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As the alternative investment management industry prepares for the upcoming April and July AIFMD regulatory deadlines, fund managers and third-party administrators are expressing their concerns over regulatory reporting, accuracy and liability.

These concerns are prompted by new requests coming from the audience asset managers most need to comply: such as regulators across Europe enforcing the mandates of AIFMD and large institutional investors such as pension funds, family offices and insurance companies demanding transparency on behalf of their stakeholders.

While this variety of constituents is nothing new, the customer demands coming are: Regulators are requesting large sets of data and complicated calculations that need to be aggregated from a variety of sources.

At the heart of this concern is the AIFMD’s requirement that the reports be validated, formatted and posted 30 days after the end of the reviewed period (or 45 days for fund of funds) – an onus for an industry that, heretofore, has not implemented methods for handling such reporting granularity or frequency, and a very narrow window for managers with multiple funds. For funds that report quarterly, the challenge is particularly acute.

To remain accountable in the era of AIFMD and intensified investor transparency – and to keep their heads above water – asset managers and third-party administrators must understand three keys: Data complexity, data control, and data flexibility.

It is in the context of these demands and needs that Confluence conducted its AIFMD Transparency Reporting Survey.

Sincerely,

MELVIN JAYAWARDANA
EUROPEAN MARKET MANAGER
FINDINGS

Knowing is only half the battle: Awareness and concerns

Almost all AIFMs (95%) and Third Party Administrators (90%) believe they are very or somewhat informed on the requirements of AIFMD, and most confirm that their organization has completed a review of all data elements required to prepare AIFMD reporting (76% AIFMs, 67% Third Party Administrators).

Concerns manifest themselves in the reporting itself: But while AIFMs were more concerned with reporting to local regulators than any other category polled, more than half of Third Party Administrators (59%) say their organization will not accept liability for the quality of the reporting provided to the regulator.

Q: How concerned are you with each of the following with regard to AIFMD? (% 1-2 Very concerned)
AIFMD technology: For many, a decision yet to be made

Though some larger fund managers have begun to build in-house reporting solutions, one-third of AIFMs plan to use an existing vendor to help them solve the regulatory reporting problem. More than half (52%) say they plan to use a software solution for AIFMD transparency.

The vast majority (82%) of Third Party Administrators say that their organization will support clients by offering an AIFMD transparency reporting solution; 38% say they will use a software solution.

Only 15% of respondents say they do not plan to use a software solution at all. The remainder – 42% of respondents, nearly as many those who plan to use software – are as yet undecided.

Q: How do you look to solve the regulatory reporting problem?
Respondents indicate that the ability to provide underlying data (75%) and integration with accounting systems (73%) are the most important regulatory reporting solution features, with AIFMs more likely than Third Party Administrators to find each feature important.

AIFMs are also especially concerned with the need for software to provide audit trails and to include workflow features that allow for collaboration with the legal and accounting teams; 76% noted these features as important.

**First AIFMD report filing**

Over half of AIFMs (62%) and Third Party Administrators (59%) plan to prepare their first set of AIFMD Transparency reports to the local regulator in either the 3rd or 4th quarter of 2014. AIFMs are more likely to prepare the report in Q3 (43%), while Third Party Administrators are more likely to prepare the report in Q4 (41%).

Per the Commission de Surveillance du Secteur Financier (CSSF), AIFMs authorized between July 22, 2013, and June 30, 2014 will be required to submit their first reporting according to the dates below, so long as there is no shift in a reporting frequency of the AIFMD reporting:

<table>
<thead>
<tr>
<th>Reporting Frequency</th>
<th>Reporting Period Start Date</th>
<th>Reporting Period End Date</th>
<th>Deadline for Transmission for AIF that are not fund of funds</th>
<th>Deadline for Transmission for AIF that are fund of funds</th>
</tr>
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CONCLUSION

It is our view at Confluence that AIFMD is rapidly accelerating an ongoing trend among hedge funds and their core service providers toward increased automation of business operations and data management. This complex data challenge, driven largely by new regulatory and investor demands for improved operational standards and transparency, is paving the way for a new era of efficiency and control.

In doing so, AIFMD provides a tremendous opportunity to usher in a new era for the alternative investment sector, opening up doors to new investors and significantly growing the sector size over the next several years.

The funds that rise to the occasion in the most cost-effective and efficient ways will see the greatest upside as we move into this new age of heightened transparency and accountability for alternative investment managers.
METHODOLOGY

Confluence collaborated with Candice Bennett & Associates, Inc., on the 2014 Alternative Investment Fund Management Directive Transparency Reporting Survey. The fund and asset servicing industry survey was conducted between January 20, 2014 and February 24, 2014. A total of 60 interviews were conducted with AIFMs and Third Party Administrators to assess perceptions of and attitudes toward AIFMD regulation and compliance.

ABOUT CONFLUENCE

For more than 20 years the global investment management industry has come to trust Confluence to deliver innovative solutions to take the risk out of fund administration. Helping investment management companies gain unprecedented control, Confluence automates every step of the fund administration process—including the collection, creation, confirmation and delivery of investment product data. Results are lower costs, reduced risk, decreased reporting turnaround times and the scalability to automate more processes without additional resources.

Confluence solutions are used by 40 percent of the leading global investment managers, and more than 60 percent of U.S. mutual funds. From the Confluence traditional install, hosted and outsourced Unity® platform solutions to our enterprise-grade SaaS enabled Unity NXT platform, Confluence automates critical fund administration and reporting processes—such as regulatory reporting, financial statement preparation and performance reporting. Confluence solutions support a wide array of collective fund investment types— including European domiciled UCITS, alternative investments, traditional U.S. based ’40 Act mutual funds, and contemporary fund structures such as ETFs.

Headquartered in Pittsburgh, Pennsylvania, Confluence serves the international fund industry with key locations in Luxembourg, London, Dublin and San Francisco. For more information, visit www.confluence.com