Setting up a hedge fund under AIFMD

Interview with Gerhard Grueter & Daniel Maycock

The AIFM Directive may not be universally welcome but with greater focus being applied to compliance and operational risk oversight within the fund management industry, it is at least ensuring a new breed of higher quality fund manager; which for investors is good news.

"On the one hand AIFMD raises the threshold for new managers, but on the other hand once you're AIFMD-compliant it makes things much easier from a capital raising perspective. The reason we exist is to help managers overcome that threshold and make the transition from a pre-AIFMD local framework to a pan-European standard," comments Gerhard Grueter, co-founder of Lawson Conner, a market leader in compliance solutions for the investment fund industry.

Lawson Conner operates a specialist fund manager platform and is providing FCA license coverage as well as compliance and regulatory oversight on behalf of alternative fund managers.

When it comes to complying with AIFMD, investment managers have to be in safe hands. The reputational risks are too high. This might seem overwhelming to new managers entering the market, particularly as falling under the full scope of the directive only applies when the manager is running a minimum of EUR100m in assets. But as Grueter explains: "We work with emerging managers and start-ups on two levels: on the first level, we offer an integrated AIFM solution allowing new managers to launch their funds in a cost-efficient manner. We provide the full infrastructure for them to get up and running, on average within four to five weeks. This gives the fund manager the freedom to focus on what they are good at: trading, generating alpha, and raising capital. Everything else they can leave to Lawson Conner.

"On the second level, we provide ongoing consultancy services on the compliance and regulatory front. This applies more to established managers who want to attract additional institutional investor capital."

Gerhard Grueter, co-founder of Lawson Conner

Daniel Maycock, Director, Investment Management Services at Lawson Conner

By working with an established AIFM platform, emerging managers can present themselves in a more positive light to investors. This is where the directive could benefit everyone moving forward, as European investors will take reassurance allocating to a small manager that they know has a compliance specialist and fund manager working with them.

"Research suggests that smaller managers tend to be better alpha generators. The advent of AIFMD has created more of a level playing field from a risk and governance perspective, which in theory should mean that outperformance is easier to notice," adds Daniel Maycock, Director, Investment Management Services with Lawson Conner.

To further expand on how a hosted AIFM is raising the level of integrity in the marketplace, Grueter comments: "Investors seek out emerging fund managers for their unique investment ideas, which results in superior performance. However, operational risk is probably the biggest hurdle for any institutional investor to overcome with an emerging manager – how can they be sure that in a year's time, the team will still be together? At the beginning, emerging managers are often overwhelmed with the operational aspect of fund management, such as legal, compliance, HR, IT, infrastructure, which does not leave them much time to do what they are good at: trading and generating alpha.

"The solution is for the manager to come onto the fund platform where they are able to outsource most of the operational issues. In addition, the investor faces a much larger entity with a stronger balance sheet, a larger team in place with tried and tested risk management processes in place. That gives investors the confidence that the chances of something going wrong with the manager are greatly reduced." ■