



INSIGHTS  
LONDON

# KEY FINDINGS

INVESTMENT FUNDS FORUM 2024



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## 1. Key Takeaways

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On 11 September 2024, we were delighted to assemble hundreds of professionals from across the investment funds industry at the Tate Modern in London to talk about some of the key themes facing the European and global investment management sector today.

Joined by a number of senior industry figures as well as regulators from a range of EU and global jurisdictions, and featuring keynote speaker, award-winning journalist Emily Maitlis, and special guest speaker, Cayman Islands Deputy Premier, the Honourable André Ebanks, there was much discussion about the huge growth potential of the investment funds market.

Kicking off with a presentation from Preqin of the latest market data, our panellists went on to consider the impact of the current macro environment on investment funds at a time when they continue to outperform public markets. While the big themes of fundraising and liquidity challenges, the regulatory burden and technological disruption featured heavily, the following is a summary of the most salient points that came up during each of the event's panel discussions.

If you have any questions about any of the topics raised, or would like to continue the conversation with us, please contact the panel moderators.

## 2. Unlocking Opportunities: The Retailisation of Private Markets

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Moderator: Deirdre McIlvenna, Partner, Maples Group Dublin

While retail participation in European capital markets remains quite low, with just 17 percent of household assets invested in capital markets versus 43 percent in the United States, there is growing interest in the diversification opportunities that private assets can offer compared to traditional public market investments.

Our panellists highlighted the following themes:

- Regulators are aware of the need to expand the opportunities for private markets investment to a broader range of investors. Recent developments including the amendment to the US definition of accredited investors, the updates to the European Long-Term Investment Funds ("ELTIF") regime and publication of the EU's retail investment package represent welcome progress. The fact that ELTIF provides an EU marketing passport for non-professional investors will further help progress this journey.
- There is a lot of work required by managers on the operational side to build private wealth distribution models that can bring a broader range of investors into funds. The search for new fundraising channels is driving a wave of deal-making as bulge bracket private fund managers enter joint ventures and partnerships with traditional asset managers to enhance their market access, and that trend is likely to continue.

### 3. Innovations and Developments Across the Private Asset Classes

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Moderator: Tim Morgan, Partner, Maples Group Jersey

The widely reported slowdown in private markets transaction volume from 2022 to present has hampered distributions to investors and in turn led to some challenges in fundraising, but there is some clear evidence of recovery.

- When it comes to structuring, investors are focused on the tax, regulatory and reputational aspects of jurisdictions. Non-EU jurisdictions, such as Cayman Islands and Jersey remain favoured fund domiciles for non-European investors, while some European LPs now often express a preference for an AIF or other European domiciled vehicle. The friction caused by anti-money laundering ("AML") and other onboarding rules is also increasingly impacting choice of jurisdiction. In some cases, choices of jurisdiction may affect perception of the investment and can influence how the fund is treated for allocation/bucketing purposes.
- Larger investors are increasingly looking for customisation and mandates outside of a co-mingled fund, with separately managed accounts ("SMAs") a core element of fund structuring. Figuring out the threshold at which SMAs are cost-effective, given the additional reporting and operational burdens, is a key dynamic for sponsors and varies between strategy and asset class.
- The operational drag associated with complex and bespoke reporting requirements is another issue, as LPs request increasingly negotiated and detailed information. The scale of the trade-offs required varies across asset classes.
- With exit friction creating a liquidity challenge, the secondaries market is an established option for managers looking to achieve exits for investors and DPI, while allowing in some cases for trophy assets to be further developed. While secondaries have been normalised as an exit alternative, they continue to require careful navigation in terms of managing conflicts between parties for a successful outcome.

## 4. Trends and Challenges for Hedge Funds in 2024

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Moderator: Sophie Whitcombe, Of Counsel, Maples Group London

As elsewhere, the fundraising environment continues to be challenging for hedge funds, with Preqin's 2024 H2 Outlook reporting an increase in the number of investors looking to decrease their exposure to hedge funds. That is driving some interesting trends in fund structuring, while fees and liquidity are also a big talking point for managers.

- A poll of conference attendees identified capital raising as the biggest challenge for hedge fund managers today, as the asset class is impacted by a lack of distributions from private equity driving LPs to take cash out of more liquid vehicles. Investors are also reluctant to take risk and remain concerned about the uncertain macro and geopolitical outlook. More onerous and lengthy investor due diligence is also having an impact.
- We are seeing an increase in demand for cash efficient structures, including the use of capital commitment and drawdown structures for subscription funding in open-ended funds.
- Fees continue to be a focus, with the 2 and 20 model now dead and poor performance making it hard to justify high management fees. Some institutional investors are advocating for the widespread use of cash hurdles in incentive fee arrangements, but operating cash hurdles in co-mingled structures is complex and with new consumer duty rules just an example of growing pressure from regulators, investors may not fully appreciate the operating costs involved.
- The number of digital assets Cayman Islands fund launches has increased over the last couple of years and half of the US' largest hedge funds now say they are investing in cryptocurrencies. There is increasing institutional adoption of the asset class, though many managers remain cautious given the volatility of the asset class and regulatory scrutiny it attracts.



## 5. Navigating the Regulatory Landscape: Global Trends and Developments

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Moderator: Michelle Barry, Partner, Maples Group Luxembourg

The increasing burden and opportunity created by regulation was a theme throughout the London Investment Funds Forum, with the pace of change in key jurisdictions calling for an agile approach from managers.

- The EU's AIFMD 2.0 came into force in April 2024 and member states now have 24 months to transpose it, with a go-live date of January 2026. The package has been broadly welcomed by industry, with some of the key areas that managers now need to digest, operationalise and implement including new rules on loan origination, new reporting requirements related to delegation, and updates on liquidity risk management tools.
- The Digital Operational Resilience Act will apply as of January 2025, focused on harmonising IT risk management and cyber security systems to ensure business continuity and disaster recovery. Penalties for non-compliance include fines of up to 2 percent of annual turnover for firms and up to €1 million for individuals, with the key challenges for managers including the position of third-party vendors, interpretation of proportionality and the fact that the detail on Level 2 measures is still yet to be published.
- AML rules remain highly relevant across the global investment funds industry, as regulators and managers continue to adapt to new challenges in the landscape of financial crime. The EU published its AML Package in June, comprising new requirements for firms, steps to improve cooperation between national competent authorities, and the creation of a new supervisor with extended powers. Meanwhile, the UK has scaled back some of its requirements in relation to politically exposed persons and the US Financial Crimes Enforcement Network has updated its regulations.



## 6. Moderators

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Tim is co-head of Maples and Calder's Funds & Investment Management team, in the Maples Group's Jersey office. He advises global fund sponsors, investors, boards and service providers across a variety of asset classes including private equity, venture, credit, real estate and liquid securities. Tim has acted on a wide range of private equity fund launches, and a number of the most innovative funds transactions in Jersey, including the first listed Jersey fund, a number of the first Jersey private funds and a wide number of fund restructuring transactions. He has also recently acted on several of the highest profile GP-led restructuring deals, and advises more generally on corporate issues and on investment structures for financial institutions, family offices and other investors.





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