



Morgan Lewis

**ADVANCED TOPICS IN
HEDGE FUND PRACTICES
CONFERENCE**

Manager and Investor Perspectives

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Global Funds Update

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Updates to EU/UK Marketing Rules for Non-EU/UK Managers

European Union

- AIFMD II entered into force on 15 April, with most rules having to be transposed by EU states by 16 April 2026.
- Key changes for non-EU managers marketing funds in the EU include:
 - enhanced reporting and disclosure requirements; and
 - new conditions for using EU national private placement regimes.

United Kingdom

- AIFMD II will not apply in the UK, but the FCA is to consult on amending the UK AIFMD regime.
- A key priority for the FCA is making alternative fund managers' regime more proportionate.

GCC Securities Regulations

Middle East region continues to be focal in managers' efforts to build capital.

In particular, sovereign wealth funds (SWFs) and governmental investment entities tend to be the largest investors through fund investments and co-investments and direct and strategic investments.

Securities regulators are evolving rather quickly with more limited categories of exempt professional investors.

GCC passporting appears to finally be underway with Saudi Arabia and the UAE adopting broadly similar securities regulations.

As a result, we are seeing an increased need for utilizing regional placement agents and promoters.

Japan: General Updates

- Japan continues to be a stable area in Asia, which continues to have geopolitical tensions
- Inflation is on the rise, but relatively lower compared to other countries, and coupled with the weak yen, investment in Japan is appealing
- We are seeing more interest in Japan real estate and private equity investments and managers
- The Japan Financial Services Agency (FSA) and the Tokyo Metropolitan Government are actively promoting Japan and Tokyo as a destination for foreign asset managers
 - Some inducements include subsidies, English-language support services and the FSA's continued expansion of the Foreign Market Entry Office
 - Many new registrants have found their entry into Japan expedited
- We continue to see concentration among the larger, more established managers in Japan and Asia generally, often with large institutional industry mandates
- Increased demand has resulted in the expansion of co-investment arrangements, which are becoming increasingly sophisticated and varied, often more manager-friendly

Asia (excl. Japan and China): Key Regulatory Updates

Choice of fund jurisdictions – Luxembourg, Cayman, Singapore, Hong Kong, and India

Singapore has repealed the Registered Fund Management Company (RFMC) regime

Timelines for approvals and compliance have seen significant extensions in Singapore and India

AML scrutiny has intensified, particularly in Singapore

Enhanced ESG regulations in India and Singapore

Fund Tokenization in the UK

- UK asset managers are increasingly exploring commercial use cases for fund tokenization.
- The FCA is committed to supporting financial services innovation (acknowledging potential efficiencies of issuing fund units via distributed ledger) as evidenced by the FCA:
 - addressing fund tokenization in its discussion paper on improving UK asset management regime;
 - partnering with regulators across the world as part of the Monetary Authority of Singapore's Project Guardian;
 - being an observer on the Technology Working Group of the government's Asset Management Taskforce, which is considering fund tokenization; and
 - holding a tech sprint with the industry to test policy initiatives and the rule changes needed to support work on fund tokenization.

EU/UK ESG Landscape

European Union

- EU managers are increasingly having to navigate competing investor ESG preferences (e.g., reconciling “anti-ESG” preferences with SFDR rules for article 8 funds).
- More and more EU investors are requiring at least SFDR article 8 classification.
- European Commission is consulting on SFDR, considering whether reform is required in light of SFDR being used as de facto labelling regime.

United Kingdom

- FCA sustainability disclosure requirements and investment labelling regime for managers of UK funds launch in July 2024.
- FCA’s new general anti-greenwashing rule applying to FCA regulated firms took effect on 31 May 2024.

MENA Institutional Investor Areas of Focus

1

Sovereign Wealth Funds (SWFs)

- Focus on infrastructure projects and tech support through local-level bespoke investment platforms

2

SWF: Investor-Friendly Waterfall Terms

- Hard to influence the waterfall conceptually and we are not regularly seeing European Waterfalls (whole of fund) other than in specific strategies like infrastructure funds
- However, larger institutional investors such as SWFs are increasingly insisting on:
 - Management fee step-downs being calculated on invested capital (rather than commitment amounts or NAV of fund assets)
 - More interim clawbacks at least at the end of investment period in addition to the fund liquidation milestone
 - Discounts on carry distributions specifically

3

Regional Asset Managers: Islamic Institutional Investors

- Growth in master Islamic investment structures to facilitate investments in alternative strategies, mainly private equity and real estate
- Global managers adopting their own structures as well to attract capital from smaller Islamic investors or those who are new to these asset classes
- Structural complications in the case of credit funds (use of interest), but we have seen an uptick in this strategy as well

Digital Real Estate Investments – Japan

New offerings of digital certificates of TBIs with underlying real asset

Two new block chain platforms recently established

The security tokens are treated as a security under the Financial Instruments and Exchange Act and distributed by securities broker-dealers registered in Japan

Allowing widespread modest investment by retail investors in specific real estate assets

Currently used more by domestic players, but with the popularity of these products, there may be expansion in scope of assets and participants

Asia (excl. Japan and China) Market Trends/Themes

