

Choosing a European fund domicile: The views of global asset managers

A survey conducted by the **Economist Intelligence Unit**
on behalf of Matheson

Matheson



Key Trends



Matheson is pleased to announce the results of an independent survey on investment funds in Europe titled **Choosing a European fund domicile: The views of global asset managers.**

As an Irish law firm that focuses on understanding the needs of international business and the key factors which inform international mobile investment, Matheson wanted to gain an in-depth understanding of how asset managers view Europe's leading fund domiciles, and what attracts them to invest in a particular European jurisdiction.

With this in mind, Matheson engaged the Economist Intelligence Unit (EIU) to conduct an independent global survey of 200 asset managers in order to identify their preferences when choosing a European fund domicile, and to examine what are the most influential factors when deciding among competing domiciles.

Specifically, survey respondents were asked to assess which European domiciles they would now choose if starting over with their fund ranges, taking into account business, regulatory, legal and tax conditions. The EIU survey also asked managers to rank the most influential decision-making factors when selecting one European fund domicile over another. This revealed some interesting findings regarding the key business, distribution, legal and regulatory conditions prioritised by managers when selecting a domicile.

With respect to growth, the survey examined global asset managers' estimates of expected growth levels of assets under management in both UCITS and European alternative investment funds up to 2016. The EIU survey also tested reaction to the application of the AIFMD.

The full set of findings and data arising from the EIU survey are to be found in the Matheson publication titled "Choosing a European fund domicile: The views of global asset managers" which is available on our website. We thought it would be useful however to summarise what we at Matheson have identified as some of the key trends and indicators arising from the EIU survey results, and these are set out below.

Should you wish to discuss in further detail any aspect of the themes and subject matter of this survey, we would be delighted to speak with you. Please get in touch with your usual Matheson contact, or any of our Asset Management and Investment Fund partners at the contact details listed in this document.

Competitive Analysis: The Top European Fund Domiciles

One of the most significant questions put to the 200 managers surveyed by the EIU was to ask each manager to identify which European domiciles they would now choose if starting afresh with their fund ranges. The respondents had the opportunity to select which, in their view, are the best performing European fund domiciles under each of the following discrete categories:

- Best regulatory conditions (such as regulatory sophistication, accessibility and responsiveness).
- Best legal and tax framework.

- Best non-regulatory and non-tax business conditions (such as ease of doing business, service culture, local expertise in complex products).

Ten European domiciles competed against each other in the survey under each of these headings, and our full survey results publication sets out the performance of each of those jurisdictions in the three categories as assessed by the 200 asset managers surveyed.

Taking into account the performance across all three categories of analysis, the results showed that 71% of the managers surveyed said that they would now choose Ireland as one of their top-3 European fund domiciles if starting over with their fund ranges. Germany and Luxembourg came in joint second place with 45% of managers selecting those jurisdictions as top-3 European fund domiciles. The United Kingdom came in third place, with 33% of managers voting it a top-3 domicile.

These findings demonstrate that Ireland is now regarded by global asset managers as the best European domicile for investment funds when compared to its competitor European jurisdictions, with Ireland's performance in the EIU survey placing it far ahead of its nearest rivals.

Regional Analysis: Ireland in Front

In terms of a regional market analysis, three-quarters of the US and UK managers surveyed said that they would choose Ireland as a top-3 domicile for their European fund ranges if starting over. Ireland received the highest number of manager preferences overall across all geographical regions, including Latin-America, Asia-Pacific, USA and Western Europe.

It is worth noting that Ireland's strong showing in Western Europe, Latin-America and Asia in the EIU survey challenges the conventional perception that other European fund jurisdictions may have had an advantage in those geographical markets. Whilst it would have been expected that Ireland would do well under the US and the UK analysis, the preference for Ireland demonstrated by asset managers with firms headquartered in Western Europe, Latin-America and Asia is significant.

The Domestic v Cross-Border Debate: Alive and Well

The survey results indicate that the traditional domestic market versus cross-border fund hub debate is alive and well. The four jurisdictions scoring most highly overall in terms of managers' preferences are Ireland, Germany, Luxembourg and the United Kingdom. The strong showing of the UK and Germany within the top-scoring domiciles points to the fact that a large domestic market remains a significant factor, as does hub status as demonstrated by the performance of the two traditional cross-border hubs, Ireland and Luxembourg.

The Most Important Factors for Managers When Choosing a European Fund Domicile

A primary objective of this survey was to find out more about managers' requirements in terms of a decision to domicile, and to bring to the surface the critical decision-making factors in this regard.

With this in mind, the EIU asked managers to rank from one to three in order of importance what are the most influential decision-making factors when selecting a European jurisdiction in which to domicile their fund ranges. Specifically, the survey gave managers the opportunity to select and rank what are the most important legal and regulatory factors when choosing a domicile; the most important financial and business factors; and the most important market and distribution factors which influence them.

The top results were as follows:

- As regards financial and business factors, managers ranked the cost of doing business as most important, followed by tax treatment of fund vehicles. Third was presence and range of double tax treaties.
- In terms of market and distribution factors, managers ranked as most important speed to market, followed by investors' perceptions of a specific jurisdiction, followed by a jurisdiction's reputation and longevity as a funds centre.
- Amongst legal and regulatory factors, managers ranked the approach to implementing the AIFMD as most important. This was followed very closely by the sophistication of the national regulator and in third place was the approach to implementing the UCITS Directive.

In terms of general perceptions regarding the key reasons as to why asset managers might choose certain domiciles, the survey results challenge some commonly-held assumptions. While unsurprisingly the cost of doing business was ranked as the most important business factor in choosing a fund domicile, managers rated having existing fund ranges and business relationships in a jurisdiction as the least important financial and business factor.

This highlights an important trend: investment of the international asset management community is mobile as between the various European fund domiciles competing for its business. Given this mobility of investment, only those jurisdictions which continue to provide the right environment and which remain competitive will continue to satisfy the needs of managers and survive in the long term.

Regarding the idea of emerging European fund domiciles, the standards which asset managers are setting, and the key jurisdictional requirements for managers which the EIU survey has identified, suggest that it is challenging for emerging domiciles without an established professional services cluster, or a sufficiently sophisticated regulator, to compete effectively. In analysing all of the factors which asset managers ranked as most important in the EIU survey, including market and distribution factors such as speed to market, investors' perceptions and the reputation and longevity as a funds centre, it becomes clear that the less developed jurisdictions will find it difficult to measure up to the more established jurisdictions, and to meaningfully increase market share.

Growth Estimates

The survey conducted by the EIU explored managers' estimates of levels of expected growth in UCITS and alternative investment funds domiciled in Europe up to 2016. 56% of managers predict that

they will have over \$1 billion in UCITS assets under management in Europe by 2016 - up from 41% at the time of the survey, and 29% of respondents estimated that they will have over \$1 billion in assets under management in European alternative investment funds by 2016 - up from 16% at the time of survey. When compared with its competitor jurisdictions, Ireland's position as the best performing domicile in the EIU survey suggests that it is well-placed to benefit from these positive growth forecasts.

Reaction to AIFMD

When asked how they would expect their firm to react to the application of the AIFMD, the bulk of managers surveyed indicated that their firm would wait and see how investors respond first.

This demonstrates the extent to which the asset management industry is increasingly becoming an investor-driven industry - and as more and more investors demand regulated products, it follows that the fund promoters who react and respond to these needs will be well-positioned for the future.

It is worth noting that 18.5% of survey respondents stated that they expect their organisation to react to the application of the AIFMD by restructuring their alternative investment funds into UCITS where possible. This is an interesting result given that the UCITS framework, involving as it does product rules as well as manager requirements, is more restrictive for portfolio managers. Many asset managers are concerned about the AIFMD compliance burden however, and the associated costs, and they are not perceiving an equivalent benefit at this time. Nonetheless, the survey shows that 10.5% of those surveyed expected their organisation to take the earliest opportunity to avail of the AIFMD passport, and 4.5% of respondents anticipated that their firm would re-domicile their offshore alternative investment funds to benefit from the passport.

3.5% of the managers surveyed indicated that they will use European private placement regimes to distribute offshore for as long as this remains possible for non-EU managers, and just one respondent out of 200 indicated that they would re-domicile out of the EU in response to AIFMD. The proportion of managers reacting negatively to AIFMD is therefore possibly lower than may have been expected according to the EIU findings.

Finally, with respect to the importance of AIFMD implementation, managers ranked a domicile's approach to implementing the AIFMD as the most important legal and regulatory factor when choosing a European fund domicile. As mentioned above, this was followed very closely by the sophistication of the national regulator. In terms of Ireland's approach to AIFMD, the survey results show a very positive evaluation of Ireland's implementation of the AIFMD.

Notes: The asset management firms of the 200 managers polled were headquartered in North America (38%), Western Europe (35%), Asia-Pacific (13%), Latin-America (10%), and the Middle East and Africa (4%).

The EIU survey methodology is set out in full in the survey results publication which can be accessed on our website [www.matheson.com/choosingaEuropeanfunddomicile](http://www.matheson.com/choosingauropeanfunddomicile). The Economist Intelligence Unit takes full responsibility for the accuracy of the survey results quoted in this publication.



Matheson's Asset Management and Investment Funds Group

Matheson's Asset Management and Investment Funds Group is the number one ranked funds law practice in Ireland, acting for 27% of Irish domiciled investment funds by assets under management as at 30 June 2013. Led by 10 partners, the practice comprises 40 asset management and investment fund lawyers and professionals in total. The group's expertise in UCITS and alternative investment funds is reflected in its tier one ranking by Chambers Europe, the European Legal 500 and the IFLR, and the team is specifically recognised for its abilities with respect to complex mandates.

Matheson has the strongest Irish law firm presence in the US through its Palo Alto and New York offices. The firm's resident

Irish counsel team includes an asset management partner based full-time in its New York office. In London, it has the largest operation of any Irish law firm, including dedicated Irish funds counsel.

With its asset management legal and regulatory advisers working alongside Matheson taxation, structured finance and commercial litigation departments, the firm offers a comprehensive service for clients. It is one of the few law firms in Ireland with a specialist derivatives practice, which enables it to provide combined asset management, tax and derivatives advice of the highest calibre to its clients.

Photographed from left to right in the above photo are Matheson's 10 asset management and investment funds partners, as follows:

Shay Lydon

PARTNER
DUBLIN OFFICE

D +353 1 232 2735
E shay.lydon@matheson.com

Joe Beashel

PARTNER
DUBLIN OFFICE

D +353 1 232 2101
E joe.beashel@matheson.com

Michael Jackson

PARTNER
DUBLIN OFFICE

D +353 1 232 2219
E michael.jackson@matheson.com

Elizabeth Grace

PARTNER
DUBLIN OFFICE

D +353 1 232 2104
E elizabeth.grace@matheson.com

Tara Doyle

PARTNER
LONDON OFFICE

D +44 20 7614 5688
E tara.doyle@matheson.com

Liam Collins

PARTNER
DUBLIN OFFICE

D +353 1 232 2195
E liam.collins@matheson.com

Dualta Coughlan

PARTNER
DUBLIN OFFICE

D +353 1 232 2451
E dualta.coughlan@matheson.com

Aiden Kelly

PARTNER
NEW YORK OFFICE

D +1 646 354 6585
E aiden.kelly@matheson.com

Anne-Marie Bohan

PARTNER
DUBLIN OFFICE

D +353 1 232 2212
E anne-marie.bohan@matheson.com

Philip Lovegrove

PARTNER
DUBLIN OFFICE

D +353 1 232 2538
E philip.lovegrove@matheson.com

28.02.14 The material is provided for general information purposes only and does not purport to cover every aspect of the themes and subject matter discussed, nor is it intended to provide, and does not constitute, legal or any other advice on any particular matter. The information in this document is provided subject to the Legal Terms and Liability Disclaimer contained on the Matheson website.

© Matheson
Survey results © Economist Intelligence Unit