Having regard to the key findings of the Rose Review, and the subsequent industry reports and initiatives inspired by that work, this article explores why funds dedicated to supporting female entrepreneurs are not only a step towards social justice, but also a strategic investment opportunity.

Key Findings of the Rose Review

The Rose Review undisputably reported a significant underrepresentation of female entrepreneurs in receiving venture capital funding – women receive around 2% of VC funding globally –

and yet even with the light beaming over this social issue that number still has not changed much in almost 10 years. Despite women founding or co-founding numerous innovative startups, the investment flow into these ventures from the UK's venture capital ecosystem has been disproportionately low. This gender funding gap may be considered a social injustice, but it also represents a missed economic opportunity for the country – if women started and scaled new businesses at the same rate as men, £250 billion of new value could potentially be added to the UK economy.

Implications for UK Venture Capital

By expanding funding to female-led startups, venture capitalists are able to tap into a wider array of innovative ideas and business models, potentially enhancing total returns, and this aligns with the broader financial principle that a varied portfolio is more resilient and capable of generating attractive returns.



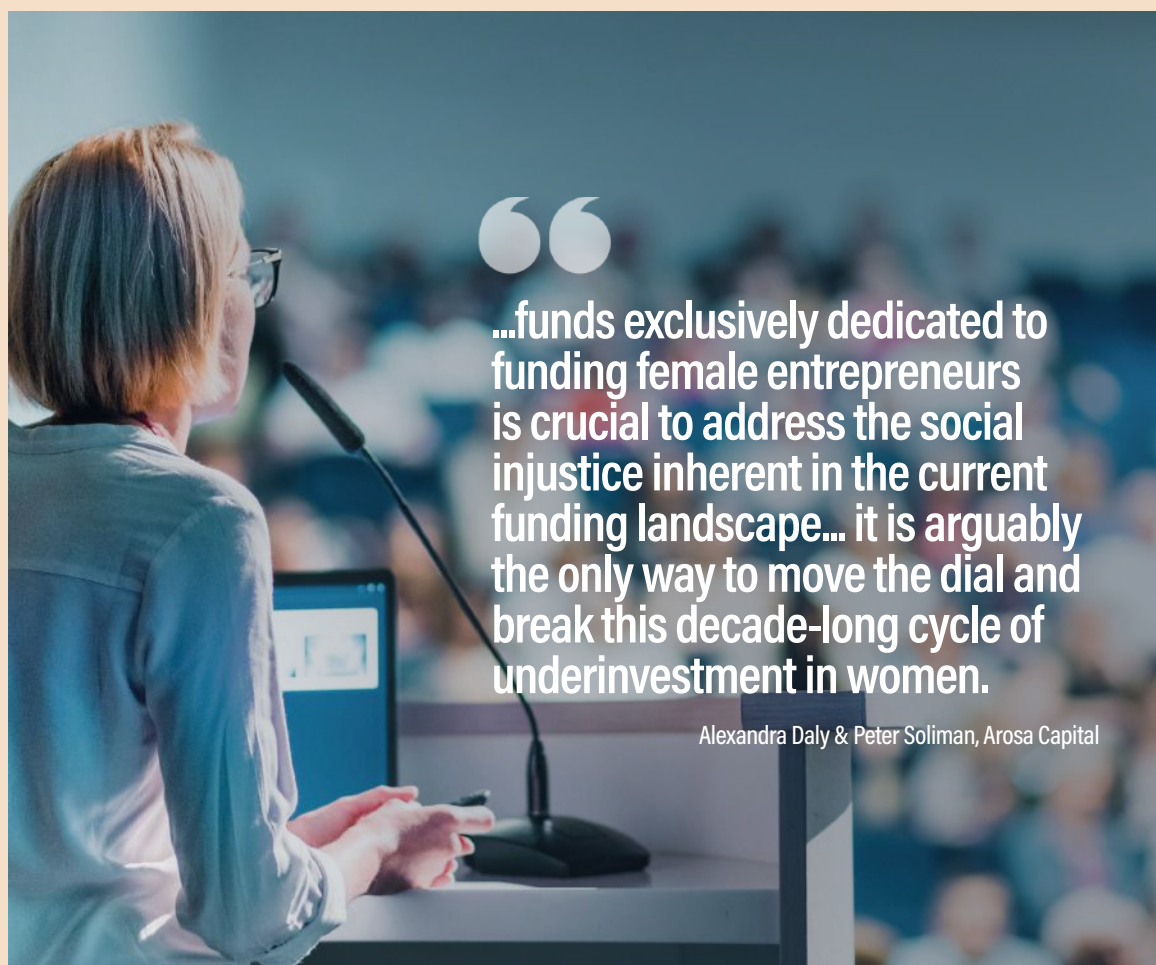
Alexandra Daly, Arosa Capital



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Alexandra Daly & Peter Soliman, Arosa Capital



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Addressing Social Injustice and Economic Efficiency

The establishment of funds exclusively dedicated to funding female entrepreneurs is crucial to address the social injustice inherent in the current funding landscape, and they also represent a pragmatic approach to the problem – it is arguably the only way to move the dial and break this decade-long cycle of underinvestment in women.

The Impact of Female-Entrepreneur-Exclusive Funds

Funds dedicated to female entrepreneurs are not merely a gesture towards equality; they are a strategic investment in the future of innovation. Female entrepreneurs often bring unique perspectives, addressing market needs that may be overlooked by their male counterparts.



Peter Soliman, Arosa Capital

Investing in these ventures can lead to the development of groundbreaking products and services, enriching the market and society.

Moreover, such initiatives shine a spotlight on the capabilities and achievements of female entrepreneurs, challenging stereotypes and inspiring future generations. The narrative shift to viewing female-led startups as untapped opportunities is crucial for fostering a more inclusive and equitable venture capital ecosystem.

Looking Forward

The Rose Review ignited a critical conversation about gender inequality in venture capital funding.

Funds dedicated to female entrepreneurs are not just a nod towards social justice; they are a testament to the untapped potential that, when realised, can drive significant economic growth and innovation. As the UK venture capital industry evolves, these initiatives will play a pivotal role in shaping a more diverse,

JUNE 2024

dynamic, and prosperous economic future.

Among those leading the charge in transforming the venture capital landscape is Arosa Capital, which has taken the Rose Review's findings to heart, promoting not one but two venture capital funds to invest exclusively in women-led businesses, underpinned by robust support from The Council for Investing in Female Entrepreneurs – this influential body is dedicated to its principal goal of encouraging UK-based institutional and private investors to back female entrepreneurs actively, and has sponsored the important work which has led to the Invest in Women Hub¹, the go-to destination for women seeking to raise capital.

Beyond financial investments, Arosa Capital will also sponsor a community-interest-company to launch a number of strategic programmes designed to empower women considering the entrepreneurial path or a career in investment management, and to support those who have already embarked on this journey. These initiatives will complement the vital initiatives of Council members

and are crucial in creating a nurturing ecosystem where female entrepreneurs can thrive and foster a community of like-minded individuals committed to diversity and innovation.

The collaboration between Arosa Capital and The Council for Investing in Female Entrepreneurs represents a significant stride towards closing the gender funding gap, contributing to a more inclusive and equitable venture capital ecosystem, leveraging a largely untapped opportunity to foster economic growth, innovation, and superior returns for investors.

**Alexandra Daly & Peter Soliman, Co-Founders,
Arosa Capital**

¹iwhub.com - an online destination for women thinking about starting out or seeking the all-important finance they need to take the next step

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The Rose Review ignited a critical conversation about gender inequality in venture capital funding. Funds dedicated to female entrepreneurs are not just a nod towards social justice; they are a testament to the untapped potential that, when realised, can drive significant economic growth and innovation.

Alexandra Daly & Peter Soliman, Arosa Capital

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How Alternative Asset Managers are Working to Insure Their Future Success

Josh Clarkson, Managing Director, Prosek Partners

At the current pace of alternative asset management and insurer acquisitions, strategic partnerships and the like soon people will say that peanut butter and jelly go together like private credit and annuities. In fact, it is now nearly table stakes for a large GP to have some type of insurance component to its growth strategy.

While the reasons for the appeal of these alliances largely all center around the synergies between long-term liabilities seeking to outearn their cost of capital and private markets firms who seek outsize returns in exchange from assets with varying degrees of illiquidity, the form and substance of them vary. Below, we will delve into these different models and benefits and risks for GPs, insurers, managers who wholly own insurers, and their shareholders.

While insurers had long had a role directly investing in less liquid assets,¹ the current wave² of convergence began in 2008 when Apollo set up Athene, its now wholly owned insurance platform, to acquire and originate annuities whose premiums could be invested in higher returning portfolios managed by Apollo. This provided Apollo with a long duration capital base while giving Athene the ability to offer annuitants higher returns, given their ability to deploy the investment portfolio into directly originated private assets and other sectors insurers had traditionally not

invested in heavily, and generate Spread Related Earnings (SRE) for the benefit of Apollo shareholders.

In the following years, others saw the attractiveness of this model and launched or bought similar platforms. Many originally grew through purchasing existing blocks of insurance from insurers looking to reduce their exposure, often at attractive valuations given public investors distaste for these exposures at the time. As the popularity of this strategy grew, the valuations for such blocks³, and for annuity platforms have increased, now many alts backed insurers both purchase blocks and originate new business through multiple channels.

The cornucopia of alts/insurer tie-ups vary in their structure but the most prevalent area of focus are fixed and fixed index annuities, a \$3.3 trillion market in the US. However as these blocks have become more sought after some have purchased variable annuity and whole life blocks, which introduce different asset liability matching risks. Some also focus on reinsurance.

¹In fact, Adolph Ochs, whose family has controlled the New York Times since 1896, took over the paper with no personal equity investment and instead creative financial engineering and debt from parties including insurers. Alas, journalists employed by his descendants take a dimmer view of such loans.

²There were a spate of hedge fund backed reinsurers prior, which never really took off

³While beyond the remit of this article, such transactions are often at valuations higher than an insurers equity is valued at enabling public insurers to sell blocks to fund buybacks, which is generally well received by the market

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JUNE 2024

One of the main points of differentiation among large managers is whether to wholly own an insurer (e.g. Apollo/Athene or KKR/Global Atlantic) or to have strategic partnerships, often supplemented with an equity investment, with one or more insurers (this can be with established insurers as Blackstone as done or by investing in de novo platforms alongside outside investors as others have done).

Each approach has pros and cons. The wholly owned approach enables managers benefit from spread related earnings, on an LTM basis Apollo earned \$3.2 billion in SRE and \$1.8 billion in FRE⁴, and have greater control.

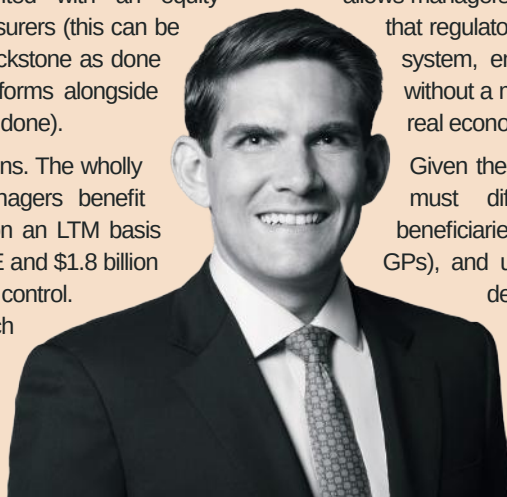
However, this also requires a much larger initial investment and adds balance sheet risk for the GP. The partnership approach on the other hand enables the GP to remain relatively asset light, and scale quickly with a lower upfront investment.

Either way, a key to success is for the manager to originate sufficient suitable⁵ assets to support the insurance liabilities and drive outperformance while also ensuring the safety of the portfolio to protect beneficiaries and avoid regulatory intervention. On the liability side in an environment of increasingly expensive block purchases it is important that insurers have a range of origination capabilities, with many now building out direct sales forces.

Meanwhile, regulatory and multilateral organizations ranging from the National Association of Insurance Commissioners to the IMF⁶ have an interest in this trend. While it is certainly appropriate for regulators to closely monitor these developments, thus far the sector has proven resilient and has delivered for annuitants. This is especially

important given demographics in many developed countries are leading to a looming retirement crisis. At the same time, the long term nature of life insurance liabilities allows managers to support many types of lending that regulators are pushing out of the banking system, enabling greater systemic stability without a massive contraction of credit in the real economy.

Given these crosscurrents, these platforms must differentiate their message to beneficiaries, investors (in the case of public GPs), and users of their capital, as well as demonstrate the benefits of the model to regulators. Accordingly, alternative asset managers and the insurers they are affiliated with should thoughtfully and vocally communicate their value proposition to all of these important constituents.



Josh Clarkson, Prosek Partners

In summation, the melding of insurance and alternative asset management appears to be a change that is here to stay and one that should benefit insurance beneficiaries, investors in alternative asset management businesses, and society at large.

Josh Clarkson, Managing Director, Prosek Partners

Josh Clarkson is a managing director at Prosek Partners, where he counsels clients on a wide variety of financial and strategic communications matters with a focus on alternative asset managers and, in particular, credit-oriented investment firms.

⁴FRE generally reflects the management fees earned on funds raised in its asset management business, at KKR, which took full control of General Atlantic recently, insurance operating earnings were \$884 million vs. \$2.5 billion in FRE

⁵This generally means both the types of sub investment grade credit alternative lenders traditionally focused on but also much larger volumes of IG rated credit given insurance regulations.

⁶IMF Global Financial Stability Note ([link](#))

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Josh Clarkson, Prosek Partners

JULY 2024

Hedge Fund Investor Demand for Commodities Increases

Sam McMurray, Head of International Capital Introduction, Marex

Hedge Fund investor demand for commodities has always been cyclical. Following a long period where interest in the asset class was low, in the last twelve months we have seen interest increase at a considerable pace. Demand is coming from both large, institutional hedge funds to smaller, more nimble family offices. For many smaller allocators, this is a first venture into pure play commodities. As such, the preference for these players is to find a more diversified commodities product, whereas the larger institutions can be more specific in their approach.

With demand rising, so has supply. We have seen numerous new commodities-oriented strategies and commodities funds aiming to launch in response to investor interest. There has also been a noticeable increase in demand for portfolio manager talent

within the commodities sector, providing further evidence that commodities are the 'flavour of the month', particularly from multi-strategy pod shops.

A Multi-Strategy Approach

Most allocators prefer to gain commodity exposure via a diversified, multi-strategy offering in the short term. Over time, the average investor can more readily put capital to work with specialist commodities funds as their portfolios mature. For larger investors with more experience in commodities investing, it is easier to invest in specialist funds with a singular focus – such as metals or natural gas. Many of these large investors prefer to put capital to work via separately managed accounts.

Generally, most commodities funds that come to market take a global approach, however there



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are examples of portfolio managers launching geographically specific commodities products.

New Opportunities

We have seen demand across the spectrum from sovereign wealth funds, endowments and foundations through to smaller family offices looking for these opportunity sets. Many of them haven't been active in the commodities space up until this point or have been relatively inactive in the asset class over the last few years. Firms and portfolio managers who can offer a diversified strategy, with everything under one umbrella, are undoubtedly seeing the benefits of the significant uptick in demand for commodities strategies.



Sam McMurray, Head of International Capital Introduction, Marex

Sam joined Cowen in July 2018 and transitioned to Marex in December 2023 when Cowen Prime Services was acquired by Marex. Based in London, Sam is responsible for building relationships and sharing investment ideas with European and Asian based allocators. Before joining the firm, he was an investment analyst at Tesco Pension Investments, on the alternatives team. He graduated from the University of Birmingham with a BSc Degree in Economics and is a CAIA charter holder.

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Sam McMurray, Marex

JULY 2024

World Gold Council's Gold Mid-Year Outlook: A Market in Search of a Catalyst

Juan Carlos Artigas, Global Head of Research, World Gold Council

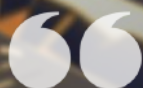
Reflecting on 2024 so far, gold has outperformed expectations when we consider the factors at play. Traditionally, a high interest rate environment coupled with a strong US dollar would be a hostile environment for gold. But against those odds, gold has comfortably been trading above US\$2,300/oz for most of the second quarter and was up 12% year-to-date (as of 2nd July, 2024).

So, as we look ahead to the second half of the year, investors might be wondering – can gold's momentum continue? Or will it run out of steam? It would seem that gold, much like the global economy, is waiting for a catalyst. Let's consider what different aspects of the global gold market could influence the outlook for gold throughout the rest of 2024.

Starting with the investment side of the market, our

data and analysis shows that Western investors have been a missing piece of the puzzle. High trading volumes indicate healthy interest, but gold ETFs in Western markets have seen net outflows year-to-date, and retail demand is also soft. Yet, even with Western investors not showing up in full force, gold's strong performance in H1 suggests that the market is still not saturated and could see another leg up in H2. Lower interest rates, recession risks and geopolitics may lure them back in. In fact, global gold ETFs have now seen two months of inflows, led by European funds and likely in part a reaction to the ECB's rate cut.

Turning to the consumer sources of gold demand, jewellery and technology combined make up more than 40% of annual demand, and the hot gold price has cooled down purchasing of these goods. We



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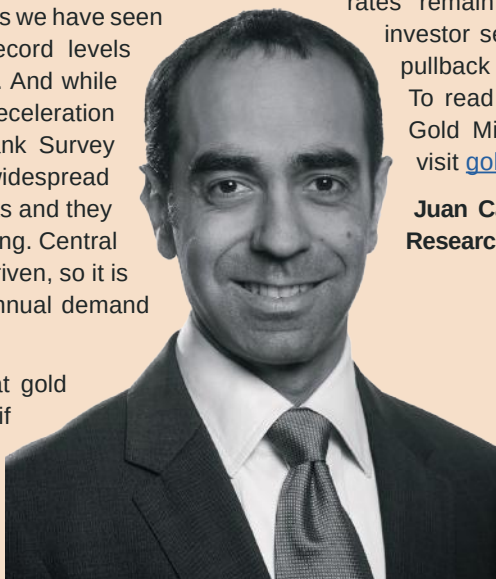
tend to think of consumers as “price takers” not “price makers.” And if the gold price remains flat throughout the rest of the year, this could give demand in these aspects of the market a boost.

Central bank demand for gold has been making headlines for over a year now as we have seen reserve allocations rise to record levels since the second half of 2022. And while there has been a recent deceleration in purchases, our Central Bank Survey indicates that there's widespread interest in gold by central banks and they continue to see reserves growing. Central bank demand is often policy-driven, so it is difficult to determine where annual demand will land.

In summary, it is possible that gold may remain rangebound if current market expectations prevail. But the extent of gold's reaction upwards or downwards will be a function of the magnitude of several

factors including: interest rates, recession risks, geopolitics and investor profit taking. However, there's a clear path for gold to outperform, likely fuelled by Western flows. On the other hand, in the event that central bank demand drops drastically, rates remain high for longer and Asian investor sentiment flips, we could see a pullback in the second half of this year. To read the World Gold Council's full Gold Mid-Year Outlook and analysis, visit [goldhub.org](https://www.goldhub.org)

Juan Carlos Artigas, Global Head of Research, World Gold Council



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