Our Mission, team and clients

- Albourne seeks to be the world’s leading provider of independent high-quality research and advice on complicated assets.

- 302 employees, founded in 1994, owner-managed and independent, fixed fee non-discretionary advisor

- 259 institutional and other clients*

- Estimated amount our clients have invested in alternative investments**: over $400bn

- MiFID II is currently the most important pending regulatory development

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*This is the aggregate number of client entities for the Albourne Group worldwide. Clients may be subscribed to multiple services.

**This estimated figure was calculated by aggregating the estimated investments in alternatives investments of all of the clients of the Albourne Group entities worldwide, using public sources where possible.

All figures are as of 1 December 2016
MiFID II: Buyside Implementation Challenges

• What is MiFID II?
  • Builds upon the November 2007 Markets in Financial Instruments Directive (“MiFID”)
  • Plans to address:
    • the effect of high frequency trading on markets and price formation
    • the proliferation of trading venues with low price transparency
    • price transparency beyond equity markets, e.g. bonds and OTCs
    • inducements distorting markets

• High Level summary of measures:
  • Commodity derivatives – position limits and reporting
  • Transparency – pre-and post-trade transparency extended beyond regulated markets
  • High Frequency Trading – designed to avoid adverse effects
  • Market Structure – comprehensive regulation of secondary trading – new markets defined
  • Organisational requirements – new conduct and product governance rules
  • Trade Reporting – allowing a consolidated “European Tape”, akin to the US equity
    Consolidated Tape, to be developed
  • Conduct of Business Rule changes – increased protection for clients, rules on
    inducements
  • Transaction Reporting – extension of the trade reporting regime; increased scope
MiFID II: Buyside Implementation Challenges

• One year to go – 3 January 2018 implementation date

• After the EU referendum – does it still matter?
  – Yes – in the short term at least
  – FCA expects EU regulations to continue to apply and Managers to plan for legislation
  – FCA rules, in places, proposed as being “super-equivalent”
    ➢ FCA Handbook contains copy outs in full rather than reference to relevant Articles of European rules, unlike the approach to AIFMD and Market Abuse Regulations
    ➢ Appears to us to aim to retain access to the European Single Market or for UK regulated firms to operate under MiFID II’s third country regime
    ➢ In the longer run, we could see some divergence

• Unlike MiFID I, MiFID II does not apply equally to all UK Managers, bar certain rules
MiFID II: High level requirements

- MiFID activity - segregated account portfolio management.
- CPM - Collective Portfolio Management business - AIFMs and UCITS.
- CPMI - Collective Portfolio Management Investment firm is a CPM that also undertakes segregated account portfolio management.

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<th>MiFID II rules</th>
<th>MiFID firm</th>
<th>CPM</th>
<th>CPMI CPM / MiFID</th>
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<td>Organisational requirements</td>
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<td>Algorithmic/High frequency</td>
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<td>Conduct of business</td>
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<td>Transaction Reporting</td>
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<td>Recording of telephones and electronic communications</td>
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*Uncertainty regarding Collective Portfolio Management (“CPM”) business (AIFMs and UCITS)
MiFID II: What’s happening? (1)

- Multi-strategy, and what tend to be larger US managers with European operations, generally advanced in their planning

- Majority of fund managers readying their MiFID II 2017 implementation plan

- Advanced managers are focussed on transaction and trade reporting, via trade lifecycle review

- A handful of managers that are structured to be MiFID firms, and currently sit outside of AIFMD rules via Jersey / Guernsey based Manager activities, are considering becoming AIFMs so as to be classified as CPM firms:
  - Pros – Reduces some FCA returns, such as FSA019 (Pillar 2) and FSA055 (Systems and Controls), as well as no requirements for an ICAAP.
  - Cons – can only consider removing MiFID permissions, if not undertaking MiFID activity such as managing segregated accounts. Also, replaces MiFID with AIFMD requirements.
MiFID II: What’s happening? (2)

- Areas well understood by Managers:
  - Call recording and monitoring
  - “Inducements” and paying for research
    - Research payment accounts (“RPA”) may be grouped for clients following similar strategies
    - Research commissions must be paid into RPA
    - Managers introducing broker votes, setting budgets, asking brokers to quote for holistic research services
  - Commodity derivatives reporting looks straightforward. T+1 report commodity positions.
MiFID II: Best Execution Requirements

- Generally a higher standard of compliance and disclosure, with requirements to adapt current policies and procedures

- FCA amended AIFM best execution rules to “level-up” to MiFID rules (COBS 11)

- Aim to evidence to clients and to the FCA (on request) that orders are executed in accordance with the firm’s execution policy and compliance with the best execution rules, respectively

- Move to, “sufficient” rather than “reasonable” steps to evidence the monitoring of execution quality. Public disclosure should include:
  - Summary of firm’s analysis and conclusions for each asset class
  - Relative importance given to execution factors of price, costs, speed, likelihood of execution, etc.
  - Any specific arrangements with execution venues – e.g. discounts, rebates, etc.
  - Factors that lead to changes of venues

- Apply reporting requirements of Regulatory Technical Standard (RTS) 28 to publish information on the top-five execution venues
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