AIFMD (Alternative Investment Fund Manager Directive): How It Affects Alternative Investment Fund Industry in the UK?

Alternative investment is a multi-billion industry in the UK accounting for a substantial part of the national GDP over the past decade according to National Statistics Online. It is a very important component in the success the UK has had as international financial centre. Institutional and qualified individual investors alike value this asset class as important part of their portfolios by allocating over 345 billion pounds[1] to it despite serious post-Lehman era concerns.

Within alternative investment as asset class private equity and hedge fund industry is the centrepiece. The reasons are a few, not least being:

- Higher investment returns and increased fee generation for investors;
- Diversification of investment portfolios;
- Opportunity for portfolio diversification and risk management;
- Availability of financial resources for industries and economic sectors that need it most;
- Capital and risk re-allocation for investors;
- Possibility of custom-tailored financial innovation, etc.[2]

Many of the advantages private equity and hedge funds as asset class have had may be attributed to the light-touch regulation of these entities at both UK and EU level, until recently.

In 2011 European Commission decided to adopt new Directive on Alternative Investment Fund Managers (AIFMD) with a goal of obtaining "a stable financial system that supports and stimulates the real economy"[3] and generally reduce risks posed by unregulated investment funds.

These may be legitimate concerns of the EU. However, it may also well be the case that overregulation will lead to consequences largely unforeseen my Brussels. The research question of this dissertation will therefore be to describe and determine ways AIFMD may, from my point of view, affect private equity and hedge fund industry in the UK. Among the ones affected by the new regulation will not only be fund managers, but also investors and entire sectors of British economy, both in this country and globally (provided the international reach of many of the funds). One significant result of an overly strictl regulation of private equity and hedge funds may be structural imbalances in the UK and some global sectors of economy. In my research I will undertake a critique of the legislative objectives put forward by the European Commission and the risks of some those goals at the implementation phase, among other matters.

Finally in this research I will try to suggest some ways to mitigate the effects of the new regulation on the private equity and hedge fund industry for the benefit of fund managers and regulators alike.

---

[1] FSA, Assessing possible sources of systemic risk from hedge funds: http://www.fsa.gov.uk/pubs/other/hf_report.pdf

[2] E.g., G.A. Walker, Chapter on Hedge Funds

3 Directive on Alternative Investment Fund Managers ('AIFMD'): Frequently Asked Questions