



APPENDIX 2

Transparency Requirements

1. Annual report

- 1.1 Every AIFM must, for each EU AIF it manages and for each AIF it markets in the EU, produce an annual report for each financial year, within six months of the relevant year-end.
- 1.2 All information in the annual report must be presented in a manner that provides materially relevant, reliable, comparable and clear information, and must contain the information investors need in relation to particular AIF structures.
- 1.3 The annual report must be provided to:
 - (a) EU investors on request; and
 - (b) The regulator of the AIF's home Member State (in respect of EU AIFs); or
 - (c) The regulator of the EU Member States into which the AIF is being marketed (in respect of non-EU AIFs).

For certain listed closed-ended EU AIFs which are already obliged by the EU's Transparency Directive to publish an annual financial report, AIFMs of those AIFs only need to provide such additional information referred to below to investors upon request, either separately or as an additional part of the annual financial report. In the latter case, the annual financial report must be published within four months (rather than the usual six months set out above) of the relevant year-end.

- 1.4 Each annual report must at least contain:
 - (a) A balance-sheet / statement of assets and liabilities, which in turn must include at least the following items:
 - (i) 'Assets' comprising the resources controlled by the AIF as a result of past events and from which future economic benefits are expected to flow to the AIF. Assets must be sub-classified according to the following line items:
 - (A) 'Investments', including, but not limited to, debt and equity securities, real estate and property and derivatives;
 - (B) 'Cash and cash equivalents', including, but not limited to, cash-in-hand, demand deposits and qualifying short-term liquid investments;
 - (C) 'Receivables', including, but not limited to, amounts receivable in relation to dividends and interest, investments sold, amounts due from brokers; and
 - (D) 'Prepayments', including, but not limited to, amounts paid in advance in relation to expenses of the AIF.

- (ii) 'Liabilities', comprising present obligations of the AIF arising from past events, the settlement of which is expected to result in an outflow from the AIF of resources embodying economic benefits. Liabilities must be sub-classified according to the following line items:
 - (A) 'Payables', including, but not limited to, amounts payable in relation to the purchase of investments or redemption of units or shares in the AIF and amounts due to brokers;
 - (B) 'Accrued expenses', including, but not limited to, liabilities for management fees, advisory fees, performance fees, interest and other expenses incurred in the course of operations of the AIF;
 - (C) 'Borrowings', including, but not limited to, amounts payable to banks and other counterparties; and
 - (D) 'Other liabilities', including, but not limited to, amounts due to counterparties for collateral on return of securities loaned, deferred income and dividends and distributions payable.
 - (iii) 'Net assets', representing the residual interest in the assets of the AIF after deducting all its liabilities.
- (b) An income and expenditure account for the financial year, which in turn must include at least the following elements and underlying line items:
- (i) 'Income', representing any increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets other than those relating to contributions from investors. Income must be sub-classified according to the following line items:
 - (A) 'Investment income', which can be further sub-classified as follows:
 - 'Dividend income', relating to dividends on equity investments to which the AIF is entitled;
 - 'Interest income', relating to interest on debt investments and on cash to which the AIF is entitled; and
 - 'Rental income', relating to rental income from property investments to which the AIF is entitled;
 - (B) 'Realised gains on investments', representing gains on the disposal of investments;
 - (C) 'Unrealised gains on investments', representing gains on the revaluation of investments; and

- (D) 'Other income' including, but not limited to, fee income from securities loaned and from miscellaneous sources.
 - (ii) 'Expenses', representing decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to investors. Expenses must be sub-classified according to the following line items:
 - (A) 'Investment advisory or management fees', representing contractual fees due to the advisor or AIFM;
 - (B) 'Other expenses', including, but not limited to, administration fees, professional fees, custodian fees and interest. Individual items, if material in nature, should be disclosed separately;
 - (C) 'Realised loss on investments', representing loss on the disposal of investments;
 - (D) 'Unrealised loss on investments', representing loss on the revaluation of investments;
 - (iii) 'Net income or expenditure', representing the excess of income over expenditure or expenditure over income, as applicable.
- (c) A report on the AIF's activities for that financial year, which must include a fair and balanced review of the activities and performance of the AIF, as well as a description of the principal risks and investment or economic uncertainties that the AIF might face. To the extent necessary for an understanding of the AIF's investment activities or its performance, the analysis must include both financial and non-financial key performance indicators relevant to that AIF. The information provided in the report must be consistent with national rules where the AIF is established. The information in the report on the activities of the financial year must form part of the directors' or investment manager's report insofar as this is usually presented alongside the financial statements. The report must in particular include:
 - (i) an overview of investment activities during the year or period, and an overview of the AIF's portfolio at year-end or period end;
 - (ii) an overview of the AIF's performance over the year or period; and
 - (iii) a summary of any material changes to the pre-investment disclosure referred to in section 2 below (i.e. the prospectus / marketing material) which is not already addressed in the financial statements.
- (d) Any material changes in the information listed in section 2 below during that financial year. 'Material' is taken to mean any information which creates a substantial likelihood that it would cause a reasonable investor, upon becoming aware of such information, to reconsider its investment in the AIF, including because such information could impact an investor's ability to exercise its rights in relation to its investment, or

otherwise prejudice the investors of investors in the AIF.

- (e) The total amount of remuneration for the financial year (split into fixed and variable remuneration) paid by the AIFM to its staff; the number of beneficiaries; any carried interest paid by the AIF; and the aggregate amount of remuneration broken down by senior management and staff of the AIFM whose actions have a material impact on the risk profile of the AIF. In particular, the disclosure must specify:
 - (i) the total remuneration of the entire staff of the AIFM, indicating the number of beneficiaries;
 - (ii) the total remuneration of those staff of the AIFM who are fully or partly involved in the activities of the AIF, indicating the number of beneficiaries; and
 - (iii) the proportion of the total remuneration of the staff of the AIFM attributable to the AIF, indicating the number of beneficiaries.

Where information is disclosed at the level of the AIFM, an allocation or breakdown must be provided in relation to each AIF, insofar as this information exists or is readily available. As part of this disclosure, a description of how the allocation or breakdown has been provided must be included.

- 1.5 The accounting information in the annual report must be prepared in accordance with (i) the accounting standards of the relevant AIF's domicile and (ii) the accounting rules laid down in the AIF's rules or instruments of incorporation. The accounting information must also be audited by one or more persons meeting international auditing standards in force in the AIF's domicile, and the auditor's report, including any qualifications, must be reproduced in full in the annual report.

2 **Pre-investment disclosure to investors**

- 2.1 Every AIFM must (for each EU AIF that it manages and for each AIF that it markets in the EU) make the following information available to prospective investors before they invest in the relevant AIF, as well as upon any occurrence of a material change to the information:
 - (a) A description of the investment strategy and objectives of the AIF, including disclosure regarding:
 - (i) the types of assets in which the AIF may invest;
 - (ii) the techniques it may employ and all associated risks;
 - (iii) any applicable investment restrictions;
 - (iv) the circumstances in which the AIF may use leverage;
 - (v) the types and sources of leverage permitted and the associated risks;

- (vi) the maximum level of leverage (note: AIFMD sets out very specific rules governing the calculation of leverage, which necessitate further consideration);
 - (vii) any restrictions on the use of leverage and any collateral and asset reuse arrangements; and
 - (viii) if the AIF is a feeder fund or fund of funds, information on the domicile of the master AIF / underlying funds, as applicable;
- (b) A description of the procedures by which the AIF may change its investment strategy / policy;
 - (c) A description of the main legal implications of the contractual relationship entered into for the purpose of investment, including information on jurisdiction, applicable law and the existence or not of any legal instruments providing for the recognition and enforcement of judgments in the territory where the AIF is established;
 - (d) The identity of the AIFM, the AIF's depositary, auditor and any other service providers and a description of their duties and the investors' rights;
 - (e) A description of how the AIFM has covered its professional liability risks arising from its AIFM activities (either by professional indemnity insurance or by the capital retention of additional 'own funds');
 - (f) A description of any management function delegated by the AIFM and of any safe-keeping function delegated by the depositary, the identification of the delegate(s) and any conflicts of interest that may arise from such delegations;
 - (g) A description of the AIF's valuation procedure and of the pricing methodology for valuing assets, including the methods used in valuing hard-to-value assets;
 - (h) A description of the AIF's liquidity risk management, including the redemption rights both in normal and in exceptional circumstances, and the existing redemption arrangements with investors;
 - (i) A description of all fees, charges and expenses and of the maximum amounts thereof which are directly or indirectly borne by investors;
 - (j) A description of how the AIFM ensures fair treatment of investors and, whenever an investor obtains preferential treatment or the right to obtain preferential treatment, a description of that preferential treatment, the type of investors who obtain such preferential treatment and, where relevant, their legal or economic links with the AIF or AIFM;
 - (k) The latest annual report of the relevant AIF;
 - (l) The procedure and conditions for the issue and sale of units or shares;
 - (m) The latest NAV of the AIF or the latest market price of the units / shares of the AIF;

- (n) Where available, the historical performance of the AIF;
- (o) The identity of any prime brokers and a description of any material arrangements of the AIF with its prime brokers; how the conflicts of interest in relation thereto are managed; the provision in the contract with the depositary on the possibility of transfer and reuse of AIF assets; and information about any transfer of liability to the prime brokers that may exist;
- (p) A description of how and when the periodic information required in section 3 below will be disclosed; and
- (q) Any arrangement made by the depositary to contractually discharge itself of liability (and the AIFM must notify investors of any changes with respect to depositary liability without delay).

2.2 Where an AIF is already required by EU or national law to publish a prospectus, only such information referred to in 2.1 above which is additional to that contained in the prospectus needs to be disclosed separately or as additional information in the prospectus.

3 Periodic disclosure to investors

- 3.1 In addition, every AIFM, for each EU AIF that it manages and for each AIF that it markets in the EU, must periodically disclose the following information to investors in a clear and understandable way:
- (a) The percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature (calculated as the NAV of assets subject to such arrangements divided by the total NAV of the AIF). In addition the AIFM must provide an overview of any such special arrangements including whether they relate to side pockets, gates or other similar arrangements; the valuation methodology applied to such assets; and how management and performance fees apply to such assets. This information must be disclosed as often as required by the AIF's rules or instruments of incorporation or at the same time as the prospectus and offering document and, as a minimum, at the same time as the AIF's annual report is made available.
 - (b) Any new arrangements for managing the liquidity of the AIF. In particular, each AIFM must:
 - (i) immediately notify investors where it activates gates, side pockets or similar special arrangements or where it decides to suspend redemptions;
 - (ii) provide an overview of any changes to liquidity arrangements. This must include the terms under which redemption is permitted and circumstances determining when management discretion applies, as well as disclosure of any voting or other restrictions exercisable, the length of any lock-up or any provision concerning 'first in line' or 'pro-rating' on gates and suspensions; and
 - (iii) notify investors whenever the AIFM makes material changes to its liquidity management systems and procedures (for each AIF that it manages which is not

an unleveraged closed-ended AIF) ;

- (c) The current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks. This disclosure must outline:
 - (i) measures to assess the sensitivity of the AIF's portfolio to the most relevant risks to which the AIF is or could be exposed;
 - (ii) if risk limits set by the AIFM have been or are likely to be exceeded and where these risk limits have been exceeded, a description of the circumstances and the remedial measures taken; and
 - (iii) the main features of the risk management systems employed by the AIFM to manage the risks to which each AIF it manages is or may be exposed. In the case of a change, the disclosure must include the information relating to the change and its anticipated impact on the AIF and its investors.

This information must be provided as often as required by the AIF's rules or instruments of incorporation, or at the same time as the prospectus and offering document and, as a minimum, at the same time as the AIF's annual report is made available.

- 3.2 In addition, each AIFM managing leveraged EU AIFs, or marketing leveraged AIFs in the EU, must disclose for each such AIF, on a regular basis and in a clear and understandable way:
 - (a) Any changes to the maximum level of leverage which the AIFM may employ on behalf of the AIF as well as any right of the reuse of collateral or any guarantee granted under the leveraging arrangement. This disclosure must be provided without undue delay and include:
 - (i) the original and revised maximum level of leverage calculated in accordance with the methodologies set out in AIFMD, whereby the level of leverage must be calculated as the relevant exposure divided by the NAV of the AIF;
 - (ii) the nature of the rights granted for the reuse of collateral;
 - (iii) the nature of guarantees granted; and
 - (iv) details of changes in any service providers relating to any of the above;
 - (b) The total amount of leverage employed by that AIF. This total must be calculated in accordance with the gross and commitment methods employed by the AIF, and must be provided as often as required by the AIF's rules or instruments of incorporation, or at the same time as the prospectus and offering document and, as a minimum, at the same time as the AIF's annual report is made available.

4 Reporting to regulators

- 4.1 Each AIFM must regularly report to the regulator of its Member State of reference, regarding the principal markets and instruments in which it trades on behalf of the AIFs it manages. It

must provide information as soon as possible and no later than one month (or 45 days where the AIF is a fund of funds) following the period referred to in 4.3 below, and the information must detail:

- (a) the main instruments in which it is trading, including a break-down of financial instruments and other assets, including the AIF's investment strategies and their geographical and sectoral investment focus;
- (b) the markets of which it is a member or where it actively trades; and
- (c) the diversification of the AIF's portfolio, including, but not limited to, its principal exposures and most important concentrations of each of the AIFs it manages.

4.2 Each AIFM must provide (for each EU AIF it manages and for each AIF it markets in the EU) the following to the regulator of its Member State of reference:

- (a) The percentage of the AIF's assets which are subject to special arrangements as arising from their illiquid nature as referred to in 3.1(a) above;
- (b) Any new arrangements for managing the liquidity of the AIF;
- (c) The risk management systems employed by the AIFM to manage the market risk, liquidity risk, counterparty risk and other risks including operational risk;
- (d) The current risk profile of the AIF, including:
 - (i) the market risk profile of the investments of the AIF, including the expected return and volatility of the AIF in normal market conditions; and
 - (ii) the liquidity profile of the investments of the AIF, including the liquidity profile of the AIF's assets, the profile of redemption terms and the terms of financing provided by counterparties to the AIF;
- (e) Information on the main categories of assets in which the AIF invested including the corresponding short market value and long market value, the turnover and performance during the reporting period; and
- (f) The results of periodic stress tests performed on the AIFM's risk management and liquidity management procedures, under normal and exceptional circumstances.

4.3 The information referred to in 4.1 and 4.2 above must be reported at the following frequencies:

- (a) On a half-yearly basis by each AIFM which manages portfolios of AIFs whose assets under management calculated in accordance with the AIFMD methodologies in total exceed the AIFMD '*de minimis*' thresholds of €100 million / €500 million but do not exceed €1 billion, for each EU AIF it manages and for each AIF it markets in the EU;
- (b) On a quarterly basis by each AIFM which manages portfolios of AIFs whose assets under management calculated in accordance with the AIFMD methodologies in total

exceed €1 billion, for each EU AIF it manages and for each AIF it markets in the EU;

- (c) On a quarterly basis by each AIFM which is subject to the requirements referred to in 4.3(a) above, but only in respect of each AIF whose assets under management, including any assets acquired through use of leverage, exceed €500 million;
- (d) On an annual basis by each AIFM in respect of each unleveraged AIF under its management which, in accordance with its core investment policy, invests in non-listed companies and issuers in order to acquire control.

Notwithstanding the above, the regulator of the Member State of reference has the discretion to require all or part of the information to be reported on a more frequent basis.

In addition, each AIFM managing one or more AIFs which qualifies for the purposes of AIFMD as employing leverage 'on a substantial basis' must also provide the information required under section 4.6 below at the same time as that required by 4.2 above. Leverage will be considered to be employed 'on a substantial basis' when the exposure of an AIF as calculated according to the commitment method in accordance with AIFMD exceeds three times its net asset value.

- 4.4 The information referred to above must be provided to the regulator in a format which complies with the pro-forma reporting template set out in AIFMD.
- 4.5 Each AIFM must, on request, provide the regulator(s) of the Member State of reference, with (i) a detailed list (current to the end of each quarter) of all AIFs which the AIFM manages; and (ii) an annual report of each EU AIF it manages and of each AIF marketed by it in the EU, for each financial year, which complies with the requirements set out in section 1 above.
- 4.6 Each AIFM managing one or more AIFs employing leverage on a substantial basis must make available, to the regulator of its Member State of reference, information about the overall level of leverage employed by each AIF it manages, a break-down between leverage arising from borrowing of cash or securities and leverage embedded in financial derivatives, and the extent to which the AIF's assets have been reused under leveraging arrangements. That information must include the identity of the five largest sources of borrowed cash or securities for each EU AIF managed by the AIFM or AIF marketed by the AIFM in the EU, and the amounts of leverage received from each of those sources for each of those AIFs.
- 4.7 Where necessary for the effective monitoring of systemic risk, the regulator of the Member State of reference may (subject to informing ESMA) require additional information from the AIFM, on a periodic as well as on an ad-hoc basis.