

ANALYTICS: THE ROUTE TO AN AIFMD BRAND?

GERALDINE GIBSON OF AQMETRICS LOOKS AT THE OPPORTUNITIES PRESENTED BY THE AIFMD AND ITS REPORTING STANDARDS



The AIFMD is an opportunity to shape and strengthen the alternative investment management sector in Europe for many years to come. All too often we focus on the challenges that the AIFMD poses, such as the significant upfront costs and the ongoing regulatory reporting and compliance burdens. But in so doing we fail to recognise the potential that the AIFMD offers to boost investor confidence, as well as improve fund performance through the application of advanced analytics in a standardised framework.

With Exposure Analysis, Sensitivity Analysis and Value at Risk (VaR) now mandatory parts of AIFMD reporting it is clear that analytics form a large part of AIFMD preparation. The strength of these analytics is core to the opportunities that AIFMD reporting offers.

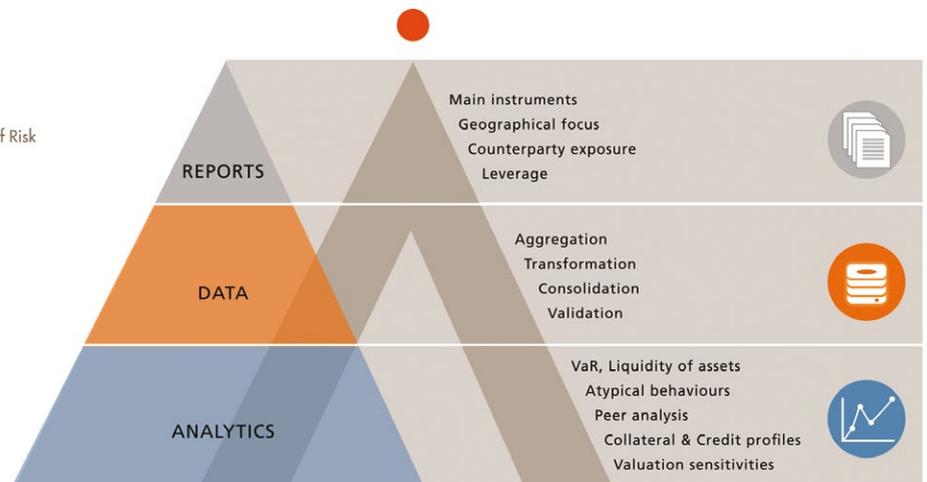
At a macro level Exposure Analysis across funds, geographies, markets, instruments, funding sources and counterparties will enable the European industry to build a deep repository of knowledge over time. As a result, a thorough understanding of the European industry will emerge among AIFMDs, investors and regulators.

Under the AIFMD, Sensitivity Analysis on liquidity of assets, atypical behaviours, peer analysis, collateral and credit profiles and valuation sensitivities has to be con-

ducted at least annually. This will drive AIFMDs to view risk measurement as a priority and increase their ability to hedge their risks appropriately. Visibility of risk is important not only for regulators, it is invaluable information that AIFMDs can use internally and share with their investors and corporate boards. There is significant benefit in an AIFMD using the results of their Sensitivity Analysis for more than Annex IV reporting; combining the results with "What If" Analysis will certainly strengthen the AIFMD's business over the long term.

In the context of the AIFMD, VaR is simply seen as an estimate of the maximum potential losses in the value of the fund. Nevertheless, there is more to be gained from VaR, particularly for derivative concentrated funds, as it remains the simplest way to measure the exposure of a derivative instrument (delta-adjusted) and allows AIFMDs to take into account the correlation of the assets as well as the current market conditions. When derivative exposures are offset by other derivatives VaR provides AIFMDs with the most effective way to accurately view global risk.

With regards to AIFMD reporting obligations, Esma hasn't stopped at basic Sensitivity Analysis or VaR. To measure leverage, Esma specifies using both gross and net commitment methods devised for Ucits in 2010. Preparation of Annex IV reports provides an AIFMD with





both the VaR and leverage analytics, and combining the two is a way of ensuring that misleading assessments of risk or volatility are avoided. Furthermore, now that Annex IV reporting moves AIFMs towards accurate risk assessments, investors will begin to rate the AIFMs in terms of their risk management capability. Those AIFMs who apply advanced analytics to provide investors with transparent, accurate and up to date risk and volatility assessments stand to reap the rewards.

When building the analytics for reporting, the savvy AIFM will ensure that the analytics are re-used to the AIFM's competitive advantage. Under Article 23 of the AIFMD, AIFMs must make information available to investors before they invest in an AIF. An AIFM who recognises and demonstrates that investor information such as historical performance and investment strategy can be enhanced with AIFMD analytics will be better placed to attract institutional investors. Once the AIFM can demonstrate the results of its analytics to investors, its investors will be confident that they will get regular and periodic disclosures going forward and this will give them the comfort and trust they need to invest.

As investor confidence rises so too will the flow of funds in Europe. It is for this reason the effort required to submit AIFMD Annex IV reports is worth the initial pain as there are undoubtedly longer term gains to be had. The hidden value in AIFMD reporting lies in the analytics re-

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quired to get to the reporting end point. An abundance of opportunities present themselves when one reviews the analytics and the value to be gained from the information generated. Armed with analytics, AIFMs can exercise more centralised control of operational business decision-making while advanced analytics will allow AIFMs to hedge against volatility and to respond faster and with greater insight to change. There is no doubt that the predictive power the AIFMD analytics offer will have an increased impact on how business is done across the alternative investment management sector in Europe well into the future.

To ensure future success, the industry as a whole must focus on continual improvement to get the best value out of the AIFMD. Feedback is key to ongoing improvement, and a strong vibrant network of cross border regulators working together to continually refine the analytics required for Annex IV reporting will improve the industry across Europe. If the regulators effectively network as they review the Annex IV reports they will help build a powerful structure of advanced analytical capabilities that will heighten investor confidence in the AIFMD brand across Europe and globally. The proof of AIFMD success will lie in the quality of data and analytics that go into reporting and in turn the analysis of the reports by regulators, investors and AIFMs and will go on to build the AIFMD brand. Who knows, it may even leave us all looking forward to an AIFMD II. ■