

BREXIT TODAY: WHAT ARE THE REAL ISSUES IN PRACTICE?

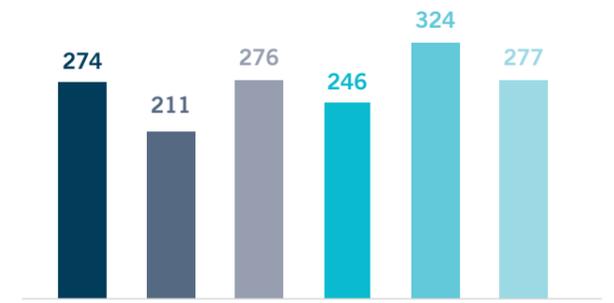
Fund managers –
the industry speaks



Funds Congress 2018 saw approximately 1,200 fund managers and other asset management professionals gather to discuss challenges and opportunities facing the industry. This report presents the results of electronic polling data, gathered in real time as panelists discussed the thorniest Brexit-related issues in the “Brexit Today” panel discussion.

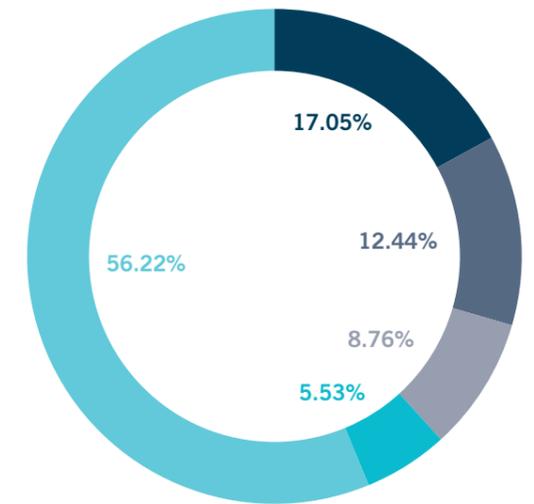
Which investment strategies do you employ?

- Private equity
- Private credit
- Hedge
- Real estate/infrastructure
- Long only/UCITS
- Fixed income



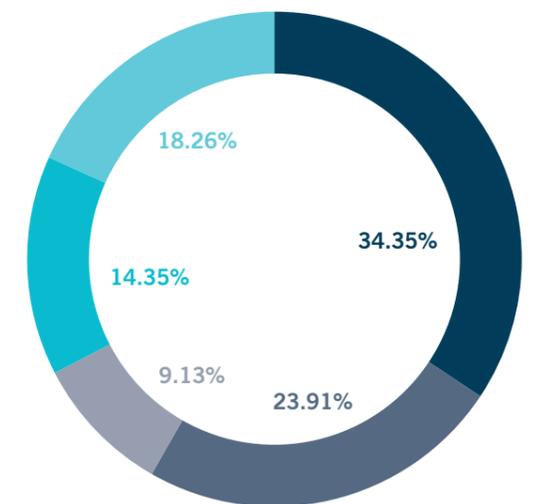
We manage in aggregate...

- Less than €100m
- €100m - 1bn
- €1bn - 5bn
- €5bn - 10bn
- €10bn +



Portfolio management is carried out by...

- An FCA regulated MiFID manager
- An FCA regulated AIFM
- An EU regulated MiFID manager
- An EU regulated AIFM
- A manager located outside of the UK or the EU

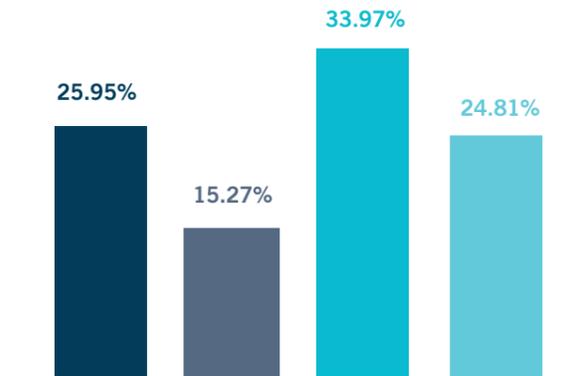


The impact of Brexit on staffing issues

Participants were asked whether they expected Brexit to affect their recruitment, staff retention and other human resources decisions. It was clear from the panel discussions that this is a topic attracting significant thought and attention.

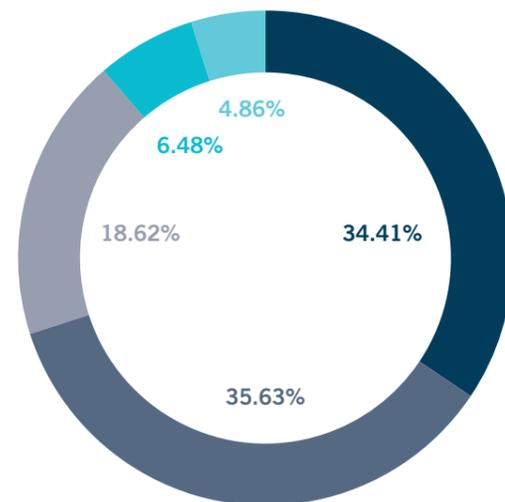
In the UK, we employ...

- Fewer than 10 staff
- 50 – 500 staff
- 10 – 50 staff
- Over 500 staff



In three years, I think the proportion of our workforce that is currently in the UK and that will be elsewhere as a result of Brexit will be...

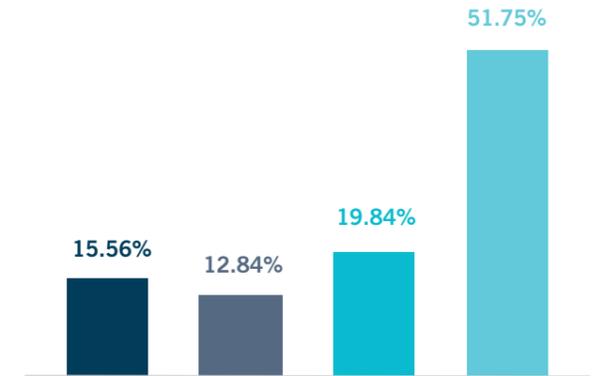
- 0% - i.e. no change
- 25 - 50%
- 1 - 10%
- 50%+
- 10 - 25%



A relatively small proportion of those surveyed – around 30% – expect to move more than 10% of their UK workforce abroad, although just under half have already seen some impact on hiring activities, either due to staff leaving the UK or in the form of greater competition for staff outside the UK. Indeed, some felt that the impact of this latter issue was likely to become significantly more important nearer to March 2019.

My business has seen personnel changes through...

- Staff leaving the UK
- Increased difficulty hiring EU nationals in to the UK
- Increased hiring activity in our EU27 locations
- No personnel impact

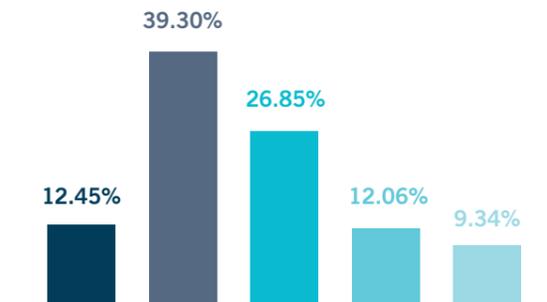


A macro view of Brexit

Overall, participants believed that Brexit would have a moderately negative impact on their respective businesses and on the UK fund management industry as a whole, although there was a much stronger sense that the wider industry would be impacted more heavily than their own businesses. Such expectations may be a reflection – as will be seen below – of the widely differing approaches expressed towards Brexit execution plans and the last possible date by which such plans should be put in motion.

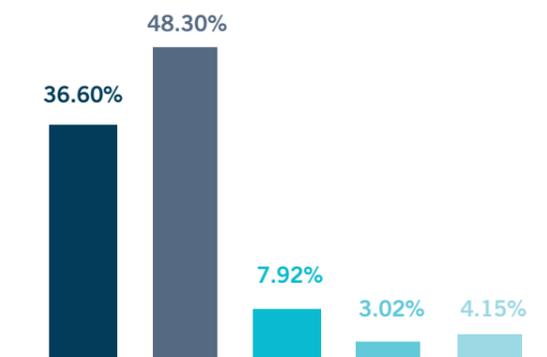
I think Brexit in the context of my business will have a...

- Large negative impact
- Moderate negative impact
- Overall neutral impact
- Moderate positive impact
- Large positive impact



I think Brexit in the context of the UK fund management industry as a whole will have a...

- Large negative impact
- Moderate negative impact
- Overall neutral impact
- Moderate positive impact
- Large positive impact

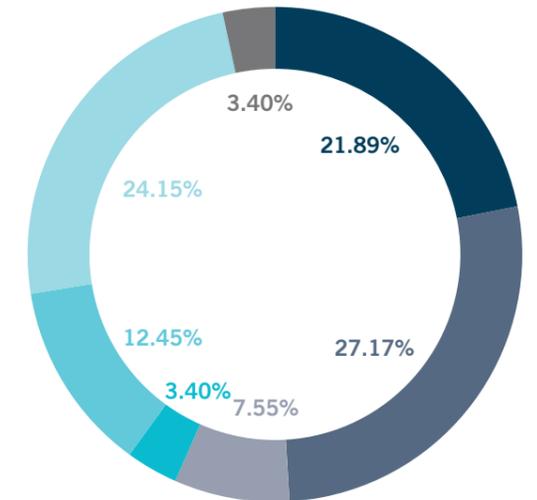


The areas of concern

Respondents felt that the issue of greatest concern was the impact on marketing and management passports. The need to navigate new legal and regulatory regimes also appears near the top of watch lists, both because managers believe they will either find themselves in a post-Brexit landscape in which the UK either enacts new laws or is treated as a third country, or because they believe that their businesses will have to establish operating footprints in new countries. The delegation issue caused much debate—more, indeed, than any concern surrounding the marketing passport. This may be a sign, of course, that as long as the industry can continue to focus on managing assets effectively, it will find an efficient way to come together with investors.

The biggest impact of Brexit on my business will be on

- Loss of marketing passport
- Loss of management passport and impact on my delegation structure
- Hiring/retention
- Change in investment opportunities
- Impact on physical infrastructure/complexity of my business
- Understanding new legal/regulatory/tax regimes
- Other

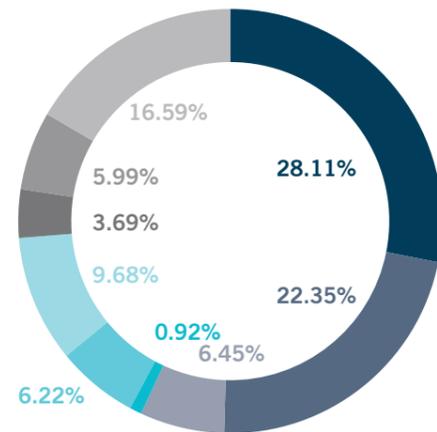


Jurisdictional shifts

In the UK, much has been made of fears that London's loss will be other cities' gain. In a sign that fund domicile is perhaps at front of mind, respondents leaned heavily toward Dublin and Luxembourg as potential new locations, outvoting Paris and Frankfurt, which received broadly equal scores and yet between them polled fewer votes than those declaring that they would stay in London.

Where will you most likely go / build?

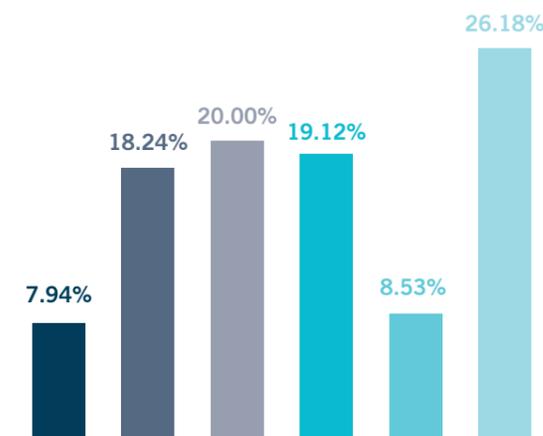
- Dublin
- Other EU
- Luxembourg
- Asia
- Frankfurt
- USA
- Munich
- Not going anywhere
- Paris



To the extent that shifting some infrastructure might be unavoidable, middle- and back-office functions appeared the most likely to be relocated. The fact that few respondents expected to relocate their portfolio management functions and that most expected to retain all functions in the UK seems to provide further evidence that London is unlikely to lose all of its intellectual capital.

I am considering moving the following functions outside the UK

- Portfolio management
- Fund directors and other corporate substance
- Risk management
- Other
- Other middle and back office support functions
- None

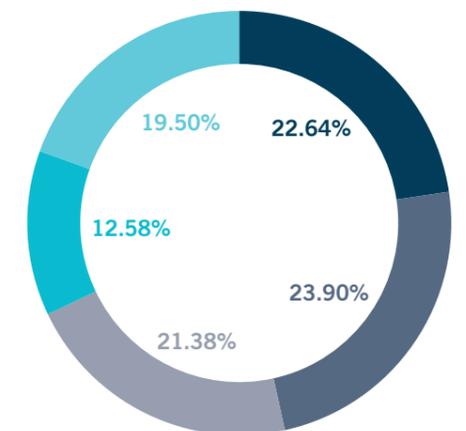


Planning for March 2019

One of the most interesting results of the survey shone light on the steps that participants had already taken with respect to Brexit and the range of attitudes they showed towards a trigger date for Brexit execution. Given the range of managers in the room, some variance in attitude is not unsurprising. It was nonetheless notable that although for some the moment to activate an execution plan has already passed, there was a large and equally convinced group believing it could continue to monitor government positions and regulatory responses before deciding what, if any, steps needed to be taken.

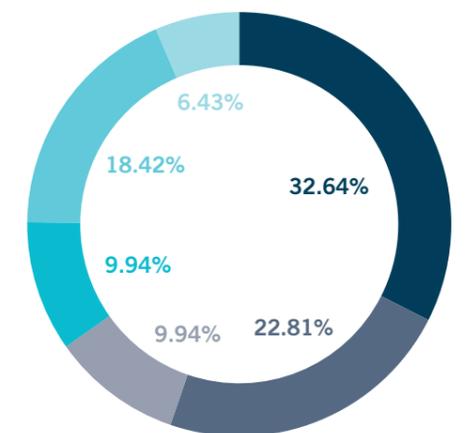
How long will you wait for a transitional deal before executing a 'hard Brexit' plan?

- March 2018 (12 months out)
- Year end (3 months out)
- June 2018 (9 months out)
- March 2019 – Brexit or beyond
- September 2018 (6 months out)



We have so far taken the following concrete Brexit planning steps

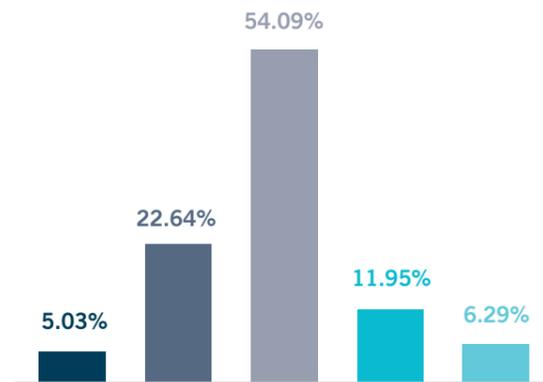
- Internal work only
- More hiring outside UK
- External legal/tax advisers engaged
- Engaged with regulators
- Service providers (e.g. domiciliation/third party AIFM) engaged
- Added real estate outside UK



It was clear, however, that while an asset manager’s position on the impact of Brexit might form part of its discussions with investors, approaches adopted by service providers and counterparties would be unlikely to have any meaningful impact on that manager’s Brexit planning.

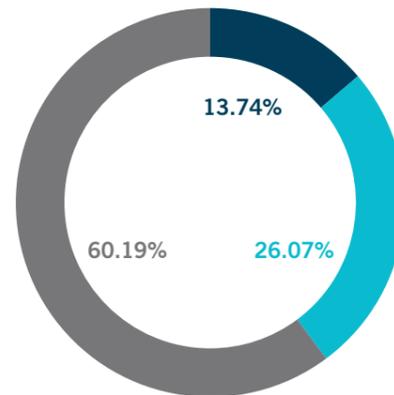
I believe that the steps my counterparties and service providers will take in response to Brexit will have a ...

- Large negative impact
- Moderate negative impact
- Overall neutral impact
- Moderate positive impact
- Large positive impact



Investors and prospective investors ask us about Brexit...

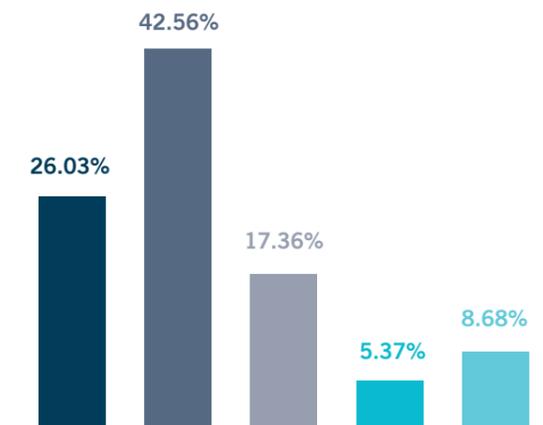
- Never
- Seldom
- Frequently



Overall, there was some optimism that the UK would have scope to negotiate a new type of commercial arrangement with the EU 27 instead of having to fall back on WTO rules in the event of a hard Brexit.

I think we will have a...

- Hard Brexit (i.e. WTO trade rules) in 2019
- Less hard Brexit (new free trade deal with the EU)
- Norway/Swiss deal
- Canada deal
- Other

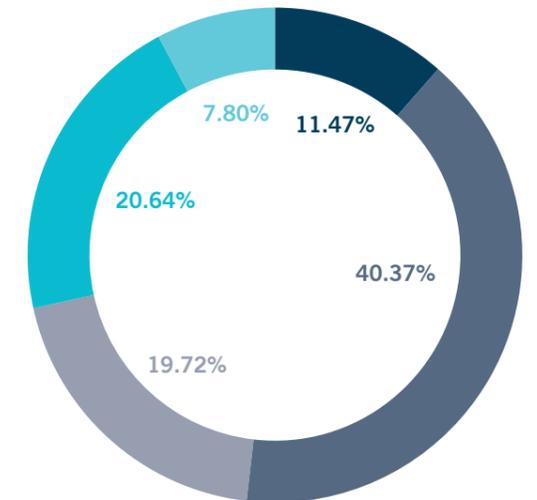


What about non-Brexit issues?

We concluded by asking the audience to indicate some of the non-Brexit issues that concerned them. As the industry has only recently emerged from MiFID II and is now heading into GDPR, many respondents felt that major regulatory changes would have a significant impact on the wider industry. Today as much as ever, it seems, the industry is focused on adapting to a changing legislative landscape.

I expect the following issues to impact my business as much as / more than Brexit

- Tax changes (BEPs, non-dom changes)
- New regulation (e.g. GDPR, MiFID II)
- Macroeconomic issues
- Other political change
- Other economic change



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