The European Alternative Investment Fund Manager Directive (AIFMD): impacts on existing alternative fund managers' traditional business models.

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A thesis submitted to
The University of Gloucestershire
in accordance with the requirements of the degree of
Doctor of Business Administration (DBA)
in the Faculty of Business, Education and Professional Studies

July, 2017

Abstract

This thesis investigates the impact of an EU-directive (directive 2011/61/EU) regarding the administration of alternative investments by fund managers (AIFMs) on the business models of AIFMs which became effective on June 22, 2013. This new fund regulation is expected to affect the business models of traditional AIFMs that were not previously subject to regulation but now have to comply with these rules. The potential effect of the Alternative Investment Fund Manager Directive (AIFMD) has been subject to contentious debate in the past. However, the outcomes of the AIFMD have not previously been considered post implementation and so will be investigated for the first time by this research thesis. This thesis explores the changes already driven by the AIFMD to understand its impact on traditional business models. These changes are currently initiated by fund managers in order to ensure a sustainable business. This thesis also investigates how the marketplace in which fund managers operate will change as a result of the AIFMD and how this change will impact traditional business models.

Since the AIFMD only recently became effective, no quantitative data is available. Therefore, this research is based on exploratory research starting with an online survey sent to 200 fund managers managing different types of small, medium and large Alternative Investment Funds. The online survey asks general questions about the fund manager's business, such as size, jurisdictions, investment types, etc. It also reveals the extent to which business models have been adapted to the requirements, in particular the operating conditions of the AIFMD and which requirements still need to be employed by the respective fund manager. Based on the results of the online survey, a small number of fund managers were chosen for personal interviews representing different types and size of managed funds as well as a variety of country locations. The samples were chosen in that way to allow generalization of the research findings for a broad range of different fund managers with different business models.

The personal interviews enable confirmation of the findings achieved by the online survey as well as providing a deeper understanding of how fund managers perceive the impact of the AIFMD on their business model. The form of the interviews is flexible with open and spontaneous questions appropriate to the specific interview situation. This enables a more complex and sophisticated view of the change of traditional business models. Since the AIFMD was only recently realized and currently several AIFMD documents, such as specific guidance, is still outstanding, additional research is needed. Additional research could consider more quantitative data that is not yet available.

Declaration of original content

I declare that the work in this doctorate thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the doctorate thesis has been submitted as part of any other academic award.

Any views expressed in this doctorate thesis are those of the author and in no way represent those of the University.

Signed:
Date: July, 2017

Acknowledgement

First of all, I want to thank both my supervisors who have always provided the best support I could imagine during the preparation of my research thesis. Without Professor Dr Oliver Kruse from the Fachhochschule des Mittelstands and Dr Jasim Al-Ali from the Manchester Metropolitan University I would not have been able to complete this thesis. The origin of this academic research came from my grandparents, Anita and Helmut Buettner, who have encouraged me in my academic work all through my life. I am very thankful that during their lifetime both showed me that academic research is an important pillar of knowledge contribution.

The idea for the practical research topic arose during my work as a tax adviser at Ernst & Young. During my work with EY, many of my clients were Alternative Investment fund managers who suggested the research issue to me with questions which were difficult to answer by myself or anybody else at that time but which had high practical relevance to my clients' businesses. Therefore, I want to thank my former employer, EY, for supporting this research thesis by providing relevant resources and contacts in the fund management industry. In this context I want to thank, Rantum Capital (a fund management company that also manages alternative investments), where I am currently CFO, for supporting the finalization of this thesis.

I also want to express my highest gratitude to my wife in Frankfurt, my brother in Munich, my mother and father in Fulda and my aunt and uncle in Bonn who have supported me over many weekends in the writing of this thesis. Finally, I would like to dedicate this research thesis to my grandparents who both died during the preparation of this research thesis. I hope they would be proud of their grandson.

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List of Abbreviations

Art.	Article
ASIC	Australian Securities & Investments Commission
AIFMD	Alternative Investment Fund Manager Directive
AIFM	Alternative Investment Fund Manager
AIF	Alternative Investment Fund
AML	Anti Money-Laundering
AUM	Assets under Management
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
BAI	Bundesverband Alternativer Investments
BVAI	Bundesverband Alternativer Investments
BVI	Bundesverband Investment und Asset Management
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CESR	Committee of European Securities Regulators
DBA	Doctor of Business Administration
EC	European Commission
e.g.	exempli gratia
EMIR	European Market Infrastructure Regulation
ESG	Environmental, Social and Governance
ESMA	European Markets and Securities Authority
etc.	et cetera
EuSEF	Regulation on European Social Entrepreneurship Funds
EY	Ernst & Young
fx	foreign exchange
GIA	German Investment Act
HeBIS	Hessische BibliotheksInformationsSystem
i.e.	id est
InvG	Investmentgesetz
InvMaRisk	Mindestanforderungen an das Risikomanagement von Investmentgesellschaften
IORPD	Institutions for Occupational Retirement Provision Directive
IOSCO	International Organization of Securities Commissions
IT	Information Technology

KAGB	Kapitalanlagegesetzbuch
KYC	Know Your Customer
KWG	Kreditwesensgesetz
MiFID	Markets in Financial Instruments Directive
MMoU	Multilateral Memorandum of Understanding
no.	Number
NPPR	National Private Placement Regime
p.	page
PhD	doctor of philosophy
Q&A	Question & Answer
RQ	Research Question
TEU	Treaty on European Union
TOL	Treaty of Lisbon
UCITS	undertakings for collective investment in transferable securities
UK	United Kingdom
UREC	University Research Ethic Committee
USA	United States of America
VCF	Venture Capital Fund
vs.	versus

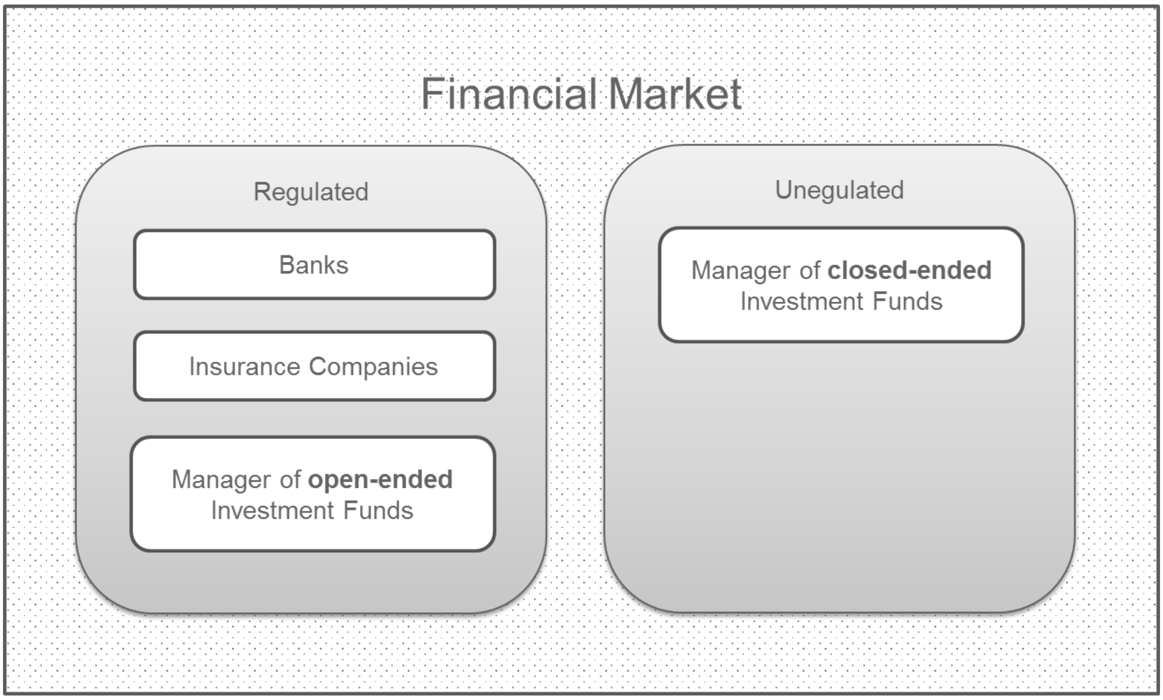
1. Introduction

This research thesis addresses how the European Directive 2011/61/EU, known as Alternative Investment Fund Manager Directive (AIFMD) influences the business model of Alternative Investment Fund Managers (AIFMs).

The 2008 financial crisis revealed how alternative investments can spread or amplify several risks in the financial system since large parts of alternative investments were not yet regulated and many of these funds resided offshore. According to the European Parliament and Council, AIFMs are responsible for the management of a significant amount of invested assets in the European Union […] and they are able to exercise an important influence in markets and companies in which they invest (European Parliament and Council, 2011, p. 1).

As a result of the 2008 financial crisis the G20 of 2008 to 2010 committed all G20 member states to implement regulation for all participants in the financial market. Some participants in the financial market within the European Union have already been regulated and some of them have yet not been subject to regulation. There are three main groups of financial market participants: banks, insurance companies and asset managers who manage assets by investment funds. Generally, investment funds can be separated into traditional investment funds, often referred to as retail funds or open-ended funds and alternative investment funds, often referred to as close-ended funds. Hedge funds, private equity funds and others which invest in a specific asset category such as real estate are the major group of alternative investment funds. Figure 1 gives an overview of the different participants within financial markets.

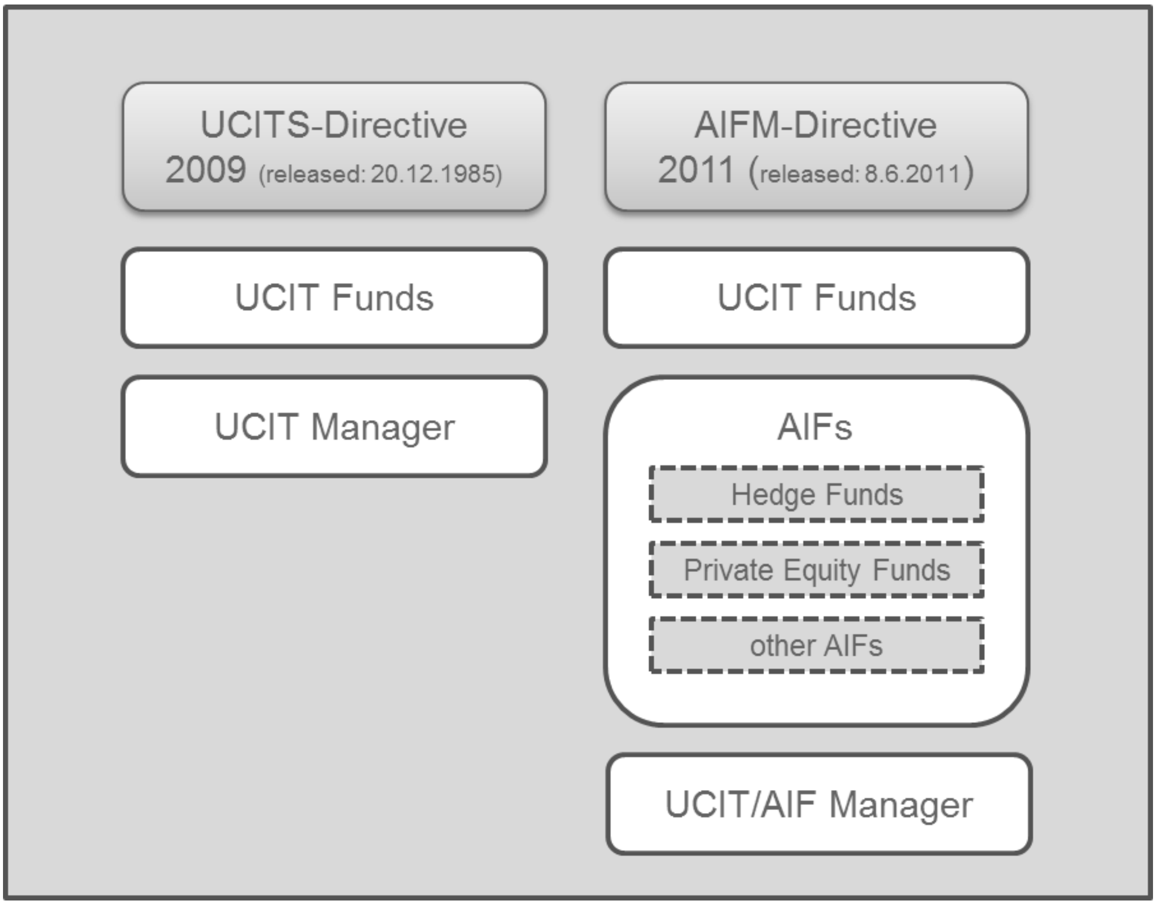
Figure 1: Financial markets participants



Source: own compilation, 2015

Whereas traditional investment funds were subject to regulation by the Undertakings for Collective Investment in Transferable Securities directive (UCITS-directive), alternative investments have not been regulated or have been subject to limited regulation (Ambrosius & Fischer, 2011). Therefore, based on the G20 decision, several jurisdictions implemented frameworks to regulate managers of alternative investment funds. For example in the USA the Dodd-Frank Act regulated private fund managers and in Singapore the regulatory regime for the fund management industry is currently under revision (D. A. Zetzsche, 2012, p. 3) In Europe, the European Parliament and Council released the EU-directive 2011/61/EU on June 8, 2011 concerning the administration of Alternative Investment Fund Managers (AIFMs) which has to be implemented by national law in each EU member state within two years of its release. Until the release of the AIFMD, Alternative Investment Fund Managers were the only financial market participants not subject to regulation. Figure 2 highlights these different regulation frameworks and their release dates.

Figure 2: Financial market regulation overview



Source: own compilation, 2015

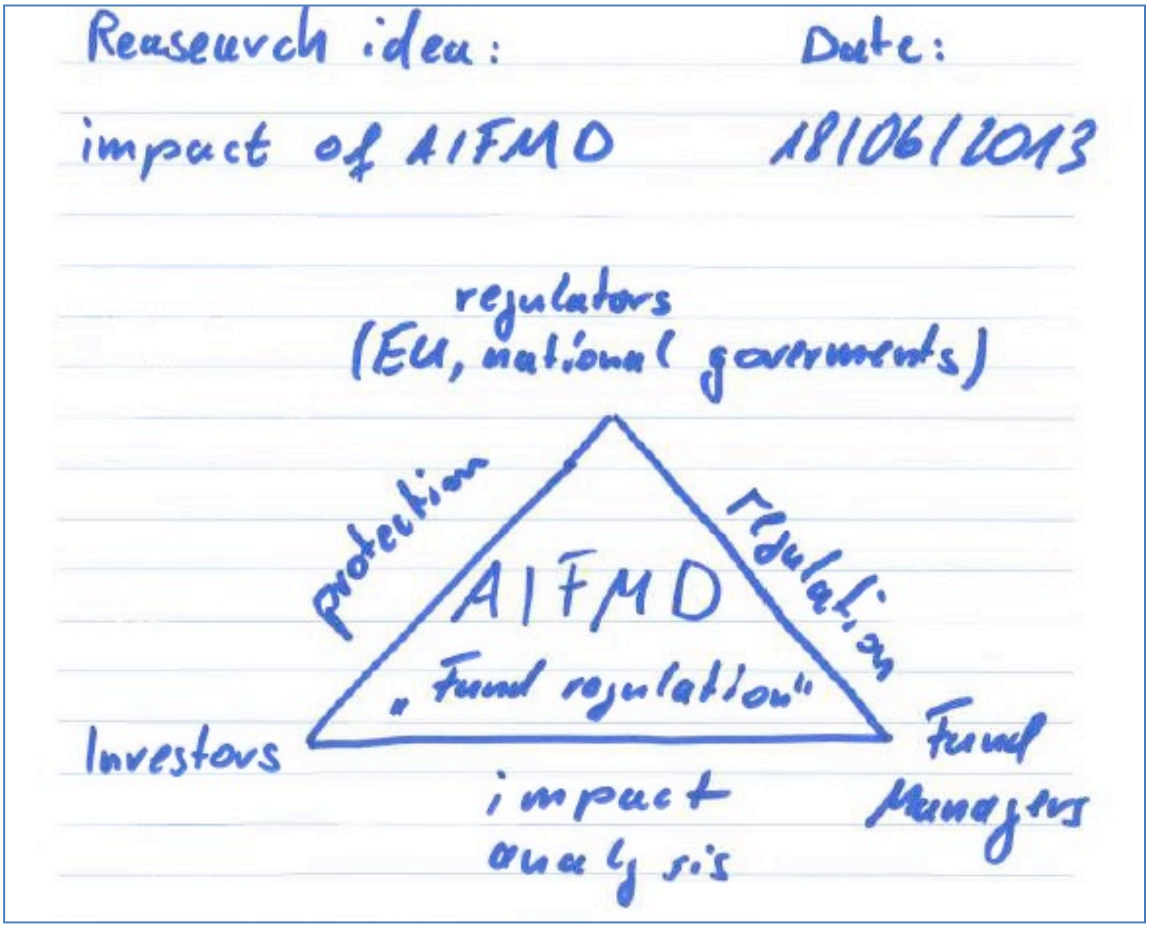
The AIFMD accomplished one of the goals set by the G20 of controlling the risk consequences for investors and markets within the European Union by releasing unique requirements regarding the registration and supervision of AIFMs. The activity of alternative investments has a high risk potential, as mentioned above (European Parliament and Council, 2011). In its official justification for the directive, The European Parliament and Council (2011) states that the markets benefit where AIFMs operate but, their business increases risk in the fiscal system. Another reason for the release of the directive was that no unique EU-wide standard for alternative investments was established in the past. In addition, the alternative investment products were subject to different treatment within the respective EU member states. For example, in Germany before the implementation of the AIFMD, hedge funds and open-ended real estate funds were regulated by the German Investment Act (GIA) while closed-end real estate funds and private equity funds were not subject to any regulated framework (Ambrosius & Fischer, 2011).

The fact that alternative investments will now be in the scope of the AIFMD is subject to controversial discussion within the literature. Proponents of the AIFMD, such as Möllers, Harrer, and Krüger (2011), emphasize that investors and fund managers will profit equally, e.g. the AIFMD will allow fund managers based in third countries to access the European market under the same conditions as fund managers based in Europe. Conversely, Bußalb and Unzicker (2012) identify an increasing organizational and financial impact on alternative investments caused by substantially changed and expanded regulations driven by the AIFMD. They expect that compliance with the new regulations will only be achieved by large or medium investment managers who do not face any major challenges (Bußalb & Unzicker, 2012). These debates demonstrate that the AIFMD will have an impact on the traditional business models of AIFMs. This research seeks to develop an extensive understanding of how the AIFMD affects the traditional business models of AIFMs, highlighting measures that have already been undertaken by fund managers as a response to the AIFMD and those that still need to be undertaken to devise a sustainable business model.

1.1 Motivation for the research

I started my professional career as a tax assistant within the Financial Service Organisation of Ernst & Young in Frankfurt after completing a degree in business administration specializing in taxation and accounting. The decision to start my professional career in an international tax and accounting firm dealing with financial market clients was the key trigger for this research topic. While working with clients from the financial market sector, e.g. asset managers, I recognized that their business models were highly dependent on both the legislative environment they faced and the investment behaviour of their clients. Becoming a senior consultant and later a manager was important for my personal professional development. In these positions, I was able to develop a stronger relationship with my clients, which allowed me to gain a deeper understanding of their business and their business needs. While working as a certified tax accountant I was increasingly concerned with finding solutions to my clients' practical problems. Since I was working for the tax department of EY I was particularly concerned with the tax impacts of the AIFMD. However, correspondence with my clients revealed that tax impacts were not their only concern. As well as the direct impact of the AIFMD on my client's business, the AIFMD had an impact on investors and these investors had an impact on the business model of my clients. This interplay led me to the initial sketch of the research idea, as outlined in Figure 3.

Figure 3: Research context



Source: own creation, 2013

From my daily work as a certified tax accountant reading and preparing professional memorandums, I recognized that legal opinions and professional articles do not fulfil the minimum requirements of academic working. They only relate to professional practice and answer specific questions in a practical rather than an academic way. Practitioners are concerned with the outcome or the solution to a problem rather than how the outcome has been achieved (Raelin, 2002). According to Schön (1987), this is one of the main reasons that practitioners lack academic confidence in their professional work. As outlined above, the answer to my clients' questions of how the AIFMD will affect their business requires the consideration of the interplay between investors, fund managers and regulators, as outlined in Figure 3. Therefore, this requires more complex research within a professional context. I wanted to contribute to this knowledge. A PhD is more focussed on theoretical issues so I decided that the

DBA thesis, which contributes to theory as well as practice in terms of business and management problems, was the best way forward.

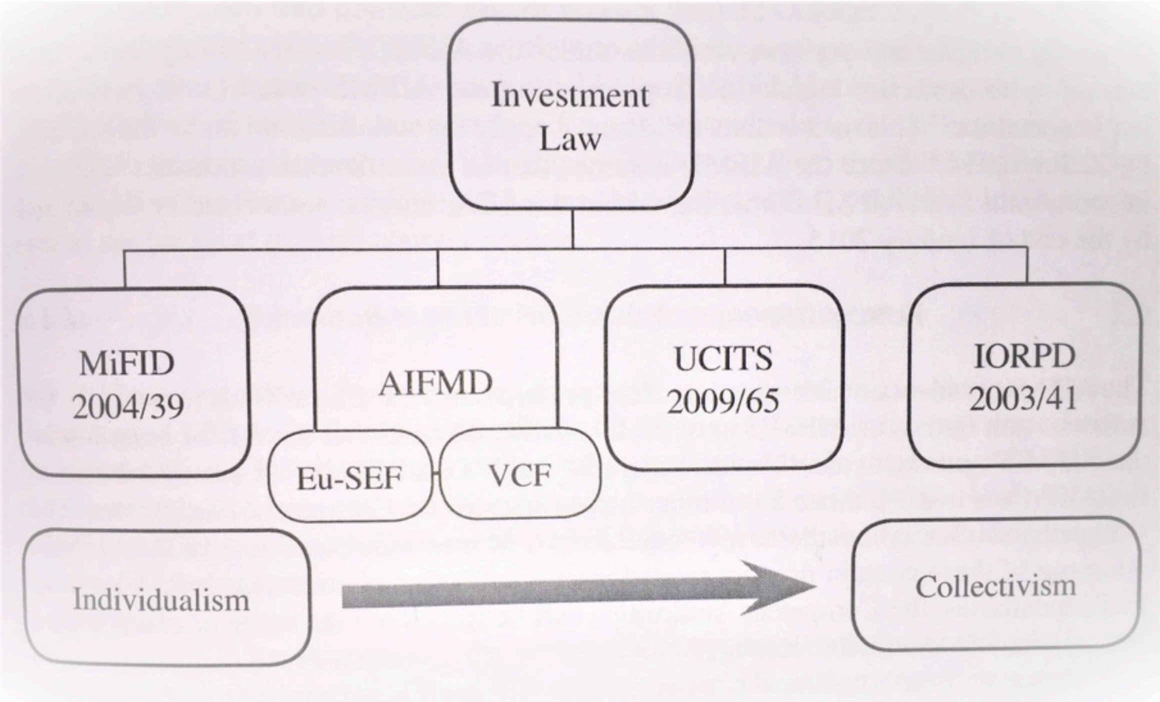
1.2 Development of European Asset Management law

In its broadest scope, the AIFMD addresses the regulation of the capital market in Europe. This research topic is therefore related to European law in general and specifically to European asset management law. European law is categorized into primary law (treaties) and secondary law (regulations and directives). Primary law applies directly to member states without any further specification and is specified as binding for all member states by the European Union. Primary law takes precedence over national law and there is no discrepancy with regard to its interpretation by member states. Secondary law represents legal acts such as regulations or directives issued by the institutions of the European Union (e.g. European Commission and Council), based legally on primary law. According to Article 249 of the Treaty of Lisbon (TOL), regulation is binding in its entirety and is directly applicable to all member states, whereas a directive is only binding with regard to the purpose to be achieved by the directive. The transition of directives into national law is left to the national authorities with regard to the choice and forms of methods (Article 189 of the Treaty on European Union (TEU)). Therefore, the transition of the regulatory content of the AIFMD is left to the respective member states. The transition of the AIFMD is outlined in section 1.6.

Efforts to create a single financial market within the European Union have been made since 1973 (Europea, 1999). Since that time, an environment has been created in which financial institutions can trade with other member states. However, after the introduction of the ‘Euro’, the European Commission (EC) also recognized the need for completing the internal market for financial services. On May 11, 1999 the EC published an ‘action plan’ for implementing the framework for financial markets which identified a series of actions needed to achieve that goal (Europea, 1999). A directive regulating pension funds was published in 2003 based on that action plan (European Parliament and Council, 2003). This directive governed the activities and supervision of institutions for occupational retirement provision (IORPD). In 2004, additional financial market regulation was published. The 'Markets in Financial Instruments Directive' (MiFID) was published on April 21, 2004 to support competition and harmonize existing authorization and operating requirements for investment firms, as well as creating business rules (Directive, 2004). MiFID required fund managers to adapt their processes and IT-Systems (Gomber, Gsell, & Reininger, 2007) which impacted their traditional business models for the first time. The first investment fund regulation was published in 1985 by the directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). This directive specifies the requirements for funds and their management companies. It focuses on the common requirements for the authorization, supervision, structure and activities of collective investment undertakings situated in the member states and the information they must publish (Directive, 1985). In order to adapt the financial market to the requirements of the twenty-first century and to enhance the EU framework for investment funds, an amended UCITS directive was published in July 2009. Although the UCITS directive covered the regulation of investment funds, specific fund types were still not subject to regulations while there was little regulation on a national basis. Therefore, boosted by the financial crisis of 2007 to 2009 the AIMFD was published in 2011, as outlined in section 1.4.

The combination of the AIFMD, IORPD, MiFID and UCITSD forms the basis of European asset management law (D. A. Zetzsche, 2012). The AIFMD is accompanied by two modern regulation frameworks; the Venture Capital Fund Regulation (VCF Regulation) and the Regulation on European Social Entrepreneurship Funds (EuSEF Regulation).

Figure 4: European Asset Management Law



Source: D. A. Zetzsche (2012, p. 17)

The VCF Regulation regulates managers of venture capital funds who qualify as AIFMs and are therefore subject to the AIFMD. However, the volume of assets under management of venture capital funds is normally very low and therefore not subject to the AIFMD. Malcolm, Tilden, Wildson, Resch, and Xie (2009) conclude that 97% of venture capital funds are not in scope of the AIFMD. The purpose of the EuSEF Regulation is to provide a European passport regime for small AIFs which allows them to raise capital across Europe to invest in small and medium entities (Regulation, 2013). This regulation is optional for fund managers who also fall out of scope of the AIMFD due to the small size of their assets under their management. Other than the four asset management directives outlined, the VCF Regulation and the EuSEF Regulation have a binding effect and take precedence over domestic provisions. Therefore, they do not need to be implemented in the national law of each member state.

The AIFMD as a post-crisis directive is modelled on the example of the MiFID and the UCITSD. The European passport regime (See section 1.5.2) is adapted from the UCITS, which allows the management of AIFs located in different member states. The regulatory framework of the AIFMD is adapted from the MiFID (D. A. Zetzsche, 2012). According to D. A. Zetzsche (2012), the AIFMD acts as a ‘pacemaker’ for several asset management regulation reforms such as the MiFID II, UCITSD V and IORP II.

Before the development of the AIFMD and the four asset management directives in European asset management law, the traditional business models of fund managers were very different as some fund managers were subject to regulations and others were not. To understand the potential impact of the AIFMD on business models it is important to first give a brief overview of the functionality of an investment fund. It is then possible to understand the business models of fund managers who have been regulated prior to the AIFMD as opposed to those who have not been subject to regulation in the past.

1.3 Investment fund types and fund managers

There are several definitions of a ‘fund manager’ depending on which kind of fund is managed or for which purpose the definition is required, e.g. defined by a legal act. The standard encyclopaedia definition defines the fund manager as a professional asset manager who manages the assets of different investors invested in different types of funds on a professional basis in order to achieve above average returns. The fund manager therefore decides in which investment products (e.g. bonds, equity, derivatives, etc.) the fund assets will be invested, according to a predetermined investment policy. Accordingly, the performance (return rate) of the investments depends on the decision of the fund manager. Fund managers could either be individuals or management entities organized from different legal forms. For the purposes of the UCITS Directive (2014), these entities are defined as “Management Companies” whose regular business is to manage common funds or investment companies independently from their legal structure, according to the UCITSD. In terms of the AIFMD, these entities are defined as “legal persons whose regular business is managing one or more AIFs” (Directive, 2011, p. 174). A management fee is paid to the fund manager for the management of the fund in general, regardless of performance. For specific fund types an additional incentive fee is paid to the fund manager for exceptional performance. This fee applies especially to AIFs (Anson, 2006).

Different categories of investment funds managed by fund managers can be defined, as outlined below. These can be categorised based on investment policy, type of investors, type of assets invested in, level of investment, and treatment of income. The following table shows the most common fund types.

Table 1: Investment fund types and regulation by category

Investment Fund Type	**Investment Category**	**Regulation body**
Hedge Funds	Special Funds	AIFMD
Private Equity	Venture Capital, Buyout	AIFMD
Infrastructure	Economic, Social	UCITS, AIFMD
Real Estate	Commercial, Residential	UCITS, AIFMD

Source: own compilation, 2015

Before the introduction of the AIFMD, only some of the investment fund types were regulated by asset management directives. This is summarized in Table 1. Fund types categorized as AIFs were not subject to regulation. The main difference in regulation is that the UCITSD aimed to regulate specific fund types which qualify as UCITS under Article 1, UCITS (Directive, 2009) whereas the AIFMD aimed to regulate the fund manager. The AIFMD applies to AIFMs managing all types of funds that are not covered by the UCITS (AIFMD, 2012, p. 174). In conclusion, the fund managers' traditional business models were influenced by the regulation applied to their investment products. However, it is highly likely that the AIMFD regulation directly influences the business model independently from the investment product they distribute. This research identifies how far the AIFMD regulations have been considered by the AIFMs with regard to the fund managers' business models.

In summary, before the AIFMD was released, fund types referred to as AIFs were left unregulated.

1.4 Financial Crisis and the process leading towards the AIFMD

The AIF industry has always been seen as supporting aggressive company take-overs and as taking advantage of company mismanagement for their investment decisions. Nevertheless the private equity and hedge fund lobby run against the political interest in stricter regulation of AIFs (D. A. Zetzsche, 2010). Despite this, there have been several attempts to regulate AIFs. For example, IOSCO developed principles for hedge fund supervision (Technical Committee IOSCO, 2009). However, when the financial crisis reached Europe in late 2008, regulators and politicians had to prove they were capable of handling the crisis and its consequences. As a result, between 2008 and 2010 the G20 member states agreed on several pledges to overcome the financial crisis and prevent the world economy from a similar crisis in the future. The main outcome of the G20 decisions was the commitment of all member states to subject all participants in the financial market to regulation (The White House, 2008). Since the biggest part of the AIF industry had not been subject to regulation in the past, as outlined above, and many of these funds were located offshore, the AIF industry was most affected by the G20 decisions. Based on this decision, several jurisdictions developed regulation frameworks for AIFs, such as the USA with the Dodd-Frank Act regulating private fund managers and the regulations released by the ASIC, Australia’s corporate, markets and financial service regulator.

The Madoff scandal in 2008/2009 unveiled heavy losses for the Luxembourg fund market (Schwarz, 2008) and damaged the reputation of the AIF industry. This triggered a revision of the depository rules undertaken by the Committee of European Securities Regulators (CESR) on behalf of EC. The CESR examined how various depository rules (specified in the UCITS directive) had been implemented by the Member states. CESR highlights how some of the member states interpreted the depository rules contained in the UCITS directive as a minimum whereas other member states added supplementary obligations (Committee of European Securities Regulators, 2009). According to the CESR (Committee of European Securities Regulators, 2009, p. 1), “this situation needs to be improved as it is potentially detrimental to investor protection and therefore unacceptable”.

Early in 2009 the EC hosted a conference on alternative investment funds bringing together representatives from the hedge fund and private equity industry, politicians, investors, regulators and other academic experts to discuss emerging issues within the AIF sector. One of the main conclusions of the discussion was that systematic risk is a key cause of the financial crisis which has been ignored or paid little intention (European Parliament and Council, 2009). The conclusions were subject to the EC's review of the supervisory and regulatory provisions for all financial market participants in the context of the financial crisis (European Commission, 2009). The EC published a proposal for a Directive on Alternative Investment Fund Managers (European Parliament and Council, 2009) on April 30, 2009 that took the findings of the conference into account. It recommended harmonised requirements for entities engaged in the management and administration of "alternative investment funds", a term which had never previously been used in this context. According to D. A. Zetzsche (2012), prior to this proposal, only hedge funds and private equity funds were classified as AIFs since these funds looked for steady and uncorrelated returns. The first proposal of the AIFMD as well as the final version covered all funds defined as AIFs that were not regulated under the UCITS Directive. Apart from several exemptions, outlined below, according to the scope of the AIFMD there are no unregulated funds within Europe. This "catch-all" approach was due to the common understanding that not only hedge funds or private equity funds but the business model of a particular group of investors is able to pose a systematic risk to financial stability (European Parliament and Council, 2009). This group was referred to as 'AIFMs' under the proposed AIFMD.

The proposal of the AIFMD was not strict enough for the European Parliament. In particular, the European Parliament proposed rules for the protection of stakeholder interest in portfolio companies held by private equity funds and sought stricter control of leverage (Committee on Economic and Monetary Affairs, 2010). After a trilogue process, a political process where the EC, the European Parliament and the European Council settled different views, as described by Bergmann and Mickel (2012), the draft compromise was published on October 27, 2010. D. A. Zetzsche (2012) indicates that in this trilogue process the interests of the AIF industry were not really considered due to its loss of credibility in the industry. It should be mentioned that at this time governments were paying the industry’s bill, confident in the self-correcting power of the financial market.

Due to administrative procedures, the European Parliament and Council did not adopt the proposed AIFMD until June 8, 2011. On July 21, 2011, the final AIFMD was published in the Official Bulletin. According to European Law the final AIFMD had to be implemented into the national law of the member states by July 22, 2013 at the latest.

The final version of the AIFMD lays down rules for authorization, on-going operating and transparency conditions. According to the AIFMD, framework member states have to define business principles for AIFMs in the course of its transition into national law. For example, member states have to ensure that AIFMs act honestly, with due skill, care and diligence and fairly in conducting their activities […] and comply with all regulatory requirements applicable to the conduct of their business activities (Article 12 No.1 AIFMD). These factors directly impact the business model of AIFMs. The following section gives a description of the provisions of the AIFMD followed by a description of the implemented provisions taking Germany as a particular example in section 1.6.

1.5 Alternative Investment Fund Manager Directive (AIFMD)

1.5.1 Aim and Scope of the AIFMD

According to the European Parliament and Council (2011), the AIFMD applies solely to AIFMs who manage AIFs in the course of their regular business, independent from their legal structure, whether or not they are opened-ended or closed-ended, or listed on a stock exchange. Article 4 Section 1. (b) of the AIFMD defines AIFMs as "legal persons whose regular business is managing one or more AIFs", whereby, according to Section 1. (a) of the AIFMD, "AIFs mean collective investment undertakings, including investment compartments thereof, which:

(i) raise capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and

(ii) do not qualify as UCITS.

The provisions of the AIFMD are targeted at the AIFMs rather than specific AIF types as regulation according to the European Parliament and Council (2011) would be too difficult due to the diversity of the AIFs. However, the domestic law of the specific country can still regulate them. This broad definition of an AIFM, as stated above, was chosen deliberately in order to capture all investment funds which have not yet been regulated (a catch-all approach). However, according to D. A. Zetzsche (2012), this can complicate the application of the high level provisions of the AIFMD.

Nevertheless, the AIFMD defines two ways of excluding entities that might qualify under the definition of the AIFM outlined above. In general, the AIFMD focuses on AIFMs who manage the investments of professional investors as a target group and not those AIFMs who manage and market correspondingly to private investors (European Parliament and Council, 2011). Article 2 Section 3 of the AIFMD lists the following entities that are out of the scope of the directive:

(a) Holding companies
(b) Captive funds
(c) Supranational institutions such as the European Central bank
(d) National central banks
(e) National, regional and local governments and bodies or other institutions which manage funds supporting social security and pension systems
(f) Employee participation schemes or employee savings schemes
(g) Securitization special purpose entities

In addition, the European Parliament and Council (2011) outlines that family offices whose business is to invest the private wealth of investors and not raise external capital should be exempt from the definition of an AIFM. However, the AIFMD does not define the term “family office”.

Figure 5: Scope of the AIFMD

Source: Bundesverband Alternativer Investments, 2014

The de-minimis threshold in Article 3 (2), is the second way to exclude entities from the scope of the AIFMD. According to this Article, the AIFMs out of scope are those that do not exceed a leverage of EUR 100 million and whose total assets under management do not exceed a threshold of EUR 500 million. However, AIFMs that are not in scope according to this exemption rule can opt in to the AIFMD (Article 3, para. 4). Therefore, even the business models of small AIFMs may be considered for this research project. On the other hand, business models of larger AIFMs should not be considered for this research in case additional investments are not initiated after July 22, 2013 (Article 61, AIFMD).

The AIFMD is a post-crisis directive and therefore exhibits many crises related regulations, as outlined in section 1.4. These crisis-related features are discussed below.

1.5.2 Regulatory framework of the AIFMD

As a post-crisis directive, the AIFMD focuses mainly on aspects of non-transparency and leverage. The directive impacts the business of AIFMs in the following areas:

- Authorization of AIFMs (Art. 6 - 11, AIFMD)
- Operating conditions for AIFMs
    - Remuneration (Art. 13, AIFMD)
    - Conflict of interest (Art. 14, AIFMD)
    - Risk Management/Leverage (Art. 15, AIFMD)
    - Liquidity Management (Art. 16, AIFMD)
    - Valuation (Art. 19, AIFMD)
    - Delegation (Art. 20, AIFMD)
    - Depositary (Art. 21, AIFMD)
    - Transparency (Art. 22 - 29, AIFMD)
    - Passport Regulation (Art. 31 – 37, AIFMD)

Since the business models of AIFMs have to be adapted with regard to the areas mentioned above, a detailed description of the regulation is given in the following sections.

1.5.2.1 Authorization of AIFMs

AIFMs are not allowed to manage AIFs if they are not authorized to do so (Article 6, cl. 1.). External AIFMs are only authorized if they perform the functions outlined in Annex I of the AIFMD and manage UCITS (Article 6, cl. 2) as well as some non-core services such as investment advice, safe-keeping and administration with regard to UCITS. Annex I, as shown in Appendix 1, lists the minimum management functions which have to be performed by the AIFM and other functions which the AIFM is allowed to perform additionally. An internal managed AIF is authorized in case he performs functions in accordance with Annex I (Article 6, cl. 3).

The AIFM has to apply for authorization from the authority in their place of origin by providing information regarding the business of the AIFM, such as appointment of the CEO, submission of business plan, etc. The AIFM also has to provide information regarding the AIF he intends to manage such as investment policy, etc. (Article 7 AIFMD). The authorization issued by ESMA includes guidelines and several standard templates (European Securities and Markets Authority, 2013). The authorization will be granted by the respective authority if the operating conditions for AIFMs (outlined in the next section) are met. These include whether the AIFM is experienced enough with regard to their business, the head office and registered office are in the same Member state and the AIFM has sufficient initial capital and funds (Article 8, cl. 1). Such arrangements have triggered concerns and uncertainty with regard to the business models of AIFMs since the practical implications remain unclear (de Manuel, 2013). Therefore one key aspect of this research will address how AIFMs have considered further guidance published by the ESMA or national authorities, for example de Manuel (2013), as requested by the literature.

The authorization is valid in all Member states (Article 8, AIFMD).

1.5.2.2 Operating conditions for AIFMs

In order to receive the above authorization, the AIFM has to comply with the operating conditions outlined below. Operating conditions are described in chapter 3 of the directive. Section 1 outlines the General Requirements (Article 12 to 17) and Section 2 states the Organisational Requirements (Article 18 to 19). Section 3 regulates the delegation of AIFM functions (Article 20). Depository is described in Section 4 (Article 21).

Remuneration

The AIFM is required to determine a remuneration policy in accordance with Annex II of the AIFMD and further guidance from the ESMA (Article 13, AIFMD). The remuneration policy applied by the AIFM should be "consistent with and promote sound and effective risk management and (do) not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the AIFs they manage" (Article 13, AIFMD, p.24).

Conflict of interest

In general, the AIFM is required to identify conflicts of interest that arise in the course of managing AIFs. Therefore, the AIFM has to introduce different procedures and organisational controls to his business in order to avoid, identify, manage, monitor and disclose possible conflicts of interest which may occur during the managing process (Article 14, AIFMD).

Risk Management/Leverage

The business model of AIFMs has to ensure that the risk management is separated from the operating business in terms of functionality and reporting structure, including the portfolio management units (Article 15, AIFMD). According to definition in the encyclopaedia, risk management in its broadest sense involves the handling of all risks arising from the management process and the implementation processes in a company and is not solely limited to the handling of insurable risks (insurance management). To ensure an appropriate risk management, “AIFMs shall implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each AIF investment strategy and to which each AIF is or may be exposed” (AIFMD, Article 15, p.25). In terms of leverage, the AIFMs have to determine a maximum leverage ratio considering aspects such as type of AIF, investment strategy, etc. (Article 15, cl. 4. AIFMD).

Liquidity Management

AIFMs other than leveraged closed-ended AIFs are required to implement an adequate liquidity management system, which includes stress tests under normal and extreme liquidity situations. The liquidity management system should be in line with the investment strategy and the redemption policy (Article 16, AIFMD).

Valuation

An independent valuation of the assets of the AIF is necessary at least once a year for each of the AIF under management. In the case of an open-ended AIF, the valuation will be carried out at the same frequency as the issuance and redemption frequency of its fund units, whereas the valuation for a closed-ended AIF only takes place in the event of an increase or decrease of capital (Article 19, AIFMD). The valuation can be performed either by an external body or the AIFM himself. The valuation function cannot be outsourced to the depository of an AIF unless the depository has separated the valuation function from its depository function in terms of its business structure (Article 19, cl. 4, AIFMD). According to Article 19, cl. 6, AIFMD, the external body is not allowed to outsource the valuation function to a third party. If the AIFM performs the valuation itself, the AIFMD allows the home member states of the AIFM to have the valuation process and/or the valuation verified by an external body or by an auditor (Article 19, cl. 9 AIFMD). In any case, when outsourcing the valuation function or performing internally, the AIFM is responsible for the valuation and liable towards the AIF and its investors (Article 19, cl. 10 AIFMD).

Delegation

Under Article 20 of the AIFMD, the AIFM is entitled to delegate functions of his business model to third parties under the outlined conditions. Delegation is only allowed to third parties that are of “good repute” and “sufficiently experienced”. When delegation concerns portfolio management or risk management the third party needs to be authorized and registered for asset management. Supervision and cooperation between authorities must be given if a delegate located in a third country is involved (Article 20, cl. 1 AIFMD). Delegation of portfolio management and risk management to the depository, to a delegate of the depository, or any other conflicted party is prohibited (Article 20, cl. 2 AIFMD). Furthermore, the AIFM is required to “demonstrate that the delegate is qualified and capable of undertaking the functions in question, that it was selected with all due care and that the AIFM is in a position to monitor the delegated activity effectively at any time, The AIFM must review the services provided by each delegate on an on-going basis” (Article 20, cl. 1 (f), AIFMD, p. 27). The outsourcing of the respective function does not limit the AIFM’s liability towards the AIF and its investors (Article 20, cl. 3 AIFMD. A third-party is allowed to sub-delegate functions under the same conditions as described above if the AIFM agrees and informs the Home Member state authority accordingly.

Depositary

According to Article 21 of the AIFMD, the AIFM has to appoint a depository who is entitled to keep the assets of the AIFs or the AIFM on behalf of the AIFM and who undertakes some operational functions. The following entities are entitled to act as depository (Article 21, cl. 3 AIFMD):

- Credit Institution with its registered office in the European Union
- Investment Firms
- Another category of institution that is subject to prudential regulation and on-going supervision

In order to avoid conflict of interests, an AIFM or a prime broker acting as counterpart to an AIF is not allowed to act as depository for that AIF unless the depository function has been separated from his task as prime broker (Article 21, cl. 4). In general, the depository can be based for EU AIFs in the member state of the AIF. This is for non-EU AIFs in third countries where the AIF is based or in the member state where the AIFM is based or referenced (Article 21, cl. 5).

The appointed depository is entitled to the following operational functions as set out in Article 21, cl. 7 of the AIFMD:

- Monitor of cash flows
- Safekeeping and control of assets
- Control of the dealing of funds units
- Control of the dealing of capital gains as well as yields

With regard to the custody function of the depository, the AIFMD specifies further requirements for financial instruments, such as separate book keeping and for other assets such as verification of ownership. In addition, further compliance functions of the depository are defined. For example, the depository has to ensure the correct valuation calculation or that the sale, issue and redemption is in line with the applicable national law etc. (Article 21, cl. 8, 9). In summary, the depository is not allowed to outsource its function to third parties. However, with regard to its custody function, he might be allowed in limited circumstances (Article 21, cl. 11 AIFMD).

The AIFMD provides strict liability regulations for the depositary. There is a difference between “losses due to safekeeping” and “all other losses”. In the first case, the liability is invoked regardless of culpability unless the depositary can prove it is not indebted. In the second case, the depositary is only liable if intent or negligence are given (Article 21, cl. 12, 15 AIFMD).

1.5.2.3 Transparency

Chapter 4 of the AIFMD provides transparency requirements with regard to annual statements (Article 22) and disclosure to investors (Article 23) and to authorities (Article 24). Some further transparency requirements are laid down in chapter 5 with regard to the management of some specific types of AIFs. As the AIFMD is a crisis related directive, the transparency requirements are an integral part of the AIFMD. For each EU AIF or AIF which is managed in the EU, the preparation of an annual report containing minimum requirements outlined by the AIFMD is required within 6 months after the financial year end at the latest. The AIFM only has to provide the authority with the annual report and investors at their request (Article 22, cl. 1 AIFMD).

The AIFMD lists information which has to be made available to the investors before they invest in an AIF, such as information regarding the investment strategy, target funds, changing of investment policy, legal implications, depositary, valuation process etc. (Article 23, cl. 1 AIFMD). In addition, further disclosures have to be made periodically, such as changes in risk profile (Article 23, cl. 4 AIFMD). For leveraged AIFs, the AIFM needs to disclose changes with regard to the maximum and total amount of leverage employed (Article 23, cl. 5 AIFMD).

Several obligations exist with regard to reporting to authorities. For example, the AIFM is required to provide information with regard to trading, principal exposure, liquidity management, risk profile, leverage ratio etc. (Article 24, AIFMD).

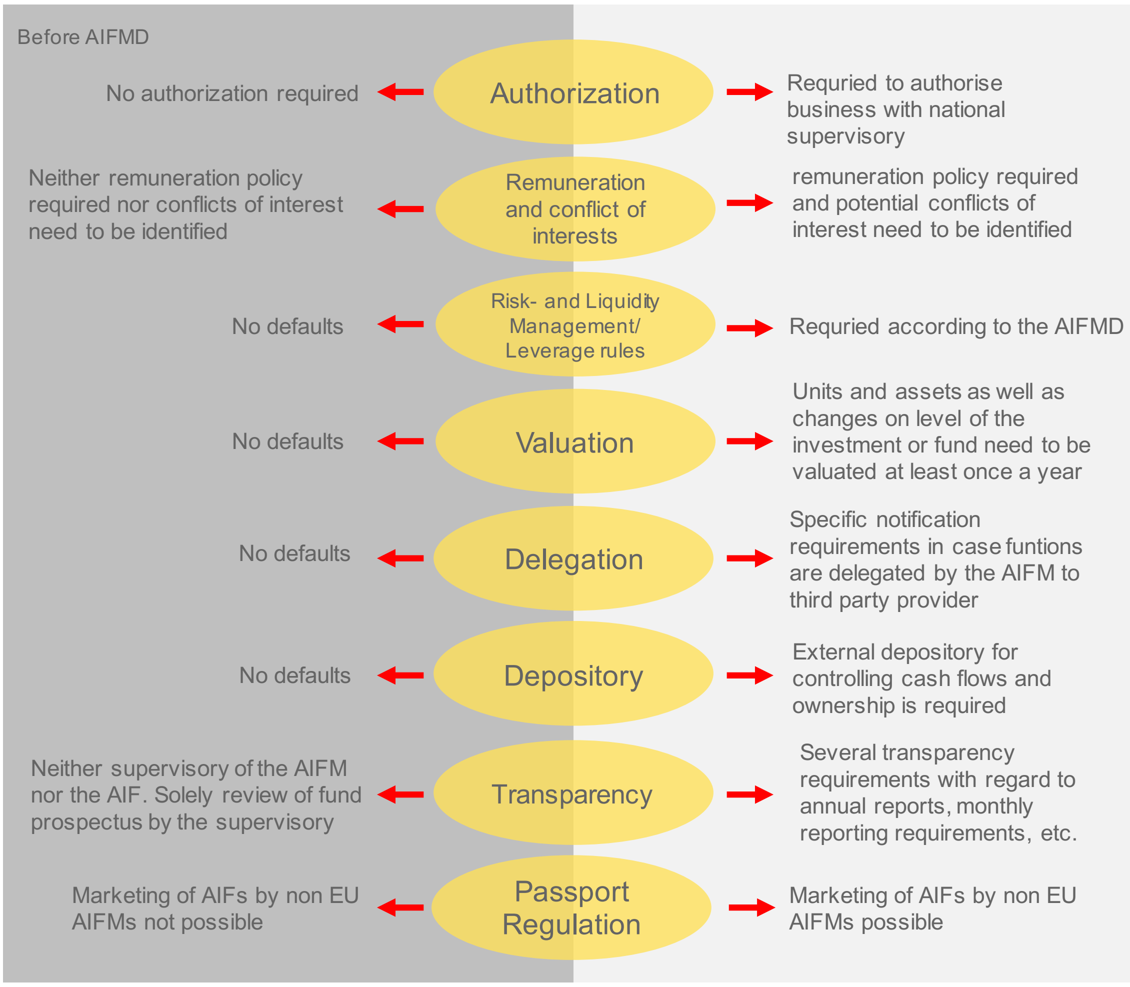
The AIFMD contains special requirements for AIFMs managing AIFs which acquire control of non-listed entities. Control of a non-listed entity means to acquire more than 50% of the voting right of the entity (Article 26, cl. 5 AIFMD). Authorities need to be notified if the voting rights of the non-listed entity held by the AIF reaches, exceeds or falls below the thresholds of 10 %, 20 %, 30 %, 50 % and 75 % (Article 27 cl. 1 AIFMD). In this case, Article 26 to 29 of the AIFMD outlines mandatory disclosures to investors, authorities and to the acquired portfolio entity.

1.5.2.4 Passport Regulation

Chapter VI (Article 31 to 33) of the AIFMD introduces a passport regime for EU AIFMs and chapter VII (Article 34 to 42) provides specific rules in relation to third countries in order to market AIFs in the European Union. This passport regime is similar to the existing passport regime from the UCITSD. Under the AIFMD passport regime the AIFMs in third countries may not market and distribute AIFs, regardless of their domicile, unless they meet the conditions outlined in the AIFMD. For example, they must provide information such as where the AIF is established and the AIF rules or instruments of incorporation etc. (Annex III of AIFMD). To enforce the AIFMD rules in third countries, the AIFMs' supervisory must reach agreements with the supervisory in the respective EU member state, where the third country AIFM operates. Therefore, on 29 May 2014, the European Securities and Markets Authority (ESMA) published a new multilateral memorandum of understanding (MMoU) between EEA national competent authorities, national competent authorities and the ESMA. This has been signed by 31 authorities in the securities and markets area (European Securities and Markets Authority, 2014).

The regulation of the business models from AIFMs before and post AIFMD implementation are summarized in table 2 at the end of this section. Table 2 outlines the key areas that are affected by the AIFMD regulation. These key areas will be focussed on in the literature review and in the fund manager interviews.

Table 2: Regulation of Alternative Investment Funds before and post implementation of the AIFMD

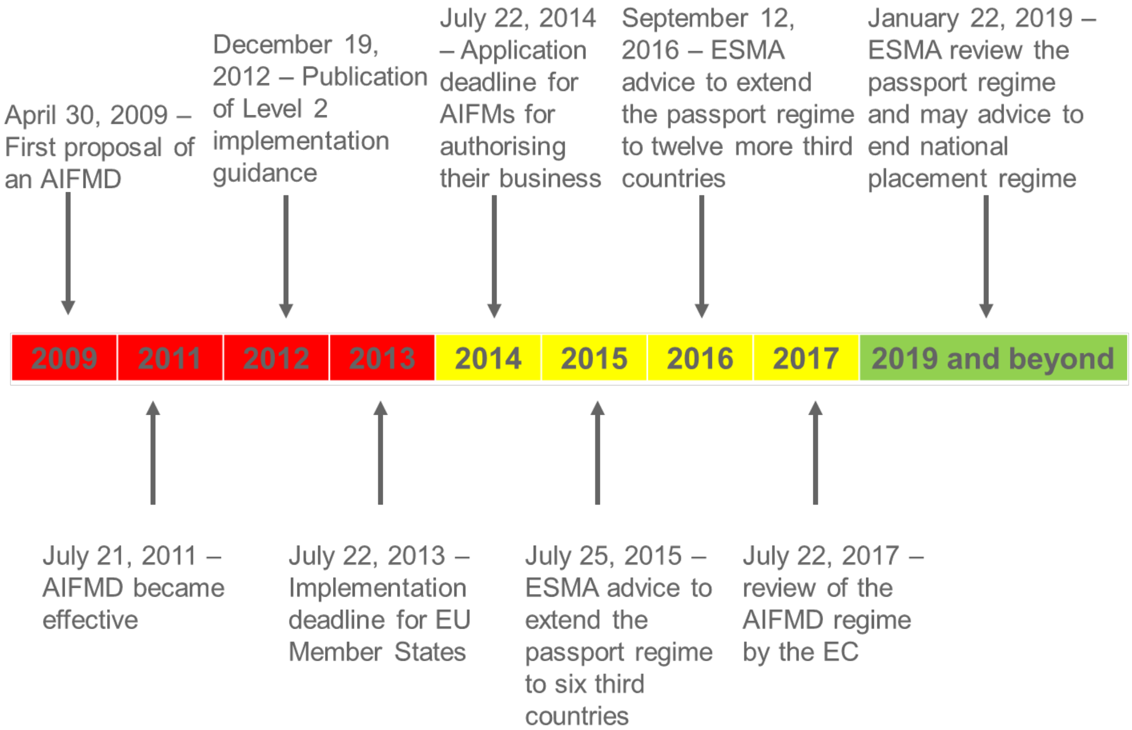


Source: own compilation, 2015

1.6 Transition of AIFMD regulations into German law

The AIFMD requires the transition of the regulation framework within two years of its publication. Therefore, the AIFMD must be implemented in national law of each member state by July 22, 2013 at the latest. However, as outlined in the previous section, further implementation guidance of the regulation framework by the ESMA or national authorities is required. The timeline for the transition of the AIFMD is shown in the following table:

Table 3: Transition of the AIFMD



Source: own compilation, 2016

1.7 Methodological approach of the research

This research aim is to investigate how fund managers have reacted, or intend to react, to the AIFMD (or the corresponding national law, as outlined in the previous section) in initiating changes in their business model. However, several factors will influence this, such as the individual preferences of the fund manager, risk considerations, cost structure, etc. Quantitative data about such implications is hard to gather, which necessitates a more subjective approach to this research. The researcher wants to understand the data from his own subjective perspective and those of the research participants, during and after the data collection (Christensen, Johnson, & Turner, 2011). Thus, the methodology follows a qualitative research approach. The research design and the research questions will therefore take a constructionist approach as this extends the interpretivist philosophy by considering how different investment fund managers perceive the impact of the directive on their existing business model (Guba & Lincoln, 1994).

In order to answer the research questions, as outlined in the next section, it is essential to understand how fund managers interpret the directive and how they intend to adapt or change their business model as a result of the new regulation framework. Interviews will therefore be the most appropriate method for data gathering. The main advantage of using interviews as opposed to other methods is the adaptability of this method. It allows the researcher to react spontaneously in interview situations. This is important, as the focus of the research is to uncover the perception of the interviewees with regard to the impact of the AIFMD on their business models. This might require a spontaneous adaption within the interview to reflect issues as they arise. The interviews will be conducted through personal contact or by telephone wherever possible rather than by survey or questionnaire. This is because the personal contact allows efficient data generation and enhances credibility (Eisenhardt, 1989). Furthermore, it allows the interviewer to react spontaneously to the answers given by the interviewee within the interview situation. This enables the researcher to receive in-depth information and knowledge that cannot usually be obtained at this level of profundity through surveys, informal interviewing or focus groups etc.

The interview transcripts will be summarized in order to analyse the generated data. This step will compress longer interview transcripts into briefer statements in which the key sense of what has been said or observed is rephrased in a few words (Kvale, 1996). The data analysis will take place with the help of specific software tools suitable for qualitative data analysis.

1.8 Research questions and research objectives

In general, knowledge regarding the effects from a practical perspective of the AIFMD on the business of fund managers is limited. The AIFMD was implemented in 2013 and therefore quantitative investigations regarding the impact of the AIFMD have not been published and research at a qualitative level has not been conducted. This research seeks to address this absence by conducting exploratory research into the area. It aims for an extensive understanding of how the AIFMD affects investment managers' traditional business models, revealing measures that have already been undertaken by fund managers in response to the AIFMD and highlighting measures that still need to be undertaken to devise a sustainable business model.

As outlined in section 1.5.2, the new regulation framework of the AIFMD provides new opportunities for fund managers such as the outsourcing of business functions or the marketing of AIFs in Europe by non-EU based AIFMs. The AIFMD requires additional information regarding investors and authorities. It is expected that this information will have an impact on the fund industry (for example Malcolm et al. (2009)). This prompts the first research question:

Research Question 1:
How have traditional business models employed by managers of AIFs changed as a result of the AIFMD?

Opponents of the AIFMD are concerned about the impact the AIFMD may have on fund managers and have examined the increasing organizational and financial impact on alternative investments caused by substantially changed and expanded regulations (Bußalb & Unzicker, 2012). They expect that compliance with the new regulations will only be achieved by large or middle investments managers who do not face major challenges (Bußalb & Unzicker, 2012). On the other hand, proponents of the AIFMD, such as Ambrosius and Fischer (2011), argue that investors as well as fund managers will profit to the same extent. The impact the AIFMD will have on the fund market can be assessed with the following research questions:

Research Question 2:
How will the marketplace in which managers of AIFs operate develop as a result of the changes resulting from the AIFMD?

It is highly likely that AIFMs had already made arrangements with regard to their business before the AIFMD was implemented, as recommended by the literature (e.g. Borg-Carbott (2013)). In addition, several Articles of the AIFMD require further guidance from national authorities or the ESM, which have been published recently or are still outstanding. Therefore, this research focuses on what extent fund managers have already adapted their business models based on the AIFMD prior to transition and after transition in national law. It also looks at how AIFMs will adapt their business model based on further guidance recently published or not yet published, as addressed in the following research question:

Research Question 3:
What is the extent of change that managers of AIFs have currently initiated in their business models?

There is no doubt that alternative investment funds come increasingly into the focus of investors and regulators during periods of low interest rates (De Larosiere et al., 2009). Furthermore, alternative investment funds play a key role in terms of developing old-age provisions (Lindmayer & Dietz, 2014). Alternative investment funds can impose systematic risk to the financial sector, as outlined in section 1.4. One of the purposes of the AIFMD was to avoid this systematic risk. In conclusion, regulation to avoid systematic risk and to strengthen investor protection seems to be reasonable. However, the business models of AIFs need to remain competitive in order to contribute to wealth and asset growth. The fourth research question is therefore:

Research Question 4:
How do traditional business models employed by managers of AIFs have to change in order to ensure that they are sustainable?

The answers to the four research questions outlined above contribute to knowledge with regard to the impact of AIFMD on traditional business models of AIFMs.

1.9 Introductory conclusion

The business of managers managing alternative investment funds plays an important role in wealth and asset growth. The importance of the business model is clarified by considering the amount of assets under management of the top 400 fund managers. This amounted to € 50.3 trn at the end of 2015. The table in Appendix 2 provides an overview of the top 25 global asset managers. It shows that almost all are based or operate in the jurisdiction of Europe or USA. The publication and adoption of the AIFMD has triggered uncertainty for AIFMs (KPMG International, 2010). The explanation of operating conditions, as outlined in section 1.5.2.2, are very general and further clarification is left to the responsibility of the national authorities. It is generally understood that the AIFMD will have an impact on fund managers (Malcolm et al., 2009). However, this impact will depend on the transition of the AIFMD into national law as well as on further guidance published by national authorities and/or the ESMA ("Kapitalanlagegesetzbuch auf der Suche," 2012). This research therefore investigates changes caused by the AIFMD with regard to the traditional business models of fund managers. It explores the extent to which the business models have already been adapted to the provisions of the AIFMD and finally reveals changes that still have to be made in order to ensure a sustainable business model.

2. Literature Review

2.1 Literature regarding the impact of the AIFMD

It is essential to review the existing literature on the impact of the AIFMD since the literature review provides the rationale for the research and dictates the research design (Bryman & Bell, 2015). The literature review reveals the actual state of knowledge, unveils the limits of the research and explores how the research fits into the wider context of the research field (Gill & Johnson, 2002). According to Tranfield, Denyer, and Smart (2003), the literature review is a key tool to manage the diversity of knowledge within the research field by mapping and assessing existing knowledge in order to specify research questions and further develop the existing body of knowledge. There are several possible approaches to reviewing the literature. Literature reviews in a management context are usually narrative which means that they provide a biased and less critical description of the contribution to knowledge made by other authors in the research field (Fink, 2014). This research applies an evidenced-based systematic and critical review of literature. The main advantage is that this approach follows predetermined procedures and therefore hidden bias of the researcher is less likely. However, what does systematic and critical review actually mean? Systematic review has been defined as a “replicable, scientific, and transparent process, in other words a detailed technology that aims to minimize bias through exhaustive literature searches of published and unpublished studies and by providing an audit trail of the reviewer’s decisions, procedures and conclusions” (Tranfield et al., 2003). While reviewing the literature the researcher should always be aware of several aspects which could have an impact on his research, such as date of publication, context, hidden bias, etc. With this in mind he should always reflect on whether the specific literature under review is able to contribute to his research. This reflection can be referred to as ‘critically reviewing’ the literature. In conclusion, new findings and theories will be developed which have not emerged before which can be defined as “research gap” (Strauss & Corbin, 1998). Therefore, the purpose of reviewing the existing literature is to identify the following issues:

- What is already known about this area?
- What concepts and theories are relevant to this area?
- What research methods and strategies have been employed in studying this area?
- Are there any significant controversies?
- Are there any inconsistencies in the findings relating to this area?
- Are there any unanswered research questions in this area?

By addressing the questions mentioned above, a potential research gap within the specific research field will be identified and evidenced.

The process of the systematic literature review consists of the following three main steps:

Step 1: Planning the review
The review will be planned based on the circumstances and the relationship of the research objective. The planning considers the context of the research, the intervention of effects, the mechanism which explains the relationship between the intervention and outcomes of the intended and unintended effects of intervention (Denyer & Tranfield, 2009). This requires setting criteria for inclusion and exclusion of literature from the review.

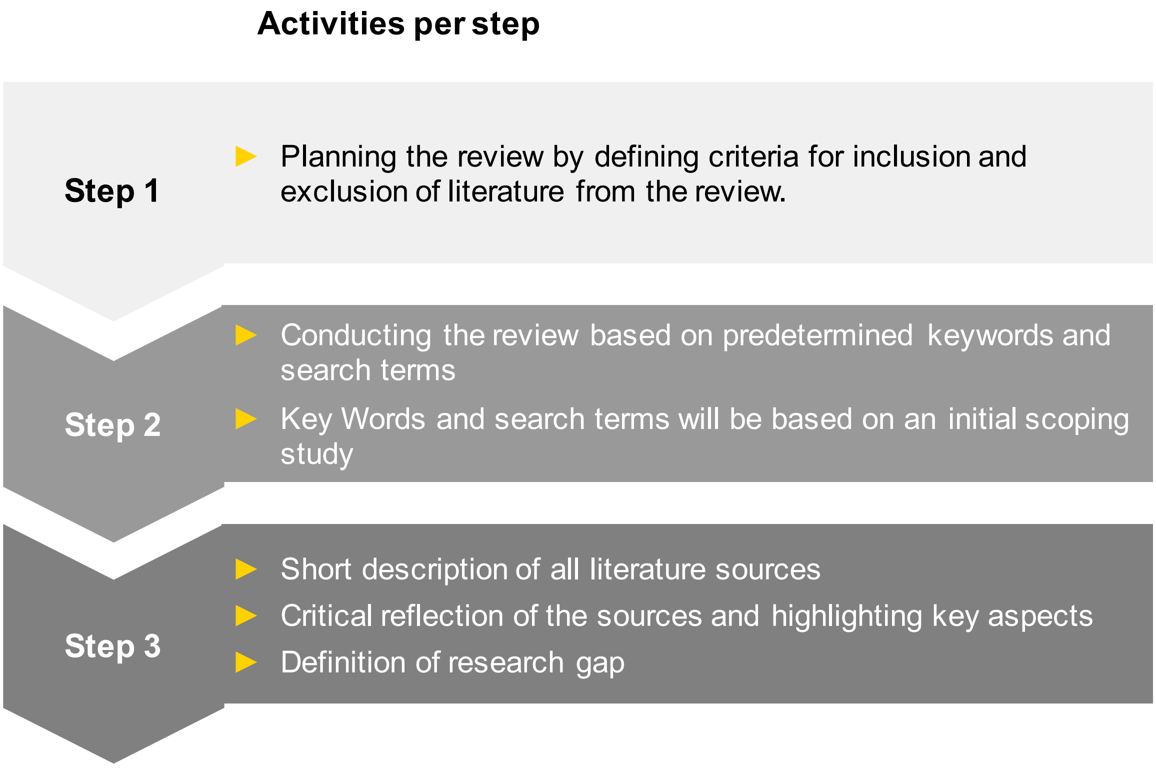
Step 2: Conducting the review
The comprehensive review will be conducted based on predetermined keywords and search terms considering the set criteria for inclusion and exclusion of literature. Key words and search terms will be build based on an initial scoping study, as outlined below. The search will be conducted with published and unpublished sources, e.g. Internet, unpublished studies, etc. Only literature that meets the criteria, as outlined in section 2.3, will be incorporated into the review. Using strict criteria improves the evidence of reviews (Tranfield et al., 2003). All

sources found will initially be reviewed solely by title, stated key words and abstract. Relevant literature will be retrieved for a detailed text analysis and from this they may or may not be subject to the literature review. The literature included in the scope of review will be analysed. The purpose of this analysis is to achieve a cumulative understanding of what is known about the topic through applying techniques of research synthesis (Bryman & Bell, 2015). This research applies meta-ethnography as synthesis technique, as explained below.

Step 3: Reporting and dissemination

Tranfield et al. (2003) suggest a two-stage approach for the dissemination of literature. Firstly, sources will be described in terms of author, author background, age profile of the article, whether the general context of the AIFMD is addressed etc. The second step is the critical reflection of the sources to highlight their key aspects. The aim is to highlight core contributions with regard to the impact of the AIFMD which might be relevant for this research. It is also important to link and highlight themes across the various core contributions wherever possible (Tranfield et al., 2003). For this research it is important to link core contributions to the question of what is the impact of the AIMFD on traditional business models.

Figure 6: Systematic literature review process



source: own compilation, 2016

The three steps of the systematic review process build the framework for systematically addressing the research questions, as outlined in the introduction chapter above. The AIFMD will affect the business of fund managers as they now have to comply with rules of conduct, organizational requirements and capital requirements (for example KPMG International (2010) or Malcolm et al. (2009)). The AIFMD contains a range of different new regulatory requirements which in theory impact traditional business models. As a logical consequence, PWC (2014) identified that fund managers tend to outsource parts of their in-house services, such as compliance and control functions. BNP Paribas Securities Service has launched an outsourcing service for AIFMs in order to fulfil all reporting obligations without the associated administrative and financial burden ("BNP Paribas SS offers AIFMD reporting," 2014). PWC (2014) and van Dam and Mullmaier (2012) expect that fund managers will have to realign their business models in terms of structures, processes, outsourcing, IT-systems and resources in order comply with the AIFMD. Existing research therefore highlights the potential impact of the AIFMD with regard to specific issues that can be used as a starting point for the literature review, as outlined above.

The literature review will be conducted in a meta-ethnographic way. "Meta-ethnographic is a method that is used to achieve interpretative synthesis of qualitative research and other secondary sources" (Bryman & Bell, 2015, p. 602).

2.2 Definition of scope

In order to start the comprehensive literature review, it is necessary to assess the relevance and size of the existing literature and to narrow down the subject area. Tranfield et al. (2003) suggest an initial scoping study. This initial search includes existing journals, published surveys and case studies of the impact of the AIFMD on traditional business models of AIFMs. The purpose of this search was to gain a high-level overview and understanding of the general relevance of the topic. The search was undertaken on August 14, 2015 by searching the Internet, (including Google scholar), the database of Beck online (www.beck-online.de) and Business Source complete (BSC). The search was based on the key words, as shown in table 4.

Table 4: Keywords used for initial scoping study

English Keyword	German translation
AIFMD	AIFMD
Alternative Investment Fund Manager Directive	AIFM-Richtlinie
Business model	Geschäftsmodell
Fund manager	Fondsmanager
AIFM	AIFM

Source: own compilation, 2015

The official language of the AIFMD is English, however the AIFMD addresses all member states and therefore has been translated into several European languages. English keywords as well as the German translation have been used for searching Google scholar and Business Source Complete. Beck-online represents a comprehensive online database which contains legislative texts, handbooks, guidelines and journals, mainly with a legal background. Since publications in this database are mainly in German, only German keywords have been used for the search.

These sources were also searched by combining keywords in order to reduce hits. The hits were analysed with regard to the title and the shown preview or abstract, if any. The aim of this search was to find existing research regarding the impact of the AIFMD on traditional business models of AIFMs. Therefore, if the keywords were contained in the headlines and the shown preview or abstract, the literature was retrieved for further investigation and the extent of the relation to traditional business models of AIFMs was analysed.

Table 5: Results of initial scoping study

Combined keywords	Internet	Beck	BSC
AIFMD + business model	5	0	12
AIFMD + impact	1420	120	864
AIFMD + impact + business model	5	0	56
AIFMD + impact + fund manager	232	34	84
AIFMD + impact + fund manager + business model	4	2	1
AIFMD + business + AIFM	848	45	546
Alternative Investment Fund Manager Directive + business model	5	0	45
Alternative Investment Fund Manager Directive + impact	1120	131	754
Alternative Investment Fund Manager Directive + impact + business model	6	0	41
Alternative Investment Fund Manager Directive + impact + fund manager	156	31	58
Alternative Investment Fund Manager Directive + impact + fund manager + business model	8	0	1
Alternative Investment Fund Manager Directive + business + AIFM	6	3	2

Source: own compilation, 2015

The outcome is shown in Table 5 above. Several results have been made with regard to the impact of the AIFMD in general. However, only one publication exists that elaborates on the impact of the AIFMD on fund managers’ business, published by PWC (2014).

This initial scoping study unveiled a lack of systematic review with regard to the impact of the AIFMD in connection with fund managers’ business models.

2.3 Definition of research criteria

Bias is often an issue with regard to traditional narrative reviews. This can be minimized by providing an audit trail of the literature review of why specific decisions are made, procedures undertaken and conclusions drawn (Cook, Mulrow, & Haynes, 1997). It is important to make the review process as transparent as possible to minimize bias. A precise explanation of how the literature has been searched and selected for the review is needed in order to improve the transparency of the review process (Tranfield et al., 2003). The conditions under which circumstances the literature will be included or excluded in the review must be defined. Only literature that meets all the inclusion criteria should be incorporated in the review. Setting these strict criteria is necessary to ensure the reviews are based on the best-quality evidence (Tranfield et al., 2003). The number of sources included and excluded in the review will be documented with explanations of their exclusion or inclusion. This necessary definition of the research criteria is considered as the framework in which the literature research takes place.

As the AIFMD has only been adopted recently, it is important to define the time period in which the literature has been published. As described in the introductory part (See section 1.2), the context of the AIFMD is related to European Asset Management Law. Therefore, research sources and relevant content should be defined. The main language in which the AIFMD is published is English. Nevertheless, the directive is relevant to all member states and therefore the publication of literature regarding the AIFMD in languages other than English is highly likely. How far this literature should be included in the research should also be defined. The literature selected, based on the inclusion and exclusion criteria, needs to reflect the evidence for this particular research topic.

2.3.1 Publication date

The literature published on investment fund regulation dates back to 1985. In the context of regulation of the EU wide fund market, the regulation of the UCITS (UCITS I) was published on December 20, 1985 (Directive, 1985). This first regulation defined requirements for funds and fund managers. The main part of this directive was a common standard for transparency and investor protection (Höring, 2013b) which is also an important part of the AIFMD. The first literature referring to the AIFMD was published when the topic arose as a result of the financial crisis, as outlined in the introductory section. It would not make sense to examine the whole history of investment fund regulation with regard to the topic of this research thesis. The aim of this research is to elaborate the impacts the AIFMD has had on traditional business models. The first draft of the AIFMD was published on April 30, 2009 (European Parliament and Council, 2009). Even if this initial draft of the AIFMD does not look exact the same as the final version of the AIMFD, published on June 22, 2011, the draft version contains a range of regulation requirements that can still be found in the final version. Therefore, the date of publication of literature included in the systematic literature review is limited to literature published on April 30, 2009 and beyond.

2.3.2 Countries of publication

As a European directive, the AIFMD has binding effect for all European member states. The directive was published in English and translated into 22 other languages. As the AIFMD has to be implemented in every member state by July 22, 2013 at the latest, publications with regard to the impact of the AIFMD on traditional fund business models can be included in the research. Furthermore, the AIFMD enables fund managers who are not based in a European member state to distribute and manage their investment funds within the EU (Article 41, AIFMD). In conclusion, the AIFMD might have an impact on the business model of fund managers based in countries other than the member states. Investment fund managers based in the USA and Asia are particularly important. According to the overview of the top 25 asset managers worldwide, fund managers are mainly based in USA, UK or other European Countries such as Germany and

Switzerland (Kennedy, 2015). Regarding the locations of the top investment fund managers in terms of assets under management, the USA, UK, France, Germany and Switzerland belong to the top 5 (Investment & Pension, 2015). As can be seen in Table 6, fund managers based in these countries manage more assets than in all other countries together. Therefore, publications with regard to the impact of the AIFMD that refer to these countries will be included in the scope of the systematic literature review. There are some limitations concerning language of the publication, as outlined in the next section.

Table 6: Global asset management centres.

	Country	Assets €bn
1	US	30,446.6
2	UK	4,169.7
3	France	3,446.2
4	Germany	2,615.1
5	Switzerland	1,915.1
6	Netherlands	1,695.3
7	Japan	1,168.2
8	Italy	961.9
9	Canada	829.9
10	Australia	617.7
11	Sweden	415.3
12	Denmark	405.3
13	Spain	384.0

	Country	Assets €bn
14	Brazil	242.7
15	Belgium	226.4
16	Norway	175.4
17	South Africa	136.1
18	Austria	112.1
19	Singapore	93.1
20	Finland	68.7
21	South Korea	64.4
22	Ireland	58.5
23	Luxembourg	45.6
24	China	38.1
25	Portugal	20.5
26	Iceland	6.1

Source: Investment & Pension (2015)

Luxembourg belongs to the smaller global asset management centres in terms of assets under management. However, Luxembourg provides an interesting business environment for investment funds in terms of legal structure, tax regime and supervision. Therefore, publications with regard to the impact of the AIFMD in Luxembourg will also be included.

2.3.3 Language

As outlined in the previous section, the main centres of asset management are either based in English or German speaking regions with the exception of France. There are several publications published in French, however, due to limited French skills and the lack of translations, publications in French will not be considered. However, based on experience gained during the search for the initial scoping study, publications which addressed the framework of the AIFMD were published in English, regardless of which specific country the publication was referring to. If the publications addressed the impact of the AIFMD with regard to its implementation in national law, the publications were published in the language of the specific country referred to in the publication.

The European Union has 24 official languages (Gazzola, 2006). Therefore the publication of the AFIMD, additional guidance and supplemental information are translated into all 24 languages. This research seeks to highlight the impact of the AIFMD on traditional business models of fund managers, regardless of the country where the fund manager is based. Since the fund industry is either based in English or German speaking countries, as mentioned before, the literature review must give German or English literature primary consideration. In conclusion, only literature published in English or German will be included in the systematic literature review.

2.3.4 Relevant content

The initial scoping study, as outlined in 2.2, found only one publication with regard to the impact of the AIFMD on the business of fund managers. The initial research was based on the keywords, as outlined above. The selected keywords were sufficient for performing an initial scoping study, however, literature might exist which deals with specific parts of the AIFMD. This requires more detailed and specified keywords. The AIFMD contains regulation with regard to the business of fund managers, as outlined in section 1.5.2. Therefore, the systematic literature research must take into account the literature which deals with the regulations of the AIFMD addressing fund managers' business models based on the AIFMD. These are the areas:

- Authorization of AIFMs
- Risk Management/Leverage
- Liquidity Management
- Valuation
- Delegation
- Depositary
- Transparency

- Passport Regulation

Based on the relevant content, the key words will be defined in a next step as, according to Bryman and Bell (2015), the identification of key words or the logical combination of keywords is the most important part of planning the literature research.

2.3.5 Key words for systematic literature review

Based on the initial scoping study and following the section above, the keywords will be defined as follows:

Table 7: Keywords used for systematic literature review

English Keyword	German translation
Business model	Geschäftsmodell
Fund manager	Fondsmanager
AIFM	AIFM
Authorization	Authorisierung
Risk management	Risikomanagement
Leverage	Verschuldung
Liquidity management	Liquiditätsmanagement
Valuation	Bewertung
Delegation	Delegation
Depositary	Verwahrung
Transparency	Transparenz
Passport regulation	Passport Regulierung

Source: own compilation, 2015

Seeking out literature on a topic can only be as good as the keywords employed in the search process (Bryman and Bell, 2015). All of the keywords listed need to be searched in combination with one of the keywords used for the initial scoping study. This is known as “Boolean logic” (Bryman and Bell (2015). Boolean logic enables a limitation or widening of the variety of items found. If the keywords, as listed in table 7, are not searched for in combination with the keywords as outlined in table 4, e.g. AIFMD or AIFM, it will be highly likely that too many results will be received that do not relate to the research objectives. In order to address the research objectives, it is important to include appropriate literature in the review. This requires the use of the most logical combination of the keywords.

Table 8 summarizes the key criteria for inclusion and exclusion of literature which have been applied for the research.

Table 8: Inclusion and exclusion criteria

Research Criteria	**Inclusion criteria**	**Exclusion criteria**
Publication date	After April, 30, 2009	Before April, 30, 2009
Country of publication	US, UK, Germany, Switzerland, Luxembourg	All other countries
Language	English, German	Other than English or German
Relevant content	Relating to the AIFMD and fund managers' business	Neither relating to the AIFMD nor to fund managers' business
Keywords	Combination of keywords as outlined in table 4 with keywords shown in table 7	Keywords not found

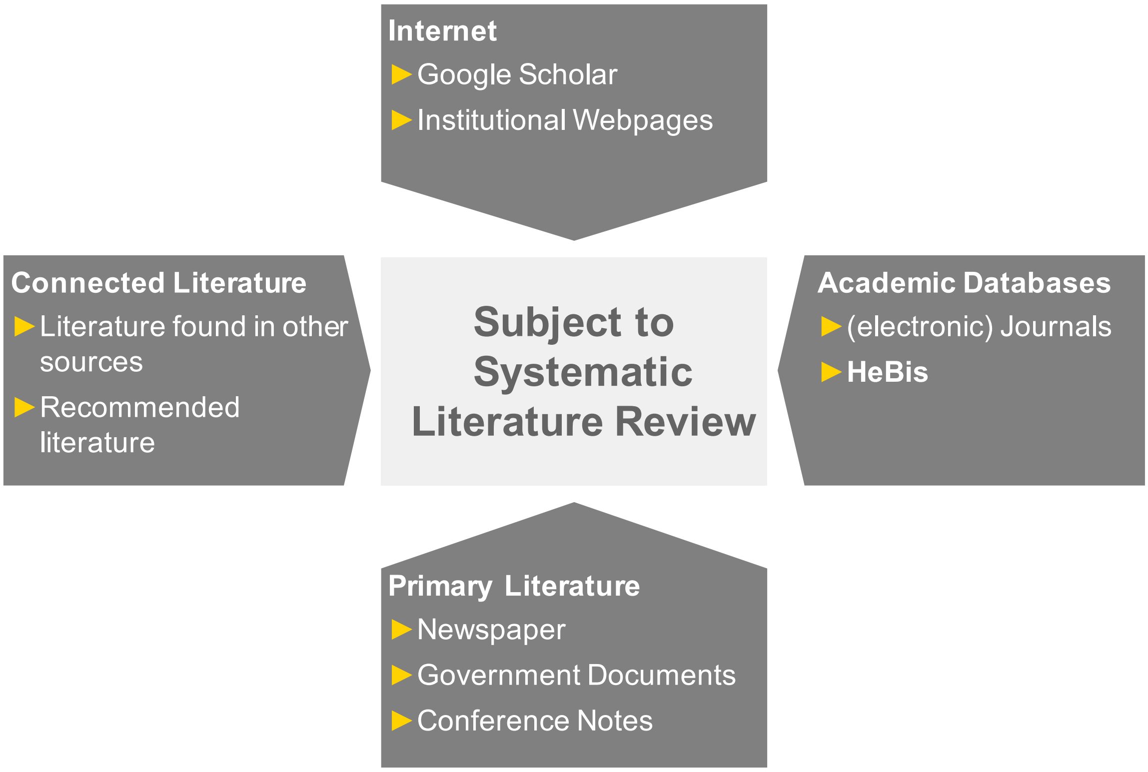
Source: own compilation, 2015

2.4 Systematic review of Literature and Sources

The systematic literature review will be conducted after the research criteria have been determined. Therefore, all relevant sources will be searched and relevant citations based on the research criteria will be identified in the search. Relevant search sources need to be chosen which are able to provide literature results which best fit the research objectives. The literature review regarding the four research questions must lead to results which testify to the relevance of the research. This requires careful selection of search sources. The research topic of this thesis is related to the area of 'Business Management' and law, specifically 'European Law'. Besides a general search using search engines such as Google scholar, literature in this area can be found by including books and professional articles. To search for relevant books, the academic library system of the University of Frankfurt was primarily used which is linked to the "Hessische BibliotheksInformationsSystem (HeBIS). HeBIS is an electronic information and service provider of scientific libraries (HeBIS, 2016). In addition, relevant books were searched by using the Internet. Professional articles were searched by using academic databases which focussed on business management and law as well as cross discipline databases due to their importance for academic research.

With regard to the research objectives, primary literature was also relevant as the AIFMD represents a legal act of the EU implemented by national governments. Primary literature is literature that is produced by all levels of government, academia and industry and newspapers in printed or electronic form (Farace, 1997). As this literature is sometimes hard to gather, it is sometimes referred to as 'grey literature' (Farace & Schöpfel, 2010). In addition to the inclusion of grey literature, further sources of literature have been included in the review process such as 'connected literature' or 'ad-hoc literature'. Connected literature is literature which has been identified as relevant for the research in the citations of other literature and retrieved for further analysis. Ad-hoc literature is literature which has been retrieved on a random basis other than the procedures described above but which has been identified as relevant with regard to the research objectives.

Figure 7: Relevant sources for literature review



Source: own creation, 2014

Literature identified as relevant will be retrieved for more detailed evaluation of content and from this review specific items will be chosen for the literature review.

2.4.1 Academic Databases

Academic databases available on the University's web page (www.glos.ac.uk) have also been searched as part of the systematic literature review. Academic databases have been included in the literature review since they contain literature which is usually written by experts in a specific research field (Bryman & Bell, 2015). Literature retrieved from journals usually contains both detailed and verified data and less sophisticated data. Furthermore, it contains detailed footnotes and an extensive bibliography which can give an indication of more relevant literature regarding the research topic.

The University provides access to different databases all covering specific research fields. The research topic is related to European Law as well as Business Management. Therefore, the databases used for the systematic literature were chosen by using the following filter:

- Accounting and Financial Management
- Business Management
- Law

The following databases were searched systematically using these filter words:

- Ebsco (ebook collection)
- Nexis Library
- Emerald Backfiles
- Business Source Complete (BSC)

Based on the filter words, several additional databases were found which have not been chosen for the literature review. These additional databases are too specified to find appropriate results. Therefore, the description of the databases has been briefly analysed. For example, the database "Marketline Advantage" covers the area of business management. However, according to its description, the database is more focussed on the research field of "marketing". After choosing the above mentioned databases, the databases were searched by using the keywords as outlined above. These keywords were used in a logical combination which led to appropriate results, e.g. solely searching for "authorization" does not necessarily lead to an appropriate result which can be used in the context of this research. Therefore, each keyword which is not necessarily related to the research topic by its meaning was combined with a keyword which was related to the research topic, i.e. AIFM, AIFMD, etc. Using this approach, the following results were achieved:

Table 9: Search results in academic databases

	EBSCO / BSC	**Nexis**	**Emerald**
AIFMD + Impact + Business model	1	21	4
AIFMD + Business model + Fund manager	2	44	8
AIFMD + Authorization	21	37	8
AIFMD + Risk management	10	6	13
AIFMD + Leverage	2	4	6
AIFMD + Liquidity management	2	0	4
AIFMD + Valuation	6	6	3
AIFMD + Delegation	4	2	5
AIFMD + Depositary	78	8	3
AIFMD + Transparency	12	6	5
AIFMD + Passport regulation	1	0	6
Total Results	139	134	65
Retrieved for literature review	**10**	**11**	**4**

Source: own compilation, 2016

The results were reviewed by title and short abstract. Relevant sources were retrieved for a more detailed literature review.

2.4.2 Academic library system (HeBis)

In addition to the academic databases, the academic library system "HeBis" (Hessisches Bibliothekensystem) was searched via the webpage of the Goethe University of Frankfurt (www.uni-frankfurt.de). HeBis is one of the biggest library systems connecting national libraries and linking different library. Following the same procedure as for the initial scoping study, HeBis was searched for relevant sources. The results in HeBis provide general information regarding the literature as well as keywords referring to the content of the literature. The literature was initially searched by the mentioned keywords or combination of keywords. As a second step the keywords prompted by Hebis referring to the content of the literature were analysed regarding whether or not the literature refers to business models of AIFMs. The following results were achieved from searching HeBis:

Table 10: Search results in HeBis

	Books	**Journals**
AIFMD + Impact + Business model	4	369
AIFMD + Business model + Fund manager	1	284
AIFMD + Authorization	1	269
AIFMD + Risk management	10	232
AIFMD + Leverage	1	184
AIFMD + Liquidity management	11	112
AIFMD + Valuation	1	168
AIFMD + Delegation	1	334
AIFMD + Depositary	0	289
AIFMD + Transparency	2	237
AIFMD + Passport regulation	2	176
Total Results	34	2.654
Retrieved for literature review	**2**	**6**

Source: own compilation, 2016

In conclusion, literature exists which covers the impact of the AIFMD in general and with specific regard to the business models of fund managers. The review showed that literature regarding the AIFMD contained information in a more theoretical way covering a wider range of topics. The topic was presented in an ordered and accessible manner and covered all aspects of the AIFMD. According to Bryman and Bell (2015), books are useful as initial sources for clarifying research objectives and questions. Therefore the academic library system was searched among other literature sources. Nevertheless, the literature was important to understand the regulation of the AIMFD from a theoretical perspective. The HeBis search for electronic journals and articles resulted in over 2.500 hits, since HeBis is linked to all important electronic journals. Therefore the hits were sorted by their title. Only articles with the key word combination in their abstract or title were retrieved for a deeper analysis.

2.4.3 Internet / institutional webpages

Besides the search in academic databases and books, the Internet was searched for relevant information regarding AIFMD. The websites of key institutions in particular were included in the search for relevant literature. All key institutions are linked to the research topic as listed below.

European Commission – banking and finance sector (http://ec.europa.eu/finance/about/index_de.htm)

The banking and finance sector webpage of the European Commission provides information with regard to legislative acts adopted by the European Commission to regulate the finance sector and to integrate the capital markets within the EU (European Commission, 2016). The legal framework of the AIFMD was published on this webpage. The webpage also provides complementary information regarding the AIFMD. Thus, the webpage provides a historic draft proposal, published guidance, press releases, discussion papers, publications from expert groups and other useful information. Official statements from associations such as the BVI or BAI with regard to specific legal acts can also be found. These statements are important for this research since they reflect the specific opinions of members of the association with regard to the legislative act. As a result they are highly biased by a specific group of interest. However, during the legislative procedure, the legislator or regulator has to consider different groups of interest and the effects on these groups.

As different associations represent the interests of their members, the webpage of the BVI and BAI were also searched for relevant literature.

Bundesverband Investment und Asset Management e.V. – BVI (www.bvi.de)

The German Investment Funds Association BVI represents the interest of the German fund market with 95 members who manage 2.6 billion Euros in the form of UCITS and AIFs (Bundesverband Investment und Asset Management, 2016). According to its webpage the BVI represents the interest of investment funds with regard to politics and regulators on a national and international level. Furthermore, the BVI acts as a consultant with regard to the development and application of regulatory requirements. Within the investment market the BVI acts as a panel for professional exchange. The BVI webpage references several publications, press releases to books and publications from members. As all members of the BVI are impacted by the AIFMD, the BVI webpage was included in the literature research.

Bundesverband Alternativer Investments – BAI (www.bai.de)

The BAI is the federal association of alternative investment funds and represents the AIFs in Germany with 160 national and international members. Unlike the BVI, the BAI solely represents the interest of AIFs. The core task of the BAI is to achieve legislative reforms as well as legal development on behalf of its members and investors of their members (Bundesverband Alternative Investments, 2016). The BAI participates in several legislative projects at a national and European level and acts as an expert in public hearings (Bundesverband Alternative Investments, 2016). The BAI was selected for the interviews and its webpage has been included in the literature research as it is in permanent discussion with representatives from politics and economics as well as the responsible institutions within the EU and national government. The results of the literature research, including the Internet and institutional websites, are included in the quantitative overview, as shown in table 11.

2.4.4 Additional Sources

Literature from additional sources was also included in the literature review. These are connected literature and literature which has been found ad-hoc rather than by a systematic search.

2.4.4.1 Connected literature

Academic publications in general are based on information retrieved from an original source which is often referred to as “primary literature” (Bryman & Bell, 2015). Primary sources can be people with direct knowledge or observations made by the author himself. In addition, academic publications are generally based on other research publications within the respective research area, known as ‘secondary literature sources’ (Bryman & Bell, 2015). The information from secondary literature contained in academic journals or books is referenced or cited, unlike press publications. Therefore, the references and citations contained in the literature which were retrieved from the sources for a more in depth literature review, as described in the previous sections, was analysed whether or not they referred to relevant literature. As the references and citations referred to further literature within the research area, this literature is called ‘connected literature’. The references and citations contained in the retrieved literature were analysed by title and date of publication as a first step. Literature with publication titles referring to the research area of this thesis and not published before 2009 were retrieved for further analysis. As a second step, the retrieved literature was analysed by applying the same criteria, as outlined in section 2.3.

The results of the literature retrieved from connected literature sources are included in the quantitative overview, as shown in table 11.

2.4.4.2 Ad-hoc literature

Literature which was found randomly during the progress of this research thesis or recommended by colleagues or fund managers during the interviews was included in the literature review. This literature was retrieved for further analysis. If these sources were identified as important and relevant for this research, they were included in the literature review even if the criteria as defined for the systematic literature review was not been met. As this literature was not reviewed systematically, included randomly or based on recommendation, these sources are referred to as ‘ad-hoc literature’.

The results of the literature retrieved from ad-hoc literature sources are included in the quantitative overview, as shown in table 11.

2.4.5 Quantitative results of systematic review

Literature retrieved from academic databases via the academic library system, institutional webpages or additional sources, as outlined above, led to 32 literature sources which are relevant for this research thesis and which are critically discussed with regard to business models of fund managers. Table 11 summarizes the relevant literature retrieved from the respective sources.

Table 11: Quantitative overview of systematic literature search

Literature source	Results	Retrieved for review
Academic databases	338	25
HeBiS	2.688	8
Institutional webpages	3	1
Connected sources	n/a	6
Total	**3.029**	**40**

Source: own compilation, 2016

In addition to the quantitative overview of the retrieved literature, Table 12 provides a qualitative overview and lists the literature in alphabetic order by the following criterion:

- Author
- Year of publication
- Title
- Type of literature (book, article, etc.)
- Source

Table 12: Overview of literature retrieved for systematic review sorted by year:

No	Author	Year	Title	Type	Source
1	Malcolm, Kyla Tilden, Mark Tim, Wilsdon Resch, Jessica Xie, Charles	2009	Impact of the proposed AIFM Directive across Europe	Study	Charles River Associates
2	KPMG	2010	Feeling the heat? Alternative Investment Fund Managers Directive – Asset Managers Global Survey	Survey	KPMG
3	Möllers, Thomas M.J. Harrer, Andreas Krüger, Thomas C.	2011	Die Regelung von Hedgefonds und Private Equity durch die neue AIFM-Richtlinie	Article	Wertpapier Markt
4	Kramer, Robert Recknagel, Ralf	2011	Die AIFM-Richtlinie - Neuer Rechtsrahmen für die Verwaltung alternativer Investmentfonds	Article	Der Betrieb
5	Weiser, Benedikt Jang, Rin-Hyuk	2011	Die nationale Umsetzung der AIFM-Richtlinie und ihre Auswirkungen auf die Fondsbranche in Deutschland	Article	Betriebs Berater
6	Schmuhl, Wolf	2011	Venture Capital am Scheideweg? - Auswirkungen der AIFM-Richtlinie	Article	Corporate Finance biz
7	Glander, Harald	2011	AIFM-Richtlinie birgt Chancen für Fonds Regulierung führt aber zu mehr Kosten und Zeitaufwand bei alternativen Anlagen – Höhere Anforderungen an die Manager	Article	Börsen-Zeitung
8	Bußalb, Jean-Pierre Unzicker, Ferdinand	2012	Auswirkungen der AIFM-Richtlinie auf geschlossene Fonds	Article	Beck Online
9	Berzina, Anete Studnik, Radovan	2012	Alternative Investment Fund Managers (AIFM) Directive: Implementation in Europe and in Liechtenstein	Seminar paper	Universität Lichtenstein
10	Nickerson, Kira	2012	EU rules set to shake up delegation.	Article	Fundweb
11	Fross, Stuart E., Rohr, Michael J.	2012	Authorization for US Managers under the AIFMD	Article	The Investment Lawyer
12	Sender, Samuel	2012	The Impact of European Product Regulations on Global Product Structuring	Article	Journal of Alternative Investments
13	Zetzsche, Dirk	2012	The Alternative Investment Fund Managers Directive	Book	International Banking and Finance Law Series
14	Du Chenne, Janet	2013	Increased Depositary Costs Under AIFMD to Outweigh the Benefits	Article	Global Custodian News
15	McGowan, Peter	2013	The European Commission adopts AIFMD implementing regulation	Article	Journal of Investment Compliance
16	Klebeck, Ulf Zollinger, Peter F.	2013	Compliance-Funktion nach der AIFM-Richtlinie	Article	Betriebs Berater
17	Brett, Shane	2014	Outsourcing and delegation in the post-	Article	Journal of Securities

			AIFMD environment		Operations & Custody
18	Du Chenne, Janet	2014	AIFMD: Survey Shows Lack of Fund Manager Readiness	Article	Global Custodian News
19	Du Chenne, Janet	2014	44% of firms not AIFMD authorized	Article	Global Investor
20	Du Chenne, Janet	2014	Survey Reveals 50% Reduction in Anticipated Depositary Costs Post-AIFMD	Article	Global Custodian News
21	Tykoczinski, Isabelle	2014	Building a risk framework under AIFMD	Article	Journal of Securities Operations & Custody
22	Ghanty, Jacob Cornelius, Justin Baker, Matthew Ormond, Chris	2014	Marketing funds in Europe: a practical look at the marketing regime under the Alternative Investment Fund Managers Directive 2011/61/EU and other regulatory requirements	Article	Journal of Investment Compliance
23	Perryman, Emily	2014	Over 80 per cent of fund managers have yet to seek AIFMD authorization	Article	Property Funds World
24	Prorokowski, Lukas	2014	Depository banks under the Alternative Investment Fund Managers Directive (AIFMD)	Article	Journal of Investment Compliance
25	Sheffield, Hazel	2014	ESMA clarifies AIFMD leverage ratio calculation ahead of deadline	News	Global Capital Euroweek
26	anonymous	2014	Introduces Aifmd Annex Iv Reporting Solution to Help Alternative Managers Meet New Transparency Rules	News	Markets News Publishing
27	anonymous	2015	Taking away the AIFMD burden	Article	Institutional Asset Manager
28	anonymous	2015	Could AIFMD be a catalyst for European asset growth?	Article	EuroHedge
29	anonymous	2015	AIFMD and the mutation of risk management	Article	Institutional Asset Manager
30	Prew, Bill	2016	Update on ESMA advice on AIFMD passporting	Article	Hedgeweek
31	anonymous	2016	UCITS and AIFM provide EU gateway	Article	Institutional Asset Manager
32	Sims, Stephen Brandt, Patrick Norman, Greg		AIFMD passport: Europe must try harder	Article	Journal of Investment Compliance

Source: own compilation, 2016

2.5 Synthesis and data extraction

The literature review based on chosen sources is a description and critical analysis of the work of other authors (Jankowicz, 2005). In order to critically analyse the literature which was included in the literature review, Wallace and Wray (2006) recommend the use of review questions. These are questions which will be asked during the reading of a specific item and linked either directly or indirectly to the research questions (Wallace & Wray, 2006). In terms of the research objectives, this could be questions on how the specific point discussed in the respective article has an impact on the fund managers' business or what factors influence the fund manager's business, for example.

The impact of the AIFMD on traditional business models of AIFMs depends on the transition of the AIFMD into national law since an irresolute and conflicting implementation in national law would lead to competitive disadvantages for the German fund industry (Weiser and Jang, 2011). Therefore, literature with regard to the transition of the AIFMD into national law, such as the KAGB in Germany, was also included in the literature review.

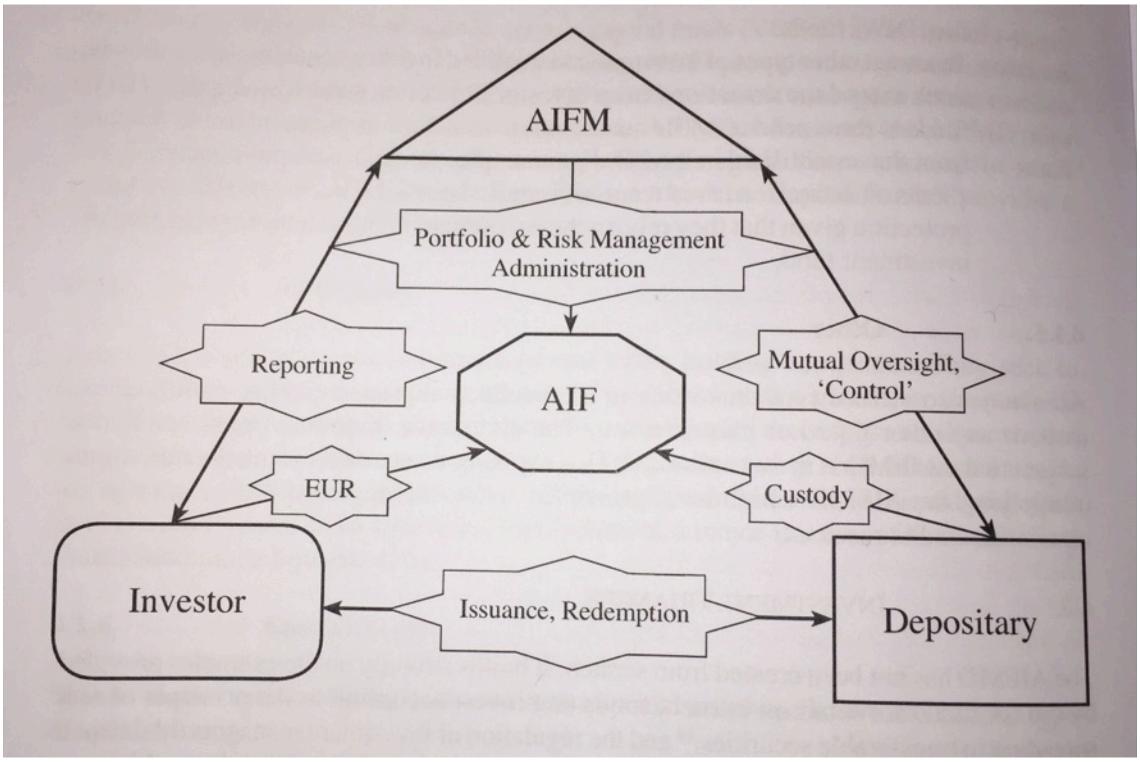
2.5.1 Critical discussion of business model related literature

Before discussing the selected literature critically, it is important to understand the importance of AIFMs and their business models in order to link the selected literature to their traditional business models. The AIFMs' business model must be seen in the light of the role played by investments funds. By understanding why investment funds may have more advantages for investors than other forms of investments, the impact of the AIFMD on these advantages can be outlined. According to Malcolm et al. (2009), investment funds have three main advantages for investors:

- *Diversification* which allows investors to pool their money with money from other investors.
- A greater amount being invested which creates *cost advantages*, since fixed costs associated with an investment can be spread
- *Professional management* where investment decisions are given to professional managers

These advantages are the result of the general concept of investment funds or shaped by the business models of fund managers. The business models of AIFMs depend on the structure of investment activities since several market players interact and the AIFMD regulates this interaction through, e.g. operating conditions, as outlined in the introductory section. According to D. A. Zetzsche (2012), the structure of investment activities can be depicted as a triangle where the respective corners represents the investors, the custodian and the AIFM and the fund itself is placed in the middle. According to this triangle, the investors invest money in the fund (irrespective of its legal structure). The investors' money is invested in assets according to an investment policy where the assets are administered by the custody. The investment decision, i.e. how to invest the money, is made by the fund manager.

Figure 8: Investment activity triangle



Source: Zetschke, 2012

This basic functionality has been the same for centuries and has only changed in minor ways (D. A. Zetzsche, 2012). Therefore the described functionality is independent of any regulation regime and thus applies to regulated as well as unregulated funds. However, regulation can influence the described functionality in several ways. For example, the reporting of AIFMs to investors can be regulated or regulation may enforce AIFMs to implement special rules with regard to their portfolio and risk management, etc. Fund managers of regulated funds, such as UCITS funds, have a business model which allows them to run their business in accordance with the respective regulation (e.g. UCITSD). The functionality described in figure 8 will be influenced by the AIFMD since the AIFMD imposes regulation with regard to the authorization of AIFMs, operating conditions for AIFMs and marketing AIFs. Before the AIFMD was released, AIFMs were able to structure their business as they wanted. Now they have to adapt their business model to the requirements of the AIFMD. Therefore, literature which deals with the impact on fund managers' business as well as with specific aspects of their business such as authorization of their business or the operating conditions was subject to the critical discussion of the selected literature.

2.5.1.1 Impacts regarding the authorization of AIFMs

AIFMs have to register their business with their local regulator for AIFMD authorization, as outlined above.

The review of literature revealed several literature sources dealing with this authorization according to the AIFMD. In order to receive authorization, Fund Manager have to fulfil several provisions as outlined above wherefore the business model have to be adapted to the requirements of the AIFMD. Without the authorization fund manager are not allowed to run der business. Therefore, receiving authorization is fundamental for the business model of fund manager. Volhard and Jang (2013) have analysed the authorization requirements in their publication. In order to seek authorization, they list a series of actions that need to be undertaken by the fund manager. For example, they highlight that fund manager have to commit additional equity or need a professional liability insurance policy (Volhard & Jang, 2013). The publication is based on the final AIFMD and analyses in a descriptive way how business models have to be changed from a theoretical point of view rather than highlighting to what extent business models have changed or which changes currently initiated by fund manager. Thus, Volhard and Jang (2013) solely indicate that fund manager have to perform at least the investment management functions as outlined in the annex of the directive. According to the annex of the directive these are mainly portfolio and risk management as outlined in Appendix 1. In case, fund manager have not considered portfolio and risk management in their business model, they have to implement portfolio management functions as well as risk management functions in order to seek authorization for their business. To what extent fund manager have already initiated those changes left to be unanswered by Volhard and Jang.

A 2014 survey conducted by BNY Mellon tried to find an answer on exactly these questions. The survey asked a mix of small, medium and large fund managers about their authorization status and the impact authorization has on their business model (Perryman, 2014). According to this survey, fewer than 20 per cent of AIFMs submitted an application to their local supervision and 37 per cent responded that they were “unclear as to how they will address the additional requirements around regulatory reporting” (Perryman, 2014, p. 1). This lead to the conclusion, that only a few fund manager have adapted their business model or initiated already changes to their business model, otherwise a higher rate of fund manager would have submitted an application form in order to receive authorization. The survey also found that the cost of AIFMD compliance is expected to be USD $300,000 where the one-off costs of fulfilling AIFMD risk and compliance requirements will be at least USD $100,000 to USD $250,000 per AIFM (Perryman, 2014). The author highlights the findings made by the BNY Mellon survey. However, it does not give any recommendations with regard to fund managers’ business model from a practical point of view. The survey solely represents a quantitative analysis of the responses given by AIFMs in 2014. It is more likely than not that the findings are already out of date. Nevertheless, in addition to the findings with regard to authorization and costs, the survey addresses the impact of the AIFMD on fund managers’ business models, albeit quantitatively rather than qualitatively. Thus, 25 per cent of respondents found that hiring experienced staff was very challenging, 55 per cent have already implemented risk management and 39 per cent are intending to outsource their risk and reporting requirements (Perryman, 2014). Furthermore, the survey made some further findings with regard to the business model of AIFMs. However, the answers given only highlight how AIFMs perceive the AIMFD in terms of their business model. How the AIFMD impacts the business models of fund managers from a practical point of view is left unanswered by these questions. The survey does not give any recommendations for how to deal with the highlighted impacts.

The second literature which was found is an article where Fross and Rohr (2012) review how USA AIFMs might determine the best strategy for adapting to the AIFMD. Fross and Rohr (2012) recommend USA AIFMs to register as AIFMs in order to have a significant marketing advantage in the EU, even at the cost of the attendant regulation. This article outlines the different substantive requirements of the AIFMD which have to be fulfilled, mainly focussing on the operating conditions including ESMA guidance where available. However, Fross and Rohr (2012) do not outline how the authorization process may impact the business model of AIFMs, e.g. how they have to adapt internal technical and human resources. Furthermore, the article does not consider that the application process may vary in each state where the AIFM has to apply for authorization. If there is a different application process in each state, the impact of the authorization process on the fund managers' business model may be different. On the other hand, the article provides 'practice notes' with regard to several aspects of the fund managers' business model. For example, "the US Manager will have to test and report leverage and liquidity using methodologies acceptable to its regulator" Fross and Rohr (2012, p. 31). Given the fact that it was published in 2012, the article elaborates on the authorization process as far as it is addressed in the AIFMD. The authors could not consider any practical experience with the authorization, as the AIFMD had not yet been implemented into national law by the member states when the article was published. Therefore, the article is only a theoretical discussion of the application process. In addition, it only addresses USA fund managers rather than AIFMs in general.

Linking the discussed literature to the research objectives, the following central conceptual understanding can be concluded:

Traditional business models have to reflect portfolio and management functions. This will increase the one-off costs and compliance costs significantly. On the other side, it looks like the AFIMD will have a fundamental marketing advantage for the business and will alter the European fund market. However, how business models have already changed or will change from a practical point of view with regard to marketing, i.e. distribution of products and portfolio and risk managements remain unclear and cannot be answered by existing literature. According to the literature a few fund manager have authorized their business, suggesting that business models still have to be adapted or will adapted at the moment.

2.5.1.2 Impact regarding operating conditions for AIFMs

2.5.1.2.1 Literature with regard to conflict of interest

AIFMs have to be diligent with regard to complying with several requirements of the AIFMD. Amongst other requirements they have to identify any conflict of interest. Publications dealing with how traditional business models of fund manager are considering the requirement of the AIFMD to identify 'conflict of interest' was not found by searching for relevant literature. However, some literature exists which are dealing with the impact of the AIFMD on business models in general. This literature partly elaborates on identifying conflicts of interest. After the final version of the AIFMD came into effect in 2011, several articles were published which dealt with the new regulation. Spindler and Tancredi (2011), Schmuhl (2011) and Klebeck and Zollinger (2013) outline the scope and the way the AIFMD works. Schmuhl (2011) focuses more on the impact of the AIFMD on venture capital, whereas Klebeck and Zollinger (2013) focus more on compliance. A common conclusion of these papers are that AIFMs have to implement provisions to identify and avoid conflict of interest. Klebeck and Zollinger (2013, p. 459) suggest that AIFMs should "set principles for handling conflict of interest". However, they do not specify what these principles look like. Likewise, Spindler and Tancredi (2011) underpin that the AIFMD is ambiguous about what principles to identify and what conflict of interests look like.

All the literature discussed with regard to 'conflict of interest' was published in 2011 when the AIFMD was not yet adopted in the national law of each member state. Therefore, this literature does not contribute any answers to the research questions. The articles neither outline how AIFMs have adapted their business model with regard to the identification of conflict of interests by the management nor suggest what steps AIFMs should undertake in order to comply with the AIFMD in this point. In addition, the publication of Schmuhl (2011) solely elaborates on the impact of the AIFMD with regard to venture capital funds, which is only a small part of AIFs.

2.5.1.2.2 Literature with regard to Risk Management and Leverage

The AIFMD requires AIFMs to implement robust and comprehensive risk management. Furthermore, AIFMs who employ leverage must report to their domestic supervision authority on a number of aspects. Therefore, traditional business models have to be adapted with regard to adequate risk management procedures including the possibility to fulfil reporting requirements in case leverage is applied by fund manager. An anonymous web publication published in 2014 addresses the adaption of risk management. This publication deals with the question of how risk management changed as a result of the AIFMD without demonstrating how fund manager have changed their business model from a practical point of view. The publication is of little importance for this research. The author is anonymous, statements are not cited and it only outlines the development of different behaviours with regard to risk management. In terms of risk management, Tykoczinski (2014) is more precise. This article covers the scope of risk requirements introduced within AIFMD and reviews what it means in practice to design and implement a range of risk policies and principles to comply with AIFMD risk requirements. Tykoczinski (2014) gives practical advice on how to adapt the business model and develop a range of risk policies and principles which can be adapted by fund managers. According to Tykoczinski (2014) portfolio functions have to be separated from risk management functions in the business model, since both functions following conflicting interests. However, her advice is only based on a general theoretical discussion of the AIFMD requirements. Neither specific business models nor the AIFMs experiences of the AIFMD are considered.

In terms of leverage Sheffield (2014) published a Q&A regarding the calculation of leverage and an article to clarify the calculation of leverage ratio. This article, published in a newspaper, is a summary of the clarification on the calculation of leverage made by the ESMA. These clarifications are quite technical, for example “fx spot trades” should be classified as “other cash equivalents” (Sheffield, 2014). The clarifications were published in 2014, after the AIFMD was implemented into national law. Therefore, it clarifies what is requested by the AIFMD in terms of leverage but does not state how AIFMs have adapted their business model as a result of the AIMFD and more importantly whether the adaption of the business model is now compliant with the requirements of the AIFMD.

2.5.1.2.3 Literature with regard to Liquidity Management

Publications dealing with how business models consider liquidity management in terms of the AIFMD was not found. However, several literature sources were found which elaborate on the AIFMD in general and discuss liquidity management within the context of the operating conditions of the AIFMD. This literature will be critically discussed in the context of general business relevant literature, as outlined in section 2.5.1.2.

Nevertheless, the publication of Bußalb and Unzicker (2012) and an article published by Kramer and Recknagel (2011) are particularly relevant since both publications critically analyse the new AIFMD instead of solely presenting its requirements. According to several publications liquidity management is be seen as integral part of risk management as outlined above. Thus, according to Bußalb and Unzicker (2012, p. 315), the AIFM has to implement "procedures which enables the AIFM to monitor liquidity risks of the AIFs". According to Tollmann (2013) as well, liquidity management or liquidity risk management as he called it belongs from an organizational perspective to risk management as well. Based on this common understanding, it can be expected that business models need to be adapted to risk management functions as outlined in the section before which includes liquidity risk management as well. From a practical point of view existing literature advices how liquidity risk management look like. According to Bußalb and Unzicker (2012) the AIFM should perform "stress tests" on a regular basis in order to properly determine the liquidity of the AIFs. In addition, Kramer and Recknagel (2011) conclude that these conditions will have an important impact on the fund sector. The related organizational effort and costs will be significant for fund managers who have not yet been subject to regulation. However, both publications are published after the AIFMD was released and before implementation into national law and so the critical discussion errs towards practical advice for AIFMS about the impact on their business. Bußalb and Unzicker (2012) do not specify what “procedures” applied to the business model of AIFMs will look like. Kramer and Recknagel (2011) emphasize that the AIFMD will have an important impact on AFIMs, however, a more precise impact analysis is missing due to the publication date.

2.5.1.2.4 Literature with regard to “*Valuation”*

Article 19 of the AIFMD impose detailed requirements for the valuation of assets. Specific literature discussing these requirements in the context of traditional business models of fund manager were not found. However, business models have to consider the establishment of appropriate and consistent procedure so that a proper and independent valuation of the assets of the AIF can be performed (Article 19, AIFMD). How “appropriate and consistent procedure” look like remain unanswered by the directive.

2.5.1.2.5 Literature with regard to “*Delegation”*

Article 20 of the AIFMD allows fund manager to outsource specific task to third parties, e.g. Service Provider. Brett (2014) published a paper in the Journal of Securities Operations & Custody which reviews the delegation rules of the AIFMD and what they mean to the hedge fund industry. This paper provides objective reasons for delegating and investigating potential conflicts of interest in the delegation process. However, the paper solely focus on business models of hedge funds. Other important AIFs, such as private equity funds, are not in the scope of the paper. It seems highly likely that the reason delegating tasks for a fund manager manging funds other than hedge funds slightly differ from the reasons a hedge fund manager wants to use delegation due to the different nature of business. According to Brett, the liability regarding delegation has changed. AIFMs will be responsible in the case of errors or problems but it will be hard under the AIFMD for AIFMs to delegate tasks to third parties in case of errors or problems (Brett, 2014). In this context it would be interesting to know how fund managers will make use of the possibility of delegating management functions. The paper does not elaborate on to what extent fund managers use ‘delegation’ in their business model. Brett (2014) recommends the delegation of specific activities, such as portfolio or risk management duties to outsource risk to a third party. Brett does not consider that the fund manager will lose his status as AIFM, if risk or portfolio management will be outsourced. The key tasks of a business model of a fund manager are the portfolio and risk management (Tollmann, 2013). In this context, Nickerson (2012) published an article which reports on the usage of delegation within the business models of AIFMs in the UK. Nickerson (2012) concludes that the AIFMD contain detailed delegation rules that could alter multi-manager propositions, since delegation allow the fund manager to make his business model more efficient. According to Nickerson (2012) only tasks which cannot be administered in a cost-efficient way by internal resources due to limited technical resources or missing know-how, should be delegated to third parties. Unfortunately, the article explains the nature and scope of the AIFMD that was to be implemented into national law by July 22, 2013 and so is only a theoretical discussion of predicted changes to business models of AIFMs based in UK. Therefore, it remains unclear how AIFMs perceive the possibility of delegating management functions and how AIFMs consider this possibility by adapting their business models.

2.5.1.2.6 Literature with regard to “*Depositary”*

Driven by the AIFMD, depository function is subject to fundamental changes. The provision of the AIFMD to use a depository for the fund units applies to all fund manager. Several literature sources were found with regard to depository function under the AIFMD. The first article was published by Du Chenne (2013) and focusses on the opinion of depositories with regard to the requirements of the AIFMD. The findings are based on a survey, which was conducted by Clearstream during a fund industry event in September 2013. The key conclusion is that 60 % of the attendees believe the increase in costs for depositories posed by the AIFMD will be significant and will outweigh the advantages (Du Chenne, 2013). According to Du Chenne (2013), 56 % believe that the AIFMD will significantly impact their operational, legal and governance business model. The findings of this article are important to this research since the survey was conducted in September 2013 and so expresses how the AIFMD is perceived with regard to the business model after the AIFMD was implemented into national law. However, the survey is solely focussed on depository functions and does not consider the impact of the AIFMD on business models in total. Furthermore, the survey solely addresses depositories rather than AIFMs itself. Nevertheless, the publication outline that depositories fulfil three main functions concerning the business of fund manager: paying agent service, depository service and control service. Under the paying agent service, every single cash flow is monitored. Under the depository and control functions fund units are held and controlled on behalf of the AIF (Tollmann, 2013). In addition to that, Du Chenne (2014b) published a second article with regard to depository costs. This article is based on the findings of a survey conducted by the fund industry and reveals that the costs for depository is 50 % lower than anticipated by AIFMs. Du Chenne (2014b) made some interesting findings: the survey revealed a significantly more positive attitude to the AIFMD. Du Chenne (2014b) reveals that the impacts of the AIFMD on business models before and after the implementation of the AIFMD have been perceived differently. This allows the conclusion that fund manager have adapted their business models with regard to the deposition of their fund units. To what extent business models have been adjusted or how adjustments look like in specific remain unclear. In this context, it is important to understand how AIFMs have changed their business model in order to understand the impact of the AIFMD as a first step and to give advice on which issues AIFMs still have to address in order to maintain a sustainable business model as a second step. Such research was undertaken by Prorokowski (2014) with regard to depository banks. Prorokowski (2014) investigates how the AIFMD affects the business of depositories. Furthermore, this paper analyses prospective changes to the operating structures of depositories driven by the AIFMD. Prorokowski (2014, p. 29) concludes that the, “AIFMD makes fundamental changes to the depository liability and managing counterparty risk by making a depository bank liable for any losses to investor assets, even those held within third-party custodians appointed by the depository”. This statement contradicts the previous argument of Brett (2014) who argued that the responsibility in case of errors or problems was with the AIFM rather than third parties. However, liability is an important factor in business models and needs to be considered within the operating structure of an AIFM. The publication of Prorokowski (2014) is based on an insightful secondary analysis of the AIFMD with practical implications drawn for depository banks. The perception of the AIFMD from a practical point of view is missing. However, in order to understand the impact of the AIFMD, a personal view of those who are affected by the AIFMD such as depository banks, AIFMs, etc. may lead to more precise findings and practical advice. Prorokowski (2014) concludes that the custodian services will witness consolidation with the big players remaining and small custodians forced to leave the business in light of the enhanced liabilities under the AIFMD (Prorokowski, 2014). As this publication was published in 2014, this finding is important to this research since it considers the impact of the AIFMD on business models after the AIFMD was implemented into national law. On the other hand, the research findings are limited to depository banks and do not include AIFMs. Nevertheless, it is more likely than not that the findings also apply to AIFMs as depository banks and AIFMs interact in their daily business.

Linking the discussed literature to the research objectives, the following central conceptual understanding of the operating conditions can be concluded:

Traditional business models have to implement ‘appropriate measures’ to avoid conflict of interests. How ‘appropriate measures’ look like remain unanswered. The primary aim is to avoid potential conflict of interest as much as possible. According to the literature only in cases where avoidance is not possible or only achievable with an unreasonable effort, interested conflicts are acceptable (Tollmann, 2013). Against this backdrop it will be interesting to see how and to what extent business models have been adapted. Existing literature does not give an answer to that question.

Literature review has shown, that business models of fund manager need a sophisticated risk management (including liquidity risk management) which is separated from the portfolio management due to conflicting interest of both functions. For a sustainable and competitive business model of fund manager risk management plays a key role. Literature showed how business models have to be adapted to the risk management requirements from a practical point of view, e.g. separation of risk and portfolio functions or performing stress tests in terms of liquidity risk management. However, if business models have already adapted or to what extent they need to be adapted could not be unveiled by existing literature and remain unanswered.

In terms of asset valuation, fund manager have to implement procedures which are not defined in detail by existing literature.

The AIFMD allows fund manager to outsource tasks to third parties. The delegation of tasks makes only sense in cases where they cannot be administered internally in a cost-efficient way. However, risk and portfolio management functions cannot be delegated, as otherwise the AIFM lose his status as AIFM. Existing literature allow no conclusion if business models consider the possibility of delegation granted by the AIFMD or not and to what extent this possibility is used by fund manager.

Literature review has shown that depository applies for all types of funds from now on. Specific functions such as custody and control functions are undertaken by the depository and not the fund manager anymore. Obviously fund manager have adapted their business models to this change, however, existing literature leave unanswered how changes look like or to what extent they have initiated by fund manager.

2.5.1.3 Impact regarding transparency rules

The AIFMD imposes several transparency rules for AIFMs which have to be considered in business models. Several literatures were found with regard to these transparency requirements. For example, an article published in 2013 by an anonymous author in Estates Gazette ("Transparency versus costs: can new EU rules," 2013) reports on AIFMD transparency. The author concludes that the AIFMD will boost funds' transparency, but also impose additional costs ("Transparency versus costs: can new EU rules," 2013). Furthermore, the author concluded that fund managers are concerned about the additional costs that tighter regulation will bring. The author does not provide any sophisticated evidence for his conclusions and it remains unclear whether the added costs will have an impact on the business model or will only lower the rate of return for investors since more transparency for their investors will lead to additional fees for the fund to factor in ("Transparency versus costs: can new EU rules," 2013). On the other hand, the author refers to a Deloitte study where 68% of AIFMs said that the AIFMD would reduce the competitiveness of Europe's investment fund industry, while 72% perceived the AIFMD as a "business threat". This argument contradicts the statement from SEI that their global operating platform helps to enhance and scale compliance functions for AIFMs. SEI is a leading global provider of investment processing, investment management, and investment operations solutions that helps corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth," 2014). It remains unclear whether or not AIFMs will consider these transparency requirements within their business model or outsource them to a service provider such as SEI. Both publications discuss the impact the new transparency rules may have on traditional business models one side, however, on the other side both publications do not explore how business models have been adapted from a practical perspective. The publication of Dornseifer (2013) bridges this gap. His publication described in a precise way, what aspects the business model of fund manager have to consider in order to fulfil the requirements of the AIFMD. Dornseifer (2013) highlights specific transparency requirements for investors. In this context, the fund manager has to provide information with regard to investment strategy which are followed, custodian which is used, other service provider which are used by the fund manager, how the valuation of assets works, etc. (Dornseifer, 2013). In addition, Dornseifer (2013) highlights regular transparency requirements for local supervisory. Thus, fund manager have to report on their risk profiles, most important asset categories the fund is invested in and provide information on the most important markets and investment products the fund manager is trading, etc. (Dornseifer, 2013). Dornseifer remain open whether the business models have already been adapted in order to comply with these transparency rules or not.

Linking the discussed literature to the research objectives, the following central conceptual understanding of transparency requirements of the AIFMD can be concluded:

The literature review unveiled several transparency requirements for investors as well as for local supervisory which need to be fulfilled by the fund manager. This will boost the transparency of the whole fund industry on the one side, on the other side will impose significant compliance costs. Whether business models have been adapted or changes have been initiated to the transparency requirements is not be answered by existing literature.

2.5.2.4 Impacts regarding “Passport Regulation”

Passport regulation allows AIFMs who are not legally based in Europe to distribute AIFs in Europe to European investors. One interesting publication with regard to the distribution of AIFs was Sender's (2012) research into European Product Regulation on Global Product structuring. As well as the AIFMD, this research publication included several European regulation regimes such as MiFID and UCITS. The findings of this study are therefore important as the business models of AIFMs are influenced by every existing regulatory framework that may apply to fund manager and not only by the AIFMD. According to Sender (2012), AIFMs should structure their alternative funds as UCITS since they have clear distribution advantages compared to the AIFMD that offers marketing advantages. The AIFMD would not significantly impact the business model of AIFMs since they do not need to seek AIFMD authorization. However, Sender (2012) does argue that AIFMs are easily able to structure traditional alternative investment structures under the UCITS. Following the argumentation of Sender fund manager would not have to adjust their business model to the AIFMD and at the same time they would still be able to offer their alternative investment products. However, this should only be possible, in case AIFMs market their products via National Private Placement Regimes (NPPR). The NPPR is a mechanism that allow fund manager to market AIFs that are not allowed to be marketed under the AIFMD passport regime (Zeller, 2013). According to the

AIFMD, the NPPR should be switched off by 2018 when the passport regimes is extended to all relevant third countries.

AIFMs based in third countries can only market their AIFs in Europe if their jurisdiction has obtained ESMA approval for using the passport regime. In order to obtain the approval the respective jurisdiction requires a regulatory regime that provide regulation requirements similar to the AIFMD. Prew (2016) published an "update on ESMA advice on AIFMD passporting". He states that nine out of an initial 12 countries under review were told by ESMA that their regulatory regimes would deny them access to AIFMD marketing passport. Based on the ESMA update, Prew (2016) concludes that the NPPR will exist for some time yet. It remains to be seen whether third country AIFMs market their funds via the AIFMD regime or the NPPR. Prew (2016) revealed that many uncertainties exist around the AIFMD and "firms need to be reflecting on how they may need to restructure their businesses to deal with developments that may arise in the EU" (Prew, 2016, p. 2). This statement once again stresses the importance of this paper for this research thesis, especially since the publication was published in late 2016. No literature exists which analysed how the passport regime is used by fund manager for doing business. Whether or not fund manager comply with the requirements of the passport regimes is left unanswered by existing literature.

Sims, Brandt, and Norman (2016) also examined two papers published by the ESMA covering the application of the marketing passport under the AIFMD. Sims et al. (2016) found that the ESMA papers were "disappointing" because they gave far less guidance and encouragement for AIFMs located in major AIF jurisdictions such as the USA or Cayman Islands. Sims et al. (2016) emphasize that it is highly unlikely that the NPPRs will be removed in the near future. This endorses Sender's conclusion that "there is evidence that behaviour is influenced by regulation rather than by actual investor needs" (Sender, 2012, p. 111). Sender also found out that smart investors might shun regulation. He concludes that only less-successful fund managers attempt to become regulated, as successful unregulated fund managers need not submit to AIFMD to distribute funds to sophisticated professional investors (Sender, 2012). However, Sender (2012) states that he could not test this hypothesis due to the structure of his survey. None of the papers discussed in this section conclude whether AIFMs intend to use NPPRs or seek for AIFMD authorization. This is important for AIFMs as their business models may look different under the respective regime.

Ghanty, Cornelius, Baker, and Ormond (2014) found that contrary to the original aim of the AIFMD to create a unique managing and marketing regime for AIFs, the regulation regarding marketing is particularly complicated. Ghanty et al. (2014) discuss the different requirements applying to different AIFMs and the location where they are marketing their funds. They provide a practical look into how AIFMs are able to market their funds under the AIFMD. They also give a detailed explanation of how the AIFMD marketing regimes apply to the business of a specific AIFM. However, they do not specify how AIFMs have to adapt their business model or how marketing impacts the competition of AIFMs since AIFMs based in third countries are now able to market AIFs in Europe.

Linking the discussed literature to the research objectives, the following central conceptual understanding of the passport regime of the AIFMD can be summarized:

Basically, fund manager are able to market their investment funds either based on the passport regime of the AIFMD or the NPPR in case the requirements of the passport regime are not fulfilled by the fund manager. Existing literature do not give a clear picture whether business models have adapted to the requirements of the AIFMD passport regime or not. There is no common understanding whether fund manager intend to adapt their business model until the NPPR is still working.

2.5.2 General literature relevant to business models

Some literature was found with regard to the AIFMD or the impact of the AIFMD in general which did not address specific areas of the AIFMD. Most of this literature elaborated on country specific issues or with regard to specific types of AIFs such as hedge funds or private equity. A first impact analysis was published by Möllers et al. (2011). This publication discussed the AIFMD requirements for hedge funds and private equity funds. According to Möllers et al. (2011) the AIMFD regulation is ambiguous as some of the legal definitions are undefined and references to unpublished guidance which impacts on business models remain to be seen. However, they predict that the AIFMD will lead to higher compliance costs and lower rates of return. This will affect the business of AIFMs although how these affects will look is not defined by the publication. Several articles published in different journals came to the same conclusion. For example, Glander (2011) highlights the increasing compliance costs and the administrative burden for AIFMs. How these administrative burdens are considered in terms of business models still requires further investigation. In contrast, according to an article published in the Institutional Asset Manager Journal by an anonymous author, compliance costs and administrative burden can be lowered if AIFMs consider partnering with a service provider ("Taking away the AIFMD burden," 2015). The author concludes that the more regulatory risk and compliance functions that can be outsourced, the less managers have to worry about what changes to make to their operations and business models. It should be stressed that these findings are not referenced and therefore the article lacks academic evidence. Nevertheless, this statement seems to be logical and the evidence can be gained by this research. Due to the date of this publication it seems highly likely that the author considered further implementation guidance that was published by the ESMA. This implementation guidance is fundamental for AIFMs in order to digest the impact the new AIFMD may have on business models.

It should be mentioned that the majority of literature found with regard to the AIFMD was published before further implementation guidance was published and is therefore based solely on the legal framework of the AIFMD. However, the implementation guidance has practical relevance for AIFMs since it gives some indication for adapting the AIFMD into the business models of fund managers. McGowan (2013) published a technical paper discussing the highlights of the Regulation. This should help AIFMs to gain a better perspective of the AIFMD, which is useful from both a compliance and business-planning standpoint. The aim of the article is assess the implementing guidance for the AIFMD. McGowan

(2013) addresses the specific requirements from a practical point of view, as outlined above: the calculation of assets under management; capital requirements in relation to professional liability risks applicable to alternative investment fund managers; operating conditions for alternative investment fund managers, including liquidity management, organizational requirements and rules on valuation; conditions for delegation; rules on depositaries, including the depositary's tasks and liability; transparency, reporting and disclosure requirements; and rules for cooperation arrangements. According to McGowan (2013), the implementation guidance published by ESMA gives more detail about the framework of the AIFMD. This may allow a better understanding of the AIFMD and therefore a much clearer way to implement the AIFMD requirements into the business model of the AIFMs. However, McGowan (2013) concludes that the AIFMD still required further interpretative guidance from ESMA and national regulators. It therefore remains to be seen how fund managers perceive the requirements of the AIFMD and how they adapt their business in order to comply with the regulation. McGowan (2013) gives a good overview of which parts of the AIFMD still need further clarification. For example, he requests further clarification of the criteria that are applied to characterizing an AIF as being either open- or closed-ended. On the other hand, he does not specify how further clarification would impact the business model of AIFMs. An impact analysis would therefore be useful.

Several impact analyses were found during the literature research which were all published before the AIFMD was adopted into national law. Malcolm et al. (2009) assess the impact of the proposed AIFMD on investors, financial markets and enterprise across the EU. 30 interviews were with market participants including professional investors and trade associations at a European level and in the UK as well as companies involved in the provision of different fund types. They concluded that "the AIFMD will have significant impacts in terms of reduced investor choice and substantial compliance costs for the AIF industry (which themselves will be passed on to investors, ultimately resulting in lower returns)" (Malcolm et al., 2009, p. 7). They argue that the directive will necessitate a fundamental reorganization of the traditional business models of global fund managers with significant one-off costs and may lead to costly changes of legal structures and domicile. However, they do not specify what this “fundamental reorganisation of business models” will look like. In contrast, authors such as Aeberli (2010) conclude that global fund managers have the business structures for complying with the AIFMD, unlike small AIFMs who might fall by the wayside.

Malcolm et al. (2009) mainly assess the costs of the AIFMD and do not investigate any benefits the AIFMD may have for AIFMs. For example, Glander (2011) predicts higher costs for fund managers but he also predicts an easier distribution of AIFs. This might reduce costs and impact business models.

Furthermore, the findings of Malcolm et al. (2009) are limited to the fact that they are based on the proposed AIFMD not yet implemented into national law, without considering any further implementation guidance published by ESMA. In other words, their findings are based on a very limited experience the research participants had with the AIFMD which is now out-dated. The second impact analysis, a seminar paper published by Berzina and Studník (2012) at the University of Liechtenstein, has the same limitations as Malcolm et al, since the paper references their findings. Berzina and Studník (2012) conclude that Switzerland may become an interesting domicile for those funds which do not want to comply with the AIFMD. However, they do not specify whether or not AIFMs might move their business out of Europe as a result of the AIFMD. Shortly before the final text of the AIFMD was published, KPMG International (2010) conducted a global survey that focussed on C-level and senior executives from across a range of alternative investment management firms from large groups, to specialist niche alternative managers. In contrast to Malcolm et al. (2009) and Berzina and Studník (2012), KPMG International (2010, p. 3), concluded that “the majority of participant managers have yet to formally assess the impact on their businesses or products”. In other words, the impact the AIFMD may have on traditional business models of AIFMs was unclear at the time the survey was published. However, the global KPMG survey is highly biased and lacks academic standards. As an auditor, KPMG wants to sell consulting services with regard to the AIFMD and therefore the findings of the survey have to be seen in this light.

2.6 Literary conclusion

According to Ambrosius and Fischer (2011), the AIFMD will create another regulated market for all kind of investment funds which are not already subject to UCITS regulations. Therefore, traditional business models of AIFMs that have not been subject to regulation will be impacted by the AIFMD. Several publications exist which attempt to analyse the impacts of the AIFMD on the business models of AIFMs. However, most of the findings are based either on the AIFMD draft or on the AIFMD before its implementation into national law. Therefore, all of the literature that was found included theoretical discussion rather than a practical investigation of how the AIFMD impacts traditional business models of AIFMs. None of the literature gives advice on what issues still need to be addressed by AIFMs in order to maintain a sustainable business model.

The AIFMD contains requirements with regard to the authorization of AIFMS, operating conditions and the marketing of AIFs in Europe. Traditional business models of AIFMs therefore are affected once by a due diligence process for authorizing their business and on a recurring level with regard to the daily business and their marketing activity. The literature was therefore searched systematically with regard to the respective areas of impact, as shown in table 13. The literature was divided into literature published before the final version of the AIFMD was published and literature published after the AIFMD was released. Literature which refers to the final version of the AIFMD is considered as more important than literature which may be based on an out-dated version.

Table 13: Reasearch gap

	Before AIFMD	**Post AIFMD**
Authorization	Higher one-time compliance costs	Higher one-time compliance costs
Conflict of interest	Requirements impact AIFMs' business model. However, how the impact look like remain to be unclear	No publications
Risk management and leverage	No publications	Analysis of risk requirements which have to be implemented; practical advice of how business model need to be adapted
Liquidity Management	No publications	No publications
Valuation	No publications	No publications
Delegation	Impact on business models of AIFMs in UK	Practical Guidance for AIFMs
Depository	No publications	Impact on business models of depository banks
Transparency rules	Anonymous publication	Global reporting platform
Passport regimes	Less practical relevance due to NPPR	Less practical relevance due to NPPR
Business model relevant literature	Theoretical discussion of AIFMD impact	Critical discussion of further implementation

		guidance

Source: own elaboration, 2016

The systematic literature analysis unveiled one-off compliance costs with regard to the authorization of AIFMs and higher on-going compliance costs with regard to the operating conditions for AIFMs due to several requirements. The passport regime is relevant to AIFMs placed outside Europe who want to market their funds in Europe. However, the systematic literature review shows that the passport regime is currently less relevant to AIFMs since fund managers are still able to market their funds via the NPPR.

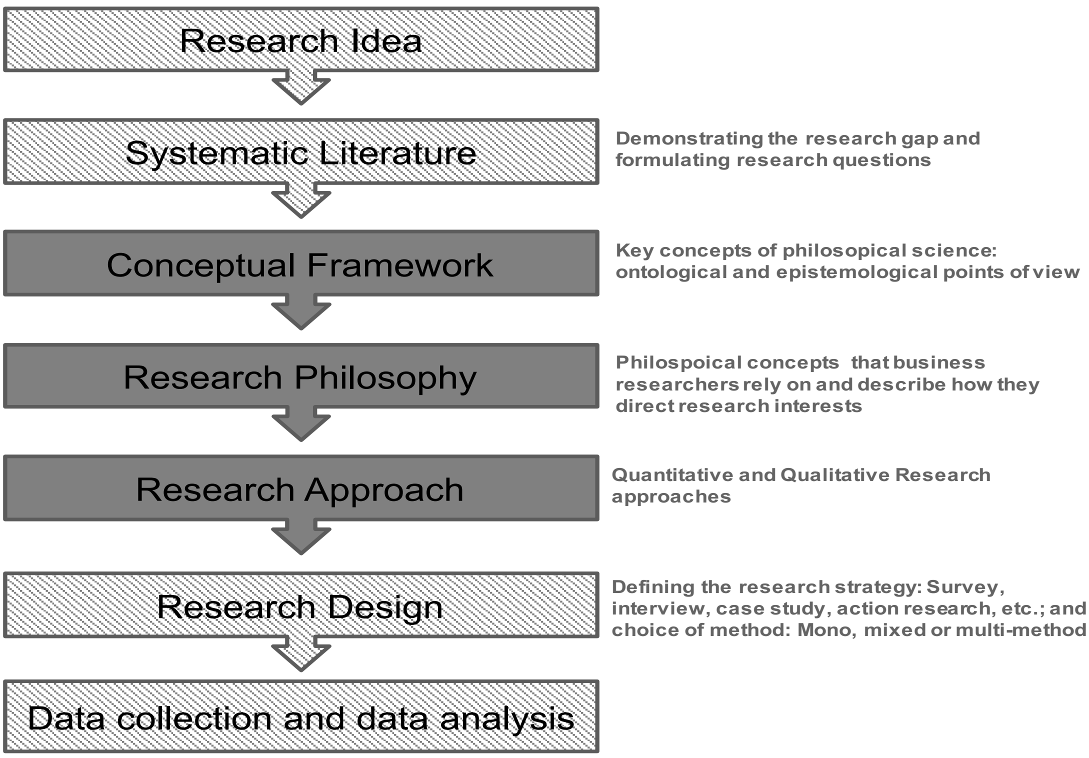
3. Methods and Methodology

3.1 Methodological Fundamentals

Every researcher uses different research strategies and interprets his findings in a different way in order to contribute to knowledge. However, every researcher applies assumptions during the research process which relate to his personal view of the world, the nature of reality or what he considers important etc. These questions are subject to research philosophy.

The systematic literature review regarding the AIFMD revealed several research gaps which were included in the research questions, as described in section 1.8. This chapter outlines research philosophies as part of methodological fundamentals for different research approaches that might influence the research design in order to address the stated research questions. Figure 9 demonstrates which part of the research process is covered by the respective sections of this chapter.

Figure 9: Research process



Source: own compilation, 2014

3.1.1 Research Philosophy

The research philosophy or 'research paradigm' as it is called by some researchers e.g. (Guba & Lincoln, 1994), refers to a set of philosophical positions with regard to ontology, epistemology and methodology, which can be related to each other as a framework (Eriksson & Kovalainen, 2008). These philosophical positions contain important assumptions about the way in which the world is seen. According to Saunders, Lewis, and Thornhill (2009), these assumptions underpin the research strategy and the method chosen in order to address the research topic.

3.1.1.1 Ontological, epistemological and methodological aspects

Ontology is the study of 'being' which is "concerned by the idea about the existence of and relationship between people, society and the world in general (Eriksson & Kovalainen, 2008, p. 13). Epistemology is the part of philosophy which defines the nature of knowledge and its sources and limits in scientific research epistemology define and gives structure to what kind of scientific knowledge is available (Eriksson & Kovalainen, 2008). For example, in practice this could mean the way in which we interview people in order to find out about their thoughts regarding a specific topic. Methodology refers to how the research will be conducted from a practical point of view. Some researchers call it the 'philosophy of methodology' since it describes how a given problem or research issue can be addressed (Eriksson & Kovalainen, 2008). Methodology describes the specific strategy used to address the research problem (Eriksson & Kovalainen, 2008) from a more technical perspective and often divided therefore in the main research literature into qualitative and quantitative research methods.

Methodology describes how the research is conducted from a more practical point of view and therefore is relevant for the research design since it describes the practical process of how the research questions will be answered. However, ontology and epistemology influence the research design since they describe the research positions from an objective or subjective point of view, as outlined in the next section.

3.1.1.2 Objective and subjective research positions

Reality may be understood as being subjective or objective, where the social world exists independent of social actors (Eriksson & Kovalainen, 2008). Epistemological positions such as positivism, realism and interpretivism answer research questions in an objective way, i.e. of what constitutes scientific practice and process. According to Bryman and Bell (2011, p. 15), this means “whether or not the social world should be studied according to the same principles, procedures, and ethos as natural science”. Research in natural science is concerned with researching in an observable social reality called ‘positivism’, (Bryman & Bell, 2015). Only phenomena that can be observed will lead to the production of credible data. Epistemological research positions are concerned with formulating hypotheses, collecting “visible” data, analysis of this data in a way that is value free (objective view) and gaining knowledge which builds the basis for law (Bryman & Bell, 2015).

On the other side ontological positions may answer research questions in an objective way as well. According to Eriksson and Kovalainen (2008, p. 13), “objectivism is an ontological starting point that assumes the social world has existence independently of people and their actions and activities”. This means that social phenomena, i.e. behaviour and responses to one another, are independent of social actors, even if they are influenced by them (Bryman & Bell, 2015).

This research focus on the impact the AIFMD may have on traditional business models of Fund Manager. The answer to this question mainly depend on how Fund Manager react to the AIFMD and will adapt their business model accordingly. This will depend on how Fund Manager personally perceive the AIFMD which underpins the subjective nature of this question. Therefore applying a research position that follows procedures to answer the research questions in an objective way, might not the adequate research position to be applied for achieving the research objective of this research.

Subjectivism, often also referred to in literature as “constructionism” (Eriksson & Kovalainen, 2008) or “social constructionism” (Bryman & Bell, 2015) is an ontological view that the social world is continually accomplished by social actors. This approach assumes that social actors produce social reality through their social interaction (Eriksson & Kovalainen, 2008) and therefore contrary to the view of objectivism, the social world is not independent of people, their activities or actions. According to Eriksson and Kovalainen (2008), the social world is an output of social and cognitive processes. Saunders et al. (2009) emphasize that this is a continual process and the social world is in a constant state of revision caused by social interaction.

In conclusion, epistemological and ontological philosophical positions will mainly influence the research strategy and the research method as part of the research design (Saunders et al., 2009) as described in Section 3.2. The way in which the world is seen underpins the research philosophy, or as Saunders et al. (2009, p. 108) note, “the philosophy you adopt will be influenced by practical considerations”. It is important to understand that there is no research philosophy which is better than any other philosophy. It is important to reflect on the thinking of the different research philosophies which might be ‘best’ for answering the research questions. In practical research the research questions are too complicated to assign to a specific philosophical domain (Saunders et al., 2009). However, according to Johnson and Clark (2006), how well researchers are able to reflect upon the philosophical choices and defend them in relation to the alternatives which could have been adopted is more important than being philosophically informed.

As outlined in this section, due to the subjective nature of the research objective, a subjective research approach following an ontological view point will be applied to this research.

3.1.2 Research Approach

As stated above, the way in which the research questions are answered is influenced by philosophical positions the research strategy is following. In the most common research literature the research positions referred to in the section before are often distinguished in qualitative and quantitative research (See Burns (2000) or Bryman and Bell (2015)). By categorizing the research positions into quantitative and qualitative research strategies, individual assumptions about human knowledge, the nature of reality and what is important or of value to the researcher will be considered. Qualitative research starts from the perspective and action of the research subject, while quantitative research typically proceeds from the researcher's ideas about the dimensions and categories which should constitute the central focus (Bryman, 1989).

According to Bryman and Bell (2015), quantitative research is mainly characterized by:

- Deduction (testing theory)
- Incorporation of the practices and norms of the natural scientific model (e.g. the positivist or realist research philosophy)
- Viewing the social reality as an external, objective reality

In contrast, Bryman and Bell (2015) define qualitative research with the following characteristics:

- Induction (building theory)
- Rejection of the practices and norms of the natural scientific model; on the contrary it considers the way in which individuals interpret their social world
- Viewing social reality as constantly shifting by an individual's subjective reality

The choice of a qualitative or a quantitative research strategy is important in terms of how research data might be collected and how this data will be analysed. In quantitative research this take place by deduction, for which a theory and hypothesis will first be developed and then tested by applying an appropriate research strategy to see if it is true or false. Qualitative research uses induction where the data will first be collected and then the theory developed as a result of the data analysis. In other words, inductive reasoning refers to drawing a conclusion that is probably true and valid, whereas deductive reasoning refers to drawing a conclusion that is necessarily true if the premises are true (Copi & Cohen, 2005).

Based on the foregoing considerations, table 14 summarizes that a deductive research theory relates more to positivism underlying an epistemological orientation and to objectivism underlying an ontological orientation, whereas an inductive research theory relates more to interpretivism underlying an epistemological orientation and to subjectivism, i.e. constructionism underlying an ontological orientation.

Table 14: Fundamental differences between quantitative and qualitative research strategies

	Quantitative Research	Qualitative Research
Relation of theory to research	Deductive (testing theory)	Inductive (generation of theory)
Epistemological orientation	Scientific Research method: Realism, Posivism	Interpretivism
Ontological orientation	Objectivism	Constructionism

Source: adapting from Bryman and Bell (2015).

The distinction between qualitative and quantitative research is important in the light of this research topic. However, it should be mentioned that in practical research the dividing line between quantitative and qualitative research becomes a little blurred. However, this does not prevent it from being useful when applying the most appropriate research design (Bryman & Bell, 2015).

The purpose of this research is to analyse how the traditional business models of fund managers have changed or will be changed as a result of the new regulation environment for alternative investment funds. Therefore, quantitative research and a deductive approach might be less appropriate for addressing the research topic since quantitative data is difficult to gather, as outlined in section 1.7.

Furthermore, the main argument against the usage of quantitative research methods is the scientific principle of first formulating a hypothesis and then testing it. This procedure requires formulating a hypothesis about the changes to traditional business models of AIFMs as a result of the AIMFD in order to answer the research questions formulated in the introduction. However, the literature review revealed that there are several research papers which identify the impact of the implementation of the AIFMD in Europe. For example, Malcolm et al. (2009) estimate that the AIFMD will impact the fund industry in Europe as well as investors in alternative investment products. Hypothesis testing is less appropriate since the AIFMD has been released and therefore it can be assumed that the fund managers' business models will change. The question is, has the business of fund managers already changed and how will the business model change as a result of the AIFMD? The focus of this research is to capture social actors' e.g. fund managers' interpretations of the complexity of the new regulation regime and how this affects what they do. For example, the personal, subjective view of fund managers who administer large investments regarding the compliance costs resulting from the AIFMD would be that they have less impact. The revenues in relation to the compliance costs would decrease less than they would do for smaller investments due to their size. In contrast, fund managers of smaller funds would argue that the compliance cost would impact their business. Therefore, according to Burns (2000), reality should never be taken for granted given that attention must be paid to multiple realities and socially constructed meanings that exist within every social context, e.g. the financial market. In conclusion, the research questions have been approached with a qualitative rather than a quantitative research method.

3.1.3 Philosophical Conclusion

Every researcher has to choose an appropriate philosophical position as outlined above. Philosophical positions are a set of general “assumptions about the nature of the world (ontology) and how we can understand it (epistemology)” (Maxwell, 2005, p. 36). Several philosophical assumptions exist which are often roughly divided into quantitative and qualitative philosophical assumptions. Based on this distinction, qualitative research is often linked to interpretivist positions in literature and quantitative assumptions mainly refer to realist or positivist positions. These positions all differ to varying degrees in their assumptions and implications. Each of them stands for a clear paradigmatic point of view which helps to justify the research design, as described below. According to Maxwell (2005, p. 37), “the selection of a research position is not entirely a matter of free choice, since researchers make many assumptions about the world, the topic and how they understand these, even if they never have consciously examined these”. Therefore, choosing a philosophical position is mainly based on assessing which research strategy best fits with the researcher’s assumptions and methodological preferences. In conclusion, it would be misleading to think one philosophical position is better than another. Saunders et al. (2009, p. 109), argue that “which is ‘better’ depends on the research question(s) you are seeking to answer”.

Based on the discussion of the research position underlying to this research, applying a qualitative philosophical position seem to be the most reasonable way to achieve the research objectives. The philosophical position applied for this thesis is discussed in the next section.

3.2 Determination of research design

3.2.1 Choice of research strategy

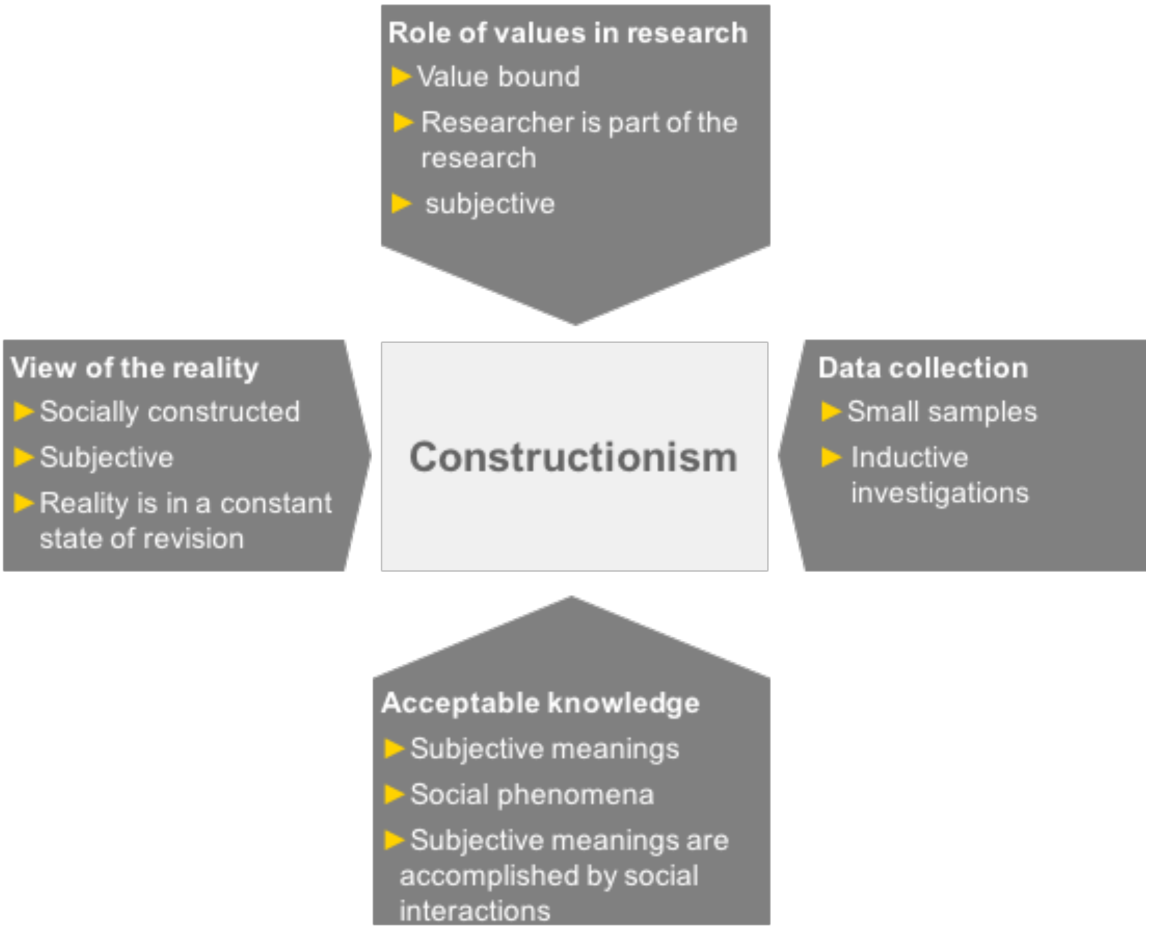
The outcome of the research mainly depends on the perception of the AIFMD by the individual research participants. This emphasizes the subjective nature of this research. As outlined in the section above, a qualitative research approach is preferred to a quantitative research approach as quantitative research approaches follow the principle of natural sciences which implicate the collection of quantitative data. Qualitative philosophical positions such as interpretivism or constructionism focus on the understanding and interpretation of the AIFMD regulation.

Interpretivism considers reality or phenomena (which may be subject to research) as being socially constructed. Interpretivism rejects the realist or positivist belief that there is a concrete, objective reality that scientific principles help us to understand (Lynch & Bogen, 1997) and is more a study of social phenomena that requires understanding of the social world that people live in (Lewis-Beck, Bryman and Liao, 1993). The interpretivist philosophical position is concerned with meanings and it seeks to uncover the way members of society understand given situations (Henning, Van Rensburg & Smit, 2004). The purpose of this research is to explore the meanings Fund Manager may have with regard to the AIFMD in order to conclude how Fund Manager have adapted or will adapt their business models. However, for the interpretive social researcher, as described by Rubin and Rubin (1995, p. 35), “not one reality out there is to be measured; objects and events are understood by different people differently, and those perceptions are the reality — or realities — that social science should focus on”. In terms of this research social actors, i.e. Fund Manager, have their own interpretations of the impact of the AIFMD on their business models. It is highly likely that individual Fund Managers have different opinions or understandings regarding the AIFMD which consequently leads to different interpretations of the impact on their business models. Saunders et al. (2009, p. 111), conclude that “these different interpretations are likely to affect their actions and the nature of their social interaction with others”. In conclusion, how the impact of the AIFMD on business models is perceived by Fund Manager may look different, for example due to objective features such as different Fund types, jurisdiction Fund Manager operate in or just their business size. Applying an interpretivist research position would lead to too many different interpretations of the regulation of the AIFMD with regard to the research questions, all of which are potentially meaningful. However, it would not fulfil the objective of the research topic to provide sophisticated and clear answers regarding the impact of the AIFMD on traditional business models of fund managers.

The applied research strategy must be able to consider that different opinions or understandings regarding the AIFMD exist and take into account how these are constructed. Even the perception of the researcher needs to be considered (for the role of the researcher please refer to section 3.2.1.1). By exploring how different social actors construct their beliefs, the interpretivist philosophy will be extended which is referred to constructionism in literature (Guba & Lincoln, 1994). Constructionists argue that "knowledge and truth are the result of perspective" (Schwandt, 1994, p. 125). All truths are relative to meaning, context or perspective. Fund Managers not only interpret the AIFMD in different ways but also make sense of it through the interpretation of events and the meanings that they draw from these events (Saunders et al.,2009). Furthermore, Fund Managers anticipate the interpretations of other Fund Managers, tax advisors or fund associations and also see them as meaningful. This in turn will become part of their own constructed interpretation and meaning (Bryman & Bell, 2011). The purpose of this research is to unveil these constructed interpretations and meanings of Fund Manager regarding the AIFMD, which is hidden and must be brought to surface. Considering a constructionist view this can be done by deep reflection of the shared meaning and understanding which can be encouraged through interaction between the Fund Manager and the researcher.

Following a constructionist research strategy, questionnaires and observations will be used to collect research data such as interviews as these methods allow the acquisition of multiple perspectives with regard to the research topic. According to Robson (2011), these methods can help to construct a "reality" based on the different perspectives of the participants. Multiple realities might exist, constructed from the respective individual interpretations of the fund managers (Robson, 2011). Table 15 summarizes the key elements of the constructionist approach.

Table 15: Constructionist Approach



Source: own elaboration, 2017

3.2.1.1 The role of the researcher's values

A key point in the constructionist approach is that reality does not exist outside individuals; "reality is always about individuals' and groups' interpretations" (Blaikie, 1993, p. 94). In a constructionist research approach the researcher should never take results contained by his research as definitive; he has to be aware that his results constantly change over time due to the social actors' changing view of the world. This understanding is expressed by Robson (2011) who claims that the problem with the constructionist research approach is related to the notion of an objective reality which can be known. Therefore, constructionists focus on the understanding of multiple constructions of meaning and knowledge, as outlined in the section above.

The different perceptions of fund managers regarding the impact on their business models caused by the AIFMD needs to be highlighted and explained to gain a consensus of opinions from managers regarding the topic (Guba and Lincoln, 1994). In other words, a common understanding of the impact of the AIFMD among the research participants needs to be identified. The researcher's own understanding is part of this research process (Saunders et al., 2009). His understanding will be built on a revised (or not revised) subjective understanding of the fund managers' common perception regarding the impact of the AIFMD, gained by interaction. In other words, a research strategy that achieves a mutually agreeable outcome for all research participants is necessary. According to Stringer (1996, p. 22), the researcher "becomes a facilitator or consultant who acts as a catalyst to assist" and fosters reflective analysis among the research participants (Craig, 2009). This is the opposite to the realist or positivist research philosophy where the researcher is independent of what is being researched and stays outside the research scope.

From a practical point of view, this procedure requires an interactive research strategy identifying different interest groups, seeking what each group understands about the research issue and then gradually developing a common answer to the research questions (Guba & Lincoln, 1989). In this context, the researcher has to be aware that he does not construct his interpretation of the research findings in isolation but against a backdrop of shared understandings, practices, language etc. (Schwandt, 1994). This process is known as a 'hermeneutic circle', in which "the constructions of a variety of individuals – deliberately chosen so as to uncover widely variable viewpoints – are elicited, challenged, and exposed to new information and new, more sophisticated ways of interpretation, until some level of consensus is reached" (Guba & Lincoln, 1989, p. 180). However, the application of the hermeneutic circle will have a different impact on the research findings and outcomes than if the research followed scientific principles (Bontekoe, 1996).

In contrast to the more quantitative research approaches undertaken by positivists or relativists, constructionism implies that reality does not exist independently of human thought and beliefs or knowledge of their existence. According to Berger and Luckmann (1966, p. 30), "an understanding of reality requires an inquiry into the manner in which this reality is constructed". This means the researcher needs to understand the subjective reality of the social actor in order to understand their motives, actions and intentions in a way that makes sense. Thus, the research is value bound since he is part of what is being researched and cannot be separated as he his subjectively involved. Positivist research is value free since the researcher is independent of the data and remains objective. In contrast, realist research is value laden since the researcher is biased by his world views which impact his research (Saunders et al., 2009).

3.2.1.2 Impact of underlying constructionist research

The constructionist research approach means all data that is collected is affected by individual senses and has to be interpreted. This is likely to lead to the conclusion that there is no proof of whether the research results are valid or that these research results can be judged more valid than any other. This provokes the question of what is acceptable as valid or truth. According to Schwandt (1994, p. 128), "truth is a matter of the best-informed and most sophisticated construction on which there is consensus at a given time". This consensus can be achieved by applying a hermeneutic circle, as mentioned above. This states that the understanding of a sub-area can only be understood if it is related to the total research area which consists of sub-areas and therefore can only be understood on the basis of these (Guba & Lincoln, 1989). Applying this to the research topic it seems that an investment fund manager's change of business location to a jurisdiction other than Europe, as a direct impact of the AIFMD, can only be verified if this change is linked to all investment funds of the same type. The change of business model of a unique investment fund manager may be caused by reasons other than the AIFMD, e.g. for tax reasons or due to portfolio considerations. While quantitative research necessitates the explanation of causal relationships between variables, qualitative research findings are interpreted as a direct result of meanings that the research participants attach to events (Saunders et al., 2009). The related variables in this case would be the implementation of the AIFMD and the change of jurisdiction of the alternative investment funds.

The example above shows that applying a quantitative research approach would lead to completely different findings and research outcomes. A quantitative research approach might make it possible to measure how many fund managers have changed their location to a jurisdiction outside Europe before and after the implementation of the AIFMD, since they have to register themselves in Europe. If there was a significant increase in fund managers moving their location to a jurisdiction outside Europe (whereas to determine what is significant and what is not is subject to the personal view of the researcher and therefore not objective), it could be interpreted that this is caused by the new fund regulation. However, there is a possibility that this phenomenon is due to reasons other than the change of jurisdiction and is therefore open to misinterpretation, as outlined above.

It is important that the research data collected is not misinterpreted. To answer the research questions the research participants must be involved in the research process. In order to avoid the misinterpretation of findings and avoid bias, a control mechanism will be applied. In quantitative research the researcher is independent of what is being researched (Saunders et al., 2009), and therefore the risk of bias is low.

The choice of research method and strategy effects how the research findings are reported. With quantitative methods, the research findings are usually reported numerically, e.g. as a statistical processing. In contrast, findings from a constructionist approach are usually reported descriptively. Furthermore, quantitative research emphasizes the need to select samples of sufficient size in order to generalize conclusions, whereas constructionist research is less concerned with the need to generalize since qualitative research findings are not a result of statistical data analysis (Saunders et al., 2009). Table 16 summarizes how constructionism impacts the findings and outcomes of this research and demonstrates how the research would have been impacted if the other philosophical positions had been applied.

Table 16: Impacts of quantitative and qualitative research on research findings and outcomes

	Quantitative Research	Qualitative Research
Philosophical position	Realism, Positivism	Interpretivism, Constructionism
Understanding of findings	explanation of causal relationships between variables	interpretation of meanings human attach to events
Impact of the researcher on the research outcome	researcher is independence of what is being researched	researcher is part of the research process
Appraisal of findings	Analytical; appraisal of samples of sufficient size	descriptively, using words
Generalisation of outcome	Generalisation of conclusions	less concern to generalise
Risk of hidden bias	low	high

Source: partly according to Saunders et al. (2009)

To summarize, the research design, and thus the research questions, will be approached by applying a constructionist approach. This extends the interpretivist philosophy by exploring how different investment fund managers perceive the impact of the directive on their existing business models (Guba & Lincoln, 1994).

3.2.2 Time horizon of the research

The research process resulting in this research thesis includes a range of different steps with each taking place over the necessary period of time. The structure of this research thesis presents these different research steps in a logical order e.g. literature review, data collection, etc. Table 17 provides an overview of the different research steps and the time taken for each.

__Table 17: Structured timeline of the research process__

	Year / Quarter (year)													
Activities	2014				2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Literature Review														
Research methods														
Research design														
Submit RD 1														
Data gathering														
Data analysis														
Drafting of thesis														
Preparation of thesis														
Submission														

Source: own elaboration, 2016

No specific time frame was given for each of the research steps. However, the approach which will be used for data collection can be compared with a cross-sectional approach. According to Bryman and Bell (2015), cross-sectional research is defined as collection of data on more than one case at a single point in time in order to assemble a collection of quantitative and quantifiable data linked with two or more variables. The collected variables will be analysed in terms of the relationships between them. The collection of data on more than one case at a single point in time is appropriate for answering the research questions, since to conclude how the traditional business of fund managers will change as a result of the AIFMD can only be answered if a variety of different types of fund manager are included in the data collection. Furthermore, a longitudinal research approach is not suitable for the research purpose. The AIFMD was released on June 22, 2013 and therefore collection of data relating to an extended period of time, as applied in longitudinal studies, would not be useful. In order to answer the research questions, data needs to be collected at a single point in time to see how fund managers adapt their business models. The focus of this research is to investigate how traditional business models change as a result of the AIFMD and this requires the observation at a specific point in time. The research design applied is discussed in the subsequent section considering the time requirements of the data collection and the research strategy outlined above.

3.2.3 Choosing appropriate research design

There are several common research designs that combine different time requirements (longitudinal and cross-sectional) with different research strategies (quantitative and qualitative) and are used for specific research environments and research purposes.

Several different groups of research participants were assembled including fund managers of a range of investment funds and associations representing a specific type of fund manager. They all had a different perspective on the impact of the AIFMD, including the researcher himself. Thus, a qualitative research approach, as outlined in the sections above, fits better to the research topic than a quantitative approach in which, according to Creswell (1994), the researcher's values are kept out of the research. The constructionist research approach enables a coherent and well-developed approach to research and generates multiple perspectives with regard to the research questions. By applying the constructionist research strategy in combination with a cross-sectional data collection as described by Scase and Goffee (1989), qualitative interviews of focus groups from a single point in time are used. This will be outlined in section 3.3 below. According to Bryman and Bell (2015, p. 66), "a fairly typical form of such research is when the researcher employs unstructured interviewing or semi-structured interviewing with a number of people". The requirement to include a variety of different fund manager types has been mentioned above. Typically, cross-sectional data collection is often seen in the context of quantitative research, however qualitative research usually entails cross-sectional data collection. For example, Scase and Goffee (1989) chose a smaller representative group from their questionnaire survey regarding management functions in large organizations for in-depth interviews. Indeed, the combination of structured self-completion questionnaires with in-depth interviews can raise the credibility of the collected data, since the interviews compensate for the limitations of the questionnaire. In business research this procedure is called a 'triangulated approach' where different methods of data collection are combined in order to cancel out the particular limitations of another method (Bryman and Bell 2015). A triangulated approach is preferred as the hidden bias from fund managers with regard to the AIFMD needs to be neutralized in order to give a realistic picture of how business models will be changed or need to be changed as a result of the directive. In conclusion, a cross-sectional research design will be applied for this research following a qualitative research strategy although cross-sectional research design "in business and management tends not to be so clearly divided into those that use either quantitative or qualitative methods (Bryman & Bell, 2015, p. 66). According to Bryman and Bell (2015), the research design outlined is typically followed by qualitative interviews, focus groups from a single point in time or qualitative content analysis of a set of documents relating to a single event or a specific period in time.

Ethical considerations also need to be considered when choosing an appropriate research design as they might have an impact on data collection or data quality. These will be outlined in the next section.

3.2.4 Ethical considerations

Ethical principles which need to be addressed in business research have been outlined by Diener and Crandall (1978). They highlighted the following four areas:

- Harm to participants
- Lack of informed consent
- Invasion of privacy
- Deception

A common understanding is that research which harms participants is unacceptable. According to Diener and Crandall (1978), harm can appear in a variety of forms such as physical harm, emotional harm, stress of research participants, etc. The University of Gloucestershire has applied ethical standards in order to ensure the quality of the research and avoid any harm to research participants. This is a common procedure in academic research. Therefore, ethical standards compiled by the University's Research Ethic Committee (UREC) at the University of Gloucestershire in the "University's Research Ethics guidance", will be adhered to during the research process. Research participants might be harmed if not well informed about their participation in the research. Therefore, it is important to fully inform research participants about why their participation is necessary, how their data will be used and what will be reported. This allows them to make an informed decision of whether or not they want to participate in the research process. According to Bryman and Bell (2015), this is called the "principle of informed consent" and will be considered while conducting the interviews, as outlined in section 3.3.1.1. Therefore, at the beginning of each interview the research participant will be provided with a short description of the research project and explanation of the theoretical background.

The third important area of ethical standards is the privacy of research participants which is closely linked to the principle of informed consent. Privacy issues should be considered in order to avoid harming the research participants (Diener & Crandall, 1978). When research participants are interviewed they may refuse to answer specific questions or not agree to the publication of the data. Bryman and Bell (2015, p. 143) "recommend to treat each case sensitively and individually, giving respondents a genuine opportunity to withdraw". In this research the anonymity and privacy of interviewees will be respected by not publishing personal data such as names and addresses unless the interviewee has given written consent to do so. During the interview process the interviewees have the right to refuse, amend or withdraw their response. Personal information contained in the interview data will be kept confidential and secure. Furthermore, after each interview the content will be transcribed for academic records and shown to the interviewees for approval.

According to Bryman and Bell (2015), deception is widespread in business research and can threaten its professional reputation. Therefore, academic standards constituted by the University of Gloucestershire such as transparency, referencing etc. will be observed.

The following research methods and procedures will be applied for collecting qualitative data by applying the research design and considering the discussed ethical aspects outlined above.

3.3 Applied research methods and procedures

A combination of interviews, questionnaires, focus groups and a qualitative content analysis of a set of documents relating to a single event or specific period of time can be used for collecting qualitative research data. However, these methods can be structured very differently e.g. interviews can be structured or unstructured. Furthermore, a combination of different methods can be used e.g. self-completing questionnaires and unstructured interviews. Some methods or combination of methods are more suitable for generating the relevant data. The most appropriate method for answering the research questions is discussed below. Since the AIFMD is not yet fully deployed or, in other words, the implications of the AIMD are not yet quantifiable, using interviews will be the most appropriate method for data gathering in order to understand the intentions of fund managers and regulators and of the potential impact of these on the success of the AIFMD. The main advantage of using interviews compared to other methods is their adaptability. In focus groups, as opposed to observations or self-completing questionnaires, the researcher is able to control and guide the interview. With face to face communication described as “in-depth interviews” by Johnson and Rowlands (2012), the interviewer is able to react spontaneously to the answers given by the interviewee within the interview situation thus enabling the researcher to receive in-depth information and knowledge, which cannot usually be obtained at this level of profundity by surveys, informal interviewing or focus groups. “The interviewer seeks to achieve the same deep level of knowledge and understanding as the members or participants” (Johnson and Rowlands 2012, p. 124). In order to find answers to the research questions it is essential to understand how fund managers actually interpret the AIFMD and how they intend to change their business model as a result of the new regulation framework.

Data of this profundity requires the application of interviews to grasp multiple views, perspectives and meanings of how fund managers interpret the AIFMD (Johnson & Rowlands, 2012). Interviews can be individually structured depending on whether the researcher intends to collect quantitative or qualitative data. The structure of the interviews will be discussed in the section below. Independent of the structure, the interviews will be done by personal contact or telephone rather than by survey or questionnaire. This allows an efficient data collection as well as verbal validation.

3.3.1 Data collection – Online Survey

The AIFMD applies to all AIFMs irrespective of the jurisdiction of their managed AIFs or their structure (open-ended or closed-ended), according to Article 2. However, as outlined in section 1., there are several exceptions for AIFMs managing smaller AIFs such as the discussed threshold amounts. One of the things the literature review revealed was that it remains unclear whether specific AIFs e.g. managers of family offices are in the scope of the AIFMD (Bußalb & Unzicker, 2012). In order to find an appropriate answer to the research question, there needs to be a range of AIFMs interviewed in terms of size, organization, jurisdiction, etc. A diversified sample of interview participants will strengthen the quality of the answers to the research questions. It is easier to generalize conclusions based on these answers and they can be referenced to all AIFMs and not only to a specific group e.g. AIFMs managing real estate funds or smaller AIFs. In order to choose as diversified an sample size as possible for applying interviews as outlined in the next section, several empirical and statistical data, such as “assets under management”, jurisdiction the Fund Manager operate in, types of assets under management, etc. were gathered by conducting an online survey between fund manager managing alternative investment funds.

The client database of Ernst & Young was used to find 200 fund managers to participate in the online survey. This contained questions with regard to the structure of the business model, statistical data such as location of the business, size and type of AIFs and management in terms of investment category; real estate, venture capital, private equity, etc. The invitation to complete the online survey was sent to fund managers by e-mail, outlining the main purpose of the research. A sample e-mail invitation is shown in Appendix 4. In addition to questions about statistical data, some empirical data was requested at the same time with regard to the AIFMs' experience of adopting the specific regulations of the AIFMD to their business model. Answers to those empirical questions helped to prepare the interviews. The answers to the empirical questions of the online survey will be analysed with regard to the research questions and provide additional qualitative data to the personal interviews.

The choice of AIFs inviting for personal interviews was based on the answers given to the online survey. In addition to the online survey, the chosen managers were asked individually by e-mail or telephone whether or not they were available for a personal interview. The collection of the empirical and statistical data is described in Chapter 4 followed by a detailed description of the qualitative data collection.

3.3.2 Data collection – Interviews

Conducting interviews is the data collection method applied. Christensen et al. (2011) defined an interview as a situation where the interviewer in a face-to-face situation, or by telephone, asks the interviewee, pre-defined or spontaneous questions. It can be described as an interchange of views between two or more persons where the purpose of the interview is to obtain descriptions of the subjective view of the interviewee with regard to a theme of mutual interest (Kvale, 1996). Interviews can be structured or unstructured using standardized or non-standardized questions. The structure of the interviews is determined by how the questions will be asked. How the questions will be asked depends on the intention of the interviewer and the kind of information he seeks from the interviewee. On the other hand, the type and depth of the information depends on the research topic and the research questions respectively. In other words, the way the interviews are structured is closely linked to whether a qualitative or quantitative research strategy is applied. To summarize, interviewing in quantitative and qualitative research can be categorized by using standardized or non-standardized questions. The following categorization is the most common typology (Saunders et al., 2009):

- Structured interviews
- Semi-structured interviews
- Unstructured or in-depth interviews

Each form of interview has a distinct impact on the research, as discussed below. Structured interviews use standardized and predetermined questionnaires, usually with pre-coded answers. Unstructured interviews are informal and only used to explore a general area in which the researcher is interested (Bryman & Bell, 2015). Qualitative interviewing is less structured. Here the focus is more on the interviewee's own perspective or point of view regarding a specific topic. However, in quantitative research the interview reflects the interest of the researcher and the personal concerns of the interviewee are usually regarded as a nuisance and discouraged (Bryman & Bell, 2015). Therefore, standardized or structured interviews are often referred to as "quantitative research interviews" since they are used to gather data, which will be analysed in a quantitative way. Semi-structured and unstructured interviews are often referred to as "qualitative research interviews", since they are used to gather data, which will be analysed qualitatively (King, 2004).

Figure 10 summarizes different interview categories and shows which kind of data can be obtained by each interview type and the implications for the research.

Figure 10: Interview structure, data quality and implications

Interview structure	Type of data	Implications for analysis
Structured	Quantitative, numerical data, often used in descriptive research	Analysing by using quantitative analysis tools, e.g. descriptive statistics
Semi-structured	Quantitative and Qualitative data, often used in explanatory research	Analysing quantitatively and qualitatively separetely
Unstructured	Qualitatitive, non-numerical data, used in exploratory research	Analysing qualitatively, no standardised procedure for analysing

Source: partly according to Bryman and Bell (2011).

Applying quantitative research interviews implies that the interview questions have to be predetermined and standardized in such a way that a later analysis of the outcomes can give the most appropriate explanation with regard to the research questions. For example, if the majority of fund managers who manage smaller alternative funds state that they would think about changing the fund location, it might be concluded that this caused by the introduction of the AIFMD. Quantitative research interviews can therefore be used to identify general patterns (Saunders et al., 2009), e.g. change in fund location as a result of the new regulations for AIFs. However, there may be other reasons for changing the fund location. Therefore, in order to address the research question as precisely as possible it is essential to eliminate all other reasons to increase the reliability and credibility of the answers to the respective research question. This can be achieved by asking additional questions or questions with in more depth. This research requires a mixture of structured questions and unstructured questions. In order to investigate how the AIFMD impacts traditional business models of fund managers it is important to collect quantitative data such as the amount of assets under management, compliance costs or number of employees. Analysis and comparison of this data can then reveal the impact of the AIFMD on traditional business models of fund managers. However, this data needs to be accompanied by qualitative data such as the personal views of fund manager regarding the impact of the AIMFD or how the fund managers have adapted their business as a direct result. This qualitative data reflects the subjective opinion of each fund manager to the AIFMD and allows the researcher to form a realistic view of how their business has changed as a result of the AIFMD. Unstructured questions similar in character to a conversation are needed to get the personal view of fund managers (Burgess, 1984). Asking unstructured questions allows the fund managers interviewed to answer freely which allows the interviewer to react spontaneously and follow up any relevant points (Bryman & Bell, 2015). However, unstructured questions will not necessarily provide appropriate data. Free answers may reveal the impact of the AIFMD in a more general way rather than specifically referring to traditional business models. It is necessary to have an interview technique that covers the subjective view of each fund manager as well as asking questions which refer to the change of traditional business models of AIFMs. Therefore, for this research, semi-structured interviews are the most appropriate interview method. Semi-structured interviews have predetermined questions but the flow of the conversation is completely open and not structured, i.e. additional spontaneous questions may be asked or the order of the questions may be varied (Saunders et al., 2009).

3.3.1.1 Semi-structured Interviews

To capture the subjective view of individual fund managers, semi-structured interviews will be applied, since according to (Bryman & Bell, 2011), semi-structured interviews can be used for understanding the behaviour that research participants ascribe to various phenomena. The aim of the interview is to gain an understanding of whether the interviewees have adapted their business models because of the implementation of the AIFMD and whether this is a result of their perception and interpretation of the new legal environment. By giving the interviewees a short description of the research project and an explanation, they will be able to understand the interview questions in the right context. This will lead to a better output. A list of questions will be prepared which can be used during the interview situation. These questions cover particular areas of the AIFMD in terms of traditional business models which the systematic literature review identified as important. This procedure is often referred to in literature as an ‘interview guide’. However, the interviewee has some flexibility in how they respond (Bryman & Bell, 2015). Semi-structured interviews are not the usual way to conduct interviews. They are more comparable to a conversational interview, according to Dalton (1959). This type of conversation may raise further aspects of the research topic which were not identified by the literature review. All questions on the interview guide will be asked, however, they might not be asked in the predetermined order and additional questions will be asked which are not on the list.

3.3.1.2 Interview sample - Manager and Association Interviews

The traditional business models of small and large AIFMs might differ due to their customers e.g. compliance rules for specific AIFs, such as grandfathering or exemption rules for small AIFMs. Therefore, the interview participants will consist of AIFMs managing both small and large alternative funds. In addition, relevant individuals from “Bundesverband Alternativer Investments – BAI” (federal association of alternative investment funds) will be interviewed. The BAI represents the interest of all alternative investment fund managers in Germany and therefore is able to provide fund market insights in terms of business models. Besides interviewing one representative of the BAI, employees from 12 AIFMs were interviewed. Eisenhardt (1989) suggests ten cases are the right number for case study research. Less than four are often unconvincing and more than ten increases the complexity of the research.

In terms of the research population “small” AIFMs are defined as AIFMs which are more or less exempt from the regulation of the AIFMD, however their business model might be affected by the AIFMD as well as they have to fulfil specific requirements such as registration or compliance requirements as well. AIFMs with total assets under management not exceeding 100 million Euro in case they are leveraged and not exceeding 500 million Euro in case they are not leveraged are exempted from the AIFMD. “Large” AIFMs are considered as not fulfilling the exemption rules and therefore are fully affected by the AIFMD. This heterogenic population was chosen in order to be able to generalize the research findings. According to Eisenhardt (1989), a heterogenic research sample is beneficial if specific patterns are analysed and the research seeks to account for extraneous variation. Table 18 summarizes the population of the interview group and gives an overview of the employees and their rank of the fund managers interviewed.

Table 18: overview of fund managers interviewed

No.	Institution / Fund manager	Name	Rank
1	Invesco Real Estate	anonymous	Portfolio Manager
2	Swiss Re Management Ltd.	anonymous	Director
3	Mercer Private Markets	anonymous	Head Legal & Compliance
4	UBS Global Asset Management	anonymous	Regional Head of Sales
5	Franklin Templeton Investment Management Ltd.	anonymous	Director
6	Albourne Partners Deutschland AG	anonymous	Partner
7	CACEIS Banque Luxembourg	anonymous	Business Development Director
8	Ares Management Ltd.	anonymous	Managing Director
9	Rantum Capital Management GmbH	anonymous	Managing Director
10	Ocean One AG	anonymous	CEO
11	Partners Group	anonymous	Assistant Vice President
12	Rantum Advisors GmbH	anonymous	Portfolio Manager

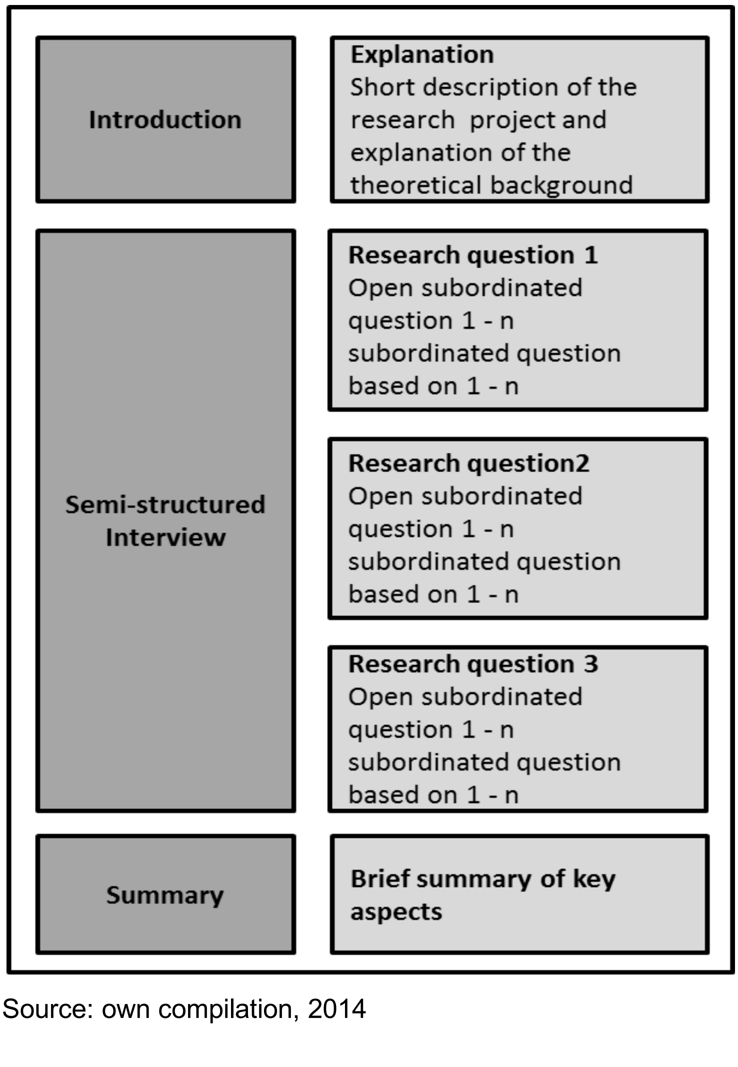
Source: own compilation, 2017

Interviewing employees of the above mentioned group may raise specific issues with regard to the rank and the power held by each of those employees. By using business contacts of Ernst & Young, the most senior employees of each fund manager who agreed to be interviewed were chosen. The request for the interviews was made either by letter (including electronic letter) or telephone. To include the interviewees into the research population as outlined in table 18, a dual approach suggested by Healey and Rawlinson (1993) was applied: first a short telephone call was made with the fund manager in order to find out the right person to interview, this was followed up with an introductory letter. As suggested by Bryman and Bell (2015, p. 485), “a short outline of the nature and purpose of the project and an indication of how the findings might be useful to the respondent” were attached to the request. In addition, a partner of Ernst & Young was included in the request as the research is sponsored by Ernst & Young. This imparts an official character to the request and should provide a positive response. As well as choosing the right interviewees, the interview needed to be prepared in a way that was most likely to lead to a favourable data outcome.

3.3.1.3 Preparation of Interviews

As outlined above, interviews will be semi-structured. A short description of the research project is given similar to the interview request as described above. In addition, in order to improve the outcome of each interview, a brief explanation of the theoretical background is given to the interviewee. After that, the interview will be conducted following the prepared interview questions. However, the prepared interview questions are only used as an interview guide as outlined below in order to focus the interview on the research topic. At the end of the conversational interview, key aspects will be summarized, all interviews will be transcribed and permission to use the information will be checked with all interview participants. The Figure below shows the design of the interview guide.

Figure 11: Semi-structured interview



Source: own compilation, 2014

According to Bryman and Bell (2015), the term “interview guide” can be adapted for different types of interviewing such as a brief list of memory prompts or an interview schedule. In terms of this research, the interview guide refers to a structured list of questions derived from the research questions which will be asked during the interview. The interview guide provides guidance for asking the interview questions which are of interest. The interview guide is shown in Appendix 3. The research questions are split into subordinated open-ended questions which are linked to the business model of the fund managers. The inclusion of these open-ended subordinated questions provides the opportunity for identifying new ways of seeing and understanding the topic at hand. The subordinated open-ended questions cover the main areas where the business model of fund managers is impacted by the AIFMD as, discussed within the frame of the literature review above (See section 2.5.1.), however flexible enough to enable a broad discussion in order to gain a deep understanding of the relevant topic. The questions are concerned with the authorization of AIFMs, operating conditions for AIFMs such as remuneration, conflict of interest, risk management, transparency requirements etc. The open-ended interview questions will also cover how the “passport regulation” as part of the AIFMD impacts traditional business models. In conclusion, the preparation of the interview guide regarding the interview questions is based on the theoretical framework of the directive as well as on the knowledge gained during the critical discussion of business model related literature (See section 2.5.1 and 2.5.2). The aim of the personal interviews is to validate the impact on traditional business models, as outlined in the literature review and to cover areas with regard to business models which the systematic literature review identified as ‘left blank’.

The interview guide focusses on some practical aspects, partly according to Kvale (1996) and Bryman and Bell (2015), which will be considered in order to make the interviews as useful as possible:

- The interview questions are prepared in logical order and relate to one another.

- The interview questions are formulated in a way that helps to answer the research questions. Therefore, the research questions are broken down into subordinated questions.
- Interview questions are short and precise rather than long and complicated and use language that is relevant for the topic and comprehensible to the interviewees.
- Basic information will be asked (e.g. name, gender, position in company, number of professional years, etc.) since this information is useful for contextualizing people's answers.

Further unstructured questions will be asked with regard to the research topic, prompted by the answers given by the interview participants. These questions will be asked spontaneously if they are considered important for the research topic. At the end of the interview central statements will be summarized in a written transcript which will be subject to qualitative analysis, as outlined in section 3.2.

3.3.1.4 Conduct of Interviews

All interviews were held in face-to-face discussions or via telephone. During the interview, only a few notes where taken which seemed to be important to follow up with the interviewee. However, the whole interview was audio recorded. "This procedure is important for the detailed analysis required in qualitative research and to ensure that the interviewees' answers are captured in their own words" Bryman and Bell (2015, p. 488). This enables the interviewer to stay focussed on the interview.

Some practical criteria listed by Kvale (1996) and Bryman and Bell (2015) were also considered for the interviews:

- Structuring: The theoretical background of the research topic and the purpose of the research were explained to the interviewee.

- Clarity: Questions were asked in a simple, easy and short way; no jargon was used.
- Pace: Interviewees were given time to finish their answer and to think about their answers.
- Open: Aspects seen as important by the interviewee were followed up
- Critical: Any answers from the interviewees which were challenged with own knowledge and any inconsistencies in the answers were addressed
- Recall: When appropriate, follow up questions were asked to answers previously given.
- Interpretation: When appropriate, interviewees were asked for clarification or further comments.
- Balance: The interviewee was given time to talk as much as possible and prompted if talking too little or if not talking along the right lines.

The AIFMD is very specific and wide-ranging so the prepared interview guidance, as outlined above, was used but extended on a case-by-case basis. In order to take advantage of the uniqueness of each fund manager, it is legitimate to add or change questions in theory building research. This enhances the understanding of individual cases and allows investigation in as much depth as feasible (Eisenhardt, 1989; Yin, 2009). Therefore, based on the answers given by the interviewed fund manager additional questions have been asked were seemed to be appropriate, e.g. new aspects on the research topic. Furthermore, additional follow up questions have been asked where answers seemed to be superficial. This approach allowed to increase the quality of the answers and maximising the depth of understanding.

By asking open-ended questions as outlined in the section before and asking spontaneous questions as described above, interviewed fund manager and researcher became engaged in expert discussion which allows the fund manager to express their views in their own terms. This way of conducting the interview enables the researcher a deeper understanding of how fund manager perceives the discussed aspects of the AIFMD (Eisenhardt, 1989). During the interview findings from interviews previously held such as new aspects or interesting conclusions have been included and followed up. This has increased the quality of responses and maximised the depth of understanding as well.

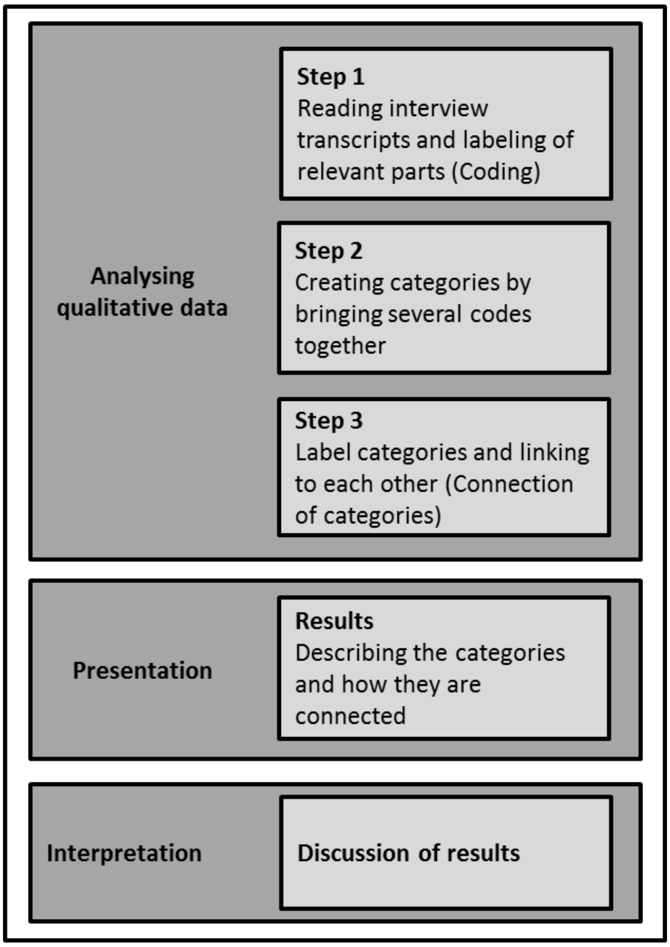
After the interview a short report about the interview was written (Was the interviewee corporative or not? Where did the interview take place? Were any new aspects raised through the interviews? Was the setting busy or quiet? Were any other people around? etc.). All these aspects might be relevant during the data analysis since they allow conclusions about the quality of the answers and therefore the data. For example, a more senior and older fund manager might perceive the implications of the AIFMD in a different way to a younger fund manager.

Finally, all 12 interviews were transcribed and permission to use the interviews was given by all interviewees.

3.3.3 Data analysis

The core of qualitative analysis “lies in the related processes of describing phenomena, classifying it and seeing how the collected data is interconnected” (Dey, 1993, p. 30). There is no standardized procedure to analyse qualitative data since this data is so diverse. For example, meanings can be summarized and interpreted, meanings can be categorized (grouped) based on specific coding and meanings can be structured by using narrative ordering. The data analysis will be performed electronically using NVivo as a common software tool for analysing qualitative data. Figure 12 shows the individual steps for analysing, presenting and interpreting the individual results.

Figure 12: Procedure of analyzing and presenting qualitative data



Source: own compilation, 2014

As outlined above, the main outcome of each interview will be gathered in written statements. To analyse the qualitative data the written transcripts of each interview will be read and, as a first step, relevant words, phrases, sentences and sections will be labelled using NVivo. Labels can be about opinions, actions undertaken, differences, etc. Whatever might be relevant in terms of the research topic is called 'coding' (Saldaña, 2013). Codes might be relevant because they are repeated several times, the interviewee explicitly states that this is important or for other relevant reasons (Saldaña, 2013). The coding will be based on a legal interpretation of the AIFMD. This will be supplemented by general comments on the AIFMD and based on predicted or presumed implications, as already concluded by surveys or research studies published by KPMG International (2010) or Malcolm et al. (2009). As a second step the codes will be brought together which is called ‘categorizing’ (Saldaña, 2013). “By coding, researchers scrutinize and interact with the data as well as ask analytical questions of the data” (Thornberg & Charmaz, 2014, p. 8). It is useful in this process to create new codes by combining two or more codes, deciding which are more or less significant and which can be dropped altogether. Categories can include investment fund types, different investment managers, actions of investments managers, differences, etc. Creating categories means conceptualizing the data and this will be done on a more abstract level than coding (Thornberg & Charmaz, 2014). In the last step, the categories will be labelled and any connections will be explained. For example, the coded part “expected cost increasing” can be categorized as “compliance costs” and the coded part “requirement of fund registration” can be categorized as “legal regulation”. Linking these two categories to each other leads to the conclusion that, as a result of the AIFMD, investment managers have to face higher compliance costs due to the requirements of the new legal regulations.

3.3.4 Data presentation

After the data has been analysed, according to the process mentioned above, the results need to be described (presented) and discussed (interpreted). In terms of result presentation, categories and their interconnection will be described. The results will be described neutrally without interpretation which is part of the resulting discussion. The discussion afterwards will lead to some key messages regarding the research questions which then can be used as a basis for potential amendments of traditional business model of the AIFMs. Furthermore, based on the key massages, a clear description can be made of how the financial market where AIFMs operate is changing and what steps need to be undertaken by fund managers in order to stay competitive.

3.4 Methodological summary

The researcher can use existing data (secondary data) or generate new data (primary data) for research data collection using different methods. Secondary data is data “that was originally left behind or used for some purpose other than the new research study” (Christensen et al., 2011, p. 60) and primary data is data collected for a specific research purpose (Saunders et al., 2009). In the context of this research, primary data is data collected for the first time using one of the methods outlined below and secondary data is data which was produced for other reasons, i.e. financial statements or older data such as case studies which deal with the drafted AIFMD and their potential impact on the fund industry.

In conclusion, focus must be put on generating, analysing and finally interpreting primary data rather than on analysing and interpreting secondary data. This is because the underlying research is concerned with the impact of a European directive, which was only released on June 8, 2013 and therefore little or no secondary data exists e.g. case studies based on the drafted AIFMD. Nevertheless, secondary data which was initially produced for other purposes, such as financial statements or other fund documents, can be used for confirming or underpinning research findings.

The primary data which will be collected is particularly concerned with the context of the AIFMD and the depth of the AIFM’s understanding of the AIFMD. Due to the recent transposition of the AIFMD into national law, no quantitative data exists with regard to the impact the AIFMD might have on business models e.g. the measurement of compliance costs. The research questions therefore can only be answered by understanding how AIFMs perceive the new regulation and how they will adapt their business model as a result. In other words, the subjective perspective of AIFMs on the AIFMD needs to be identified. The subjective perspective can be referred to as qualitative data (Christensen et al., 2011). With regard to qualitative data collection, researchers use different methods, as outlined in this chapter, in order to establish different views of phenomena (Easterby-Smith, Thorpe, & Jackson, 2008). The selection of the data collection methods depends not only on the research questions, but also on the actual research situation and on what will be most effective to provide the relevant data (Maxwell, 2005). The nature of this research topic outlined above, means qualitative data will be collected by interviewing AIFMs with semi-structured interviews. Compared to other methods of collecting qualitative data, semi-structured interviews allow pre-determined questions to be asked, as outlined above. At the same time, spontaneous questions can be asked where appropriate. Asking spontaneous questions or following up specific answers with spontaneous questions is an important instrument, since the interview may reveal important aspects which might not have been taken into account in advance due to a lack of information.

4. Research data collection

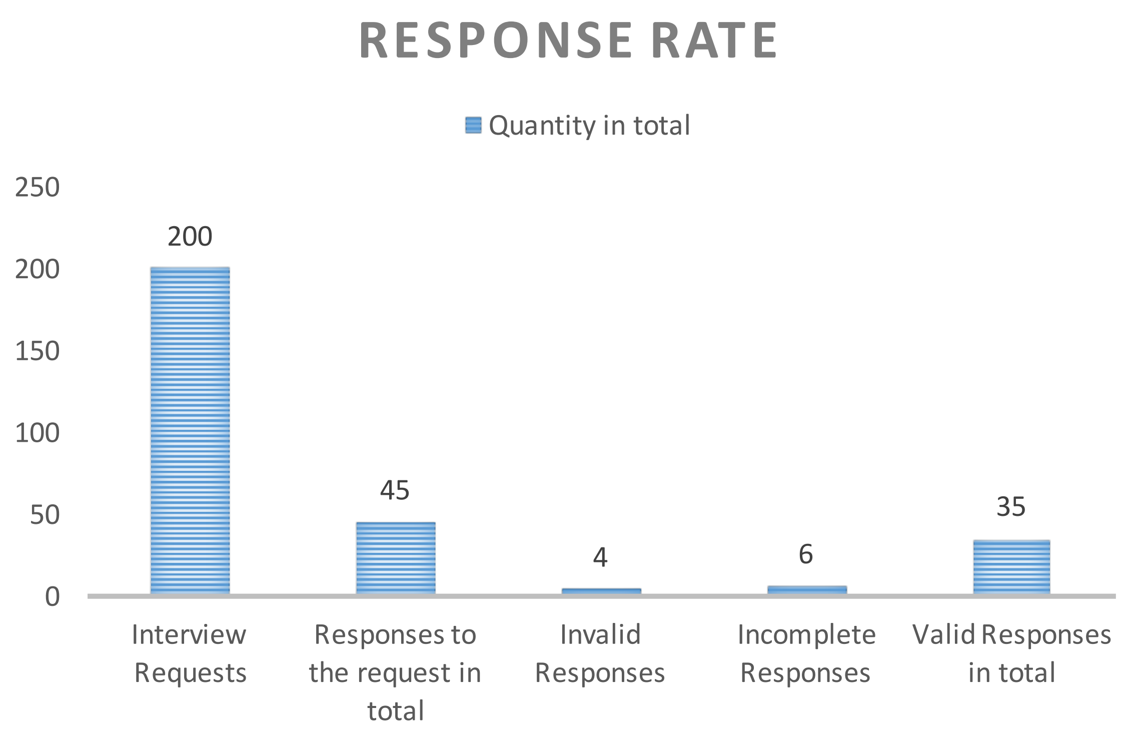
4.1 Collection of empirical and statistical data

An online survey was sent to 200 AIFMs to collect the empirical and statistical data. An online survey tool called “e-survey” provided by Ernst & Young was used to create the online survey. A link to the online questionnaire was included in the e-mails sent to the AIFMs. E-survey allows responses to the online questionnaire and evaluations to the responses given by the participants to be monitored.

The online survey has many advantages for this research as outlined in section 3.3.1. However, since respondents complete the survey in private, the online survey is subject to bias. Number of questions, length of questions, wording style and even colour and format can affect the responses which lead to different type of bias such as sampling bias, nonresponse bias, response bias, etc. Since the researcher is not able to survey everyone who participates in the online survey it is almost impossible to eliminate survey bias (Bryman & Bell, 2015). However, the online survey has been prepared and conducted in a way that have reduced bias. The online survey was sent by personal e-mail to 200 experienced Fund Manager which are all concerned with the impact of the AIFMD on their business model. Therefore, the whole sample population which should be surveyed should have more or less the same interest in participating in the survey.

The response rate of the online survey is shown in figure 13. A total of 45 responses to the online survey were received from the 200 requests sent to AIFMs. However, 4 out of 45 responses were irrational and so invalid. A further 6 respondents out of the remaining 41 did not respond to all of the questions in the online survey. However, this might be because several questions did not apply to the respective fund managers. This inflexibility of structured interviews is one of the weaknesses of surveys with pre-given answers (Bryman & Bell, 2015).

Figure 13: Response rate of online survey



Source: own creation, 2017

Over 200 requests returned 45 responses, which is a good answer rate of 22.5 %. This indicates a good level of interest in the research and therefore the importance of the research topic. In order to reduce nonresponse bias as much as possible various measures were taken in order to increase the response rate, e.g. personalized e-mails were sent, reminder e-mails were sent or the incentive to participate in the online survey were increased by the prospect of the research results. Received responses were checked for hidden response bias as well. Thus, results were checked for plausibility, e.g. were solely neutral or extreme responses given when questions were presented with a response scale from 1 to 5. Furthermore, the time participants need to complete the online survey were checked with the survey tool, e.g. were the time for completion reasonable or not for giving sophisticated answers to the questions. As a result, 4 responses were excluded from the results as mentioned above.

The online survey contained 61 questions in total, divided into different sections. Figure 14 gives an overview of the different sections. Section A is related to general information regarding the fund managers e.g. name, type of funds under management, assets under management, place of business, etc. This statistical data is relevant to the answers given by respective AIFMs during the interviews about a particular characteristic. Thus, the answers given by AIFMs only managing real estate funds may only apply to business models of fund managers operating in that asset category. In addition, the general information was used for choosing AIFMs for personal interviews, as outlined in section 4.3.1. Section B deals with the impact of the authorization requirements of the AIFMD on the business model of AIFMs.

The last section of the online survey, Section C, deals with the impact of operating conditions of the AIFMD on business models. This section is related to empirical data, i.e. the personal experience of fund managers in terms of adapting the business model to the requirements of the AIFMD. For the record, a digital version of the online survey is contained in Appendix 5.

Based on the results of Section A, interviewees were chosen and personal interviews held which represent Section E of the data collection. Section E is not part of the online survey, however, it supplements the online survey by providing the necessary flexibility to the research topic, as outlined above. The execution of personal interviews is explained below.

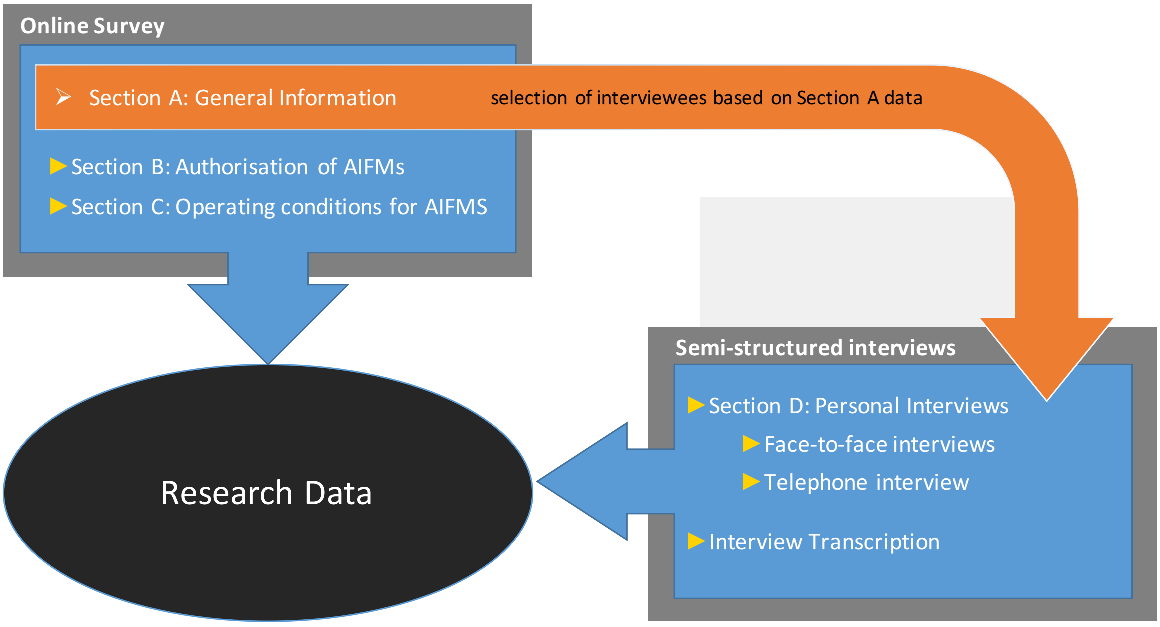
4.3 Collection of qualitative data

Criteria was defined for choosing the respective interview participants in order to interview AIFMs of a diverse sample size. This criteria for interviewee selection is discussed in the section below. The 12 AIFMs named in Table 18 were chosen for personal interviews as a result of Section A of the online survey. Selected AIFMs were asked for a personal interview by a dual approach, as outlined in section 3.3.1.2. If an AIFM rejected an interview request a suitable alternative AIFM with similar characteristics was asked for an interview. Most of the interviews were conducted via telephone and some were conducted face to face. All interviews were recorded after interviewees gave their permission. Furthermore, all interviewees were asked at the beginning of the interview whether they are complied with the AIFMD and whether they were involved in the adoption of the AIFMD requirements. It was essential to choose the right research participants in order to ensure the quality of the research (Bryman & Bell, 2015). If research participants were addressed who were not familiar with the research topic, they were asked whether they could recommend an interview partner who was familiar with the topic.

The interview was based on an interview guide, as attached in appendix 3 following a brief introduction to the research topic. The interview guide contains 16 questions in total and the questions are assigned to four different research questions. The questions outlined in the interview guide were asked in logical order starting with the questions relating to the first research question. However, the different questions served more as a conversation guide without any pre-given answers. Interviewees were asked to answer in an open way. If respective questions seemed to be inadequate during the course of the interview they were skipped. On the other hand, additional questions were asked when appropriate. In addition, answers given by the interviewees were followed up by asking spontaneous questions where relevant. As a result, some interesting discussions arose on the research topic. At the end interviewees were asked for permission to use the knowledge gained from the discussion. All interviews were transcribed using transcription software, f4.

Finally, the complete process of data collection is outlined in figure 14 in order to give an overview of the data collection process.

Figure 14: Structure of quantitative and qualitative data collection.



Source: own elaboration, 2016

4.3.1. Criteria for interviewee selection

The sample size of interviewees was selected by defining the specific criteria, outlined below. In order to contribute to knowledge, findings from this research are applicable to AIFMs managing a broad range of different AIFs and irrespective of the jurisdiction they operate in. These AIFMs are located in the main asset management jurisdictions of Switzerland, Luxembourg, Germany, UK and Ireland. AIFMs from the USA and Asia have also been included. The literature review revealed that the impact of the AIFMD on business models may look different depending on the size of the assets under management of the AIFM. The business model of managers of large AIFs may be impacted less by the AIFMD than business models of managers of smaller AIFs (Ambrosius & Fischer, 2011). On the other hand, managers of smaller AIFs profit from supervisory facilitations such as the threshold rules, as outlined in the first section. The business model may also be affected by the nature of the asset category managed by the AIFM, whether traditional assets, real estate, etc. For example, the fund reporting, AIFMD reporting and whole operating structure of an

AIFM managing a real estate fund is very different to that of an AIFM managing traditional investments such as shares or bonds.

In order to include different perceptions of the AIFMD, managers from small, medium and large investments were included in the sample size. The size of the managed investments was defined by “assets under management”. The following was used to categorize the size of managed assets; up to 500 million Euro Asset Under Management (AUM) is classified as a small AIF, between 500 million Euro and 10,000 million Euro AUM is classified as a medium AIF and over 10,000 million Euro AUM is classified as a large AIF.

The sample size of interviewees was chosen using the following criteria:

- Size of Investments
- Jurisdiction where the AIFM operates
- Asset type category

Table 19: Criteria for interviewee selection

Size of Investments	**Jurisdiction**	**Asset type**
small	Switzerland	Traditional Assets
medium	Luxembourg	Real Estate
large	Germany	Private Equity
	UK	Infrastructure
	USA	Hard Commodities
	Asia	Soft Commodities
		Other

Source: own creation, 2017

AIFMs were selected for an interview so that all the criteria shown in Table 19 was covered by the final sample size. This ensured a diverse sample size as far as possible. The selected interviewees are described in more detail below.

4.3.2. Selection of interviewees

A total of 12 AIFMs were asked for personal interviews based on the selection process outlined above. The managers interviewed are shown in table 18. One member of the BAI was also interviewed. The next section gives a brief description of the interviewed AIFMs based on the general information of their fund business as given in section A of the online survey.

4.3.2.1 Bundesverband Alternativer Investments – BVAI (federal association of alternative investment funds)

One member of the BVAI was interviewed who remained anonymous. The BVAI represents the interests of all alternative investment fund managers in Germany. According to its own admission, the BAI creates "internationally competitive and attractive (regulatory) conditions for the investment in alternative investments" and represents 164 national and international entities mainly managers of AIFs ("Bundesverband Alternativer Investments (BVAI).", 2017a). Furthermore, the BVAI represents the interests of its members to politicians and regulators. Therefore, during the legislation process of the AIFMD, the BVAI represented the interests of AIFMs. For example, the BVAI released a public response to the implementation act regarding the AIFMD adoption in Germany by the legislator, claiming to act as the lobbyist for the German Asset Management industry (BAI, 2013). The BVAI indicated that the public response to its adoption showed the AIFMD was deficient and inconsistent. According to them, members participation in projects and working groups aims to, "bring forward and further establish the Alternative Investments industry in Germany" ("Bundesverband Alternativer Investments (BVAI).", 2017b). Therefore, the activity of the BVAI depends on the input of its members. This allows the BVAI to have a good insight into the structure and business models of its members. In conclusion, interviewing one member of the BVAI reflects the perception of the AIFMD on behalf of all AIFMs who are members of the BVAI. The interview with the BVAI was the last interview conducted in order to follow up interesting issues arising from the interviews with the individual AIFMs, as outlined below. This allows confirmation of the knowledge gained from the series of interviews held previously and this form of triangulation improves the validity of the qualitative research data.

4.3.2.2 Investment fund managers managing smaller investment funds

Based on the results of the online survey, the following fund managers managing small AIFs were interviewed:

- Rantum Capital Management GmbH
- Rantum Advisors GmbH
- Oceano One AG

Rantum Capital founded in 2013 is the umbrella brand for Rantum Capital Management GmbH and Rantum Advisors GmbH. With headquarters in Germany, Rantum Capital currently manages /advises both an institutional credit fund and a private equity fund ("Rantum Capital," 2017). It has 100 to 500 million Euro AUM and only manages closed-ended AIFs and mainly private equity and traditional assets such as bonds.

Oceano One AG ("Oceano"), founded 2012 in Zurich, is an AIFM with focus on structuring, implementing and distributing investment strategies within the private debt universe ("Oceano One AG.," 2017). It has 100 to 500 million AUM and only manages open-ended AIFs and other types of asset such as aircrafts, ships, art, wine, etc.

4.3.2.3 Investment fund managers managing medium investment funds

Based on the results of the online survey, the following fund managers managing medium AIFs were interviewed:

- Mercer Private Markets (Luxembourg) Sarl
- Franklin Templeton Investments Management Ltd.
- Albourne Partners Deutschland AG

- Partners Group GmbH

Mercer Private Markets (Luxembourg) Sarl (“Mercer”) based in Luxembourg and Zurich, “operates worldwide as a highly specialized advisor for leading institutional investors in the fields of private equity, real estate and infrastructure” ("Mercer Private Markets.," 2017). It has 1,000 to 10,000 million Euro AUM and manages open-ended as well as closed-ended AIFs. Open-ended Funds are already subject to regulation, e.g. subject to the UCITS directive, and therefore it will be worthwhile understanding how the business model of Mercer has already been adapted to regulation. It manages more than 50% private equity and 10 to 50 % real estate assets as well as infrastructure assets.

Franklin Templeton Investments (“Templeton”) is a worldwide operating Asset Manager with over 24 million private, professional and institutional investors investing in a broad range of funds, branches, regions and asset types ("Franklin Templeton Investments.," 2017). Templeton manages open-ended (approximately 500 to 1,000 million Euro AUM) as well as closed-ended funds (approximately 1,000 to 10,000 million Euro AUM).

Albourne Partners Deutschland AG (“Albourne”) belongs to Albourne Partners which is a specialist consultant firm focussed on advising investors on alternative asset classes including hedge funds, private equity, real assets, real estate and dynamic beta ("Albourne Partners," 2017). According to the company’s profile, the main services include portfolio advisory, strategy and operational research, and risk management provided by about 300 employees in 12 main global offices including London, Munich, Bahrain, Hong Kong, Singapore, San Francisco and Connecticut ("Albourne Partners," 2017). Albourne is not a typical fund manager. However it is included in the sample size of fund managers managing medium AIFs since their main clients are family offices, endowments, foundations, and public and corporate pensions ("Albourne Partners," 2017). Therefore, the Albourne service includes advising AIFMs with regard to the AIFMD. Albourne is able to share how AIFMs perceive the requirements of the AIFMD and how they adapt their business model to the new regulation.

Lastly, Partners Group GmbH (“PG”) was interviewed. PG is a global private markets investment manager, serving over 900 institutional investors worldwide, with US $57 billion in assets under management and more than 900 professionals across 19 offices worldwide ("Partners Group," 2017). According to the online survey PG in German belongs to the AIFMs managing medium AIFs.

4.3.2.4 Investment fund managers managing large investment funds

Based on the results of the online survey, the following fund managers managing smaller AIFs were interviewed:

- Invesco Real Estate
- Swiss Re Management Ltd.
- UBS Global Asset Management AG
- Caceis Banque Luxembourg
- Ares Management Ltd.

Invesco Real Estate (“Invesco”) represents the investment team for real estate funds of Invesco Ltd. Invesco is one of the world’s leading independent investment companies with around US $820.2 billion AUM and a network in 25 countries ("Invesco," 2017).

Swiss Re Management Ltd. (“SwissRe”) is an AIFM belonging to the Swiss RE group which is a provider of reinsurance, insurance and other insurance-based forms of risk transfer. It is common for insurance companies to deploy their own AIFMs in order to manage their funds.

UBS Global Asset Management AG (“UBS”) “is a large scale investment manager with a presence in 22 countries, which offer investment capabilities and investment styles across all major traditional and alternative asset classes to institutions, wholesale intermediaries, and wealth management clients ("UBS Asset Management," 2017).

Caceis Banque Luxembourg ("Caceis") is "an asset servicing bank specialising in post-trade functions related to administration and monitoring of all asset classes, providing execution, clearing, custody, depositary and asset valuation services in markets worldwide to assist institutional and corporate clients in meeting their business development objectives" ("CACEIS Banque Luxembourg," 2017). Caceis acts as a service provider for AIFMs and is therefore subject to the AIFMD.

"With approximately US $ 99 billion in pro forma assets under management, Ares Management Ltd. ("Ares") is one of the largest global alternative asset managers, with three complementary and market leading investment groups: credit, private equity and real estate".

4.4 Summary

In order to gather research findings which were applicable to a broad range of different business models of AIFMs and different sizes of AUM, all the main fund jurisdictions and all types of asset categories were included in the sample size. Therefore, the answers to the research questions are applicable to different types of business models. Table 20 summarizes the research criteria for each AIFM included in the sample size.

Table 20: Summary of sample size outlining criteria for sample selection

No.	Institution / Fund manager	Size of AUM	Jurisdiction of AIFs	Asset types
1	Invesco Real Estate	large	worldwide	Real Estate
2	Swiss Re Management Ltd.	large	Switzerland	all asset types
3	Mercer Private Markets	medium	Luxembourg	Private Equity, Real Estate, Infrastructure
4	UBS Global Asset Management	large	worldwide, mainly Switzerland	Traditional and Other
5	Franklin Templeton Investment Management Ltd.	medium	Worldwide	all asset types
6	Albourne Partners Deutschland AG	medium	Germany	n/a
7	CACEIS Banque Luxembourg	large	Luxembourg	n/a

8	Ares Management Ltd.	large	USA	Other, Real Estate, Private Equity
9	Rantum Capital Management GmbH	small	Germany	Traditional Assets, Other
10	Ocean One AG	small	Switzerland	Hard- and Soft Commodities
11	Partners Group	medium	Germany	all asset types
12	Rantum Advisors GmbH	small	Germany, Asia	Private Equity

Source: own compilation, 2017

5. Interview data analysis and interpretation

5.1 Introduction

This chapter outlines the analysis and interpretation of the collected empirical and statistical data as well as the qualitative data collected by the personal interviews. The empirical and statistical data collected by the online survey will be analysed using a univariate analysis. A univariate analysis refers to the analysis of one variable at a time (Park, 2015). Results will be shown by using frequency tables or diagrams. According to Ritchie, Lewis, Nicholls, and Ormston (2013), diagrams are the most frequently used methods of displaying quantitative data. Diagrams were used for the analysis since they are easy to understand and to interpret. As a first step, Section A from the online survey was analysed considering the size of AIFMs measured by AUM and the jurisdiction where the AIFM is located. According to the results of the literature review, the impact of the AIFMD on fund manager managing small AIFs might be different from the impact on fund managers managing large AIFs (See section 2.5.1 for details). Furthermore, the impact of the AIFMD in different jurisdictions might vary. For example, as outlined the literature review (See section 2.5 for details) fund managers located in third countries are able to distribute their AIFs in European countries under the passport regime. Therefore, it is important to consider the size and jurisdiction of the AIFM during the analysis and. The data received by the online survey relates to the size and the jurisdiction. As a second step, Section B and C analyse data with regard to the AIFMs' perception of the authorizing and operating conditions of the AIFMD. After the analysis of the data, the results of the data analysis were interpreted with regard to the research questions.

The qualitative data collected by the personal interviews was analysed by coding and categorizing the collected data. Therefore, the data was prepared and coded based on defined categories. Before the data was coded, the coding scheme was tested. For the whole analysis process of the qualitative data the analytical software tool, NVivo was used. Conclusions were drawn from the coded data with regard to the impact of the AIFMD on AIFMs' business models and summarized in a finding report. Based on this, qualitative data was interpreted with regard to the research questions.

5.2 Interview data analysis

5.2.1 Analysis of empirical and statistical data

37 valid responses to the online survey were received. The general information regarding the fund managers provided in Section A of the online survey will be analysed followed by the data with regard to the authorization of AIFMs as provided in Section B. Finally, the data with regard to the AIFMs' experience of the operating conditions of the AIMD will be analysed. The following AIFs participated in the online survey:

Table 21: Participants of the Online Survey

No.	Legal name of AIFM
1	Hauck & Aufhäuser INVESTMENT GESELLSCHAFT S.A.
2	DSC Deutsche SachCapital GmbH
3	Ares Management Ltd
4	Pantheon Ventures UK
5	Invest in Visions GmbH
6	UBS Hedge Fund Solutions
7	Selinus Capital Advisors
8	Deka Immobilien Investment GmbH
9	PATRIZIA WohnInvest KVG mbH
10	PATRIZIA GewerbeInvest KVG mbH
11	HCV Hanseatische Capital Verwaltung GmbH & Co. KG
12	Metzler Real Estate GmbH
13	Bedrock Asset Management (UK) Ltd
14	CACEIS Banque Luxembourg
15	Wellington Luxembourg Sarl
16	Dr. Peters Asset Finance GmbH & Co. KG Kapitalverwaltungsgesellschaft
17	Fisch Asset Management AG
18	LaSalle Investment Management Kapitalverwaltungsgesellschaft mbH
19	Albourne Partners Deutschland AG
20	Partners Group
21	Mission Capital Management Services L.P.
22	Hyde Park Investment Ltd
23	Mercer Private Markets (Luxembourg) S.à.r.l.
24	Invesco Real Estate
25	wpd invest GmbH
26	UBS AG

27	Oceano One AG
28	UBS AG
29	Swiss Re Management Ltd.
30	Franklin Templeton Investment Management Ltd.
31	Alternative Funds Advisory
32	Swiss Re Management Ltd.
33	Swiss Life Fund Management (LUX) SA
34	LGAL Capital GmbH & Co. KG
35	Prime AIFM GmbH
36	Garbe Logistic Management Company Sarl
37	Fisch Asset Management AG

Source: own compilation, 2017

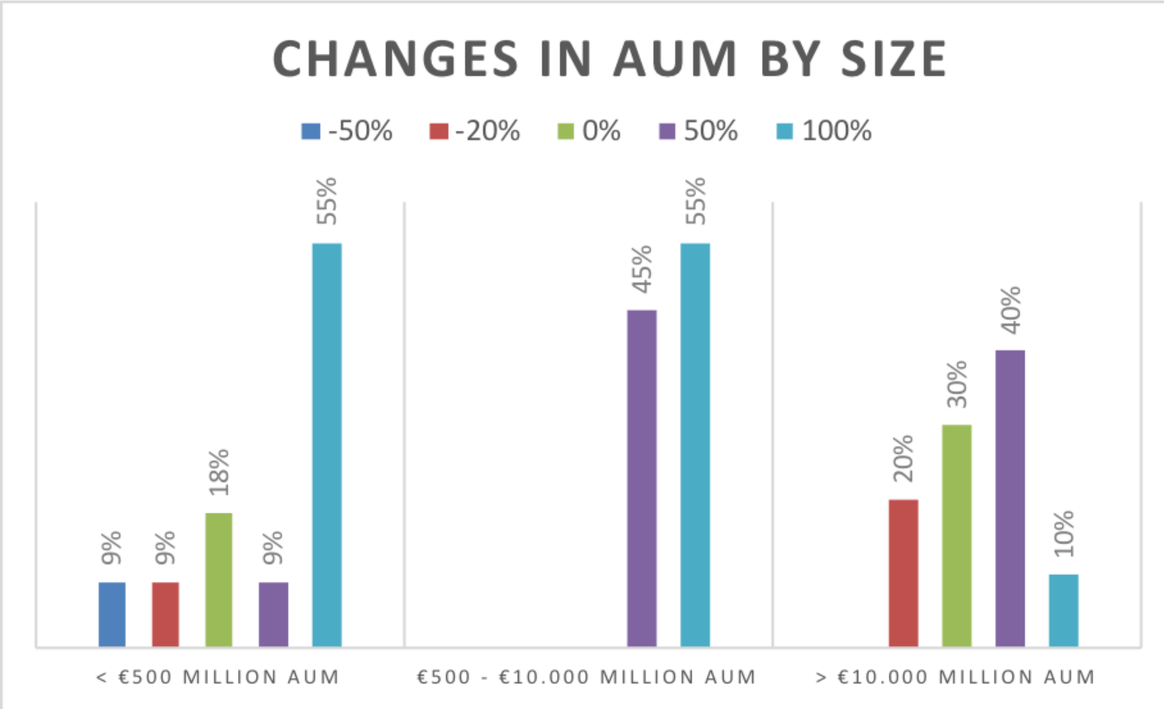
All answers were provided by appropriate experts within the AIFM such as CEO, CFO, Compliance Officer, Portfolio Manager etc. The AIFMs who provided answers to the survey have businesses located in countries where the main asset management centres are located, e.g. Germany, Luxembourg, Switzerland, UK, The Cayman Islands and Ireland. More than 60 % of the AIFMs who participated in the online survey are located in Germany or Luxembourg, followed by 23% participants from Switzerland and one participant from The Cayman Islands. The results of the participants from these Non-EU countries will be particularly interesting to look at since the AIFMD allows AIFMs based in non-EU countries to distribute their funds under the passport regime in EU countries. This way of distribution did not exist before the AIFMD. All AIFMs who participated have AIFs under their management, however, 32 % of the participants also manage UCITS or other types of funds such as SPVs, offshore funds, managed accounts, etc. The business model of fund managers only managing AIFs might look different from the business models of fund managers managing AIFs and UCITS or other funds. Fund managers only managing AIFs have not been impacted by regulation or low national regulation before the AIFMD was released but the businesses of fund managers of UCITS have already been subject to regulation before the AIFMD was released by the UCITS directive. The conclusions of the online survey will therefore be interesting when results are related to the type of funds the AIFM manages. The size of the fund managed by the participant in the online survey is also important, as outlined in the section above.

Almost 40 % of the participants in the online survey are AIFMs managing smaller AIFs as measured by their AUM.

As outlined in the section above, the data will be interpreted with regard to the different countries the AIFMs operate in and the size of their business as measured by AUM. AIFMs were asked in the online survey how their AUM had changed in the last 5 years. The period of 5 years was chosen as it covers the time before the AIFMD regulation came into effect and a period of time when the AIFMD was already implemented. AUM are used as an indicator of the size of the AIFM and the market penetration (Investopedia, 2015). In terms of this research thesis, AUM are used to measure the success of the business models of the AIMFD since it is a common procedure that the management fee the AIFM receive is a fixed percentage of the AUM. The AIFMD may have a positive effect on business models of AIFMs if the AUM is increasing, since the AIFMD opens new distribution possibilities, increases attractiveness to investors, etc. On the other hand, the AIFMD may have a negative effect on the business models of AIFMs if the AUM is decreasing, since the business of the AIFM may face higher administrative costs resulting in lower returns for investors. AIFs may be less attractive to investors due to the increased costs of AIFMs who charge a higher management fee.

According to the online survey, the AUM has changed in the last 5 years from -50 % to 100 % for specific fund managers. Figure 15 highlights how the AUM has changed for managers of small, medium and large AIFs.

Figure 15: Changes of AUM in the last 5 years by size of the AIFM



Source: own elaboration based on the online survey, 2016

It is noticeable that independent from their size, the AUM of the majority of AIFMs interviewed is increasing rather than decreasing. This can be explained by the appeal of AIFs to investors. AIFs are enjoying increasing popularity amongst investors because of the low interest rate level worldwide. However, smaller and medium AIFs show the strongest growth in terms of AUM.

According to the online survey, the AIFMs based in The Cayman Islands, Luxembourg and Ireland have the strongest growth rate of AUM. This is not surprising, since Luxembourg, The Cayman Islands and Ireland are countries which provide excellent conditions for AIFMs in terms of regulation (Majcen, 2012). The Cayman Islands is a favourite place for fund managers setting up their fund structure since the administration and foundation costs are very low there due to the low regulation. In addition, fund managers based offshore are able to distribute their funds in Europe under the passport regime of the AIFMD which was not possible before the AIFMD regulation was released. However, the AIFMD might not be the only reason for the growth in AUM. As mentioned above, the low interest rate level might be the reason for the growth in AUM. Other reasons such as personal behaviour or lack of investment alternatives might also be a reason. In order to eliminate other reasons than the AIFMD, the participants were asked whether their AUM changed because of the AIFMD. According to the online survey, almost half of the participants (47%) stated that their AUM changed due to the AIFMD regulation. The other half did not see any impact from the AIFMD on the AUM. The following figure shows the result by size of the fund manager.

Figure 16: change of AUM caused by the AIFMD shown by size of fund manager

Source: own elaboration based on the online survey, 2016

Based on the results of the online survey, the majority of fund managers managing smaller AIFs (over 60 %) assume that the AIFMD impacted their AUM. However, the majority of fund managers managing medium AIFs (over 70%) do not believe that the AIFMD impacted the AUM. Fund managers of large AIFs did not specify whether the change in AUM is caused by the AIFMD. Since the impact of the AIFMD on business models may differ from country to country due to the heterogeneous application of the AIFMD in different EU countries, it is worth looking at whether or not the AIFMs located in the different jurisdictions assume a change in their AUM is caused by the AIFMD. According to the survey results, in almost every jurisdiction some of the AIFMs assumed there was an impact of the AIFMD on their AUM as shown in Appendix 6. However, the majority do not believe that the AIFMD has an impact on their AUM. The results from The Cayman Islands and Ireland were not significant as only one AIFM from each country responded to the survey.

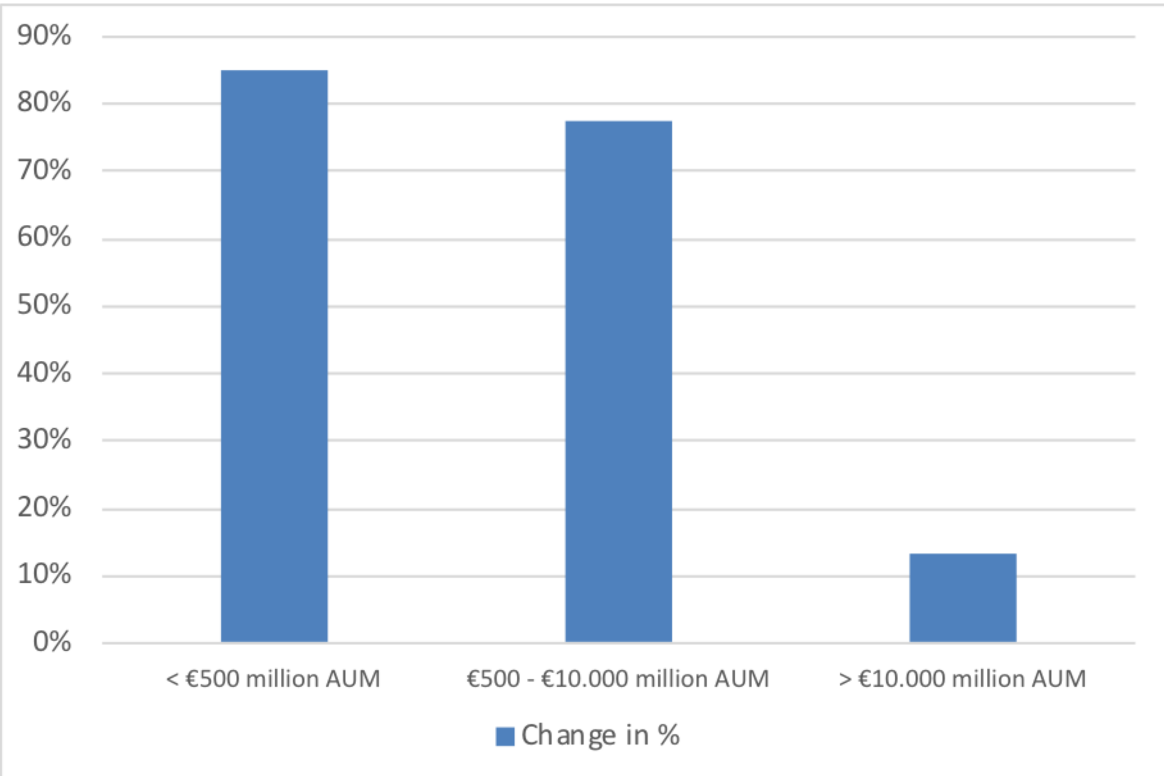
Irrespective of the jurisdiction or location of the AIFM, almost half of the AIFMs do not see any impact of the AIFMD on their AUM. Nevertheless, a look at those AIFMS who do not assume an impact reveals an interesting result. According to the survey results more than the half of the AIFMS (53%) who do not assume an impact are funds managers of smaller AIFMs (less than € 500 million AUM). 34 % of the AIFMS who do not assume an impact are fund managers of larger AIFMs (more than €10,000 million AUM). Only a few are fund managers of medium AIFs.

This result seems to be in line with the result outlined in the course of the literature review. According to De Manuel (2012), the impact of the AIFMD on fund managers of smaller AIFMs is low, since they are able to profit from the threshold regulations of smaller AIFMs (See chapter 1.5 above). The impact on fund managers of larger AIFs is also low due to their economic scale (Goldstein & Véron, 2011).

The asset categories in which the fund managers invest in with their AIFs do not have any impact on whether the AIFM is subject to the AIFMD regulation. Asset categories are traditional assets such as share or bonds, real estate, private equity or venture capital, infrastructure assets such as renewable energies, hard- or soft commodities, etc. When marketing AIFs to retail investors, AIFMs in EU member states are allowed to impose stricter requirements (Article 43 AIFMD). Specific asset categories may not be allowed or a specific mix of different asset categories might be prescribed. Such a regulation was already imposed by the UCITS (“eligible assets”). Therefore, AIFMs who were asked whether their type of AUM had changed as a result of the AIFMD said that the impact of the AIFMD was low. Almost 80 % of the participants assumed no impact on asset categories.

The last part of the analysis of the general information covers the direct impact of the AIFMD from an organizational point of view on business models of AIFMs. In order to measure how the business models were restructured in terms of employment rate due to the new regulations of the AIFMD, participants were asked to provide the number of employees during 2010 (before AIFMD) and 2015 (considering the AIFMD impact). The development of total employment between 2010 and 2015 is shown in Figure 17. An increasing employment rate might indicate a growing business; however, it might be necessary in order to fulfil administrative tasks that increased due to the requirements made by the regulator. Therefore, participants were asked to provide the number of employees concerned with compliance matters between 2010 and 2015.

Figure 17: Development of total employees between 2010 and 2015



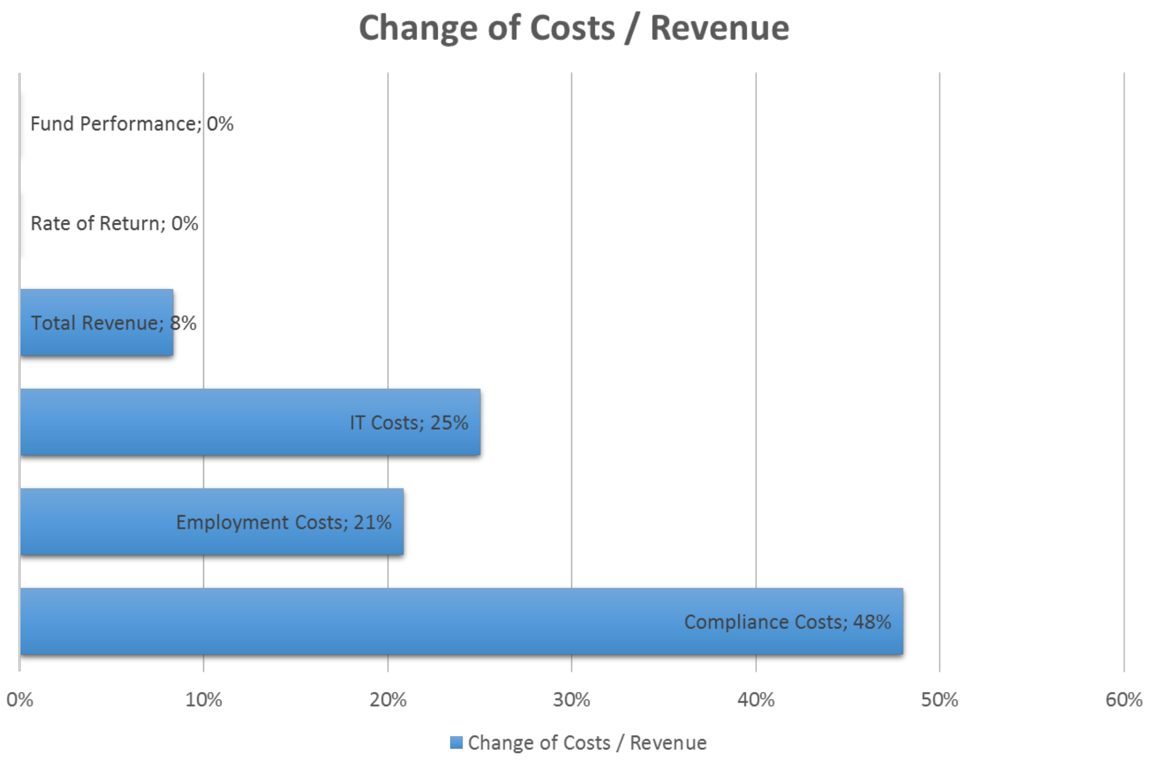
Source: own elaboration based on the online survey, 2016

Overall, the employment rate increased between 2010 and 2015, independent of the fund size of the fund manager. However, the employment rate of fund managers managing smaller AIFs increased substantially whereas the employment rate of fund managers managing larger AIFs only moderately. According to Ng (2012), the AIFMD enables fund managers of smaller AIFs or fund managers who are placed in Non-EU countries to distribute their AIFs in Europe.

The same situation can be seen with employees who are concerned with compliance. According to the online survey, between 2010 and 2015, employees concerned with compliance topics of AIFMs managing smaller AIFs increased disproportionality compared to the employees of AIFMs managing larger AIFs. Nevertheless, it can be noted that more employees concerned with compliance were hired in 2015 than employees concerned with other topics, independent of the fund size.

In addition to the development of the employment rate, AIFMs were asked how costs and revenue changed as a result of the AIFMD regulation between 2010 and 2015. For example, the compliance costs may have increased due to the more complex regulation. Analysis of the results of this question is interesting. Between 2010 and 2015 the rate of return stayed the same with a small increase of total revenue independent from the jurisdiction where the AIFM is based or from its size or fund performance.

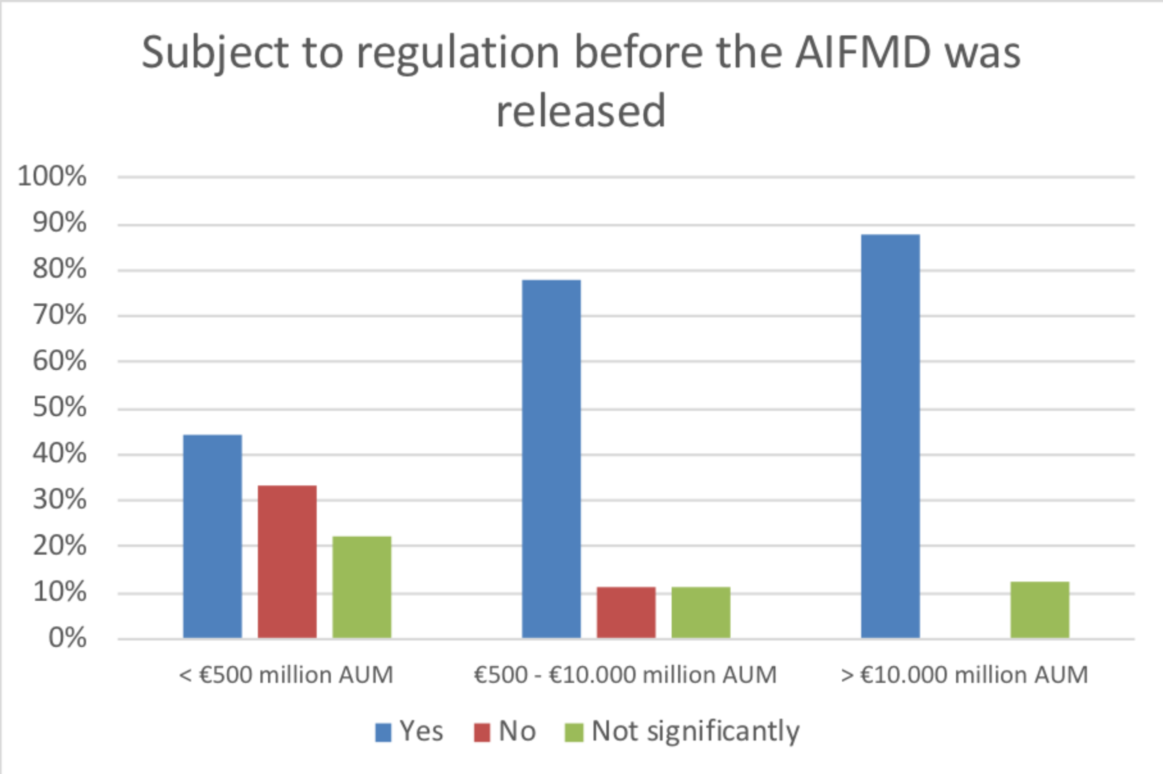
Figure 18: Development of several costs, performance indicators and revenue between 2010 and 2015



Source: own elaboration based on the online survey, 2016

In contrast, costs increased from 25 % to 48 % for compliance between 2010 and 2015, as shown above. Costs for employment increased by 21 % between 2010 and 2015, which is in line with the increased employment rate outlined before. Participants of the online survey were asked whether their business was subject to regulation before the AIFMD was released. According to the results of the online survey, over 70 % of the participants were subject to regulation before. Participants stated that their business is subject to UCITS, EMIR, MIFID, etc. German participants are also subject to the KAGB. Thus, the business of the AIFMs was subject to several regulation standards before the AIFMD was released. In the light of this, it seems remarkable that costs for IT-systems and compliance have increased that much over the implementation period of the AIFMD. Obviously the AIFMD affects the business structure of AIFMs significantly in terms of compliance and IT infrastructure. This reflects the results of Malcolm et al. (2009) who concluded that the AIFMD will impose significant one-off costs and on-going compliance costs, as outlined in the systematic literature review (See section 2.5.1). One result of the personal interviews which were held with selected AIFMs (See section 5.2.3) was that the AIFMD is perceived as “the most comprehensive regulation framework in the Alternative Investment Market”.

Figure 19: Regulatory Impact on fund managers before AIFMD



Source: own elaboration based on the online survey, 2016

According to the online survey, all AIFMs independent of their size, were subject to regulation before the AIFMD was released. However, it is remarkable that almost 90 % of the AIFMs managing large AIFs stated that they were subject to regulation before the AIFMD whereas only some of the AIFMs managing small AIFs were subject to regulation before AIFMD. These results lead to the conclusion that the integration of the AIFMD requirements into the fund manager’s business model is easier for fund managers managing larger AIFs than for fund managers managing smaller AIFs. The business model for fund managers of larger AIFs should have an internal structure (IT, human resources, etc.) which is able to meet the AIFMD requirements. This reflects the findings of Ambrosius and Fischer (2011), who concluded that the impact of the AIFMD for managers of larger funds is lower than that for smaller funds, since they can handle the requirements of the AIFMD in a more efficient way. On the other hand, adapting the business models might be more complex for fund managers of larger funds since established and specific structures need to be adapted. This discussion was held during the personal interviews and the results will be discussed in the respective section.

In accordance with the AIFMD, AIFMs have to authorize their business with the national supervisory institution (e.g. BaFiN in Germany). Authorization has a fundamental impact on the business models of AIFMs since the business models of AIFMs need to fulfil several requirements of the AIFMD such as reporting requirements. The impact of the respective requirements on the business model is subject to the analysis of the data provided in Section C of the online survey. In the following section, the data will be analysed with regard to the authorization of AIFMs, as provided in Section B.

AIFMs were asked in the online survey whether they had already authorized their business or intended to do so. According to the results, almost all (over 90 %) of the participants have already authorized their business. The remaining ones are intending to authorize their business and have not done this so far as they only started their business recently. In order to understand how business models have changed as a result of the AIFMD, the reasons for authorization need to be understood as well as the value the AIFMS ascribe to these reasons. Therefore, participants were asked to indicate the importance of the authorization of their business in accordance with the AIFMD regulation on a scale from 1 to 5, where 1 indicates low importance and 5 indicates high importance. The online survey revealed the following business aspects showing the rating average in brackets:

- Staying competitive (3.8)
- Possibility of offering new investment products (3.7)
- Compliance (3.5)

- Distribution of investment products (3.5)
- Going concern purposes (3.0)
- Legal considerations (2.9)
- Delegation of management functions (2.8)
- Risk purposes (2.7)
- Other (2.0)

Several other reasons for authorization were stated by participants under “Other”. However, most can be summarized under one of the above mentioned business aspects, although worded in a different way (e.g. “to be able to provide loans in Germany” = “distribution of investment products”). The following aspects are worth mentioning since they differ from the above stated aspects:

- “we are managing German “Spezialfonds”; we therefore had no choice to be regulated or not”
- “More Transparency”
- “Risk management purposes”
- “Underlying assets”

The main reasons for authorizing the business of AIFMs was perceived as being business model related (staying competitive, distribution of new products, going concern etc.) or as a binding obligation set by the regulator without personal choice to authorize if the business model should be going concern. The answers to this question reveal the reasons why the business model is affected by the AIFMD, however, it is important to understand which specific areas of the business model are affected and how in order to answer the research questions of this thesis. Therefore, AIFMs participating in the online survey were asked to rate the effects of the AIFMD on specific areas of the business model on a scale from 1 to 5, where 1 indicates a low effect and 5 indicates a high effect. The online survey identified the following areas of business model showing the rating average in brackets:

- Compliance (3.8)

- Legal (3.4)
- Distribution/ Investor relations (3.4)
- Risk and liquidity management (3.2)
- Accounting/reporting (2.6)
- Portfolio-management/ Product-management (2.6)
- Controlling (2.4)
- IT systems (2.4)
- Tax (2.2)
- Human resources (2.2)
- Asset management (2.1)
- Property management / object management (1.8)

According to the rating results of the online survey, AIFMs have to adapt their business model with regard to the establishment or revision of compliance, legal and risk and liquidity management structures. New reporting requirements and the distribution of revised investment products impact investor relations (regulated vs unregulated before AIFMD).

In order to understand to what extent AIFMs have initiated changes to their business models and how business models still have to change in order to ensure that they are sustainable, AIFMs were asked what was the most challenging areas of their business model to adapt to fulfil the AIFMD requirements as a first step. The identified areas have to be in line with the operating conditions of the AIFMD. For example, implemented structures and procedures with regard to risk management, need to fulfil the requirements, as outlined in Article 15 of the AIFMD. Therefore, participants were asked in a second step to rate the complexity of the implementation of the different operating conditions of the AIFMD in the business model. In addition, for each operating condition of the AIFMD, participants were asked what was the biggest challenge while adapting the business model regarding the respective operating conditions and whether their business model is fully adapted to the respective operating conditions or whether further actions are required. This was accomplished by the question of what still needs to change or what kind of support (e.g. further implementation guidance) is necessary in order to fulfil the requirements of the respective operating condition of the AIFMD.

The online survey revealed the following areas of the AIFMs' business model which have adapted to the requirements of the AIFMD:

- Implementation of compensation provisions
- Structures and procedures in risk management
- Outsourcing
- Structures to avoid conflicts of interest
- Capital resources and business planning
- Structures for compliance
- Reliability testing of board members
- Depositary
- Reliability testing of shareholders
- Loads of existing business
- Leverage definition
- Wording in contracts

In order to fulfil the operating conditions of the AIFMD, the AIFMs have to create appropriate know-how and implement sufficient structures and systems. Based on the results of the online survey, the operating conditions of the AIFMD were ranked from highly complex to less complex in terms of implementation in the business model:

- Building appropriate risk management structures and systems (Art. 15 AIFMD) (3.4)
- Implementing a remuneration policy (Art. 13 AIFMD) (3.2)
- Implementing appropriate and consistent procedures for the performance of a proper and independent valuation of the assets of the AIF (Art. 19 AIFMD) (3.1)
- Implementing appropriate liquidity management systems and procedures to monitor liquidity risks of AIFs (Art. 16 AIFMD) (3.1)

- Delegation of functions (Art. 20 AIFMD) (3.0)
- Identifying and monitoring conflict of interests (Art. 14 AIFMD) (2.9)
- Requirement to use adequate and appropriate human and technical resources that are necessary for the proper management of AIFs. (Art. 18 AIFMD) (2.7)
- Transparency requirements (Art. 22 - 24 AIFMD)

The ranking uses a scale from 1 to 5, where 1 indicates less complexity and 5 indicates high complexity to integrate. As outlined above, for each of the operating conditions of the AIFMD, AIFMs were asked what was the most challenging issue during the implementation process and whether the implementation process is finished or additional procedures are required.

83 % of the AIFMs who participated in the online survey fully implemented a remuneration policy. Figures shown in Appendix 7.

The online survey identified the following areas as the most challenging in terms of implementation into the business model:

- Poor internal information or know-how
- High administrative costs

17 % of the participants located in Germany or The Cayman Islands and managing small to medium AIFs still require further implementation procedures. The following issues in terms of business model adaption were identified as yet to be undertaken or needing to be solved:

- Better internal know-how for the implementation
- Detailed case studies
- “The law does not take into account that closed end funds can't really fulfil the requirements as the rules are made for AIFMs of open ended funds”

- “More practical examples would be helpful. The examples are only for a real bank, not for an AIFM. Even the Deutsche Bank could not fulfil the requirements of the policy in the first draft...”
- Clear and further guidance from regulator of how to implement best
- Examples from BaFin or ESMA
- Support
- Example draft of a formal implementation policy
- Benchmarking and samples

89 % of the AIFMs who participated in the online survey are fully compliant with the “conflict of interests” requirements. Figures shown in Appendix 8.

The online survey identified the following area as the most challenging one in terms of implementation into the business model:

- Long duration of implementation

11 % of the participants, who are AIFMs located in Germany and or The Cayman Islands managing small or medium AIFs, still require further adaption of their business models. The following issues were identified as yet to be undertaken or needing to be solved by AIFMs:

- Simplification of internal company structures and interdependencies
- Detailed interpretation of certain local legislation
- Examples from BaFin or ESMA
- Further guidance
- Best practice to be made available

89 % of the AIFMs who participated in the online survey fully implemented or adapted risk management structures or risk management systems. Figures shown in Appendix 9.

AIFMs who already implemented or adapted risk management structures or a risk management system stated that the adaption was less complex due to the existing regulation e.g. InvMaRisk or InvG which prescribes similar requirements. With regard to the respective asset classes that are managed by AIFMs, appropriate risk management systems are already in place due to the existing local regulatory bodies in the country of operations. The online survey identified the following areas as the most challenging ones in terms of implementation into the business model:

- Long duration of implementation

11 % of the participants, who are AIFMs located in Germany or the Cayman Islands managing small and medium AIFs, still require further adaption of their business model. The following issues were identified as yet to be undertaken or needing to be solved by AIFMs:

- Best practice examples
- More flexibility to adopt the system to the specific requirements for closed-end fund business for implementation of a useful risk management system
- Risk management requirements of the AIFMD are not really suitable for closed-end funds.
- Further implementation guidance
- Translation of the existing risk data to AIFMD compliant reports
- Examples from BaFin or ESMA
- Examples related to specific assets

Most of the AIFMs whose risk management system still requires further adaption stated that they do not have a portfolio which must be monitored every day as required by the AIFMD.

83 % of the AIFMs who participated in the online survey have a liquidity management system which is fully compliant with the requirements of the AIFMD. Figures shown in Appendix 10.

The online survey identified the following areas as the most challenging ones in terms of implementation into the business model:

- Long duration of implementation
- Poor internal information or know-how
- High administrative costs

17 % of the participants, who are AIFMs located in Germany or The Cayman Islands and managing small and medium AIFs, still require further adaption of their business models. The following issues have been identified as yet to be undertaken or needing to be solved by AIFMs:

- Separation of operational liquidity management from liquidity risk management
- Adaption possible in case outstanding, however, announced regulation papers are published for the KAGB
- Examples from BaFin or ESMA
- Further guidance
- Implementation guidance

89 % of the AIFMs who participated in the online survey are using adequate and appropriate human and technical resources. Figures shown in Appendix 11.

The online survey identified the following areas as the most challenging ones in terms of implementation into the business model:

- High administrative costs caused by additional employees and software systems

17 % of the participants, who are AIFMs located in Germany or the Cayman Islands managing small and medium AIFs, still require further adaption of their business model. The following issues were identified as yet to be undertaken or needing to be solved by AIFMs:

- Understanding of the AIFMD requirements related to the use of adequate and appropriate human and technical resources
- Examples from BaFin or ESMA
- Further guidance
- Implementation guidance

89 % of the AIFMs who participated in the online survey have implemented appropriate and consistent procedures for the performance of asset valuation according to the AIFMD. Figures shown in Appendix 12.

The online survey identified the following areas as the most challenging ones in terms of implementation into the business model:

- Adaption of the current valuation systems to the AIFMD requirements

11 % of the participants, who are AIFMs located in Germany or The Cayman Islands and managing small or medium AIFs, still require further adaption of their business model. The following issues have been identified as yet to be undertaken or needing to be solved by:

- Understanding of the AIFMD requirements related to the use of adequate and appropriate human and technical resources
- Examples from BaFin or ESMA
- Further guidance
- Implementation guidance

94 % of the AIFMs who participated in the online survey have implemented appropriate and consistent procedures for fulfilling the transparency requirements of the AIFMD. Figures shown in Appendix 13.

The online survey identified the following areas as the most challenging ones in terms of implementation into the business model:

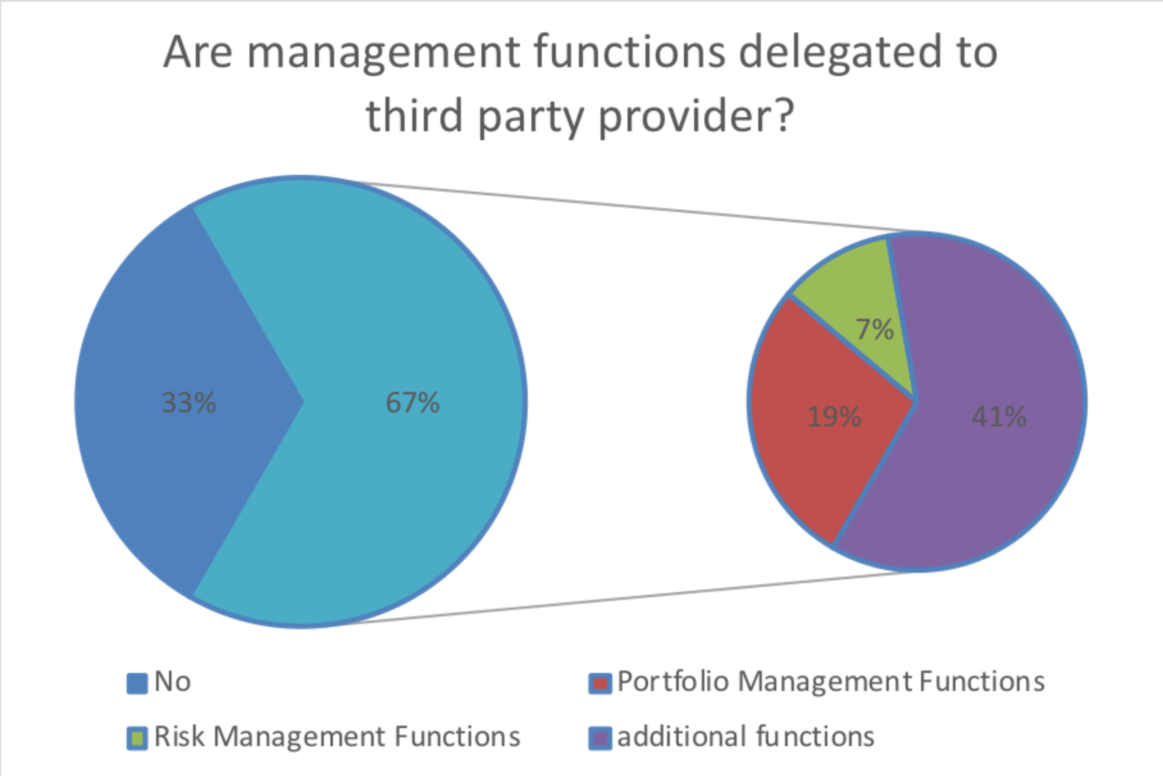
- Hiring of additional appropriate human resources
- Adaption of internal technical resources

6 % of the participants, who are AIFMs located in Germany managing small and medium AIFs, still require further adaption of their business model. The following issues were identified as yet to be undertaken or needing to be solved by AIFMs:

- Development of technical advice (e.g. AIFMD reporting)
- Examples from BaFin or ESMA
- Examples to create asset specific keydata
- Further guidance
- Implementation guidance

According to the AIFMD, the fulfilment of specific operating conditions, as outlined above, can be delegated to a third-party provider instead of internally by existing employees.

Figure 20: Delegation of Management Functions



Source: own elaboration based on the online survey, 2016

The majority of AIFMs (67%) who participated in the online survey, delegate management functions to third-party providers. As outlined in Figure 20, only 7% are delegated management functions with regard to risk and 19% are outsourced portfolio management functions. The majority of the delegated functions represent additional functions such as reporting or valuation.

5.2.2 Interpretation of empirical and statistical data

All of the answers to the online survey were given by experienced employees of the AIFMs and AIFMs managing different sized AIFs and based in different jurisdictions. This data was related to the different jurisdictions and size of the fund managed. Therefore, interpretations are valid for the main asset management locations and AIFMs managing different sized AIFs.

The online survey revealed that in general the AUM have increased rather than decreased, independent of the size of AIFs managed by the fund managers and the jurisdiction where the AIFM operates. Almost 50 % of the AIFMs believe that the AUM have been impacted by the AIFMD. Fund managers of small AIFs in particular think so. As the AUM have increased overall, the impact of the AIFMD on the business of fund managers managing small AIFs can be seen as positive in terms of distributing AIFs. The AIFMD allows AIFMs based in countries other than Europe to distribute their fund units in the European Asset Management Market. The possibility for the distribution of non-EU based AIFMs in Europe as well as the increased demand for AIFs (See above for details) will likely lead to increasing competition between AIFMs.

According to the online survey, the AIFMD leads to strategic implications for the business model of AIFMs. According to D. Zetzsche (2014), the AIFMD functions of portfolio management need to be separated from risk management functions which can be done in different ways (outsourcing vs. internal restructuring). Therefore, operating structures with regard to management, risk management and compliance have to be restructured. The online survey revealed that the restructuring impacts are considerably less for AIFMs which have already been subject to regulation before the AIFMD were released. This applies in particular to AIFMs managing medium or large AIFs. According to De Manuel (2012), fund managers of larger funds are able to adapt their business model easier than those of smaller funds. In contrast, fund managers of small AIFs should be less willing to adapt their business model since they usually do not have the necessary human resources, IT structures or know-how. This can be endorsed by the findings of the online survey. For example, the employees concerned with compliance matters have above-average increase for AIFMs managing small AIFs. However, as a result of the AIFMD AIFMs increased their internal know-how by hiring employees who are concerned with regulatory aspects in order to stay competitive and compliant within the law.

According to the online survey the AIFMD has caused AIFMs to adapt their business model with regard to IT structure, internal know-how and compliance functions, as mentioned above. This is also reflected in the development of the costs and revenue of the respective AIFMs between 2010 and 2015. Independent of the AIFMs jurisdiction or the size of the AIFs under management, the fund performance or rate of return stayed almost the same. Costs for IT, employment and compliance, however, increased up to 48 %. This leads to the conclusion that the AIFMD boosts the turnovers of AIFMs by providing further distribution possibilities for AIFMs. However, the increasing turnovers will be neutralized by increasing costs.

Over 90 % of the AIFMs have authorized their business in accordance with the AIFMD. Therefore, the AIFMD can be seen as vital for the business model of AIFMs. The results of the online survey show that AIFMs consider the AIFMD as inevitable for their business model. In general, the AIFMD is perceived as without alternative for the business models in terms of competition or possibility to distribute new investment products such as regulated investment products. According to the AIFMD, the business model is affected by different operating conditions such as risk management, remuneration, portfolio valuation etc. The online survey revealed which areas of the business models are affected by the respective operating conditions of the AIFMD, what areas have already been adapted to the respective operating condition and what actions still need to be undertaken. The results are shown in Table 22.

Table 22: Findings of the empirical and statistical data interpretation

Operating Condition	Business model area	Undertaken action	Required action
Risk management structures/systems	Risk management IT systems Human resources Compliance	Structures and procedures in risk management	- Development of best practice models - Translation of the existing risk data to AIFMD compliance reports
Remuneration policy	Legal Human resources	- Implementation of compensation provisions - Wording in contracts	- Improvement of internal know-how for implementation - Detailed case studies - Adaption for closed-ended funds - Clear and further guidance awaiting - Examples - Support

Procedures for asset valuation	Co Accounting Portfolio Management IT systems Human resources	Structures for compliance	
Liquidity management systems	Compliance Liquidity management Controlling IT systems	Leverage definition	- Separation of operational liquidity management from liquidity risk management - Further adaption when outstanding, however, announced regulation papers are published
Delegation of functions	Asset Management Portfolio Management Product Management Property Management Object Management	- Outsourcing - Depository	
Identifying conflict of interests	Compliance Legal Human resources	Structures to avoid conflict of interest	- Simplification of internal company structures and interdependencies - Detailed interpretation of certain local legislation - Development of best practice models - Examples
Human and technical resources	Human Resources IT-Systems		- Further adaption depends on further clarification (which is required)
Transparency requirements	Compliance Distribution Investor relations Accounting Reporting	Structures for compliance	- Development of AIFMD reporting - Creation of asset specific keydata

Source: own creation, 2017.

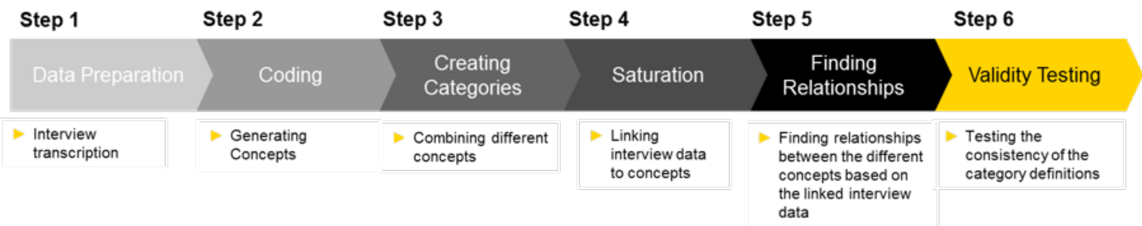
In addition to the findings shown in table 22, the online survey revealed that specific requirements are not currently convertible into the business model or the implementation of further guidance is necessary from the regulators (BaFin or ESMA) or from external consultancy firms. The majority of the AIFMs who participated in the online survey have fully implemented the operating conditions of the AIFMD in their business model. Only AIFMs based in Germany or The Cayman Islands and managing small and medium AIFs stated that further steps to adapt their business model to the requirements of the AIFMD are required. This may be due to different reasons. Fund managers based in The Cayman Islands do not fulfil the requirements of the AIFMD unless they want to distribute their funds to European customers. This might be the reason for the adaption of the business model. Furthermore, the online survey revealed that fund managers of small AIFs in particular do not feel comfortable with the transition of the AIFMD requirements into their business model. Almost all of the participants stated that further guidance including implementation guidance or examples of how to implement from regulatory authorities would have been useful for adapting the specific operating conditions of the AIFMD into their business model. Therefore, the online survey uncovered some uncertainty of whether the AIFM is compliant with the requirements of the AIFMD. This explains why 85% of the AIFMs who participated in the online survey used external advisors such as consultancy firms in order to adapt their business model to the AIFMD requirements in addition to, or instead of, using internal human resources. The use of external advisors allows the engagement of professionals who seem to be familiar with the AIFMD requirements. Furthermore, the risk of not being compliant with the AIFMD can be shared with external advisors. Several of these issues revealed by the online survey were discussed during the personal interviews with fund managers.

Interpretation of the analysis of the empirical and statistical data will be made during the analysis of the qualitative data derived from the interviews and adapted or modified as appropriate.

5.2.3 Qualitative data analysis

Before analysing the data from the personal interviews, a framework has to be set to guide the analysis of data. This framework will be outlined in the following sections. The qualitative data derived from the personal interviews was analysed by using “coding” as an analysing tool. During the coding process, data was broken down into different chunks which were named. Codes, “serve as shorthand devices to label, separate, compile, and organize data” (Charmaz, 1983, p. 186). The data prepared (step 1) was analysed by examining many indicators such as behaviour, actions, meanings, etc., comparatively and coding them by naming them as indicator of a class of events or behavioural actions (Strauss, 1987). This coding process (step 2) generated different concepts. A constant comparison (step 3) of indicators and concepts found in the qualitative data generated a list of coding categories which was applied to the qualitative data after testing the consistency of the coding categories against the collected data. Afterwards, coding categories were saturated through the coding process (step 4). Key themes, patterns and relationships between categories were searched (step 5) and tested in order to ensure their validity (step 6). The relationship was interpreted and conclusions for the research questions were made considering existing research and publications. The whole coding process is shown in the following figure.

Figure 21: Coding process



Source: own compilation, 2017

5.2.3.1 Preparation of data

All interview data from the personal interviews was prepared before it was analysed. Therefore, all the interviewer’s questions and the answers of the interviewees received during the interview were transcribed according to academic requirements.

5.2.3.2 Deployed categories and coding scheme

The transcripts were analysed by applying an inductive content analysis to identify which themes or issues emerged to follow up on and concentrate on (B. Glaser and Strauss, 1967); Schatzman and Strauss, 1973). The inductive content analysis is appropriate for research which intends to develop theory (B. G. Glaser, 2002). However, applying an inductive content analysis does not mean that elements of a deductive approach are excluded per se (Patton, 2002). Developing a theoretical position and then testing its applicability through subsequent data collection and analysis is also useful for qualitative research. A theoretical position was developed from the findings of the systematic literature (See section 2.5.1). This will be validated from the data collection and analysis from the personal interviews. The research is based on the findings of the systematic literature review and so an initial list of coding categories which are based on codes or labels developed from the theoretical position with regard to the respective AIFMD requirement or impact and this theoretical position. This was then validated or rejected within the course of analysis as new categories emerged inductively (Miles & Huberman, 1994). Furthermore, the identification of coding categories was guided by the research questions and objectives.

During the analysis, a code was assigned to a text chunk of any size that might be relevant for answering the respective research questions (Zhang & Wildemuth, 2009). As the questions in the personal interviews are each linked to one of the four research questions and asked in logical order (See section 3.3.1.4), transcripts were divided into four different text chunks. The first part was for interview questions with regard to research questions 1; the second for interview questions with regard to research questions 2 etc. Categories were used to group the different text chunks in order to provide a structure that is relevant for analysing the data further in order to find answers to the research questions. The following list of coding categories for exploring the perception of AIFMs regarding the AIFMD were applied:

1. Transition of the AIFMD into national law
2. Improvement requirements of the AIFMD
3. Impact of the AIFMD on business models (identified retrospectively)
4. Changes applied to business model (applied retrospectively)

5. Adjustments applying to business model (still ongoing)
6. Adjustment requirements of business model (in future)
7. Advantages and disadvantages of the AIFMD for AIFMs
8. Change of investment products offered
9. Change of fund market (retrospective)
10. Change of fund market (in future)
11. Benefits and drawbacks from change of fund market environment
12. Future challenges for AIFMs

Names for categories or codes have been derived from terms used in existing theory and the literature (Corbin & Strauss, 2008). The coding categories were saturated with the respective text chunks matching the coding category. NVivo, a tool for analysing qualitative data, was used to process the data. Sometimes it was necessary to assign a text chunk to more than one coding category simultaneously. This is an accepted procedure for qualitative data analysis (Tesch, 1990). The categorization process can either be undertaken deductively with coding categories identified prior to the data analysis and text chunks assigned to the categories afterwards, inductively with codes emerging from the data or abductively with codes emerging iteratively (Onwuegbuzie & Leech, 2007). The categorization process was based on the assignment of the text chunks to the initial list of coding categories and defining the property of the coding category and developed during the categorization process. The property could be understood and defined by comparing each text chunk assigned to a category with the text already assigned to the respective category (Zhang & Wildemuth, 2009). The crucial requirement was that there was a permanent fit between the text chunk and the property of coding category. New categories emerged by identifying new key themes, patterns or relationships from the interview data, as mentioned above. If a relevant text chunk did not fit into an existing category, a new category had to be created (Offredy & Vickers, 2010). The whole categorization process is an iterative process, which takes place until all interview data has been analysed and assigned to an appropriate coding category.

5.2.3.3 Code scheme testing

The first transcribed interview was tested for consistency of the defined coding categories. The coding categories were applied to the different text chunks of the interview transcript all text chunks, which seemed relevant for the research were checked and assigned to a specific coding category. New coding categories were developed where appropriate. The procedure was repeated until logical coding categories were achieved. Even using specified computer software coding might be prone to error, although it reduces the likelihood (Zhang and Wildemuth, 2009) so the consistency of coding needs to be checked permanently during the whole coding process. The coding consistency check is an iterative process, which was repeated until sufficient coding consistency was achieved (Weber, 1990).

5.2.3.4 Coding of the interview transcriptions

The coding categories were applied to all interview transcripts. The procedures of the code scheme testing were applied repeatedly to ensure coding consistency and the quality of the applied coding categories, as outlined above. If relevant text units could not be applied to existing coding categories, new coding categories were added to the coding manual.

5.2.3.5 Conclusions from the coded data

The interview data was analysed after generating the coding categories, checking them and reorganizing the text units accordingly Dey (1993), Miles and Huberman (1994), Yin (2003)). During this process, key themes, patterns and relationships between categories were searched by identifying determinants, sub-determinants and their relationship to each other. By explaining the relationship between categories and (sub-)determinants it became obvious that specific coding categories could be integrated into others while other coding categories needed to be subdivided further as a way of refining or focussing the analysis (Dey, 1993).

5.2.3.5 Findings report

In addition to recognizing and explaining relationships between categories, the appearance of an apparent relationship between the categories needed to be tested to conclude that there was an actual relationship. Alternative explanations may exist and only by testing the relationships that are identified can valid conclusions and explanatory theory be made (Miles & Huberman, 1994). For example, there might be a relationship between decreasing returns of AIFs and the publication of the AIFMD, since the AIFMD may cause higher costs which in turn lowers the returns of the AIFs. However, there might be a different explanation for decreasing returns such as competition, market environment, increased labour costs, etc. (Dey, 1993, p. 48) points out that 'the association of one variable with another is not sufficient ground for inferring a causal or any other connection between them'. Therefore, relationships were tested by looking for alternative explanations and seeking to explain why the recognized relationship occurred. This was done with the support of quotations from existing research. In addition to the quotations used to validate the drawn conclusions, other methods such charts, figures, tables, etc. were used to support the conclusion. The validity of the conclusions is verified by their ability to withstand alternative explanations (Miles & Huberman, 1994), as described below.

5.2.4 Interpretation of Qualitative data

In this section, the qualitative data gathered during the personal interviews will be analysed and discussed. The data was gathered by interviewing 12 fund managers managing a range of Alternative Investment Funds (AIFMs) in terms of business size and jurisdiction and one professional from the BVAI. As outlined above, the questions asked during the interviews are sub-ordinated questions from the four main research questions. The sub-ordinated questions were asked in chronological order, as stated in the interview guide. The analysis and interpretations of the answers will follow the order of the questions in the interviews. However, interposed questions were asked where appropriate in order to reach further clarification or to follow up any important aspects. The interview data are displayed with PX, where P stands for participant and X for the number of the participant. Details of the size of the AIFM, the seniority of the interviewee and the jurisdiction of the business can be seen in the following table:

Table 23: overview of research participants

No.	Institution / Fund manager	Size of AUM	Seniority	Jurisdiction
P1	BVAI	n/a	n/a	n/a
P2	Rantum Advisors GmbH	small	Portfolio Manager	Germany
P3	Rantum Capital Management GmbH	small	Managing Director	Germany
P4	Ocean One AG	small	CEO	Switzerland
P5	Mercer Private Markets		Head Legal & Compliance	Luxembourg
P6	Franklin Templeton Investment Management Ltd.	medium	Director	worldwide
P7	Albourne Partners Deutschland AG	medium	Partner	Germany
P8	Partners Group	medium	Assistant Vice President	Germany
P9	CACEIS Banque Luxembourg	large	Business Development Director	Luxembourg
P10	Ares Management Ltd.	large	Managing Director	USA
P11	Swiss Re Management Ltd.	large	Director	Switzerland
P12	UBS Global Asset Management	large	Regional Head of Sales	Switzerland
P13	Invesco Real Estate	large	Portfolio Manager	worldwide

Source: own compilation, 2017

In addition, the qualitative data is compared to the secondary data gathered during the literature review. Any discrepancies between the opinion of the participants and that of the relevant literature was analysed and discussed.

The first part of the semi-structured interview guide was used to gather data in order to answer the following research question:

RQ1: How have traditional business models employed by managers of AIFs changed as a result of the AIFMD?

The following coding categories were identified during the analysis of the interview data in order to answer RQ1:

- Transition of the AIFMD into national law
- Impact of the AIFMD on business models (identified retrospectively)
- Advantages and disadvantages of the AIFMD for AIFMs
- Changes applied to business model (applied retrospectively)

Transition of the AIFMD into national law

The personal interviews revealed that there were different procedures for the transition of the AIFMD into national law in each EU member state. This reflects the conclusions found in the most common literature. For example, in some countries only the AIFM requires authorization by the national supervision, whereas in others the AIFM and the launched AIFs both require supervision authority. According to D. A. Zetzsche (2012), AIFMs will shun jurisdictions with AIF authorization requirements. Traditional business models of AIFMs had to change as a result of the heterogenic transition of the AIFMD.

As a third country, the application of national regulation of AIFMs in Switzerland was similar to the AIFMD. According to the Head of legal and compliance of Mercer, this is positive for the business of AIFMs based in Switzerland in terms of business interaction with European countries. Since Swiss law for AIFMs has always been similar to European law, only minor changes of the business models of AIFMs based in Switzerland were necessary. However, regarding the distribution of AIFs business models have to change more significantly.

> “I personally think that the extent of the European Passport Regime will still take a while. This means from our business perspective we had to build up a Luxembourg AIFM since Switzerland AIFMs are not yet permitted to be distributed directly in Europe. (P5, Head Legal and Compliance).

> “AIFMs which will be found in Switzerland require a distribution partner, making communication partly difficult with investors” (P11, Director).

According to the interviewed AIFM the adaption of the business model regarding the distribution of AIFs may take a while. In conclusion AIFMs based in third countries had to establish a business based in a European country. The purpose of the AIFMD was to harmonize the business of AIFMs in Europe (Dornseifer, Jesch, Klebeck, & Tollmann, 2013), which has not been achieved based in the view of the AIFMs who were interviewed.

> “I think the advantages which were desired by the AIFMD, such as higher control, transparency and standardization of the business model have not been given by the transition of the AIFMD into national law” (P8, Assistant Vice President).

Because of the different procedures for transition of the AIFMD in the different EU member states, the business models of AIFMs had to change their set-up.

> “International AIFMs in particular had problems with the transition of the AIFMD on their side, since, I do not know exactly, however, the AIFMD has transitioned 22, 23 differently. A unique European transition has not happened. AIFMs have adapted their business and now have a long list of what they are allowed to do and not allowed to do in a respective country” (P7, Partner).

In contrast to Luxembourg, the “investment fund world” was fully rearranged by the transition of the AIFMD (P9, Business Development Director). According to a portfolio manager interviewed from Invesco Real Estate, the transition of the AIFMD represents a full rearrangement from an institutional point of view of the regulations for open-ended real estate funds rather than the transition of the AIFMD into national law.

> “The valuation requirements in Germany are far too complex and, in my eyes, illegal, whereas a pragmatic approach was applied in terms

> of marketing requirements which seemed to be formal, however pragmatic for our business model" (P13, Portfolio Manager).

A similar picture emerges with regard to debt funds. The transition of the AIFMD requirements for debt funds in all European countries is far behind the regulation which is required in Germany (P10, Managing Director). The personal interviews revealed that the extent of change in the business models increased in countries with more specific national procedures for transition of the AIFMD. For example, in Ireland,

> "an AIF is defined as AIF without any interpretation whereas in Germany it felt as if more than 50 variations of AIFs exist. Therefore, in the adaption of the business model, country-specific knowledge is required" (P4, CEO).

In conclusion, the changes applied to traditional business models are highly dependent on the country where the AIFMs operate or seek to operate. Furthermore, some AIFMs stated that they are not well informed enough with regard to the transition of the AIFMD into national law.

Impact of the AIFMD on business models and changes applied to business models as a result (identified retrospectively)

The discussion of the existing publications and literature (See Section 2.) and the findings of the online survey outlined above reveal that the AIFMD impacts the business models in terms of authorization, operating conditions and marketing (passport regime). The business models of all of the interviewed AIFMs have been impacted by the AIFMD. The personal interviews revealed that most of the AIFMs see their business models as compliant with the requirements of the AIFMD which endorses the findings of the online survey. Changes have been applied to the business models with regard to authorization requirements, operating conditions, transparency (reporting) and marketing (passport). This is not in line with several literary opinions discussed in the course of the systematic literature review. Aeberli (2010) concluded that smaller AIFMs in particular would have problems with adapting their business models to the different AIFMD requirements. However, this conclusion was not too far off-track, as the results of the personal interviews showed the larger the AIFM, the easier the requirements of the AIFMD can be implemented into the business model:

> “We have a larger office in the UK already where many procedures have already been implemented which were necessary for the authorization; where new procedures such as investment committees, etc. were easy to implement” (P8, Assistant Vice President).

> “The advantage in terms of business model adaption was that [large AIFM] has already been present before AIFMD in Ireland and Luxembourg with larger business units and therefore could leverage the adaption of the AIFMD requirements in a good way” (P12, Regional Head of Sales).

For AIFMs who do not have the advantage of a business which is already authorized under the AIFMD (especially smaller AIFMs), the authorization imposes significant additional costs. Larger AIFMs of course provide AIFMD expertise in-house. However, in terms of business model adaption, significant one-off costs were incurred for external advisers and lawyers (P12, Regional Head of Sales). On the other hand, the AIFMD offers potential for smaller AIFMs. Thus, the AIFMD seems interesting even for smaller AIFMs, since it enables them to acquire new clients (for example P1, P3 and P4). “Institutional investors in particular are seeking for regulated investment products due to their investment structure” (P9, Business development director).

According to the personal interviews with AIFMs, traditional business models have been changed with regard to compliance, management and operations. The following areas of the business model were mentioned by the AIFMs interviewed:

- Human resources have been improved, especially with regard to compliance, legal and risk management

- Process descriptions have been adapted or introduced
- Typical systems such as risk evaluation systems or valuation systems have been adapted or expanded to the requirements of the AIFMD

In addition, the analysis of the interview data revealed some further interesting aspects with regard to the impact of the AIFMD on business models and how the AIFMs have changed their business models as a result. Due to costs in the different member states, smaller and medium AIFMs in particular have decided where to offer investment products in the future and adapted their business models accordingly:

> "The distribution of fund units, depends on the European Passport Regime, therefore we have adjusted our business model with regard to the marketing of fund units. In this case, we noticed that the European member states have individual notification fees. This ranges from symbolic fees amounting to 10, 20, 50 or 100 Euro per Subfund up to three- or four-thousand Euro per Subfund in France, for example. This leads us to the conclusion that we have removed France from our distribution activity" (P5, Head Legal & Compliance).

For the same reason, other AIFMs decided to concentrate their business in an EU member state with a good regulatory environment (P1, BVAI) or decided "to offer solely regulated investment products" (P13, Portfolio Manager).

According to an Assistant Vice President interviewed in Germany, further requirements such as additional reports have been established as market standards exceeding the requirements of the AIFMD which are not applicable to private equity funds.

Advantages and disadvantages of the AIFMD for AIFMs

One point made by the literature review was that the advantages and disadvantages of the AIFMD might depend on the different business size of the

AIFMs or on which jurisdiction the AIFM operates. AIFMs were asked whether they perceived advantages or disadvantages of the AIFMD for their business and how they adapted their business model as a result. The majority of the research participants considered the AIFMD as advantageous for their business.

> “Without the AIFMD fund raising in Germany and seeking investors would have been difficult” (P10, Managing Director). “The AIFMD provides a well-known benchmark of how your business model set-up has to look. The fulfilment of this benchmark represents a specific quality feature” (P10, Managing Director).

> “If the business model is adapted to the AIFMD and authorization under the AIFMD is reached, it is easy to set-up investment structures” (P5, Head Legal & Compliance).

On the other hand, a few research participants, mainly those not based in a member state, could not verify that the AIFMD had advantages for their business model.

> “Furthermore, the AIFMD increased the compliance, which is I think a positive effect. However, it complicates the receipt of specific reports. I would not call the AIFMD a bad regulation. However, for our business I cannot recognize advantages” (P11, Director).

This is not in line with the findings of the literature review. The overall bibliographic result was that AIFMs based in third countries in particular profit from the passport regulation of the AIFMD since the passport regimes enable them to distribute their investment products in European countries (Ng, 2012). This discrepancy might be explained by the fact that AIFMs based in third countries, such as the USA might have missed the recent regulatory developments in Europe or been advised in the wrong way:

> “By the adaption of the business models with regard to the AIFMD, many US AIFMs engaged US Legal Advisers, less European Advisers

> who were not familiar with the directive, which was a mistake according to my understanding. As a result, AIFMs based in the USA lowered their fund raising, especially AIFMs with a small number of European customers” (P5, Head Legal and Compliance).

Costs outweigh the benefits of the AIFMD, especially for those third country AIFMs who only have a few European Investors. According to an Assistant Vice President of a medium-AIFM, adapting the business to the AIFMD “is not a worthwhile investment for those USA based AIFMs, who only have one or two German investors”. In conclusion, it can be expected that AIFMs whose main investors are not based in a European Country will not offer their investment products in Europe anymore. The analysis of the interview data with regard to small and large AIFMs showed a difference in the advantages of the AIFMD, and therefore the adjustments applied to traditional business models.

> “Small AIFMs have to adapt their business model in that way so that they offer a specific investment structure. It is more likely that offering 10 different investment structures will be difficult for small AIFMs” (P8, Assistant Vice President).

The interview data analysis showed that small AIFMs offer a smaller range of investment products to specific types of investors, mainly institutional investors. Before the AIFMD was published, small AIFMs were not regulated and so could provide different investment structures to different investors (Ghanty et al., 2014). According to the CEO of a small AIFM, establishing investment structures under the AIFMD has become more protracted. “There are indirect costs which have to be considered besides the actual costs that arise” (P7, Partner).

> “In order to ensure a competitive and sustainable business model, small AIFMs have to scale their business which means that business structures as well as offered investment products have to be kept as simple as possible in order to survive within the market” (P2, Portfolio Manager).

Some of the interviewed AIFMs considered the advantages and disadvantages of the AIFMD regarding costs and benefits as about even. They have had to change their business models with regard to the offered investment products, since “new regulation enables fund managers to distribute new investment products” (P8, Assistant Vice President). However, “the business has become more complex and costly in terms of interaction with external service providers, investors and regulators” (P8, Assistant Vice President).

Nevertheless, the results of the personal interviews proved that the AIFMD has vastly facilitated the business of AIFMs managing specific types of AIFs. The business model became more complex for real estate funds in Germany (P13, Portfolio Manager) but the business of debt funds became easier to handle under the AIFMD (P10, Managing Director). Debt Funds in Germany were regulated by the KWG (“Kreditwesensgesetz”), a banking regulation, before the AIFMD was released (Markert, 2010). Receiving a banking license is much more difficult than receiving an AIFMD license (D. Zetzsche, 2014). In conclusion, specific business models only have been made possible or sustainable by the AIFMD regulation.

In conclusion, the main advantage of the AIFMD identified by the personal interviews was that under the AIFMD new distribution channels have been opened up and new investment products can be offered (for example P9, P3 and P10). Therefore, business models have changed with regard to the organizational structures in order to fulfil the requirements of the AIFMD and to receive authorization under the AIFMD as well as the offered investment products (P9, Business Development Director). The main disadvantage of the AIFMD identified by the personal interviews was high costs and for AIFMs based in third countries in particular, limited economic benefit. It can be noted that changes to the business model have been applied independently of the jurisdiction where the business is located if the AIFMs perceive an advantage of the AIFMD for their business. If the AIFMS did not acknowledge these advantages or perceived disadvantages to the business of the respective AIFM, the business model was changed so that the business was not affected by the AIFMD. This usually means, that the AIFM is not doing business in Europe or not doing business in Europe anymore (Dobrauz & Wirth, 2012).

The second part of the semi-structured interview guide was used to gather data in order to answer the following research question:

RQ2: How will the marketplace in which managers of AIFs operate develop due to the changes resulting from the AIFMD?

During the analysis of the interview data the following coding categories were identified in order to answer RQ2:

- Change of fund market (retrospectively)
- Change of fund market (in future)
- Benefits and drawbacks from change of fund market environment
- Change of offered investment products

As the AIFMD regulates fund managers of AIFs who have not been subject to regulation before, the business of fund managers has had to change. As shown in the literature review and by the analysis of the interview data regarding RQ1, AIFMs have changed their business in different ways. Changes range from simple adaptions of the organizational structure to a transfer of domicile or a complete shift of the offered investment products. According to Bibby, Marshall, and Leonard (2009), the AIFMD will alter the market for AIFMs in a fundamental way. In order to understand how the fund market will change as a result of the AIFMD, it is important to understand how the AIFMD has changed it so far and what changes are expected in the future. In this context, benefits and drawbacks imposed by the change will be highlighted as well as how the offered investment products will change.

Change of fund market (retrospectively)

The majority of the interview participants agreed that the AIFMD has strengthened the European fund market.

> "According to my understanding the AIFMD has strengthened the business in Europe" (P5, Head Legal and Compliance).

Nevertheless, a few research participants take a critical look at the development of the fund market. As outlined above, the AIFMD provides the possibility of outsourcing several business functions such as management, risk management or portfolio management functions.

> "What we perceive as problematic is the development that the AIFMD allows to purchase an AIFM-license and manage AIFs by engaging an investment advisor, a portfolio manager, depository, etc. However, without any core competence in the core business" (P8, Assistant Vice President).

The results of the online survey, as outlined above, showed that additional management functions in particular will be outsourced to specialized service providers. On the one hand, the majority of the research participants consider outsourcing of respective management functions as strengthening their business model. On the other hand, a few AIFMs "do not see any added value of external service providers due to a lack of know-how" (P8, Assistant Vice President). However, this perception does not make sense, since external service providers specialize in providing services compliant with the AIFMD. Furthermore, external service providers may provide a management function in a more cost-efficient way than it would have done in-house (Richter, 2013).

The analysis of the personal interview data revealed that providers of AIFs were in the market even before the AIFMD was published. However, as a result of the publication of the AIFMD, those providers "had to decide whether to get authorized under the AIFMD or to change their business model to UCITS directive" (P12, Regional Head of Sales). The AIFMs interviewed perceived a variety of UCITS coming into the fund market as a result of the AIFMD (for example P2, P3, P9 and P12). However, it is expected that the flood of regulation to the fund market will be adjusted. One of the interviewed AIFMs demonstrated this expectation with the example of a financial institution based in Switzerland.

“Due to regulation in the recent years almost one third of financial institutions disappeared from the financial market” (P12, Regional Head of Sales). Research participants expect that this will also happen in the fund market. However, at the moment the competition between AIFMs is perceived as strong (P1, BVAI). The personal interviews provided some interesting results with regard to how the fund market has developed in Europe. The prevailing view in literature was that the AIFMD will boost the competition in Europe by allowing AIFMs based in third countries to do business in Europe (Ambrosius & Fischer, 2011). In fact, the majority of the interviewed AIFMs perceive an increase in competition. Competition was strong even before the AIFMD came into effect. However, at the moment AIFMs based in third countries do not compete in the European Market (P9, Business Development Director).

> “At the moment, the European fund market is divided by European based Asset Managers” (P9, Business Development Director).

The research results reflect the fact that the European passport regime is not yet in effect with regard to a number of third countries. The European passport regime allows AIFMs based in third countries to do business in Europe (Ghanty et al., 2014).

Therefore, AIFMs currently perceive the AIFMD as a competitive advantage for Europe based AIFMs.

> “The AIFMD means to some extent building walls, i.e. a bulwark from Europe against Non-Europe” (P5, Head Legal and Compliance).

In the long-term it is expected that not entering the European market will not be tolerated by the USA (P5, Head Legal & Compliance). It remains to be seen how the fund market will change when the passport regime is in effect and AIFMs based in third countries are able to enter the European asset management market. It may be that competition will increase which will lead to a fundamental adjustment of the asset management market in Europe (Ambrosius & Fischer, 2011).

Change of fund market (in future)

The majority of the interviewed fund managers expect the publication of further regulation in the future. To cite one research participant, "I am sure we will have further requirements to fulfil in 1 or 2 years" (P10, Managing Director). This will have a permanent impact on the business models of AIFMs. In order to ensure a sustainable business model in the future it is important to react quickly and spontaneously to those published regulations (P2, P10 for example). AIFMs have reacted to these and the personal interviews revealed two major changes in strategy in particular applied to traditional business models:

The usage of external service providers has increased significantly. According to the results of the personal interviews, this has two main causes. AIFMs (especially of smaller and medium- funds) are not familiar with how to adapt their business model to the requirements of the AIFMD or whether the initiated adaptions are sufficient or not (P2, Portfolio Manager, P6, Director and others). External service providers are more specialized in the services required by the AIFMD regulation (Höring, 2013a). However, not all of the interviewed AIFMs agreed:

> "We try to establish our own processes in order not to be dependent on external service providers. External service providers do not know how our business is set-up and therefore sometimes do not know what they have to provide" (P8, Assistant Vice President).

However, AIFMs use external service providers to outsource risk. It should be mentioned that the AIFM is liable in specific member states as outlined above. However, in many cases the AIFMs interviewed agreed that risk management has become increasingly important and will be further developed (e.g. P10).

One employee or department within the AIFM is concerned with monitoring regulatory developments. "Regulation has increased dramatically in recent years" (P3, Managing Director). The greatest risk for a business model is not to be compliant with existing regulation (P4, CEO). Furthermore, to be compliant with existing regulation is the biggest challenge for AIFMs (P1, BVAI). Therefore, AIFMs have adapted their organizational structure so that regulatory developments are monitored sufficiently and flexible reaction to new regulation is possible (P7, P8, etc.). This reflects with the results of the online survey. Employees concerned with compliance increased significantly compared to the total employment rate increase.

Almost all of the AIFMs interviewed agreed that the pressure on costs will increase rapidly in the next few years and at the same time, high return rates are expected by investors.

> “Institutional investors such as pension plans or insurance companies need to invest money on the one hand and on the other hand they require high returns in order to meet all their commitments to their members” (P2, Portfolio Manager).

However, what does this mean for the fund market in the future? The AIFMs interviewed expect that only for small AIFMs with a lean organizational structure, an attractive investment structure and serving a specific group of investors, “the AIFMD provides them with the option of competing with large AIFMs. However only if they are able to fulfil the minimum requirements of the AIFMD” (P5, Head Legal & Compliance). The AIFMs interviewed expect that small AIFMs which are not able to fulfil the minimum requirements of the AIFMD will be forced out of business.

> “Small AIFMs need to fulfil the minimum AIFMD requirements, such as capital adequacy requirements etc. otherwise they will be forced out of the market or have to merge with other competitors” (P5, Head Legal & Compliance).

The flood of regulations such as the AIFMD will lead to the decrease of profit margins since not all costs can be shifted to the investors (P12, Regional Head of

Sales). This perception reflects the results of the online survey, as outlined above, which showed decreasing returns and profit rate as costs increased.

> "It is expected that large AIFMs can bear and allocate costs in a more efficient way than small AIFMs" (P1, BVAI).

The analysis of the data received by the personal interviews revealed a common understanding that consolidation and professionalization of the asset management market will happen in the future. Different reasons for the consolidation of the fund market were identified during the interviews. One reason, as outline above, is the increasing competition driven by AIFMs based in third countries when they are able to enter the European asset management market. Furthermore, a consolidation of the asset management market is expected since some AIFMs underestimate costs or the market behaviour may change in the future. According to the Business Development Director of a large Luxembourg based AIFM, "investment in private equity in particular is very attractive due to the low interest rate; if this changes the market situation will be completely different".

Consolidation of the asset management market may take a while due to the lifecycle of the invested money. After the fund raising the money has to be invested for a specific period of time. Whether the investment is successful can only be seen afterwards. If not successful, further fund raising will be difficult for the AIFM and therefore the AIFM might disappear from the market.

> "At the moment, there is no month without the opening of a new AIFM. There is so much capital in the market and so little investment opportunities that ridiculous conditions are granted to investors which cannot really work in the long term. However, in terms of investment funds, market consolidation may take several years due to the lifecycle of the investment funds" (P10, Managing Director).

Other interviewed AIFMs predict a split in the asset management market. According to one CEO of a small AIFM, it will be the large established AIFMs and innovative AIFMs that will survive in the market.

> “Large AIFMs are able to provide good conditions for investors as well as handling the established regulation such as the AIFMD in a cost-efficient way; Innovative AIFMs are attractive for investors seeking new investment products or asset classes” (P4, CEO).

In conclusion, there is a high correlation between fund regulation and asset categories.

Benefits and drawbacks from change of fund market environment.

The literature review showed that the fund market changed or will change to offer both benefits and drawbacks for specific AIFMs. The change of fund market is perceived as more or less beneficial depending on the size of the AIFM and the jurisdiction where the AIFM is based in particular. One perceived benefit is that investment products can be offered quicker than before under the AIFMD (P4, CEO). The access to the fund market will therefore be easier. Small AIFMs in particular will benefit from the low market entry, since offering investment products is less time and cost intensive (P8, Assistant Vice President).

The overall perception of AIFMs identified by the analysis of the interview data is that large or medium AIFMs benefit more from the fund market environment than small AIFMs, due to higher costs and difficult sales market (See section above for details).

> “The market environment has changed a bit to the benefit of large AIFMs based in Europe” (P12, Regional Head of Sales).

Some locational advantage for European based AIFMs is perceived by interview participants (P1, P4, P6, P7, etc.). As outlined in the section above, this is based on the passport regime still missing for AIFMs based in third countries (See section above for details).

> "I personally think that implementation of the European passport regime will still take a while. Therefore, at the moment, to have business in Europe has a locational advantage over third countries" (P5, Head Legal and Compliance).

In general, AIFMs who have anticipated the changes imposed by the AIFMD will benefit more from the change of the fund market. "Those AIFMs are able to attract new investors coming from offshore" (P9, Business Development Director).

The majority of the AIFMs interviewed believe "that no explicit benefits for investors exist" from the AIFMD (P8, Assistant Vice President). The structuring of investments is not as flexible for investors as it was before the AIFMD came into effect (P1, P6 and P7). Flexibility of investment structuring can still be reached by different solutions; however, this will be more costly and burdensome for investors (P4, CEO).

> "I do not believe that transparency or control for investors has been improved by the AIFMD since, as mentioned before, external service providers are involved who are not professional with regard to the requirements of the AIFMD" (P8, Assistant Vice President).

On the other hand, a few AIFMs interviewed believe that investors may profit from the AIFMD regulation. For example, the Managing Director of one large AIFM states that, "by the regulation AIFs are not suspicious of investment products anymore which in general is more acceptable".

Change of investment products offered

The analysis of the qualitative data received from the interviews with AIFMs shows that fund managers have not fundamentally changed the investment products they offer. Offered investment solutions are more or less the same (P8, Assistant Vice President). Instead, offered investment products have been adapted to the changed national regulation in the respective member states, with some “national finish’s” still to be implemented in the respective country (P5, Head Legal & Compliance). Before the AIFMD came into effect, neither the AIFM nor its offered investment products were subject to regulation. The AIFMD only regulates the AIFM. However, AIFs are indirectly regulated via the regulation of the AIFM (Dornseifer et al., 2013). Specific investors are only able to invest in AIFMD regulated investment products (P7, Partner) and they seek for such an investment. However, they do not want to be affected by the AIFMD (P6, Director). The analysis of the interview data showed that AIFMs are able to provide flexible investment structures which may or may not be regulated. The national “private placement regimes” are still working in most EU member states (Cardle, 2017). This explains the fact that the AIFMs interviewed stated that they are able to offer regulated and unregulated investment products under the national private placement regimes (e.g. P5, Head Legal & Compliance).

> “The AIFMD allows the distribution of a new regulated investment product” (P8, Assistant Vice President”)

One portfolio manager of a large AIFM operating worldwide explained that they offer a fund-of-fund structure, where an AIFMD regulated investment fund invests in several other open AIFs worldwide. This enables investment in unregulated investment funds as it fulfils the requirement of risk diversification under the AIFMD.

> “Since specific investment structures are not possible anymore under the AIFMD, investments will be pooled via a AIFMD regulated investment vehicle, based in Luxembourg” (P10, Managing Director).

Another change was that AIFMs are trying more and more to scale the investment products they offer due to the AIFMD regulation.

> “The more of the same structured investment product will be offered, the more the AIFM is able to reduce the additional costs (P12, Regional Head of Sales)

In conclusion, since the AIFMs have to scale their investment products in order to stay competitive, the investment products offered will be more and more standardized. This scaling or standardization lowers the variety of offered investment products for investors to invest in (P13, Portfolio Manager).

Most of the changes to the investment products offered refer to minor changes in their structure. For example, simple master-feeder structures are not possible anymore (P2, Portfolio Manager). The greatest changes driven by the AIFMD apply to the offerings of hedge fund managers. Due to the leverage of hedge funds, the typical hedge fund products are not anymore allowed to be distributed under the AIFMD (Möllers et al., 2011). As a result of the AIFMD, the business of hedge funds in Europe has changed fundamentally (P12, Regional Head of Sales).

> “Hedge fund managers basically have many more options than other fund managers and therefore hedge funds are popular to invest in” (P12, Regional Head of Sales).

Since hedge funds are so popular, hedge fund managers have changed the structures they offer in their business models. The basic business model that hedge funds achieve high returns by using different risky financial instruments such as leverage, short sales, derivatives etc. remains the same (Jansen et al., 1998). However, hedge funds are not actively distributed anymore in Europe. Investors invest via a regulated AIF based in Luxembourg, for example (P12, Regional Head of Sales).

> “Hedge funds are based offshore because they have more regulatory flexibility and not because of taxes as typically assumed” (P12, Regional Head of Sales).

Analysis of the interview data shows that the general view is that product offering and product structuring basically remain the same. However, products and structures have been adapted to the AIFMD requirements. These were cost and time intensive and required additional human resources (P4, CEO).

The third part of the semi-structured interview guide was used to gather data in order to answer the following research question:

RQ3: What is the extent of change that managers of AIFs have currently initiated to their business models?

During the analysis of the interview data the following coding categories were identified in order to answer RQ3:

- Adjustments applying to business model (still on-going)

Adjustments applying to business model (still on-going)

The general response of the AIFMs interviewed was that major adjustments of the business models due to the AIFMD have been completed. However, some minor adjustments were identified which as still on-going.

> "Legal and Fund documentation has been updated in terms of wording according to the respective national law. However, depending on the respective country, specific let's say, national "finishes" exist which are easy to handle or not so easy to handle" (P5, Head Legal and Compliance).

This reflects the results of the online survey. AIFMs that are still adjusting their business model to comply with the AIFMD stated in the online survey that they require further implementation guidance, best practice examples etc. with regard to the operating conditions of the AIFMD. Implementation guidelines for the AIFMD were published at a European level by the ESMA and at a national level e.g. Q&As published by the BaFin in Germany. However, the personal interviews showed that many AIFMs are struggling with this implementation guidance. The published guidance is abstract and theoretical and gives a “one-fit all” solution rather than implementation guidance which is relevant to a specific type of AIFM (P1, BVAI).

> “BaFin provides a Q&A section where specific implementation questions are answered. However, this is not really feasible for us. At the moment, we have to process unanswered questions, sometimes by engaging an external adviser” (P5, Head Legal & Compliance).

It can be concluded that AIFMs are still working out whether specific AIFMD requirements have been transcribed appropriately. However, at the moment “we lack further clarification with regard to specific requirements” (P10, Managing Director). The personal interview data analysis revealed the passport regime as an example:

> “The question is how long we need to maintain passporting. We still have to decide whether we have to do this solely during the distribution phase or whether we have to maintain passporting as an on-going phase, which would be expensive” (P5, Head Legal & Compliance).

The adjustments of the business model were described as a “dynamic process” which is still on-going (P4, CEO). Cross-border distribution was mentioned in this context.

> “With regard to cross-border distribution of investment products we adapt our business model permanently, since in case new market participants appear due to the AIFMD, we have to decide whether they are interesting for our business or not. Should we outsource a specific service etc.? (P9, Business Development Director).

The AIFMs interviewed highlighted several on-going adjustments with regard to the operational processes of business models. These on-going adjustments are similar to the future challenges facing AIFMs, as stated during the personal interviews and discussed below.

The last part of the semi-structured interview guide was used to gather data in order to answer the following research question:

RQ4: How do traditional business models employed by managers of AIFs have to change in order to ensure that they are sustainable?

During the analysis of the interview data the following coding categories were identified in order to answer RQ4:

- Improvement requirements of the AIFMD
- Adjustment requirements of business model (in future)
- Future challenges for AIFMs

In order to understand the determinants for a sustainable business model, as a first step it is important to understand which specific requirements of the AIFMD need to be revised to adapt the business model accordingly. Secondly, adjustment requirements that are needed in order to be compliant with the AIFMD need to be identified. Future challenges for AIFMs also have to be considered to ensure a sustainable business model.

Improvement requirements of the AIFMD

The results of the online survey and the personal interviews show that further clarification published by the ESMA or the national supervisory authorities is required to ensure the requirements of the AIFMD or the corresponding national law are suitable for specific business models such as real estate or private equity. In order to ensure a sustainable business model, the AIFMD requires improvement by the regulator with regard to several aspects, as discussed below.

> “The most catching up to do exists with regard to the harmonization of the AIFMD requirements; that not every member state is allowed to make their own interpretation of the regulation” (P4, CEO).

For example, the implications of the valuation requirements of the AIFMD are different in the different member states. In some member states e.g. UK, external service providers are liable for their provided services whereas in others, e.g. Germany, the AIFMs is liable whether the service is outsourced or not (P7, Partner). This might lead to distortion of competition between the different EU member states, which the AIFMD was designed to counteract.

> “Managing debt funds in Germany is much more complex than in Luxembourg or in the rest of the European member states” (P10, Managing Director).

The majority of the AIFMs interviewed stated that several clarifications are required with regard to the transition of the AIFMD requirements into national law.

> “In order to maintain a sustainable business model, the requirements of the AIFMD need to be revised. At the moment, the requirements for private equity funds are not feasible in Germany. Private equity funds require tailor-made requirements in Germany” (P8, Assistant Vice President).

The main weakness of the AIFMD and the published implementation guideline is that the guidelines apply a “one-size fits all” model to the AIFs (P9, Business Development Director). Why should smaller AIFMs do the same reporting as larger AIFMs apart from AIFMs for whom the threshold requirements apply? Why does the reporting for a real estate fund look the same as for a private equity fund?

> “At the moment, many AIFMs do not know how to line-up their business model with regard to the valuation requirements” (P9, Business Development Director)

Analysis of the personal interview data showed that AIFMs are often unsure what the AIFMD looks like or whether they have to report a specific issue to the national supervision authorities or not (P9, Business Development Director). This reflects the results of the online survey. The online survey revealed the need for further guidance or best practice examples.

Adjustment requirements of business models (in future)

In line with the findings for the outlined improvement requirements of the AIFMD, as outlined above, "the requirements of the AIFMD for specific types of AIFs need to penetrate further" (P6, Director). The basic tenor of this, based on the findings from the qualitative data analysis is that traditional business models have adapted to the requirements of the AIFM. Nevertheless, specific issues which relate to the impact of the AIFMD on traditional business models have been identified by the personal interviews. Further adjustments are required:

> "Our investment models are still running under the UK AIFMD-license at the moment. However, we have to take "Brexit" into account and reconsider our business model" (P8, Assistant Vice President).

Furthermore, the German tax system for AIFs will fundamentally change by January 1, 2018 (See "revision of the investment tax act in Germany, (Anzinger, 2016)). Since the investment tax act in Germany is based on national regulatory law (KAGB), the implemented AIFMD requirements within the business model are also affected. "The structures of AIFs have to be adapted as well as the reporting etc." (P12, Regional Head of Sales).

In conclusion, the revision of other national regulations concerning the AIFMD has to be followed up and adjustments to the business model have to be made accordingly. The AIFMs interviewed stated that a permanent critical questioning of the business model is definitely required (P9, Business Development Director).

> “Are all risk applications compliant or does anything have to be changed on a national regulatory level? Do we have to adapt our systems in order to be compliant?” (P9, Business Development Director)

Further adaptions have to be made to traditional business models due to increasing individual responsibility, increasing reporting requirements and increasing risk management requirements (P4, CEO).

> “We have established our compliance department; however, we are required to expand our risk management due to increased requirements” (P4, CEO).

AIFMs expect that specific requirements of the AIFMD will be adapted or rearranged as part of the total implementation of the AIFMD in Europe and the experience local supervisory authorities have gained (P9, Business Development Director). This perception corresponds with the AIFMD timeline published by the ESMA, which provides the requirement for revision in January, 2019 (D. A. Zetzsche, 2012). It is expected that this is concerned with reporting requirements in particular (P1, P2, P3 and P9 for example).

Some overhead adjustment requirement was identified by the interview data analysis, which is applicable to the most of the AIFMs interviewed:

IT-systems as well as the employment of additional skilled human resources need to be adjusted (P7, Partner). In particular, the adjustment of the business model with regard to the latter is challenging, as outlined in the next section.

> “With regard to IT systems, no consistent solution exists for the business of AIFMs or, in other words, the business is not operating without Excel” (P13, Portfolio Manager).

A permanent optimizing of the operating structures of the business model were identified as important for ensuring a sustainable business model especially in terms of increased costs, as outlined above.

> “Based on the pre-given regulatory framework, the question for most AIFMs is; How can we optimize our processes and how can we optimize reporting processes with regard to Solvency II, MiFiD, AIFMD etc.?” (P13, Portfolio Manager).

The personal interviews showed that data management varies enormously between AIFMs. No standard data management exists; AIFMs use different data pools for reporting in different countries (P13, Portfolio Manager). “Since transparency and reporting requirements will increase in the next years, the creation of a unique data pool is essential” (P13, Portfolio Manager).

In particular for AIFMs who operate in different countries and are therefore subject to different AIFMD reportings, the creation of a unique data pool would improve the effectiveness of business models. The scope of the AIFMD-reporting differs in the different member states. However, the database for the reporting is more or less the same (D. A. Zetzsche & Eckner, 2012a)

Future challenges for AIFMs

The majority of the AIFMs interviewed agreed that one of the main questions needing to be answered in order to ensure a sustainable business model in the future will be how much cost can be allowed by an environment with increasing price pressure (P5, Head Legal & Compliance).

> “At the moment, we face a predatory competition, where I think ultimately only large AIFMs will have greater staying power” (P3, Managing Director).

To be efficient is becoming more challenging against the background of providing adequate investment products to investors that are also compliant with the existing regulation requirements (P12, Regional Head of Sales).

> “AIFMs have to offer a good service otherwise investors switch to competitors” (P12, Regional Head of Sales).

In addition, it becomes more and more challenging for AIFMs to find appropriate targets to invest in.

> “Due to increasing competition, attractive investment targets become scarce” (P4, CEO).

The majority of the AIFMs interviewed stated that the biggest challenge is the possibility for outsourcing specific management services provided by the AIFMD. On the one hand, AIFMs have to outsource specific services, “in order to buy specific skills or role functions hopefully much cheaper than doing this in-house” (P5, Head Legal & Compliance). On the other hand, AIFMs have to ensure that an adequate external service provider is chosen in order to minimize risk. In some EU member states the AIFM is liable for these services even if it is provided by an external service provider (Partsch & Mullmaier, 2012). Therefore, the biggest challenge is efficient control of the service quality provided by external service providers (P8, Assistant Vice President).

The scaling of investment products was stated by the AIFMs interviewed as a business model challenge, as outlined above. “A sustainable business model requires the scaling of investment products which leads to the offering of mass products. However, at the same time, investors request tailor-made investment solutions” (P13, Portfolio Manager). This contradiction has to be solved by AIFMs in order to ensure a sustainable business model.

Analysis of the personal interview data showed that better human resources and optimization of internal processes is needed to lower operational costs.

> “Finding skilled employees is a permanent challenge” (P13, Portfolio Manager).

Furthermore, employees have to understand their business (P9, Business Development Director).

> "Staff which sell the investment products to investors must have sufficient knowledge in order to understand the distribution requirements of the AIFMD exactly" (P5, Head Legal & Compliance).

In addition, effective employees should speak several languages, due to the fact that alternative investments are mostly a cross-border business (P9, Business Development Director). Internal processes have to be under permanent revision to ensure cost efficiency and stay competitive over the long term (P13, Portfolio Manager).

Finally, analysis of the personal interview data showed that there is a minimum size limit for AIFMs in order to face the challenges outlined above. Without meeting the minimum size limit, the business model of an AIFM can hardly be sustainable. The minimum size should be oriented by the capital adequacy obligations of the AIFMD (P2, Managing Director).

5.3 Findings for first research question

The purpose of this section is to summarize the findings of the analysis of the data from the online survey and the personal with regard to the first research question interviews, as outlined in section 5.2.

AIFMs have authorized their business under the AIFMD independent of the jurisdiction where they operate or the size of the AIFs they manage. Those managing small AIFs profit from the threshold simplifications (See section 1.5) provided by the AIFMD and therefore only have to register their business with the local supervision authority. Due to this and that they are subject to reduced reporting, authorization can be defined as “authorization light”. This relates to AIFMs in particular who have not authorized their business so far or are based in third countries whose main focus is not on European investors. Since AIFMs based in third countries are still able to distribute under national private placement regimes (D. A. Zetzsche & Litwin, 2012), the need to adjust their business models to the AIFMD requirements have not so far been considered as important. This applies especially for AIFMs based in USA who have consulted US advisers. Nevertheless, the results of the research showed that changes have applied to business models of fund manager irrespective of their jurisdiction or size of investment funds they manage. There are many reasons why AIFMs have authorized and thus had to adapt their businesses model. The main reason, research participants stated were to “stay competitive” (see results of the online survey in section 5.2.1). The research identified the following changes employed to traditional business models of fund manager (see interpretation of online survey data in section 5.2.2 and interpretation of interview data in section 5.2.4):

Business model relevant structures and procedures have been adapted according to the requirements of the AIFMD. Thus, risk management structures have been launched or revised, in case they already exist, compensation provision have been launched, compliance structures have been created with regard to asset valuation or reporting requirements of the AIFMD, structures have been implemented in order to avoid conflict of interests and the extent fund manager are allowed to leverage have been defined in order to fulfil the liquidity requirements of the AIFMD. In this context, human resources have been improved, especially with regard to compliance, legal and risk management. The results of the online survey showed an increasing employment rate especially for fund manager managing small and medium sized investment funds. According to the interviewed fund manager the reason is that fund manager manging rather small and medium sized investment funds had to build up respective structures. In addition, process descriptions have been adapted or introduced and typical IT systems such as risk evaluation systems or valuation systems have been adapted or expanded to the requirements of the AIFMD. Finally, fund manager decided which business relevant task should be provided in-house and which should be outsourced to third party provider.

The changes AIFMs have employed to their business models as a result of the AIFMD are shown in table 24. Table 24 highlights the changes for fund manager managing different sized investment funds with regard to the specific operating conditions on the one side and to general business relevant areas (such as management functions, marketing, offered products) on the other side. Small AIFMs (AIFMs with less than € 500 million AUM) have fewer requirements to fulfil and therefore did not employ changes with regard to several areas relevant to their business model, as outlined above. Table 24 depicts the changes employed by the majority of the AIFMs who participated in the research, irrespective of their jurisdiction. However, the personal interviews in particular revealed that the transition of AIFMD requirements into national law has been different across the EU member states. Countries such as Luxembourg and Switzerland have adopted the AIFMD almost on a 1:1 basis, whereas Germany and UK have implemented stricter regulations. For example, in Germany, even small AIFMs have to fulfil higher risk requirements imposed by the KAMaRisk; a regulatory requirement for risk management published by the national authority BaFin (BaFin, 2017).

Table 24: Changes to traditional business models already applied by AIFMs

	Small AIFMs	***Medium AIFMs***	***Large AIFMs***
Authorization	Authorized "light"	Mostly authorized	
Operating conditions			
a) Remuneration policy	No changes	- Wording in contracts - Implementation of compensation provisions	
b) Identification of "conflict of interest"	No changes	Structures to avoid conflict of interest	
c) Risk management	Changes depending on national law	Implementation of risk management structures and procedures	
d) Liquidity management system	No Changes	Leverage definition	
e) Human and technical resources	Compliance professionals have been hired	- Compliance professionals have been hired - IT systems have been adapted	
f) Asset Valuation	No Changes	Structures for compliance	
g) Transparency (reporting)	Structures for compliance		
General Business model areas			
a) Delegation of Management Functions	- Preference for outsourcing due to a lack of in-house expertise - Depository		-Preference for providing in-house expertise
b) Distribution/ types of investor	No Changes	- Adjustments with regard to marketing	
c) Place of business	No Changes	- Setting up business branches in different countries (in order to distribute)	
d) Offered investment products	No Changes	- Offering regulated investment structures	

Source: own compilation, 2017

Analysis of the interviews showed that almost all AIFMs have used the opportunity provided by the AIFMD to delegate tasks to third party providers. It can be concluded that small and medium AIFMs prefer to use delegation due to a lack of in-house expertise or cost efficiency. Primarily, small AIFMs and those based in third countries have not initiated changes to their business model regarding distribution, types of investors, place of business and investment products offered. Medium and large AIFMs have made changes to the marketing of AIFs due to the AIFMD, as outlined above. Large AIFMs have set up business branches in the common European asset management centres with a good regulatory environment in order to serve different investors and provide international investment structures. Due to the new AIFMD requirements, several investment products e.g. hedge funds and master feeder structures are no longer allowed to be offered. Small AIFMs are still able to offer these under the national private placement regime (D. A. Zetzsche, 2017) but medium and large AIFMs have changed the investment products offered. Large AIFMs perceived an increased demand for regulated investment products. Therefore, they provide AIFMD compliant investment products as well as offshore investment structures depending on the investor's preferences, which are not subject to the AIFMD regulation.

5.4 Findings for second research question

This section summarizes the findings from the data analysis of the online survey and the personal interviews with regard to the second research question, as outlined in section 5.2.

It is expected that the fund market where AIFMs operate will change fundamentally due to the changing regulatory environment (Annunziata, 2017). Research participants perceive the AIFMD as a good regulatory environment in order to strength the European fund market due to a better transparency (see 5.2.4), however, the analysis of the research data showed that increasing regulatory requirements or adjustments are time consuming and require additional human resources for investors and AIFMs which were viewed critically by the research participants. According to the interview fund manager, this complicates the business environment of asset management in general. This results in higher regulatory entry barriers into the fund markets. Investors and AIFMs will be selected unambiguously since wider margins and profits cannot be generated in order to serve different business areas. The AIFMD provides some simplifications for smaller AIFMs if they meet the threshold requirements of the AIFMD (see section 1.5 for details). Therefore, the analysis of the research data showed that the AIFMD provides a good fund market environment for small innovative AIFMs and large AIFMs. This finding contradicts the argument in several publications. The overall literary meaning of the systematic literature review showed that small AIFMs will disappear over the long term since they are not able to bear the additional requirements imposed by the AIFMD (e.g. Aeberli (2010); Bußalb and Unzicker (2012)).

Indications of the development of the fund market since the AIFMD was published is summarized in table 25 based on the findings from the online survey data as well as personal interview data.

Table 25: Development of the fund market environment

	Small AIFMs	*Medium AIFMs*	*Large AIFMs*
Fund Market indicators			
Development of AUM	Increase	Strong increase	Moderate increase
Development of Employees	Strong increase	Increase	Moderate increase
Development of Costs	- Strong increase in compliance costs - Increase in IT Costs - Increase in Employment Costs		
Development of Total Revenue	- Moderate increase in Total Revenue		
Development of Fund Performance/ Rate of Return	- No development (balanced)		
Regulatory Environment (before AIFMD)	Depends on the business	Significant subject to regulation	Strong subject to regulation
Development of Competition	Strong increase	Increase	No development
Development of Regulation	Constant Increase	Constant Increase	Constant Increase
Innovation behaviour	Innovative	Less innovative	
Development of Investment Products offered	Closed-ended investments		

Source: own compilation, 2017

According to the online survey the assets managed by AIFMs have increased independent of the jurisdiction where AIFMs operate or the size of AUM (see 5.2.1). AUMs of smaller AIFMs increased more than AUMs of medium or larger AIFMs. Based on the findings, this can be explained by the fact that market entry barriers for smaller AIFMs are lower due to several regulatory simplifications for small AIFMs, as mentioned above (see also interview data in section 5.2.4 relating to "change in fund market"). Similarly, the competition confronting small AIFMs increased more than for larger AIFMs. However, the research participants disagreed about whether or not the AIFMD provides a more advantageous regulatory environment. The analysis of further indicators of a changing fund market environment revealed some interesting facts: In general, the employment rate has increased independent of the fund size of the fund manager. This can be interpreted as a healthy development of fund market environment. The data analysis showed that the rate of employment concerned with compliance has increased significantly independent of the size of the AIF. However, the employment rate increased for small AIFs in particular. In terms of regulation this research finding seems logical. When several duties have been fulfilled by one employee, the AIFMD requires the separation of functions, i.e. a separate risk manager, compliance manager, etc. (D. A. Zetzsche & Eckner, 2012b).

Based on the data received from the online survey, a relatively uniform picture emerges in terms of costs, total revenue and fund performance, independent of the size of the AIFM or the jurisdiction of the AIFM. Costs, especially for IT, compliance and employment, increased significantly compared to a moderate increase for total revenue, constant profits and fund performance. Therefore, it can be concluded that the AIFMD provides a good regulatory environment and boosts business. However, it also imposes additional costs such as compliance costs, which neutralize the additional fund profits gained in respect of performance.

The research showed that larger AIFMs were already dealing with regulation before the AIFMD was published. The only difference is, that the AIFMD provides regulation of the AIFM itself and not of the investment product (Dornseifer et al., 2013).

In conclusion, the marketplace in which managers of AIFs operate will change to a more regulated fund market with more standardized investment products. AIFMs may operate under national private placement regimes which allow flexibility of fund structures, at least until 2019.

5.5 Findings for third research question

This section summarizes the findings from the data analysis of the online survey and the personal interviews with regard to the third research question as outlined in section 5.2. The analysis of the research data revealed that major adjustments to the business models as a result of the AIFMD have been more or less completed. However, the online survey showed that further changes need to be done in order to be compliant with the requirements of the AIFMD (see survey data in section 5.2.1). Some of these changes have been initiated. According to the collected research data these are changes that have to be done due to national law, e.g. adapting the risk management to the KaMaRisk regulation in Germany, on the one side and on the other side, these changes represent subsequent improvements of the adapted business models. Interviewed fund manager stated, that adjustments with regard to operational processes are still on-going in order to make business models more efficient. They underpin that due to the increased costs this is quite essential in order to ensure a sustainable business model (described in more detailed in section 5.6 regarding findings for the fourth research question). Thus, fund manager are tending to scale their offered investment products (see findings in section 5.4 regarding research question 2) or outsourcing business relevant task which cannot be provided in a costs efficient way internally (see analysis of research data in section 5.2.2 and 5.2.4) in order to reduce costs. Other changes need to be initiated, however cannot be initiated at the moment. In this context, interviewees referring to still missing implementation guidance published by local regulators and best practice examples which are still missing due to a lack of experience with the AIFMD requirements (see section 5.2.1).

Table 26 shows the changes with regard to operating conditions and general areas of the business models currently initiated by AIFMs as a result of the AIFMD.

Table 26: Changes to traditional business models currently initiated by AIFMS

	Small AIFMs	*Medium AIFMs*	*Large AIFMs*
Operating conditions			
a) Remuneration policy	Not applicable	Review of policy	
b) Identification of "conflict of interest"	Not applicable	No adjustments	
c) Risk management	Implementation of specific risk management requirements according to national law		
d) Liquidity management system	Not applicable	No adjustments	
e) Human and technical resources	- Hiring skilled employees - training of hired employees - expansion of IT systems		
f) Asset Valuation	No adjustments	Several national finishes	
g) Transparency (reporting)	No adjustments	Development of efficient AIFMD reporting	
General Business model areas			
e) Distribution/ types of investor	Serving institutional investors	Increase of institutional investors	
f) Costs-to-performance structure	No adjustments	Several actions to reduce costs	
g) Offered investment products	Single investment structure	Different investment structures	

Source: own compilation, 2017

In order to meet the increased compliance requirements of the AIFMD, AIFMs irrespective of their size are currently hiring professionals for compliance matters or train employed professionals (see results of the online survey in section 5.2.2). In addition to that research participants stated, that IT-systems are currently under revision in order to make them more efficient and adapt them to the AIFMD requirements (see still ongoing adjustments in section 5.2.4). AIFMs who operate in different countries try to build up a uniform cross-border IT system in order to reduce costs and simplify AIFMD reporting. Based on the personal interview data in section 5.2.4 the research unveiled that the process of reporting is different across the member states even though nearly exactly the same data is required. Building up an efficient AIFMD reporting process cross-border helps to reduce costs.

The research found out that at the moment fund manager adapting their business in that way that they are able to increase the attractiveness of their investment products for institutional investors, irrespective of the size of the funds fund manager are managing. Whereas the AIFMD enables fund manager managing small investment funds to serve institutional investors in the first place, fund manager managing medium and large sized investment funds adapting their business model structures in order to increase their offering to institutional investors (see interpretation of qualitative data in section 5.2.4).

Furthermore the research found out that fund manager have initiated changes made to investment products offered which are offered by fund manager. Fund manager managing small AIFMs stated that they provide investment solutions under the existing private placement regime. However, according to PWC (2015) they tend to offer an AIFMD compliant single investment structure since the demand for regulated investments has increased significantly. This is in line with the collected research data as some interviewees stated that they are creating an investment structure which is based on a AIFMD regulated investment vehicle at the moment (see section 5.2.4). Furthermore, fund manager managing larger investment funds have changed their offered investment products due to several restrictions caused by the AIFMD, e.g. classic hedge fund structures or master-feeder structures are not allowed anymore (see findings related to change of investment products in section 5.2.4).

5.6 Findings for fourth research question

This section summarizes the findings from the data analysis of the online survey and the personal interviews with regard to the fourth research question, as outlined in section 5.2.

The implementation of the AIFMD will be revised in 2019 according to the AIFMD implementation timetable (D. A. Zetzsche, 2012). This research shows that several implementation problems exist. The online survey identified missing implementation guidance or further clarification published by ESMA or national authorities (see results in section 5.2.1). Furthermore, fund manager have perceived the AIFMD requirements as not feasible for fund manager managing specific types of funds such as private equity funds which require more “tailor-made” requirements (see improvement requirements of the AIFMD and adjustment requirements of business models in section 5.2.4). Adjustments therefore to the AIFMD made by the regulator may be expected. The review of existing literature showed that AIFMs have struggled with the implementation of the AIFMD at first hand. Therefore, it is advisable that AIFMs adapt to the potential adjustments early on by incorporating adequate human resources or engaging suitable external advisers. Employees should speak several languages, due to the fact that alternative investments are mostly a cross-border business (see future challenges in section 5.2.4).

Fund manager managing small investment funds who currently profit from the threshold simplifications due to their size and soon expect to reach the € 500 million AUM threshold limit are advised to prepare for full AIFMD compliance in due course. The research explored how AIFMD-licensing can become a long and costly process of up to 8 months and more depending on the national supervision authority (see analysis of survey data in section 5.2.1 and interpretation of qualitative data in section 5.2.4). The due diligence process of the national regulator is very long and national regulators require extensive documentation e.g. professional aptitude of management (BaFin, 2013). Interviewed fund manager stated, that professional investors also request similar due diligence documentation and sometimes even more. AIFMs therefore are advised to provide an “organizational handbook” containing compliance manuals and other guidelines e.g. ESG, KYC, AML, IT, etc. This documentation then can be used for the requests of national regulators as well as for requests of investors.

Unlike large AIFMs who have individual investor networks (M. D. Cain, McKeon, & Davidoff Solomon, 2016), fund manager of small and medium sized investment funds should engage a placement agent (see future challenges for AIFMs in section 5.2.4). Placement agents are professional intermediaries who raise capital for investment funds through their network (M. Cain, Davidoff, & McKeon, 2013). In addition, placement agents can provide the appropriate know-how for regulatory implementations or can assist with the organizational handbook, as mentioned above.

In addition to the recommendations outlined above, AIFMs are advised to adjust the operating conditions and general business model areas as outlined in table 27 based on the analysis of the research data.

Table 27: Recommended changes to traditional business models

	Small AIFMs	***Medium AIFMs***	***Large AIFMs***
Operating conditions			
AIFMD operating conditions in general	Adaption in accordance with further clarification on national and EU level		
Risk management	Building up coherent risk management	Expanding risk management structures	
Reporting (Transparency)	Building up coherent reporting	Expansion of reporting requirements	
General Business model areas			
a) Distribution/ investment products	Distribution of innovative single investment products	Scaling of available investment products	
h) National regulation and political developments	Further national regulatory as well political development should be considered early on		

i) Costs-to-performance structure	Costs reduction by standardization of investment products	Costs reduction by scaling of investment products
j) Human and technical resources	Training of current employees	- Employing of adequate human resources - Improvement of IT systems
k) Compliance	- Introduction of Compliance manual - employee concerned with compliance	Expansion of Compliance department

Source: own compilation, 2017

Operating conditions will be revised by national regulators for the reasons outlined above. Business models should be adjusted accordingly in due course in order to ensure a sustainable business model. AIFMs perceive that national regulators increase risk management as well as reporting requirements (see future challenges for AIFMs in section 5.2.4). According to EY (2013), the need for proportionate risk management has never been greater. The same applies to reporting which is part of the AIFMD transparency requirements. The literature review showed that the AIFMD provides requirements of what an AIFM has to report (see section 2.5.1.3). However, these requirements are not sufficient to prevent inadequate investment reporting such as inappropriate pricing, lack of disclosure, etc. (CFA Institute, 2014). In this context, the research found out that the data management varies enormously between different fund manager and no standardized data management exist (see adjustment requirements of business model in section 5.2.4). Transparency requirements including reporting requirements as well as risk management requirements are perceived as rapidly increasing by the research participants (see section 5.2.2 and interpretation of qualitative data in section 5.2.4). Therefore, in order to ensure a sustainable business model, fund manager are advised to build up coherent risk management as well as investment reporting or to improve it in case it is already existing.

Due to simplification of the AIFMD regulations small AIFMs who are subject to less risk management and reporting have no clear risk management procedures or standardized reporting (see future challenges of AIFMs in section 5.2.4). In order to meet the increasing requirements of reporting and risk management as uncovered by this research, large AIFMs are recommended to extend their reporting and risk management.

Lastly, UK based fund manager which are running their business under an UK AIFMD-license are advised to consider the Brexit process as early as possible. In case the Brexit will happen, UK based fund manager have to change their business model fundamentally as they would not be considered as a European based fund manager under the AIFMD anymore (see adjustment requirements of business model outlined in section 5.2.4). In order to continue their business, they would need to run their business under the passport regime as outlined in section 1.5.2.4.

5.7. Summary

AIFMs doing business in Europe are all in the scope of the AIFMD and have adapted traditional business models to the requirements of the AIFMD accordingly. This research revealed that changes employed by AIFMs have been easier for large AIFMs than for small AIFMs since the larger have already been subject to regulation. On the other hand, small AIFMs have benefited from the threshold-rule of the AIFMD, which provides several regulatory simplifications. Therefore, the most significant adjustments were employed by medium AIFMs, since they are not subject to the threshold-rules and have not previously been subject to regulation with the impact of the AIFMD. This research has identified changes that have been made regarding risk and liquidity management, valuation and reporting as well as regarding human and technical resources. Furthermore changes were applied on an operatively basis (e.g. separation of management functions). Increased costs caused by the AIFMD implementation have been counteracted by increased efficiency in internal processes and IT systems.

This research also revealed wide differences in the marketplace in which managers of AIFs, from an unregulated to a regulated fund market. The aim of the AIFMD to generate a unique and harmonized asset management market (European Parliament and Council, 2011) has failed due to very varied transposition of the AIFMD into national law. However, the AIFMD has improved the uncertainty of investors and reduced suspicion of the fund market. There is an increasing demand for regulated investments, especially with regard to institutional investors (Ghanty et al., 2014). This is also the reason why research participants have perceived increasing competition. The threshold-simplifications provided by the AIFMD have lowered market entry barriers for smaller AIFs in particular and made them more competitive. How far small AIFMs will establish themselves in the market and will manage the final leap into the group of larger AIFMS remains to be seen. This would be an interesting topic for further research. The market environment for AIFs in general is subject to increased regulatory requirements from the AIFMD, which has led to additional one-off costs and significant increase in on-going compliance costs. This finding reflects the overall arguments revealed in the course of the systematic literature review. These increased costs impact fund profits and fund performance in general and not all of the additional costs can be burdened on investors (Malcolm et al., 2009).

The “one-size-fits-all” approach of the AIFMD, i.e. the same requirements for all types of AIFMs rather than specific requirements for different types of AIFMs, has caused AIFMs confusion whether their adjusted business model is now in line with the AIFMD requirements or not (Du Chenne, 2014a). This research shows that this is one of the main reasons why many AIFMs prefer to distribute under the national private placement regimes. Since this is only possible up until 2019, it remains to be seen what further changes to the business models will look like. This should be subject to further research. AIFMs have currently initiated changes to their business model based on the recent publication of further implementation guidance at a national level e.g. for debt funds (BaFin, 2016).

According to the research findings, the AIFMD will boost competition within the asset management market and AIFMs expect a consolidation of the fund market. However, the research also showed that small AIFMs that fulfil the specific requirements and large AIFMs benefit most from the AIFMD. This does not reflect the findings in the common literature which concluded that only larger AIFMs will survive the consolidation of the fund market (see Bußalb and Unzicker (2012); Aeberli (2010)). Due to increased costs and the lasting price pressures in the market (see Bußalb and Unzicker (2012); Malcolm et al. (2009)), AIFMs have to scale their investment products in order to reduce costs. Scaling in terms of investment funds means setting up a specific investment structure in line with the AIFMD multiple times in order to allocate the fixed costs to several investment structures. In addition, small AIFMs have to offer simple and innovative investment products, which are compliant with the AIFMD in order to stay competitive. In terms of investment funds, ‘innovative’ means investments which are interesting for investors but not interesting for large AIFMs e.g. due to the size and structure of the investment.

Finally, it can be concluded that the AIFMD was perceived as positive overall and it is expected that the European asset management market will benefit even though it has not achieved a harmonized regulatory environment across the individual member states.

6. Conclusion

6.1 Research results

This research thesis analysed how the AIFMD affects traditional business models of AIFMs based on 42 research participants in the online survey and 13 in personal interviews, representing AIFMs of different sizes and operating in different jurisdictions. Whereas existing literature highlights the impacts the AIFMD may have on business models, this research thesis explored on how the changes AIFMs have already employed to their business models look like. Based on the findings from the interview data analysis and interpretation (Chapter 5), **research question 1,** how traditional business models employed by managers of AIFs have changed as a result of the AIFMD, can be answered as follows:

The key finding for this research question is, that how traditional business models have changed, depend on the size of fund manager and the jurisdiction where the fund manager operate in. Independent from the size of the business of the research participants, most of the interviewees have authorized their business in order to operate under the AIFMD and therefore had to apply changes to their business model (see results from statistical data section 5.2.1). However, the business model of medium and large sized fund manager were subject to fundamental change, whereas business models of small fund manager profit from simplification rules which was defined as “authorization light” and therefore employed fewer changes to their business models. Fund manager managing small investment funds have implemented risk management and compliance structures (see section 5.3 findings for first research question). Reasons are national legislation and increasing regulatory market conditions (see results for second research question). Fund manager managing medium and large sized investments fund have fully adjusted their business model to the operating conditions of the AIFMD (for detailed changes see section 5.3 findings for first research question).

Furthermore, the research found out that fund manager managing small and medium sized investment funds tent to outsource tasks to third party provider due to a lack of in-house expertise, whereas fund manager managing large investments funds are able to provide the respective in-house expertise.

Based on the findings from the interview data analysis and interpretation, **research question 2,** how will the marketplace in which managers of AIFs operate develop as a result of the changes resulting from the AIFMD, can be answered as follows:

As described in detail above, the marketplace in which managers of AIFs operate is facing a rapid change and consolidation. In general research participants perceive the AIFMD as providing a good market environment especially for small and large AIFMs. The reason found by this research is that due to the increased transparency requirements, the trust in the European fund market increased especially by investors (see interpretation of research data in section 5.2.4). From the increased trust in the fund market driven by the AIFMD event fund manager profit. Interviewed fund manager stated that investors are more willing to invest their money in fund products which are subject to regulation. Especially the business of fund manager which have recently started their business will profit from the increased trust in the fund market (see findings for research question 2 in section 5.5). However, in contrary to that, the increased regulation of the fund market implies disadvantages for market participants at the same time and the majority of the interviewed fund manager expects that regulation will increase further more in future. The research found out that the increased regulatory environment lead to increased market entry barriers for new fund manager (see interpretation of qualitative data relating to changes of the fund market in section 5.2.4), higher costs (in particular compliance costs) while returns and profits will remain the same (see findings of the online survey in section 5.2.2). The effect on fund manager manging small investments funds is much higher than the effect on fund manager managing large investment funds. Research participants stated that business models of fund manager managing larger investment funds are able to adapt their business model to the AIFMD in a more cost-efficient way as they usually have relevant business structures that are able to fulfil the requirements of the AIFMD. (see findings in 5.2.4). On the other side investment fund managing small investment funds profit from simplifications provided by the AIFMD as outlined in section 1.5. Research participants stated that these simplification rules will make market entry for new fund manager much easier and therefore competition will increase which leads to a market consolidation (see benefits and drawbacks from the change of fund market environment in section 5.2.4). In terms of offered investment products, the research found out, that fund manager are able to provide flexible investment structures which may or may not regulated in future since investment products may be offered under the AIFMD (regulated) or (still unregulated) under the NPPR (see benefits and drawbacks from the change of fund market environment in section 5.2.4). However, due to the increased costs, fund manager have to scale their investment products, i.e. offering more of the same structured investment products allow to reduce the costs. According to the benefits and drawbacks of a changed fund market as outlined in section 5.2.4, this scaling or standardisation as it was called by some interviewed fund manager, the variety of offered investment products will be reduced for investors.

Based on the findings from the interview data analysis and interpretation, **research question 3,** what is the extent of change that managers of AIFs have currently initiated in their business models, can be answered as follows:

The key finding for this research question is, that more or less all fundamental changes to the business models caused have been done by fund manager in order to ensure full AIFMD compliance. Nevertheless, specific changes have currently been initiated in the business models of fund manager. These are, on the one hand, changes that have to be made due to national requirements. Changes are currently being made with regard to risk and liquidity management due to increased regulation at a national level (see results of online survey in section 5.2.1). In this context, research participants referred to the adjustment of risk management structures due the KaMaRisk regulation in Germany. On the other hand, changes have currently been initiated in order to run the business model more costs efficient. In order to ensure a sustainable business model, this is necessary (see results for research question 4 in section 5.6) as costs for fund manager have increased due to the outlined reasons (see for example section 5.2.1, 5.2.4 or 5.4). At the moment fund manager balance which task should be delegated to third party provider and which should be provided internally. The research found out, that the majority of the interviewed fund manager tend to delegate tasks. The reason concluded by this research is the low experience fund manager have with the AIFMD and therefore using experiences external advisors (see 5.2.2). Further changes that have been currently initiated are the adapting of the offered investment products, e.g. scaling as outlined in the section before, in order to reduce costs. Hiring professionals, training of employees or improving of IT systems are changes that currently have been initiated as stated by the research participants (see section 5.2.1). In addition to that, investment fund manager operating in more than one jurisdiction improve their business model with regard to the AIFMD reporting. Research participants states, that they see the need for a cross-border AIFMD reporting in order to fulfil the transparency requirements on the one side and on the other side to reduce the additional costs different national AIFMD-reporting impose (see interpretation of qualitative data referring to future challenges in section 5.2.4.

Based on the findings from the interview data analysis and interpretation, **research question 4,** how do traditional business models employed by managers of AIFs have to change in order to ensure that they are sustainable, can be answered as follows:

The research unveiled that fund manager expect that the existing national AIFMD requirements will be revised and improved (see adjustment requirements in section 5.2.4). This expected revision will cause new changes that have to be employed to the business models. Based on the experience fund manager have made with the adjustment of the business model to the AIFMD, it is recommended to monitor current regulatory developments in order to react quickly to new regulation. The results from the online survey showed that one of the biggest challenges of the adjustment of the business model to the AIFMD requirements were the long duration period of implementation (see data from online survey in section 5.2.2). Due to the long duration period of implementation procedures fund manager managing small investments funds, however will manage middle size investment funds soon due to increasing AUM, are advised to start the relevant internal adjustments of processes and systems as early as possible in order to ensure a smooth transition of their business.

The discussion of existing literature in section 2.5.1 showed that AIFMD imposes increasing documentation obligation towards national regulation authorities. Therefore, fund manager are advised to prepare an “organization handbook” containing compliance manuals and other guidelines referring to the valid national regulation. This handbook should be up to date and always updated with new or revised regulation requirements (see future challenges in section 5.2.4).

In addition to that it is recommended to engage a placement agent (see findings in section 5.6). On the one hand, placement agents can support with national regulation requirements since they are normally experienced in regulation matters (see change of fund market in section 5.2.4) and on the other hand they can boost the fund manager’s business by procuring new investors due to their business network.

In general, this research identified the need for a permanent optimising of existing operating structures of the business model (see adjustment requirement in section 5.2.4).

This research showed that fund manager perceive the increased regulation as the main cause for higher costs, especially increasing compliance costs, which neutralizes their profits (see results of the online survey in section 5.2.2). In order to ensure a sustainable business model in the future, fund manager will have to shape internal processes more cost-efficiently.

Research participants expect a decreasing demand for alternative investment products from private investors, wherefore fund manager should focus on investment products for institutional investors (see change of fund market in section 5.2.4). At the same time fund manager are advised to offer standardised investment products wherefore research participants expect a high demand from institutional investors (see advantages and disadvantages of the AIFMD for AIFMs in section 5.2.4) in order to ensure a sustainable business model. In this context, fund manager are advised to scale their offered investment products as well. “Scaling of investment products allows the offering of mass products, which reduce costs” (see statements of P13 regarding future challenges for AIFMs outlined in section 5.2.4).

6.2 Contribution to knowledge

The literature review unveiled how the AIFMD impacts traditional business models of AIFMs. However, since the requirements of the AIFMD have recently been transposed into national law by the respective member states, the impact discussed within the scope of the literature review was subject to theoretical controversy. This research thesis analysed the current implementation status of the AIFMD with the conclusion that the majority of fund manager, independent of the size of their AUM and the jurisdiction where they operate in, have adapted their business models to the AIFMD requirements. In terms of authorization fund manager’s business, existing literature assumes increasing one-off costs and compliance costs and at the same marketing advantages for fund manager caused by the AIFMD (see section 2.5.1.1). Increased costs, especially increased compliance costs could be confirmed by the research (see section 5.3). However, the research showed that the predicted one-off costs are compensated by fund manager through making their business models more costs efficient. This cost efficiency is achieved by outsourcing inefficient tasks, scaling of investment products, etc. (see section 5.5). Marketing advantages driven by the AIFMD could only be proved for fund manager managing small investments funds by this research, since the AIFMD increase the confidence in fund manager managing small investment funds due to its extensive transparency and reporting requirements (see section 5.4).

Existing literature unveiled the impact of the operating conditions of the AIFMD on business models of fund manager (see section 2.5.1.2). This research showed how business models have adjusted to the several operating conditions of AIFMD as outlined in the following:

According to the literature review, fund manager have to implement appropriate measures to avoid conflict of interest, however how appropriate measures look like remain unanswered by existing literature. This research showed that fund manager have implemented structures to monitor conflict of interests, however still are unsure whether these structures are appropriate or not. Fund manager are awaiting further clarification from local regulators or best practice examples to be published at the moment (see section 5.2.2 with regard to conflict of interest). The research found out, that research participants are awaiting a revision of the national AIFMD requirements from local regulators. Based on the experience fund manager have made with the adaption of the business models to the AIFMD requirements, fund manager are advised to prepare early for new or revised regulation in order to ensure a sustainable business model (see section 5.6).

The literature review has shown, that business models of fund manager need to implement a sophisticated risk management (including liquidity risk management) which is separated from the portfolio management, however, if and to what extent business have been adapted are left unanswered. This research showed that fund manager have implemented an appropriate risk management or revised an existing risk management by adapting IT systems to the requirements of the AIFMD or hiring relevant professionals such as risk manager for example (see section 5.3). Changes that currently have been initiated by fund manager are changes that need to be done in order to fulfil specific national requirements. For example, business models have to consider the KaMaRisk regulation in Germany (see section 5.5). This research concludes that risk management as well as reporting requirements are perceived as rapidly increasing by fund manager (see section 5.6). This research thesis advises fund manager to build up a coherent risk management.

In terms of asset valuation, the existing literature could not give answers how business models have changed. According to the research results, fund manager have built adequate compliance structure with regard to asset valuation which are in line with the valuation requirements of the AIFMD. If these compliance structures require further adaption remain to be seen.

Under the AIFMD, fund manager are able to delegate business tasks, to external service provider. The literature review showed that risk and portfolio management functions should not be delegated as otherwise the fund manager lose its status as AIFM (see section 2.5.1.2). However, if fund manager make use of the possibility to delegate tasks or not and if so, to what extent delegation is used, cannot be answered by the discussed literature. The research found out, that fund manager managing small and medium sized investments funds adapt their business model in terms of delegation in that way that they are tend to outsource as much as allowable and possible of their business tasks due to a lack of in-house expertise. Fund manager managing large investment funds are able to provide the relevant in-house expertise (see section 5.3). Delegation of tasks or engaging specialized external advisers is a common procedure to reduce risk of a wrong internal implementation (Brett, 2014). On the other hand, fund manager have less control of the tasks that are outsourced. The research showed that research participants perceive delegation as critical, however, whether this affects quality or provides an efficiency advantage for them should be subject to further research.

An investigation of the changes fund manager are currently employing to their business models revealed a high dependency on national regulation law. AIFMs are currently undertaking further adjustments of their business model with regard to the AIFMD. These are linked to adjustments due to the transposition of the AIFMD into national regulatory law, which have been named as “national finishes”. However, the research explored that fund manager are still waiting for specific implementation guidance or best practice examples to finish their business model adjustments.

Fund manager have to adapt their business model to extensive transparency requirements with regard to investors as well as to local supervisory. Based on existing literature it can be concluded, that the increased transparency requirements increase the confident in the European Market on the one hand, however, on the other hand will impose significant compliance costs (see section 2.5.1.3). Whether business models have been adapted or changes have been initiated to the transparency requirements is not be answered by existing literature. This research showed that business model have been adapted by implementing respective compliance structures for transparency and relevant reporting (see section 5.3). At the moment fund manager are improving their business models with regard to transparency, e.g. development of an efficient AIFMD reporting (see section 5.5). In this context, the research unveiled that in terms of reporting no standardized data management exist (see section 5.6). In order to fulfil transparency requirements, the research identified the need for a coherent reporting system which are able to consider cross-border data.

The literature unveiled that fund manager are able to market their investment funds either under the passport regime of the AIFMD or still use the NPPR. The prevailing literature view is, that the AIFMD passport regime plays a minor role for fund manager as long as marketing under the NPPR is possible (see section 2.5.2.4). However, literature does not give a clear picture whether business models consider the passport regime or not and whether fund manager intend to adapt their business model to the passport regime until the NPPR is still working. The research shown general changes with regard to marketing and distribution that AIFMs have employed to their business model. Nevertheless, some AIFMs (mainly based in the USA) have not anticipated the impact of the AIFMD on their business model due to a missing passport regime (Sims et al., 2016) or because they do not consider European investors as important for their business.

Lastly, the common understanding received by the literature review is, that the AIFMD will have a fundamental impact on the European Fund market (see section 2.5.2). However, existing literature remain unclear how the Fund market in Europe will change as a result of the AIFMD. This research thesis explored how the market environment where fund manager operate has changed or will change and how this should be addressed by fund manager in order to ensure a sustainable business model. The issues that need to be addressed depend on the size of investment funds managed by fund manager and therefore the regulatory extent they are subject to. For example, in order to stay competitive, fund manager managing small investment funds should scale their investment products, whereas large AIFMs should extend their risk management. Finally, this research provides a good starting point for further research, which might become necessary after 2018 when the passport regime is working properly but the private placement regimes are no longer working.

6.3 Contribution to practice

The results of this research thesis are relevant to fund manager managing alternative investment funds. According to existing literature, the AIFMD will have several fundamental impacts on traditional business models of fund manager (see section 2.5.1). Existing literature concludes that the AIFMD have advantages for fund manager by providing marketing advantages for example on the one hand, however, on the other fund manager have to face increasing costs caused by the increased regulation. Traditional business models of fund manager are impacted by authorization requirements and operating conditions provided by the AIFMD (see section 2.5.1.1 and 2.5.1.2). In addition to that business models of fund manager are required to fulfil the transparency requirements of the AIFMD (see section 2.5.1.3). Even the distribution and marketing of investment funds is impacted by the AIFMD passport regime (see section 2.5.1.4). Existing literature highlighted how business models are impacted by the AIFMD requirements, however, rather from a theoretical point of view and not from a practical perspective. Many publications were based on the initial draft of the AIFMD or on the final AIFMD, however did not consider transition into national law. The literature review as outlined in chapter 2 unveiled a lack of impacts from practical experience fund manager made with the adoption of the AIFMD to their business models (see literary conclusion in section 2.6). Based on practical experience fund manager have made with the AIFMD, this research identified changes fund manager manging investment funds of different types and size have made to their business model due to the AIFMD. Furthermore this research highlighted what changes fund manager currently employ to their business models, in which fund market environment they currently compete, how these fund markets will change as a result of the AIFMD and what changes they still have make to their business models in order to ensure a sustainable business model. Research results however, cannot be completely generalized for all existing AIFMs since traditional business models vary depending on the specific type of AIFM and the jurisdiction where they operate, nevertheless the research identified changes that fund manager have already employed and changes that are currently been initiated by fund manager, which can be used as a benchmark for other fund manager and show what is the actual market standard under the AIFMD. The results of this research can be used by fund manager in order to check how business models have been adapted from a practical point of view. Furthermore, the research gives a good impression of the advantages and disadvantages the AIFMD might impose to different fund manager. For example, the AIFMD enables the distribution of regulated investment products in Europe by AIFMs that are based in third countries. On the other hand, it increases the costs for compliance. AIFMs can use this research to weigh up the costs and benefits of the AIFMD.

Answers to research question 2 showed how the market environment where AIFs operate has changed and will change due to the AIFMD. Benefits and drawbacks of this change were also demonstrated. These results can be used by AIFMs to decide how they want to streamline their business model in the future. For example, national private placement regimes will be terminated in the future (e.g. European Parliament and Council (2011)) and AIFMs have to decide how to distribute their investment products further.

In the course of answering research question 3, the research gives a “good regulatory” overview of what adjustments are currently initiated by AIFMs, based on the current national regulatory requirements. This overview helps AIFMs to get an impression of the current regulatory perspective in specific member states.

Last but not least, this research thesis helps AIFMs to initiate changes to their business model to ensure it is sustainable. In the course of answering research question 4 advantages and disadvantages of the AIFMD were explored to demonstrate what AIFMs should consider in the course of adjusting their business model.

6.4 Limitations of research

In general, this research investigates changes already employed, currently initiated and those that have still to be employed to traditional business models of AIFMs in order to ensure a sustainable business model. Regulation is usually seen as having negative impact (Stigler, 1971). However, how AIFMs will change their business model or have changed their business model depends on how they perceive the impact of AIFMD on their business. This perception of AIFMs can be influenced by a negative attitude towards the AIFMD. Continual questioning of the given answers and comparison with existing research reveals hidden bias which can be avoided as much as possible, although not excluded completely. In addition, AIFMs have to face a variety of existing or upcoming regulation within European asset management law e.g. MiFiD, EMIR and on a national level e.g. investment law. The variety of different regulation frameworks have been combined to some extent, as shown by the AIFMD's cross-border dimension published by D. A. Zetzsche and Litwin (2012). Therefore, it is almost impossible to trace back every particular change in traditional business models to the AIFMD. Furthermore, the AIFMD was released in 2011 and came into effect by mid 2013 which meant AIFMs had some initial experience with the AIFMD before the preparation of this research thesis. It is also possible that the perception of AIFMs with regard to the AIFMD will change further as they experience it in the future.

As outlined above, this research included small AIFMs who profit from the simplifications of "AIFMD light". The changes small AIFMs have made to their business models are very limited. This research does not include small AIFMs who might profit from "AIFMD light". However, the simplifications of "AIFMD light" are optional (European Securities and Markets Authority, 2013); small AIFMs can choose full compliance with the AIFMD if they expect to grow from small to medium in the near future. Since they have to comply fully with the AIFMD requirements as a medium AIFM, they should consider full compliance of their business model in advance. There may be further reasons for full compliance. AIFMs might have very individual perceptions of the AIFMD and those perceptions should not be excluded from the research as this thesis analysed the status of the AIFMD implementation as it currently stands.

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Appendices

Appendix 1: management and other functions of AIFMs

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ANNEX I

1. Investment management functions which an AIFM shall at least perform when managing an AIF:

   (a) portfolio management;

   (b) risk management.

2. Other functions that an AIFM may additionally perform in the course of the collective management of an AIF:

   (a) Administration:

      (i) legal and fund management accounting services;

      (ii) customer inquiries;

      (iii) valuation and pricing, including tax returns;

      (iv) regulatory compliance monitoring;

      (v) maintenance of unit-/shareholder register;

      (vi) distribution of income;

      (vii) unit/shares issues and redemptions;

      (viii) contract settlements, including certificate dispatch;

      (ix) record keeping;

   (b) Marketing;

   (c) Activities related to the assets of AIFs, namely services necessary to meet the fiduciary duties of the AIFM, facilities management, real estate administration activities, advice to undertakings on capital structure, industrial strategy and related matters, advice and services relating to mergers and the purchase of undertakings and other services connected to the management of the AIF and the companies and other assets in which it has invested.

Appendix 2: Top 400 Asset Managers 2015 (Top 25)

	Company	Country	2015 total 31.12.14 (€m)	2014 total 31.12.13 (€m)
1	BlackRock	US/UK	3,844,383	3,140,715
2	Vanguard Asset Management	US/UK	2,577,380	1,997,915
3	State Street Global Advisors	US/UK	2,023,149	1,701,651
4	Fidelity Investments	US	1,595,380 (1)	1,411,250
5	BNY Mellon Invest. Management EMEA	US/UK	1,407,163	1,149,878
6	J.P. Morgan Asset Management	US/UK	1,266,805	1,129,854
7	Capital Group	US	1,167,231	907,909
8	PIMCO	US/Germany/UK	1,162,583 (1)	1,116,984
9	Pramerica Investment Management	US	968,628	804,608
10	Amundi	France	865,985	777,111
11	Goldman Sachs Asset Management Int.	US/UK	846,182	586,106
12	Northern Trust Asset Management	US/UK	771,951	641,882
13	Wellington Management	US	755,108	605,536
14	Natixis Global Asset Management	France/US	735,530	629,200
15	Franklin Templeton Investments	US/UK	727,394	639,141
16	Deutsche Asset & Wealth Management	Germany	721,747	644,175
17	TIAA-CREF	US	703,529	410,297
18	Invesco	US/UK	654,645	565,283
19	Legal & General Investment Mngt.	UK	643,070	540,338
20	AXA Investment Managers	France	623,008	546,702
21	T. Rowe Price	US/UK	617,163	502,486
22	Legg Mason	US	586,004	494,435
23	UBS Global Asset Management	Switzerland/UK	552,089	475,002
24	BNP Paribas Investment Partners	France	513,986	478,962
25	Affiliated Managers Group	US	512,635	390,310

Source: (Kennedy, 2015)

Appendix 3: Interview Guide (German / English)

Section D: Open Question and Answer section / Interview Guide

Step 1: Introduction and Explanation of research background

Step 2: Request for permission to record the interview and publish the research data

Step 3: Interview Discussion following the RQs and sub-ordinated questions:

Questions with regard to research Question 1: "to explore changes driven by the AIFMD to the traditional business models employed by managers of closed-ended investment funds"

German language	*English language*
1. Sind Sie der Meinung, dass die Regelungen der AIFMD Richtlinie ordnungsgemäß im KAGB umgesetzt wurden?	1. Do you think that the requirements of the AIFMD directive have been lawfully implemented in the KAGB?
2. Welche durch die AIFMD Richtlinie/KAGB verursachten Auswirkungen auf Ihr Geschäftsmodell konnten Sie feststellen?	2. What kind of impact on your business model do you recognize caused by the AIFMD directive/KAGB?
3. Profitieren Sie von den De-Minimis Schwellenwerten der AIFMD? (d.h. weniger als 100 Mio. Vermögenswerten). Gelten Sie als sog. Small AIFM, sprich „registrierte AIF Kapitalverwaltungsgesellschaft"?	3. Do you benefit from the De-Minimis thresholds of the AIFMD? (i.e. less than 100 million AUM). Are you considered as a "small AIFM", i.e. registered AIFM?
4. Profitieren Sie von der AIFMD/KAGB (z.B. Eröffnung von neuen Betriebswegen?) oder ist diese Regulierung eher zum Nachteil für Sie (z.B. höhere Compliance Kosten, steigendes Risiko, etc.)	4. Do you benefit from the AIFMD/KAGB in general (e.g. seeking new distribution ways)? Or do these new regulations impose disadvantages for your business (e.g. higher compliance costs, increasing risk etc.)?
5. Was sind die Vor- und was sind die Nachteile der AIFMD? (nur kurz in Stichpunkten)?	5. What are the advantages and disadvantages of the AIFMD for your business (in a nutshell)?
6. Was tun Sie bzw. welche Maßnahmen	6. What are you intending to do in

ergreifen Sie um den Nachteilen (von Ihnen eben aufgeführt) der Regulierung entgegenzuwirken?	order to prevent the disadvantages (as identified by you) from the regulation?
7. Wie haben Sie Ihr Geschäftsmodell verändert aufgrund der AIFMD Richtlinie?	7. How did you adapt your business model as a result of the AIFMD directive?

Questions with regard to research Question 2: "to investigate and highlight how the marketplace in which managers of closed-ended alternative investment funds operate will develop as a result of the changes caused by the AIFMD"

German language	*English language*
1. Wie hat sich das Marktumfeld durch die AIFMD verändert? Konnten Sie zum Beispiel feststellen, dass der Wettbewerb zu- oder abgenommen hat? (z.B. aufgrund von Fonds Managern, die jetzt in Europa Produkte anbieten dürfen)	1. How has the market environment changed as a result of the AIFMD? e.g. do you recognize that the competition has increased or decreased? (e.g. because fund managers from third countries are now able to distribute their funds in Europe)
2. Hat sich das Marktumfeld für Sie zum Vor- oder Nachteil entwickelt?	2. Did the market environment change to advantage or disadvantage for your business?
3. Wieso zum [Vor- oder Nachteil]?	3. What was the cause of this [advantage or disadvantage]?
4. Wie schätzen Sie die Entwicklung des Marktumfeldes künftig ein? (z.B. größere Anbieter überleben, kleinere werden verschwinden)	4. How do you perceive the development of the market environment in the future? (e.g. do you think larger competitors will survive, while smaller ones will disappear?)
5. Wie hat sich Ihr Produktportfolio aufgrund der neuen Regulierung geändert? (breitere Produktpalette)	5. How have your offered investment products changed due to the new regulation? (e.g. larger range of products)

Questions with regard to research Question 3: "to explore the extent of change that managers of closed-ended alternative investment funds have currently initiated to their business models"

German language	*English language*
1. Gibt es Anpassungen Ihres Geschäftsmodells, die Sie aufgrund der regulatorischen Anforderungen (KAGB/AIFMD) derzeit noch vornehmen?	1. Are you currently making any adjustments to your business model due to the regulatory requirements (KAGB/AIFMD)?

Questions with regard to research Question 4: "to elicit how traditional business models employed by managers of closed-ended investment funds have to change in order to ensure that they are sustainable"

German language	*English language*
1. Gibt es aus Ihrer Sicht Nachbesserungsbedarf bei der AIFMD Richtlinie bzw. dem KAGB?	1. Do you perceive any imperfections with regard to the AIFMD directive or the KAGB?
2. Bezüglich welcher Themen sehen Sie weiterhin Anpassungsbedarf Ihres Geschäftsmodells?	2. Where do you still perceive need for adaptions to your business model?
3. Welchen Herausforderungen sehen Sie sich in Zukunft gegenüber? (z.B. das Finden von adäquatem Personal, Haftungsrisiko für Geschäftsführer aufgrund zunehmender Compliance Anforderungen, etc.)	3. What challenges do you anticipate in the future? (e.g. lack of professionals, liability risk for managers due to increasing compliance requirements etc.)

Appendix 4: Request for Online Survey

Dear XXX,

Since several years with EY I am concerned with the compliance of Private Equity Funds. In 2013 the **"Alternative Investment Fund Manager Directive"** (AIFMD) was published, which should regulate Alternative Investment Fund Manager doing business in the European Union. It is expected that this new fund regulation will affect business models of Fund Manager significantly as they were not previously subject to regulation.

At the moment I am researching on how business models of Alternative Investment Fund Manager have changed due to the **AIFMD** in connection with the business school of the University of Gloucestershire. As your company is affected by the AIFMD, I would like to include your company in my research. For your participation I would provide you with the following information which might be important for your business as well:

- Exclusive insights of the fund market
- Recommendation for doing business in Europe / with European investors
- Compliance risks and lacks
- Recommendations for a sustainable business model

For my research I have prepared an online questionnaire. **If you agree I would send you the link to the online questionnaire?** Answering the questions would take 20-30 minutes approximately.

I highly appreciate your support for this study and looking forward to receive your answer.

If you have any further questions please do not hesitate to contact me.

Kind regards,

Haiko

Haiko Buettner | Senior Manager, Tax | Steuerberater | EMEIA Financial Services

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Website: http://www.ey.com
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Appendix 5: Online Survey

AFIMD survey (open)

Non Anonymous

This survey has been designed to capture user data. This means that when EY has sent you a link to this survey, your responses will be combined with your email address and other demographic information in order for EY to be able to create specific and individualized reports on the survey results. Furthermore, EY will collect additional data, such as your IP address and the time you filed your answers. EY will be able to view all individual responses. EY will use a limited amount of cookies to store information on your computer, but only to the extent this is essential for the survey to operate. If you decide not to complete this survey or if you are inactive for more than 20 minutes, these cookies will be automatically deleted. To find out more about the cookies we use, see our cookie notice.

Alternative Investment Fund Manager Directive (AIFMD)

Impacts on existing alternative fund managers' traditional business models.

What is the aim of this questionnaire?

On June 8, 2011 the European Union released, the EU-directive 2011/61/EU with regard to the administration of alternative investments by fund managers ("AIFMs"), which became effective on June 22, 2013.). It is expected that this new fund regulation will affect traditional AIFMs' business models as AIFMs were not previously subject to regulation or low regulation and now have to comply with these rules.

The potential effects caused by the AIFMD have been subject to contentious debate in the past. However, the outcomes of the AIFMD have not been considered post implementation. By developing an extensive understanding on how the AIFMD affects investment managers' traditional business models, highlighting measures that have already been undertaken by fund managers as a response to the AIFMD and highlighting measures that still need to be undertaken in terms of devising a sustainable business model.

Why my company?
Your company was selected for several reasons: On the one hand according to your company profile, your company was affected by the AIFMD regulation. On the other hand, we selected a number of smaller as well as larger sized Fund Manager in order to consider the challenges and requirements for fund manager with different market size.

How long does the interview take?
For the interview we estimate 20 - 30 minutes.

What is my benefit from the interviews?
Your responses deliver important support for prospective recommendations to the adaption of traditional business models of alternative investment fund manager to the AIFMD regulation. This recommendations might be important for your business as well. In addition to that we will provide participants with the core conclusions of this study which allow you to consider those in your business activity and highlight areas of your business model which require attention in terms of the AIFMD. **This study helps you to understand how the market for alternative Investment Funds have developed as a result of the AIFMD and what steps Fund Manager have to undertake in order to ensure that their business models are sustainable in future.**

All information will be kept strictly confidential and will be used solely for academical purpose.

In case of questions, please refer to:
Dipl.-Kfm. Haiko Büttner
Tel.: 06196 – 996 25573 or
haiko.buettner@de.ey.com

All information will be kept strictly confidential and will be used solely for academical purpose!

Section A: General Information regarding the Fund Manager

1. Please insert the **full legal** name of the management entity.*

2. What is your function witihn the Company?*
   - CEO
   - CFO
   - Compliance Officer
   - Portfolio Manager
   - Investor Relationship Manager
   - Vice President
   - Director
   - (Senior) Associate
   - Other, please specify

3. Please insert your place of business. (e.g. Germany, USA, etc.)*
   (Place of business where the Management Company is registered for legal purposes)

4. Which **type(s) of funds** do you have under management?*
   Select at least 1 response(s) and no more than 3 response(s).
   - AIFs
   - UCITS
   - Other, please specify

All information will be kept strictly confidential and will be used solely for academical purpose!

Section A: General Information regarding the Fund Manager

5. Please state your Assets under Management (**AUM**).*

	< 100 Mio.	100-500 Mio.	500-1.000 Mio.	1.000-10.000 Mio.	> 10.000 Mio
AUM in Mio. USD					

6. Please state the **changes in AUM** over the last 5 years.*

	- 50%	- 20%	0 %	50%	100%
Changes in %					

7. Please state your **AUM** of open-ended and closed-ended Alternative Investment Funds (AIFs).*

	< 100 Mio.	100-500 Mio.	500-1.000 Mio.	1.000-10.000 Mio.	> 10.000 Mio	n/a
open-ended AIFs						
closed-ended AIFs						

8. Please state the **changes in AUM** over the last 5 years for both open-ended and closed-ended AIFs.*

	- 50%	- 20%	0 %	50%	100%	n/a
open-ended AIFs						
closed-ended AIFs						

9. Do you think your **AUM** has changed due to the regulation of the AIFMD?*

Yes No

All information will be kept strictly confidential and will be used solely for academical purpose!

Section A: General Information regarding the Fund Manager

10. Is your entity **doing business in countries other than Germany** with regard to....*
Please indicate all applicable otherwise please tick n/a

	Yes, within the EU	Yes, outside the EU	No, solely in Germany	N/A
Family Offices				
Advisor Functions				
Management of open-ended Funds				
Management of closed-ended Funds				

11. What type of assets categories do you have under management?*

	< 10%	10%-50%	>50%	N/A
Traditional Assets (shares / bonds)				
Real Estate (commercial, residential, industrial, office)				
Private Equity (Venture Capital, Buyout Capital)				
Infrastructure (renewable energy's, other)				
Hard Commodities (natural resources)				
Soft Commodities (agricultural products, lifestock)				
Other (aircrafts, ships, art, wine, etc.)				

12. Do you think the type of assets you have under management changed as a result of the AIFMD?*

Yes No

13. Approximately how many employees were employed in 2010 compared to 2015 and how many of them were concerned with regulatory tasks?*
(if nobody, please enter "0")

	2010	2015
Total amount of employees		
employees concerned with compliance and regulatory		

14. Please indicate how costs and revenue have changed as a result of the AIFMD regulation **between 2010 and 2015**. For example, compliance costs may have increased due to a more complex regulation, etc.*
*Please rate how costs/revenues have developed on a scale from -2 to 2, where -2 indicates **strong decreasing, 0 indicates they have remained the same** and 2 indicates **strong increasing.***

	-2	-1	0	1	2
Compliance Costs					
Employment Cost					
IT Costs					
Total Revenue					
Rate of Return					
Fund Performance					

15. Was the Management Company already been subject to regulation (before AIFMD was released)?

- Yes
- No
- Not significantly

16. Please indicate which regulations your business is subject to.*
Fund Manager may subject to several regulations (domestic and European regulations). Select at least 1 response(s) and no more than 6 response (s).

- MiFiD
- AIFMD
- EMIR
- UCITS
- KAGB
- Other, please specify

All information will be kept strictly confidential and will be used solely for academical purpose!

Section B: Authorisation of AIFMs

17. AIFMs have to be authorised in accordance with the AIFMD requirements. Is your business already authorised with a supervisory (e.g. BAFIN, etc.)?

    Yes No

All information will be kept strictly confidential and will be used solely for academical purpose!

Section B: Authorisation of AIFMs

18. Do you **intend to authorise** your business in accordance with the AIFMD regulation?*

NA 6

19. Did you already apply for authorisation, but authorisation is **still pending**?*

NA 6

20. Did you already apply for authorisation, but authorisation **was rejected**?*

NA 6

21. Do you consider authorisation as too complex and unnecessary for your business?*

NA 6

All information will be kept strictly confidential and will be used solely for academical purpose!

Section B: Authorisation of AIFMs

22. Please indicate the importance of the authorisation of your business in accordance with the AIFMD regulation.*
*Please rate the importance on a scale from 1 to 5, where 1 indicates **low importance** and 5 indicates **high importance** for your business model*

	1	2	3	4	5
staying competitive					
possibility to offering new investment products					
going concern purposes					
legal considerations					
compliance					
delegation of management functions					
distribution of investment products					
risk purposes					
other (please insert your answer in the next questions)					

23. What was the reason for authorising / not authorising your fund business in accordance with the AIFMD regulation?*

24. As a result of the implementation of the AIFMD, did you changed your **place of business** to a different jurisdiction?
Yes No

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Section B: Authorisation of AIFMs

28. Did you consider moving your management business as a result of the AIFMD, but in the end decided not to move?
What were the reasons for <u>not moving</u> the business to a different jurisdiction although the AIFMD affects your business?*

	1	2	3	4	5
Moving the business would have been too expensive					
The AIMFD did not affect our business model or the affect was too low					
Staying competitve					
Other reasons					

All information will be kept strictly confidential and will be used solely for academical purpose!

Section B: Authorisation of AIFMs

29. Our business model was impacted by the AIFMD although our business is located in a jurisdiction which is not subject to the AIFMD regulation (e.g. USA).*

   True   False

30. Please rate the affects the AIFMD regulation has on the following areas of your business model*
   *Please rate the impact of the AIFMD on a scale from 1 to 5, where 1 indicates **low impact** and 5 indicates **high impact** for your business model*

	1	2	3	4	5
Risk and liquidity management					
Compliance					
Legal					
Accounting/reporting					
Controlling					
Portfoliomanagement/productmanagement					
IT systems					
Tax					
Asset management					
Distribution/ Investor relations					
Humand resources					
Propoerty management / object management					

31. In order to be authorised the requirements of the AIFMD need to be fullfiled (e.g. with regard to remuneration policy, risk management, valuation, etc.) Please rate which have been the most challenging areas for your fund business in terms of the authorisation process.*

	1	2	3	4	5
Implementation of the compensation provisions					
Structures and procedures in risk management					
Outsourcing					
Structures to avoid conflicts of interest					
Capital resources and business planning					
Structures for compliance					
Reliability testing of board members					
Depositary					
Reliability testing of shareholders					
Loads of existing business					
Double bands shaft					
Leverage definition					
Wording in contracts					
Others					

All information will be kept strictly confidential and will be used solely for academical purpose!

Section C: Operating conditions for AIFMs

32. The AIFMD requires the AIFM to fulfill several operating conditions such as remuneration policy, risk management, etc. In order to fulfill these conditions the Managers have to create appropriate know-how and implement sufficient structures and systems.*
*Please rate the **complexity** of the implementation of AIFMD operating conditions on a scale from 1 to 5, where 1 indicates **low complexity** and 5 indicates **high complexity***

	1	2	3	4	5
Implementing a remuneration policy (Art. 13 AIFMD)					
Identifying and monitoring conflict of interests (Art. 14 AIFMD)					
Building appropriate risk management structures and systems (Art. 15 AIFMD)					
Implementing appropriate liquidity management system and procedures to monitor liquidity risks of AIFs (Art. 16 AIFMD)					
Requirement to use adequate and appropriate human and technical resources that are necessary for the proper management of AIFs. (Art. 18 AIFMD)					
Implementing appropriate and consistent procedures for the performance of a proper and independent valuation of the assets of the AIF (Art. 19 AIFMD)					
Delegation of functions (Art. 20 AIFMD)					
Transparency requirements (Art. 22 - 24 AIFMD)					

33. Did you use external advisors (such as tax advisors, consulting firms) in order to adapt your business model to the AIFMD requirements in addition to, or instead of, using internal human and technical resources ?*

- Yes
- No
- Other, please specify

34. What has been the biggest challenge for your business model in terms of implementing a **remuneration policy**?*
Rank the items below, using numeric values starting with 1.

- Poor internal information/ know-how in terms of implementing an appropriate remuneration policy
- The understandability of the remuneration policy requirements
- Long duration of implementation (e.g. time for development, etc.)
- High administrative costs (while implementing and/or execution), e.g. caused by additional employees.

35. While implementing the **remuneration policy** which kind of support would have been useful (e.g. further implementing guidance, examples, etc.)?

36. Is your **remuneration policy** already fully implemented and compliant with the requirements of the AIFMD or does it need further adaption in order to be compliant?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.

- Fully implemented, no further action is required
- Further adaption is required

37. What has been the biggest challenge for your business model in terms of taking reasonable steps to identify **conflicts of interest** that arise in the course of managing AIFs as required by the AIFMD?*
Rank the items below, using numeric values starting with 1.

- High administrative costs (while implementing and/or execution), e.g. caused by additional employees, software systems, etc.
- Long duration of implementation (e.g. time for development of appropriate systems, etc.)
- The understandability of the AIFMD related to the identification of conflict of interests
- Poor internal information/ know-how for taking reasonable steps to identify conflicts of interest

38. While taking reasonable steps to identify conflicts of interests what kind of support would have been useful (e.g. further

46. What has been the biggest challenge for your business model in terms of using adequate and appropriate human and technical resources that are necessary for the proper management of AIFs?*
Rank the items below, using numeric values starting with 1.

The understandability of the AIFMD requirements related to the use of adequate and appropriate human and technical resources	
High administrative costs (while implementing and/or execution), e.g. caused by additional employees, software systems, etc.	
Technical resources had to be adapted as a result of the AIFMD	
Hiring appropriate human resources	

47. In terms of using adequate and appropriate human and technical resources what kind of support would have been useful (e.g. further implementing guidance, examples, etc.)?

48. Are you using adequate and appropriate human and technical resources in order to be compliant with the requirements of the AIFMD or do you need to hire further human resources and adapt technical resources in order to comply with the requirements of the AIFMD?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.

- Using adequate human and technical resources
- Further action is required

49. What has been the biggest challenge for your business model in terms of implementing appropriate and consistent procedures for the performance of a **proper and independent valuation of the assets** of the AIF?*
Rank the items below, using numeric values starting with 1.

Long duration of implementation (e.g. time for development of appropriate systems, etc.)	
High administrative costs (while implementing and/or execution), e.g. caused by additional employees, software systems, etc.	
The understandability of the AIFMD requirements related to appropriate and consistent procedures for the performance of a proper and independent valuation of the assets of the AIF	
Adaption of the current valuation systems to the AIFMD requirements	

50. In terms of asset valuation according to the AIFMD requirements whatkind of support would have been useful (e.g. further implementing guidance, examples, etc.)?

51. Do you think your business model provides appropriate and consistent procedures for the performance of asset valuation according to the AIFMD or do you think you still need to implement or adapt your business model in terms of asset valuation procedures?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.

- Fully implemented, no further actions required
- Further aaction is required

52. Do you valuate assets of the AIFs by using an external service provider or using internal human and technical resources?*

	External	Internal
Valuation before the AIFMD was released		
Valuation according to the AIFMD regulation		

53. What has been the biggest challenge for your business model in terms of the transparency requirements of the AIFMD?*
Rank the items below, using numeric values starting with 1.

The understandability of the transparency requirements	

implementation guidance, examples, etc.)?

39. Is your business model compliant with the "**conflict of interests**" requirements of the AIFMD or does it need further adaption in order to be compliant?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.
- Fully compliant, no further actions required
- Further action is required

40. What has been the biggest challenge for your business model in terms of building an appropriate **risk management structure / system**?*
Rank the items below, using numeric values starting with 1.

High administrative costs (while implementing and/or execution), e.g. caused by additional employees, software systems, etc.	
The understandability of the AIFMD requirements related to the implementation of risk management systems	
Long duration of implementation (e.g. time for development of appropriate systems, etc.)	
Poor internal information/ know-how to build risk management systems which are able to comply with the AIFMD regulation	

41. While building appropriate risk management structures and systems what kind of support would have been useful (e.g. further implementation guidance, examples, etc.)?

42. Is your risk management system already fully compliant with the requirements of the AIFMD or does it need further adaption in order to be compliant?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.
- Fully implemented, no further actions required
- Further action is required

43. What has been the biggest challenge for your business model in terms of building an appropriate **liquidity management system**?*
Rank the items below, using numeric values starting with 1.

Long duration of implementation (e.g. time for development of appropriate systems, etc.)	
High administrative costs (while implementing and/or execution), e.g. caused by additional employees, software systems, etc.	
Poor internal information/ know-how relating to liquidity management system which is able to comply with the AIFMD regulation	
The understandability of the AIFMD requirements related to the implementation of liquidity management system	

44. While building appropriate liquidity management structures what kind of support would have been useful (e.g. further implementation guidance, examples, etc.)?

45. Is your liquidity management system already fully compliant with the requirements of the AIFMD or does it need further adaption in order to be compliant?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.
- Fully implemented, no further actions required
- Further action is required

Adaption of the business model to the AIFMD requirements	
Internal technical resources had to be adapted	
Additional human resources had to be hired	
Delegation to third party provider	
High compliance costs (while implementing and/or execution), e.g. caused by additional employees, software systems, etc.	

54. In terms of transparency requirements of the AIFMD what kind of support would have been useful (e.g. further implementation guidance, examples, etc.)?

55. Is your business model compliant with the transparency requirements of the AIFMD or do you think it still needs to be adapted in order to comply with the transparency requirements of the AIFMD?*
e.g. in case further implementation guidance is necessary, however not published yet by national or EU supervisory.
- Fully compliant, no further actions required
- Further action is required

56. According to Article 20 AIFMD management functions can be delegated to third parties. Do you delegate management functions to a third party provider?*
Yes No

All information will be kept strictly confidential and will be used solely for academical purpose!

Section C: Operating conditions for AIFMs

57. Do you delegate **portfolio management functions** to a third party provider?

    Yes No

58. Do you delegate **risk management functions** to a third party provider?

    Yes No

59. Do you delegate **additional functions** (e.g. with regard to administration such as valuation and pricing, etc.) to a third party provider?

    Yes No

All information will be kept strictly confidential and will be used solely for academical purpose!

Section C: Operating conditions for AIFMs

60. Do you think the delegation of management functions to third parties will strengthen your business model?*
e.g. by reducing compliance risk, etc.

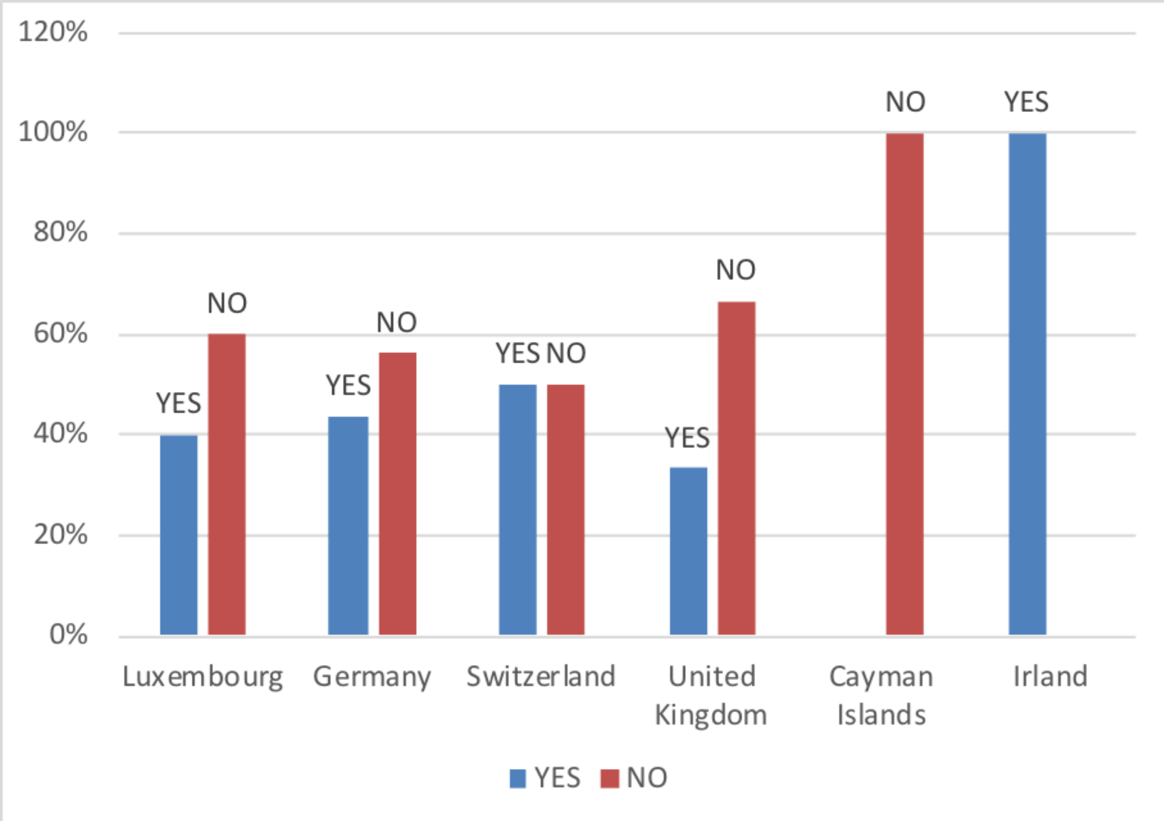
True False

61. What are your current plans regarding delegation to third party provider?

	Yes	No
We have already delegated functions to third party providers and plan to delegate further functions		
We have already delegated functions to third party providers and do not plan to delegate further functions		
We have not delegated functions to third parties so far, however we plan to delegate functions to third party providers in the future		
We have not delegated functions to third parties so far and do not plan to delegate functions to third party providers in the future		

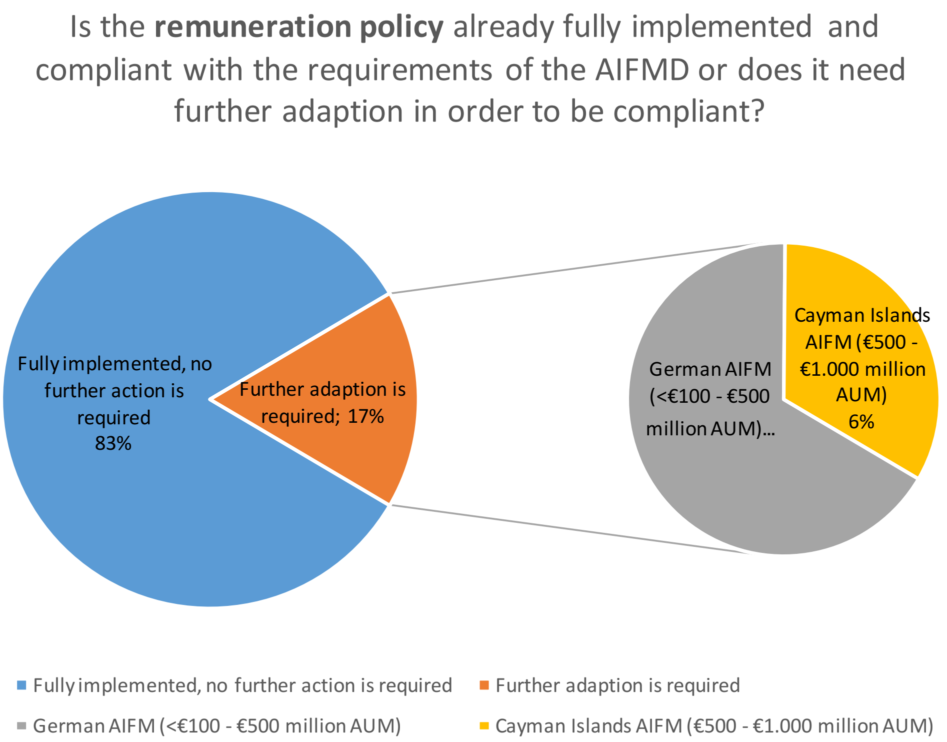
All information will be kept strictly confidential and will be used solely for academical purpose!

Appendix 6: change of AUM caused by the AIFMD shown by jurisdiction where the AIFM operates



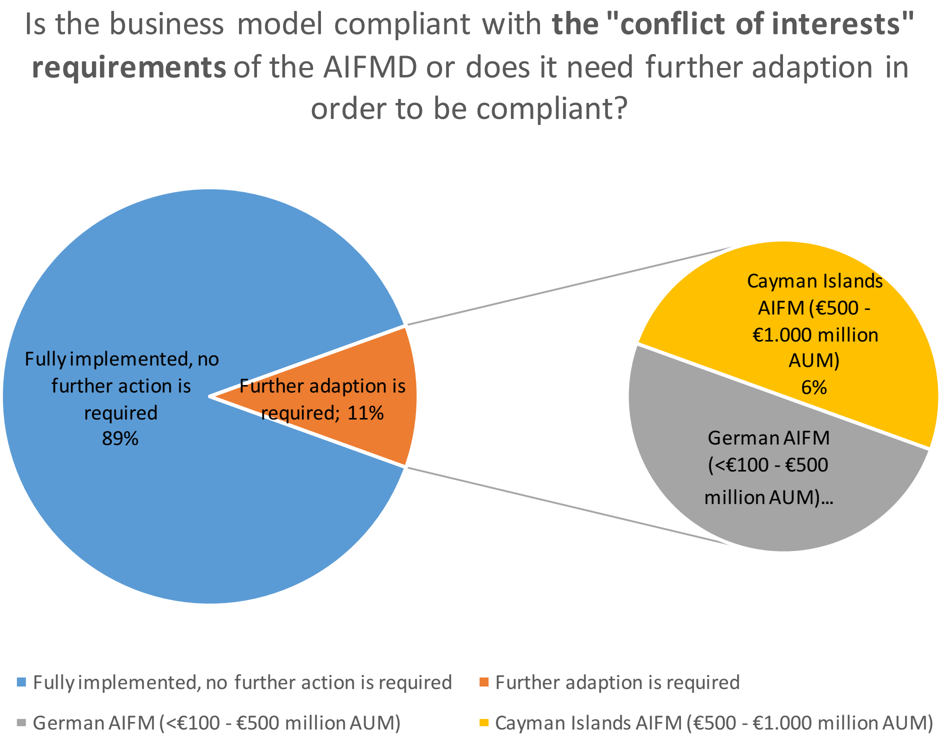
Source: own elaboration based on the online survey, 2016

Appendix 7: Implementation of the remuneration policy



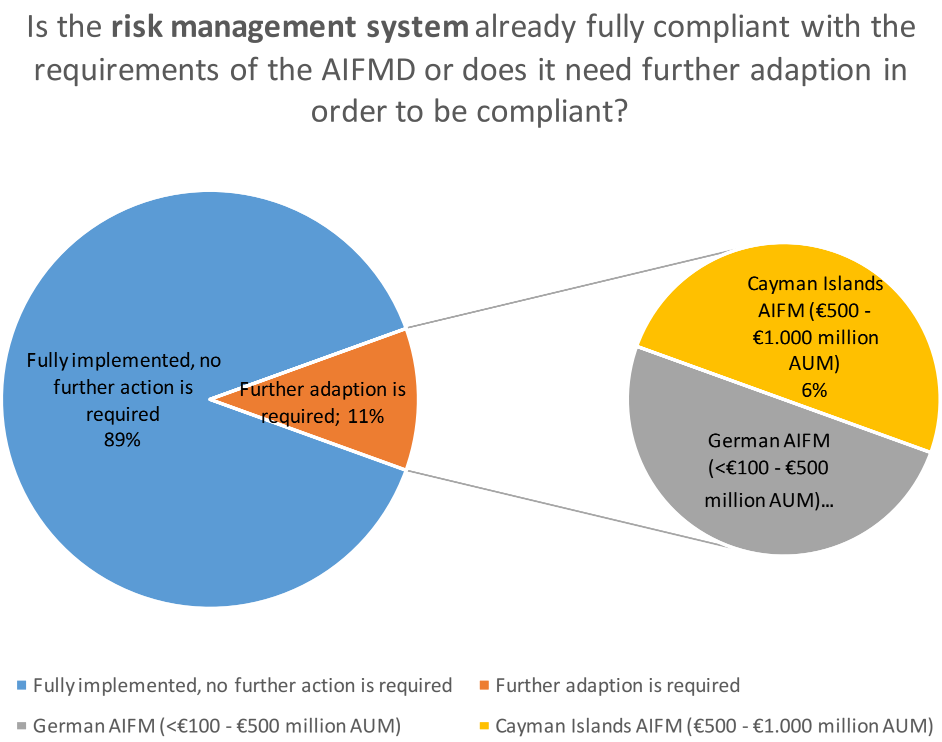
Source: own elaboration based on the online survey, 2016

Appendix 8: Identification of "conflict of interests"



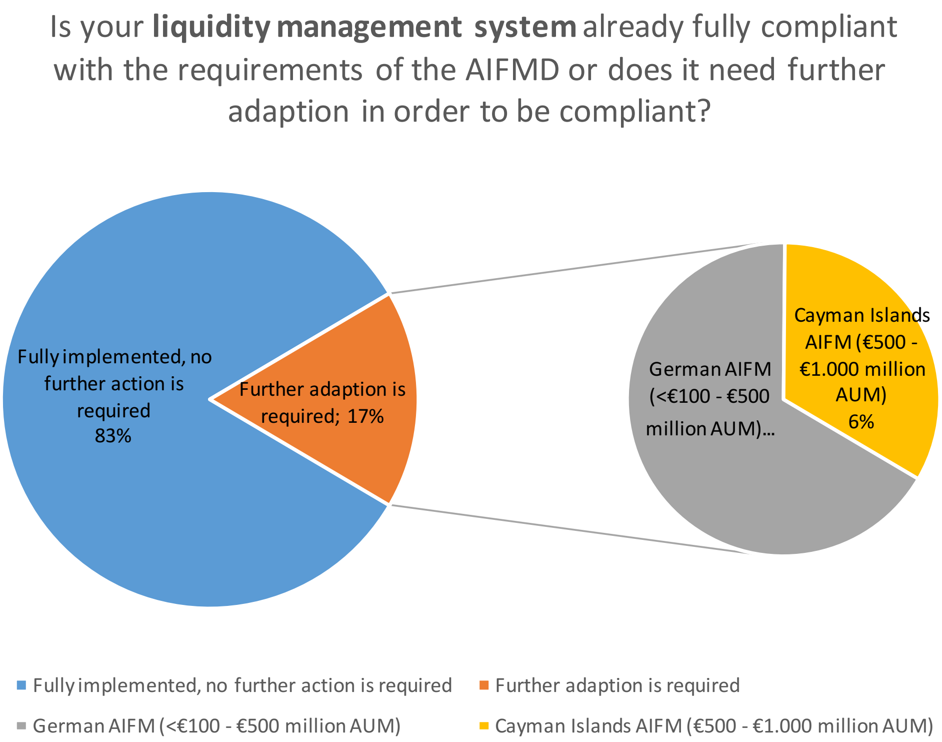
Source: own elaboration based on the online survey, 2016

Appendix 9: Implementation of a risk management system



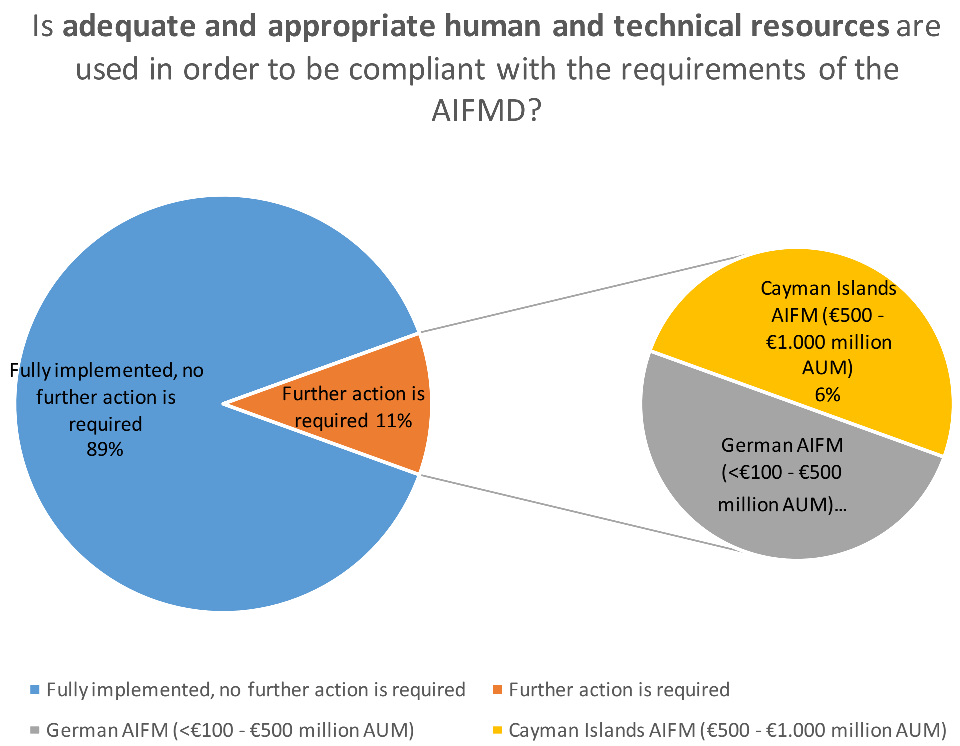
Source: own elaboration based on the online survey, 2016

Appendix 10: Implementation of a liquidity management system



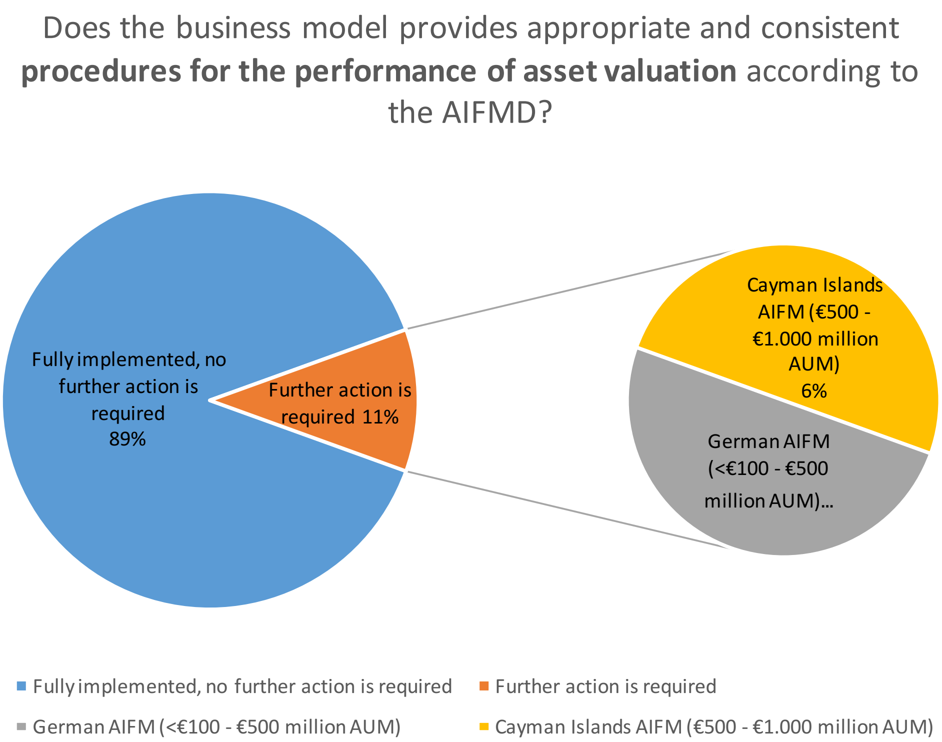
Source: own elaboration based on the online survey, 2016

Appendix 11: Usage of adequate and appropriate human and technical resources



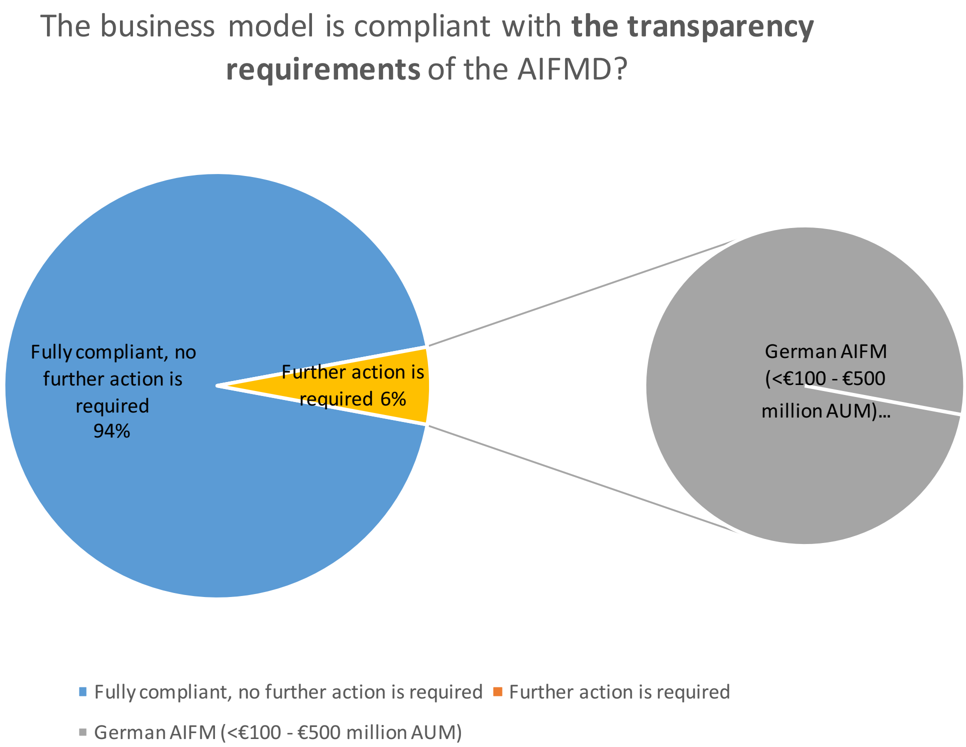
Source: own elaboration based on the online survey, 2016

Appendix 12: Implementation of appropriate and consistent procedures for the performance of asset valuation



Source: own elaboration based on the online survey, 2016

__Appendix 13: Compliance of transparency requirements__



Source: own elaboration based on the online survey, 2016