

BAI Newsletter V/2023 – October 2023

Editorial article from Frank Dornseifer, Managing Director, BAI e.V.

Dear Ladies and Gentlemen, dear members,

Focus on digitization and new technologies

This year's BAI InnovationsDay was once again a wake-up call. Prof. Isabel Welpé from TUM captivated the audience with her opening lecture "The Future is Here: How Digitalization, Web3 and AI are Reinventing Asset Management" captivated the approximately 150 participants at the Frankfurt School of Finance and Management. Those who still don't actively address these topics and understand how these innovations are also changing the asset management industry are missing out on disruptive (yes, it is fair to use the word here) trends and falling behind the competition. And at the latest after the presentation, it was also clear to all participants that Web3 is not just something for tech geeks with VR goggles from the metaverse, but simply the further development of the World Wide Web, blockchain-based and as a comprehensive concept of a decentralized and token-based economy. To make it a bit more figurative and understandable: we are currently experiencing the Netscape moment of Web3! So what was the breakthrough moment for the WWW in 1995 is now the breakthrough moment for the Web3, and we are at the beginning of the development, just like when the Netscape browser was presented. At that time, it was not yet possible - at least for the vast majority - to assess the potential of the new technology and how rapidly the development is progressing. However, at least many of you have now had an "aha" experience when you used ChatGPT for the first time and are gradually realizing the dimension of the use of AI via the various applications. Anyone in the financial industry who does not take advantage of this technology is acting negligently. And only those who also master this technology will use it successfully. We were also able and allowed to internalize this in Prof. Welpé's lecture. For all those who missed the InnovationsDay, here is the well-intentioned recommendation to take a look at Prof. Welpé's presentation slides, but of course also at the other presentations!

At the InnovationsDay, we quickly moved on to the digital asset readiness of the asset management industry. And fittingly for the InnovationsDay, a few days earlier the first BAI member company in Germany had issued fund units via blockchain and thus made use of the new possibilities of the eWpG in conjunction with the KAGB, for which the BAI in particular had lobbied strongly when the eWpG was passed. There could not have been a better timing and one could literally feel among many participants that digital assets readiness is also progressing dynamically. In other words, there are companies that are taking digitalization and its possibilities, and above all the opportunities, seriously and are treading the new digital paths. But many others are still watching. And this will take its toll, because know-how and efficiency advantages mean a competitive edge.

And regulation is also moving with great strides and at a remarkable pace. A dedicated and very entertaining panel dealt with MiCA, DLT Pilot Regime, eWpG, etc. and their importance for innovative business models and of course capital investment. As is well known, the MiCA regulation will soon apply, special AIFs are implementing the crypto quota and even for public AIFs the Future Financing

Act is supposed to bring a crypto quota. At the same time, other areas of the Digital Finance Package are being brought to life, such as the requirements for digital operational resilience or the handling of so-called ICT risks through technical standards of ESMA or guidelines of BaFin.

In short, asset management is also undergoing change, and digital transformation will and can support sustainable transformation in many areas. For this reason alone, we see it as our task to accompany these topics with commitment and attention and to bring them closer to our industry, but also to investors. At the InnovationsDay, I also announced that we will now be discussing these topics more intensively in dedicated working groups, and you are all more than welcome to get involved. You can find more information about this on our member platform.

A stormy regulatory autumn

As if the summer had not already been sufficiently full of new regulatory topics, the fall is in no way inferior to this dynamic, whether in Berlin, Brussels or Paris. With the consultations and hearings on the Future Financing Act and the Growth Opportunities Act, Germany is currently making great strides and every (partial) success, such as the extension of the VAT exemption for the management of funds to all (AIF) fund types, must also be defended again and again, first in the Bundesrat, then in the hearing in the Finance Committee and then in the parliamentary groups. BAI has been fighting for the uniform VAT exemption for many years. We have done a great deal of educational work on this issue and are working at all levels to strengthen Germany as a fund location. We will continue to work on this issue until the amendment is published in black and white in the Federal Law Gazette.

We are also keeping our eye on the ball with regard to the (investment) tax flanking of the expanded investment options in the KAGB in the area of renewable energies for infrastructure and real estate funds, even though there is a lot of ground to be covered here and a lot of convincing to be done at federal and state level, even though it is more or less clear to everyone involved that the energy turnaround cannot actually be achieved without the fund industry.

In Brussels, at the same time, new discussions on the final European regime for credit funds are being held again and again in the technical trilogue, and in the area of sustainable finance, too, we must follow and monitor with the utmost attention the direction in which, for example, the SFDR review is moving, what ESMA is planning with regard to the guidelines for ESG-related fund names, etc. In Germany, we also have to make sure that we get a practical framework for the new ELTIF as of next year and I could give many more examples here, but for the further details I refer you to our member platform and the BAI Infomail, where we will inform you as usual comprehensively and up-to-date. In conclusion, however, I can assure you that we will continue to do our best for our industry and institutional investors this year with a view to the relevant regulatory topics. In recent months in particular, we have had many discussions with representatives of the EU Commission, the European Parliament, ESMA, BaFin, the ministries and, of course, the members of the Bundestag.

The BAI events agenda continues to fill up

After the summer break, the BAI annual agenda continued with the InnovationsDay, most recently followed by the BAI Real Assets Symposium and then, on November 20, the BAI Workshop Sustainable Finance & ESG. In addition, a series of very informative BAI webinars took place: on working in the AI

industry, on the European ESG Template (EET) of the standard setter FinDatEx, which is extremely important in ESG practice, and other interesting topics. And, of course, we will also award the BAI Science Prize again this year.

Preparations for the BAI Annual Agenda 2024 are already in full swing and you can already find many important dates for 2024 in our calendar. Of particular importance, of course, is as always, the AIC 2024, whose program we are developing at full speed. We have already informed you about upcoming changes in conception, sponsorship, location for the get-together event, etc. The first keynote speakers are Prof. Oliver Gottschalg and Prof. Dr. Isabel Welpé. After her rousing lecture at the InnovationsDay, we have also engaged her for the AIC, not only because the various technology topics are close to our hearts, but above all to present these topics to an even larger community.

BAI NextGen Council Kick-off-Meeting

In our member mailing of September 29, we informed you about our plans to establish a new platform for association work with the NextGen Council, which we intend to use to further promote and train young talent via our existing initiatives (esp. Science Award, Trainee Program, "Working in the AI Industry" webinar series). So, what's it all about?

We want to establish a platform for young talent and young employees in the AI industry. Through targeted activities and programs, we want to introduce young people to the diversity and opportunities in the field of alternative investments.

We want to strengthen the diversity of the association by integrating the NextGen network into the BAI (especially NextGen LPs / NextGen fund managers etc.). It is of great importance for the BAI that the concerns and perspectives of the younger generation are also heard in our association topics and in our decision-making processes. The NextGen Council is intended to play a mediating and representative role in this regard.

We want to organize dedicated events for the "Future Leaders" of the alternative investments industry (GPs & LPs) to promote professional exchange, but also mentoring programs in the industry. To this end, the NextGen Council will initiate a series of events in the coming months to promote networking among the younger generation of our industry. These events, as well as the other established BAI events, provide an excellent opportunity for exchange and education.

We want to strengthen our commitment to universities, especially in order to continue to attract young talent to our industry in the future. To this end, BAI member companies or members of the NextGen Council will contribute to lecture formats at universities in order to inspire young academics for our industry and to build a bridge between theory and practice.

With a kick-off event on October 12, we began to present this initiative, its objectives, and also its implementation possibilities to young employees from member companies. Sven Gralla, Hanna Kunzmann, Anna Richter, Lukas Neubauer and Marin Miletic, the people who played a key role in the conception and will participate in the NextGen Council, also introduced themselves. Of course, further candidates from the group of members who want to actively support the objectives and tasks of the NextGen Council are cordially invited and can contact the BAI office. There will also be a webinar or video conference soon, in which we will provide another opportunity for exchange on the NextGen Council. We look forward to your participation and feedback.

About the articles in this newsletter

Hopefully, your curiosity is now sparked about the specialist articles in this newsletter. As usual, we present you many different and multifaceted articles around the topic of digitalization and new technologies, which - to speak with the keynote title of Prof. Welpé - show you that the digital future has also begun in the asset management industry! Many thanks to all authors who contributed to this newsletter.

I wish you – as hopefully always - an informative and enjoyable reading of the BAI Newsletter.

Frank Dornseifer