

# Alternative Investment Product

**AIP**

2012 March

# Product Overview

- DTCC's Alternative Investment Product (AIP) is a platform that links global market participants — including investors, broker/dealers, product sponsors, fund managers, administrators and custodians — to provide straight through processing of alternative investment products.
- AIP's suite of services provides processing of alternative investments such as hedge funds, funds of funds, private equity, real estate investment trusts and limited partnerships.
- AIP is intended to standardize the way the alternative investment industry communicates pre- and post-trade information about the security and the associated investments.
- By effectively addressing the operational challenges related to capital investments and investor activity, AIP will provide the alternative investment community scalability through improved efficiencies, reduced operational risk and lowered costs.

# Alternative Investment Challenges

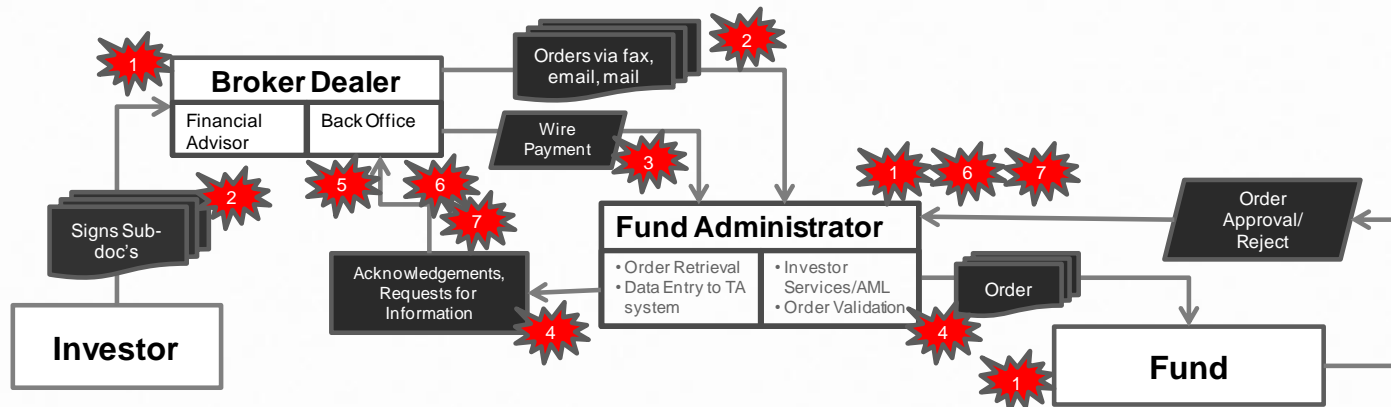
- Difficulty identifying instruments and **maintaining instrument data**
- **Paper** subscription and redemption documents being circulated
- **Payment processing** is problematic
- **Fragmented data communication**
- Multiple position files and **multiple formats** being processed by order senders
- Time consuming **reconciliation** of positions and dividends
- **Limited Regulatory Transparency**
- **Limited distribution** channels due to these operational challenges

# Alternative Investment Product Types

- Hedge Funds
- Fund of Hedge Funds
- Managed Future Funds
- Commodity Pool Funds
- Non-Traded REIT's
- Non-Traditional Hedge Funds (Registered)
- Private Equity

# AIP Focus on the Alternative Investment Challenges

## Subscription Process Flow



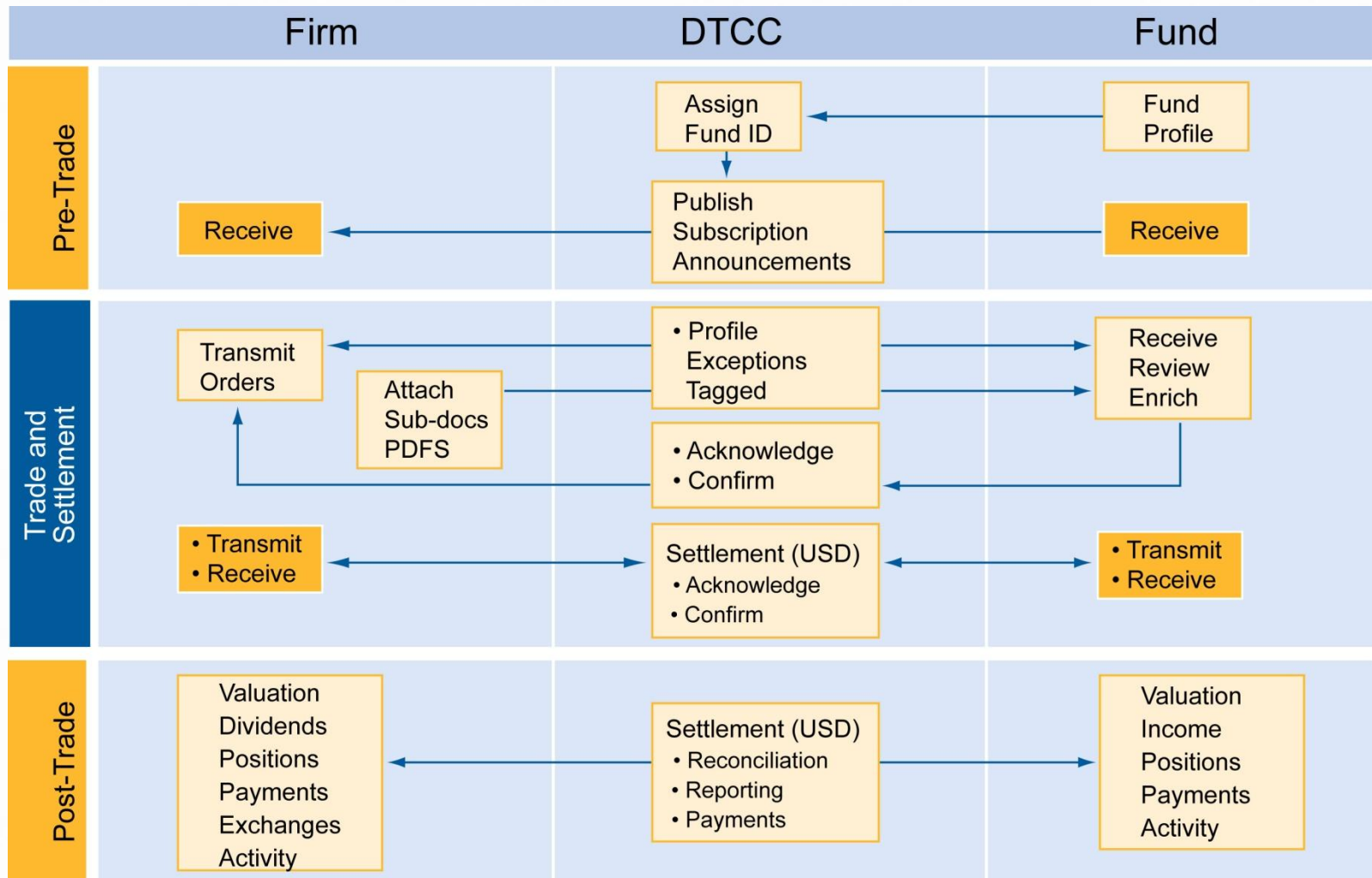
### Challenges in the Current Subscription Process

- 1 Difficulty identifying instruments and maintaining data in processing systems
- 2 Paper subscription and redemption documents being circulated
- 3 Payment processing is problematic, money not linked to order
- 4 Fragmented data communication
- 5 Multiple position files and multiple formats being processed by order senders
- 6 Time consuming reconciliation of positions and dividends
- 7 Limited regulatory transparency

### DTCC AIP Solution to Problems

- 1 Standardized security identifier "profile" that uniquely identifies fund is maintained centrally and accessible by all interested parties
- 2 Transmission of both financial trade data and non-financial customer/registration data through DTCC network
- 3 Facilitates acknowledgement and confirmation of order and trade settlement
- 4 Centralized communication network, utilizing standard message protocols
- 5 Eliminates the need for creating multiple position files with creation of one standardized file structure
- 6 Facilitates exchange of position and activity information to appropriate parties to enable more efficient reconciliation
- 7 Provides audit trail of transactions that provides transparency into transaction status

# AIP Business Flow Overview



# Message Types Overview

Message Type	Message Type Detail
<b>Security Profile &amp; Announcements</b>	<ul style="list-style-type: none"> <li>• Security information repository for alternative investment products including ,Hedge Funds, Fund of Funds, REITs, LPs and Commodity Pools</li> <li>• Funds establish a Security profile prior to an initial offering period</li> <li>• AIP stores new subscription, redemption and distribution announcement information to distribute to Firms</li> <li>• Incoming orders validated against the Security Profile data</li> </ul>
<b>Orders</b> <ul style="list-style-type: none"> <li>• <b>Subscription/Purchase Processing</b></li> <li>• <b>Tender Offer/ Redemption Processing</b></li> </ul>	<ul style="list-style-type: none"> <li>• Standardizes information associated with purchases of a fund into a new or existing investor account</li> <li>• Transmission of both financial trade data and non-financial customer/registration data</li> <li>• Existing investors can redeem full or partial account positions via a Fund- or Firm- initiated trade</li> <li>• Firms and Funds can initiate trades on “Customer Controlled” accounts</li> <li>• Only Firms can initiate trades on “Broker Controlled” accounts allowing “above the line” reporting</li> <li>• Automatic linking of “holdback” funds to the original trade</li> <li>• Trade Settlement</li> </ul>
<b>Exchange/Switch Processing</b>	<ul style="list-style-type: none"> <li>• Accommodates movement of shares/monies from one fund to another within the same fund family</li> </ul>
<b>Activity &amp; Distribution Processing</b>	<ul style="list-style-type: none"> <li>• Funds can report both financial and non-financial transactions at the investor level</li> <li>• Activity and Position files enable periodic reconciliation of the share and account balance of an account</li> <li>• Funds can report, at an account level, detailed Fund distribution data</li> <li>• Multicurrency reporting is available</li> </ul>

# Message Types Overview

Message Type	Message Type Detail
<b>Position Reporting</b>	<ul style="list-style-type: none"> <li>• AIP Funds can send position information to Firms at regularly scheduled intervals or on demand, e.g., monthly, weekly or daily</li> <li>• Firm-specific file contains account information including account number, balance and quantity</li> <li>• Position reporting offers Firms an opportunity to reconcile with the Fund on specific dates and maintain possession and control</li> </ul>
<b>Valuation Reporting</b>	<ul style="list-style-type: none"> <li>• AIP Funds can send valuation information to Firms on a regularly scheduled basis</li> <li>• This information file is similar to a pricing file, representing the NAV for a particular security within a Fund Family</li> <li>• Funds may designate whether the information is actual or estimated</li> <li>• Multi-currency reporting is available</li> </ul>
<b>Commissions Processing</b>	<ul style="list-style-type: none"> <li>• Funds can report, at a Firm and account level, their detailed commission data</li> <li>• The service will process front-end load, back-end load, CDSC and other commission types</li> </ul>
<b>Account Maintenance (ability to edit, modify and audit changes)</b>	<ul style="list-style-type: none"> <li>• Firms and Funds can exchange registration and non-financial update information</li> <li>• Updates can be initiated by the Firm or Fund for existing accounts or to add new accounts</li> </ul>
<b>Paper Workflow</b>	<ul style="list-style-type: none"> <li>• Automation of the exchange of sub-account documentation between counterparties</li> <li>• Scan and PDF of documents can be submitted prior to, or along with, trades</li> </ul>
<b>File Format Options</b>	CSV (Excel), Machine Readable Output (Flat Files), Extensible Markup Language (XML)

# AIP Benefits to Industry

- **Central Clearing and Settlement** - enables streamlined trade matching, which increases speed of settlement, accuracy and scalability
- **Improved Exception Processing** - The AIP service provides initial edits and exception processing on the order and sub-documentation. The service issues exceptions back to the transaction originator who may accept, correct or reject the transaction.
- **Increased Transaction Transparency** - The AIP service provides an audit trail on all of the transactions and transparency into transaction status.
- **Common Security Master** - The AIP service will maintain referential fund attribute data in one central repository. This will enable one “golden copy” of fund-related data and rules that interested parties may refer to perform their various business activities.
- **Lower Operational Costs** - because no paper will be moved

# Production Client List



The weekly list can be found at:

[http://www.dtcc.com/products/wealthmgmt/members/downloads/AIP\\_Client-List.pdf](http://www.dtcc.com/products/wealthmgmt/members/downloads/AIP_Client-List.pdf)

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