

ESMA finds high degree of asset concentration in EU alternative fund industry

ESMA's latest [Trends, Risks, Vulnerabilities \(TRV\) Report No. 1, 2018](#), also found that the vast majority of European AIFs are managed cross-border using passporting rights.

The ESMA TRV provides first-time EU-wide evidence on the AIF market, based on end-2016 data collected under the Alternative Investment Fund Directive (AIFMD). AIFs include hedge funds, real estate funds, funds-of-funds, and private equity funds.

The AIFMD data shows that 2% of the EU AIF funds are above EUR 1bn in size, holding around 46% of the industry's total net asset value (NAV). On the other hand, around 95% of EU AIFs hold below EUR 500mio (i.e. 40% of total NAV). Two-thirds of the total assets managed by EU AIFMs are divided among the following investment strategies:

- Fixed income fund;
- Equity fund;
- Infrastructure fund;
- Commodity fund; and
- Other fund.

Fixed income AIFs hold the largest share in terms of NAV. The AIFMD data also shows that repurchase agreements serve as AIFs' primary borrowing source, while unsecured borrowing plays only a minor part. In addition, EU hedge funds mainly rely on short-term funding liquidity, with the majority of their borrowings, not committed beyond one day.

The extensive reporting obligations introduced by the AIFMD for AIFs and their managers (AIFMs) allow National Competent Authorities to oversee whether AIFMs are properly addressing micro-prudential risks, and to assess the potential systemic consequences of the individual or collective AIFM activities. By providing a first analysis of the structure and main risks stemming from the AIF market, the ESMA article helps to build an operational framework for monitoring risks in the AIFM sector.

Background

The objective of the AIFMD is to provide an internal market and a harmonised regulatory and supervisory framework for the activities within the EU of all AIFMs.

ESMA's TRV contributes to promoting financial stability and enhancing consumer protection by regularly looking into cross-border and cross-sector trends, risks and vulnerabilities, both at the wholesale and retail level.