



SUNGARD ANALYSTS' DAY

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WHAT'S YOUR POSITION?

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TEN IN PRACTICE

How Regulatory Change Will Impact Alternative Investments

Paul Compton, Head of Product Management for Alternative Investments

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AGENDA

- The political and regulatory response to the financial crisis
 - Fast talking politicians vs the slow motion of legislative change: US and EU
- US: what Dodd-Frank means for hedge funds and private equity
- EU: Alternative Investment Fund Managers (draft) Directive
 - Provisions affecting hedge funds
 - Implications for private equity
- Other regulatory changes affecting alternative investments
 - Volcker, FATCA, remuneration, UCITS, central clearing, ...
- How regulatory change will impact AI fund managers
 - Role of technology in compliance
 - Importance of the cloud
 - Administration, reporting, independent valuation

Fast Talk vs Slow Legislative Change

- Fast talk of new regulation followed every trauma
 - Bear Stearns event of March 2008
 - Lehman event of September 2008
 - Madoff event of December 2008
- Legislators move a lot more slowly
 - The Dodd-Frank Act was passed into law on 21 July 2010
 - The European Parliament passed a final text of the Alternative Investment Fund Managers Directive on 11 November 2010
 - EU legislation on OTC derivatives is still at the proposal stage
- And implementation will take much longer yet
 - Rule-making begins here, some estimate the SEC alone will have to make nearly 100 rules (source: Davis Polk)
 - Most provisions of the AIFMD will take effect at the start of 2013

Dodd-Frank and Alternative Investments

- Wall Street Reform and Consumer Protection Act
 - Signed into law in July 2010
 - But so much of the impact will depend on the details of rule-making
- More reporting, disclosure and transparency
 - Managers required to report regularly to supervisors, linked to the new Financial Stability Oversight Council
- SEC registration provisions announced in November 2010
 - Not generally felt to be onerous, but will add to operating costs
- Derivatives regulation
 - Definition of “major swaps participant” expected on 1st December
- Fiduciaries required to independently value illiquid positions
- Family office exemption published in October 2010
 - Wording covers only firms investing on behalf of immediate family
 - Multi-family offices should expect they will have to register

Alternative Investment Fund Managers Directive

- Alternative Investment Fund Managers Directive
 - Long negotiations involving EU national governments, industry lobby groups, European Commission and European Parliament
 - Voted through by the European Parliament in November 2010
 - Passed into law and applied by 27 member states in time for 2013
- Requires registration and compliance from AIF managers
 - Subject to a size threshold defined in terms of total AUM
 - Unless they are already registered for UCITS
 - Investors can only invest in “equivalent” non-EU regimes
- Aims to ensure investors are well informed and protected
- Aims to ensure financial stability, linked to new institutions
 - European Securities Markets Agency
 - European Systemic Risk Board

AIFMD Main Provisions

- Single European passport
 - One national approval grants access to investors in all 27 countries
 - Phased introduction of “third-country passports” for non-EU AIFM, with national regulatory regimes available until the end of 2017
 - The growth of UCITS funds may point to some upside in AIFMD, with 40% of “Newcits” placed outside the EU
- All AIFM required to appoint a depositary, responsible for ensuring the fund's cash and assets are protected
 - Depositaries held to a high standard of liability in the event of a loss of assets and the burden of proof will reside with the depositary
 - Rules covering delegation to sub-depositaries outside the EU
- Disclosure requirements
 - To investors
 - To national regulators

AIFMD Provisions for Hedge Funds

- AIFMs managing \$100m or more will be required to
 - Register with national authorities
 - Comply with harmonised transparency requirements
 - Have remuneration policies consistent with sound risk management
 - And with additional requirements applied at national level
 - Smaller funds can opt in
- Funds will be required to set a limit on their use of leverage
 - And to disclose ongoing leverage to national regulators and ESRB
 - Powers to impose limits on leverage to ensure financial stability
- Separate valuation function independent of management
- Hedge funds are preparing by
 - Segregating their assets at prime brokers
 - Appointing depositories
 - “Learning the ropes” by launching UCITS funds

AIFMD Provisions for Private Equity

- \$500m threshold for non-leveraged closed-end funds
 - Now clear the leverage condition applies to funds not investors
 - But it is still not completely clear what leverage means
- A fund with EU investors must disclose strategic holdings to portfolio companies' other shareholders and employees
 - And make public its intentions towards each business including financing, employment and divestment
 - The fund's financial statements must include a lot of financial and non-financial information regarding portfolio companies
- Requirement remains to have a separate valuation function
 - What does that even mean for private equity?
- Some concerns about how carried interest is dealt with in remuneration provisions

Other Regulatory Impacts on Alternative Investments

- US Foreign Account Tax Compliance Act (FATCA)
 - Enacted in March 2010
 - Requires 50,000+ non-US financial institutions to provide the IRS with much more extensive information on US citizens
 - Or face a 30% withholding tax on returns from US investments
 - Includes holdings in non-US securities and securities held by funds
 - Implemented for the start of 2013
 - Compliance will be particularly complex for multi-manager funds and funds of funds

Other Regulatory Impacts on Alternative Investments

- UCITS IV is expected to be implemented during 2011
 - Administrative changes to streamline application of UCITS principles, e.g. notification, master-feeders, offshore managers
- Extraordinary success of the UCITS “brand” since 1985
 - UCITS account for approx 75% of European investment funds
 - Nearly 40% of UCITS funds are distributed outside the EU, including Asia-Pac, Lat-Am, MENA, South Africa
 - Recent growth of UCITS hedge fund offerings (“Newcits”) with most hedge fund strategies able to comply
- The UCITS regime (“IVa”) will be adjusted to match AIFM
 - Revised depositary requirements for investor protection
 - Remuneration provisions applied horizontally

Other Regulatory Impacts on Alternative Investments

- Volcker rule will restrict US banks from engaging in “prop” speculative investments not on behalf of their customers
 - Banks will be able to make investments to hold in inventory, in order to meet client demand or provide liquidity for market-making
 - Proprietary trading in T-bills, T-bonds, agency bonds and municipal bonds is exempted from the restriction
 - Also banks are allowed to invest up to 3% of Tier 1 capital in hedge and private equity funds, but not to own more than a 3% stake
- Central clearing of OTC derivatives
 - Dodd-Frank plus a new EU law expected to be in force by 2012
 - Designed to ensure the authorities can anticipate systemic risk
 - Increase transparency and reduce counterparty risk

How SunGard Is Responding



Role of Technology in Compliance

- Everyone expects more emphasis on risk management and compliance
- New regulation adds further momentum to the ever growing emphases on robust record-keeping, independent valuation and reporting
- Fund administrators and their technology platforms may play the central role in facilitating compliance on behalf of their fund manager customers

Hosted Solutions and the Cloud

- Market and regulatory drivers for hosted solutions
 - Increased pressure on fund managers to run robust operations
 - And provide greater transparency to investors, partners, regulators
 - While simultaneously controlling costs in line with reduced AUM



THE NEED TO DO MORE, WITH LESS.



- Economic benefit of offering hosted solutions
 - Reduced Total Cost of Ownership to the customer, without the requirement to acquire in-house hardware, expertise and support
 - Makes top-quality infrastructure available and affordable to boutique investment managers running leaner operations
 - But the benefits also extend to larger fund managers and service providers

Administration

- SunGard systems are increasingly used as platforms by third-party administrators servicing alternative investments
 - LaCrosse Global Fund Services has extended its relationship with SunGard by implementing InvesTier to deliver partnership and shareholder accounting and reporting services to the firm's clients in the United States, Europe, Asia and Latin America
 - SEI among other TPAs using InvesTier
 - Prime Fund Services among many administrators using Investran for administration of buyout, real estate and venture funds
 - Columbus Avenue, a hedge fund administrator using SunGard's VPM portfolio accounting solution integrated with the FastVal independent valuation service

Reporting

- New requirements of disclosure to both investors and supervisors
 - These give a new focus on technology to drive record-keeping and reporting, with minimised scope for manual intervention and error
- SunGard solutions for Alternative Investment mostly incorporate customizable reporting
 - VPM – SRSS technology incorporated in product since 2009
 - InvesTier – SRSS technology being built into product during 2010
 - Investran – project has started to implement SRSS in 2011
 - FastVal – customizable reporting was part of the 3.0 project
 - Data Exchange – potential infrastructure for report distribution
 - APT – new Risk Reporter released earlier in 2009
 - Plus bringing together many of these systems on Infinity

Independent Valuation

- Post-crisis, more pressure than ever for independent valuation
 - Pressure on **banks**, from regulators and shareholders
 - Pressure on **asset managers**, from regulators and investors
- SunGard solution
 - To invest in the FastVal ASP service for independent valuation of OTC and structured derivatives
 - True independence and true outsourcing – deploying its own data, models and expertise to provide valuations on an ASP basis
- Regulatory compliance
 - Cross-Border Asset Management in London for UCITS compliance
 - BNL Vita and other Italian insurance companies to meet national regulatory requirements linked to the Solvency II Directive

Paul Compton

Head of Product Management, SunGard Alternative Investments

+44 20 8081 2722 Office

+44 7920 806019 Cell

paul.compton@sungard.com

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