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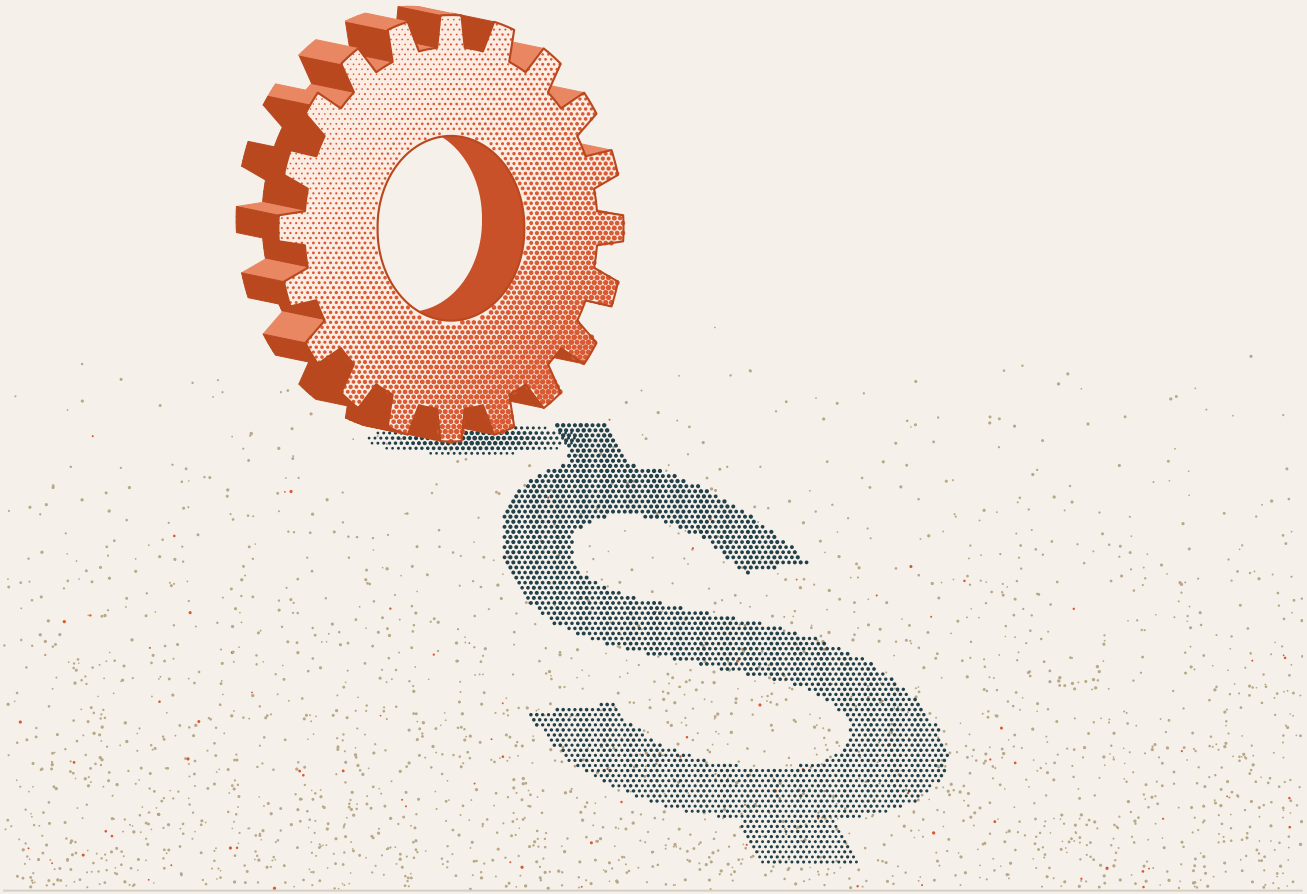

# When the Model Outlives Its Economics

## The case for rethinking the AIFM set-up


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**An AIFM set-up can keep working long after its business case has faded. Control can become cost. Speed can become dependency. The real question is not which model looks right in theory, but whether it still serves the manager today.**

Introduction

## The past is prologue

A century ago, Ford's River Rouge complex was a pure expression of corporate self-sufficiency. Raw materials entered at one end and finished cars emerged at the other. Ford made its own steel and glass, generated its own power and joined every stage of production inside one vast industrial system.

For its time, the logic was compelling: full ownership gave Ford control, consistency and scale that outside suppliers could not match. But conditions changed. Markets matured, specialist suppliers developed, technology advanced and the economics of doing everything inside one system became less obvious. What started as a strength turned into a burden.

Boeing's decision to bring Spirit AeroSystems back in-house tells the story from the other direction. The earlier separation was not irrational: it reflected a familiar logic of sharpening focus, reducing complexity and relying on a specialist supplier. Years later, that decision was tested against different concerns, including manufacturing coordination, quality management and supply-chain resilience.

Neither example makes the case for insourcing or outsourcing. The point is simpler: operating models are chosen for a moment in time and should be tested when markets, risks, technology or strategy change.

**Two directions, one discipline: operating models are chosen for a moment in time.**

# Operating models are built for a moment in time. When the facts change, they should be tested again.

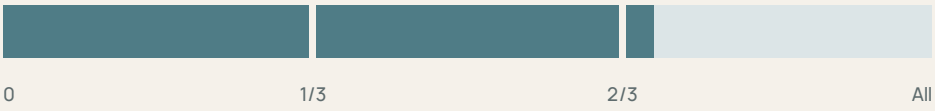
Luxembourg

Private markets are no exception. An AIFM model that works from a legal and operational perspective may still need to be tested against the commercial question it is meant to answer today.

Luxembourg illustrates the point. Our analysis of the Monetary Insights 2026 Luxembourg Funds report shows that 7 out of 10 Luxembourg AIF sponsors utilize a third-party AIFM. What was once a minority model has become an increasingly used option. However, the question is about fit rather than the market: which model fits the manager's platform maturity, strategic ambition, resources and investor expectations.

## Just over two-thirds

of Luxembourg AIF sponsors now rely exclusively on a third-party AIFM




New registrations using an outsourced[1] model: risen markedly over the past decade

Source: Monetary Insights 2026 Luxembourg Funds report

Scale can support an in-house platform, but it does not settle the question. Many sizeable managers use mixed models, combining internal capability with third-party arrangements by strategy, fund range, jurisdiction or stage of growth.

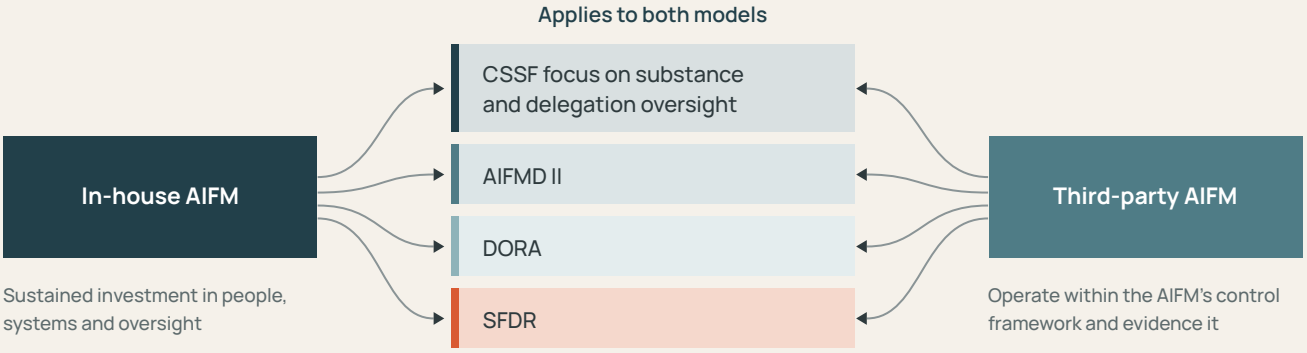
The AIFM model is not simply a question of efficiency or regulatory form. A well-calibrated model supports governance, investor confidence and European growth. An ill-fitting one can trap capital, consume scarce talent and leave continuity dependent on too few people. The better question is whether the model remains convincing commercially, operationally and strategically.

1 Here, outsourcing means appointing a third-party AIFM, not delegating functions in the strict AIFMD sense.

# The economics beneath the model have shifted

Regulation

Many incumbent in-house AIFMs were established before 2020, often in response to AIFMD implementation, or Brexit-driven platform decisions. Since then, the regulatory environment has become more technical, data-driven and operationally demanding. SFDR, DORA, AIFMD II and the CSSF's focus on substance and delegation oversight have raised expectations around governance, resilience, control and evidence. The burden has not shifted for one model; it has risen for both.




The burden has not shifted for one model; it has risen for both.

For managers operating their own AIFM, this requires sustained investment in people, systems and oversight. For managers using a third-party AIFM, the challenge is different but no less meaningful. The manager may not carry the licence, but it must operate within the AIFM's control framework and be able to evidence its own processes, decisions and delegated activities on an ongoing basis.

Investor expectations have moved too. Operational due diligence increasingly looks beyond policies and committees to how governance and oversight operate in practice. Proximity, scale or experienced teams help only if responsibilities are clear, evidence is strong and oversight is real.

# The strongest case for retaining ownership

Ownership

The strongest case for ownership is made by managers that can turn an in-house AIFM into a genuine operating platform. For them, the Luxembourg entity is not a regulatory umbrella above a European business but a source of proximity, institutional knowledge, governance discipline and strategic control.

As assets, strategies and regulatory obligations expand, that platform can expand with them; additional headcount may reflect the investment needed to manage greater complexity rather than inefficiency. A physical presence in Luxembourg can also support proximity to local governance, regulators, administrators, depositaries and market practice, and help evidence the substance expected from a durable European platform. For managers with sufficient scale, a durable Luxembourg presence and a long-term European strategy, an in-house AIFM can remain the most effective model. Others may reach the opposite conclusion where scale, talent depth or technology investment does not support the full cost of ownership.

Outsourcing may provide specialist teams, systems and regulatory infrastructure, but it also changes the governance dynamic: the AIFM oversees delegated functions, including portfolio management and distribution. The quality of the model depends on the provider's expertise and responsiveness, and on the manager's ability to engage with oversight in practice.

**Retaining ownership**

- Dedicated resources
- Institutional knowledge
- Control

**Third-party AIFM**

- Specialist teams
- Depth of personnel
- Regulatory infrastructure

Four areas of enquiry

The question is whether the advantages of ownership, or the depth of a third-party platform, justify the cost, obligations and oversight dynamics attached to the model. To support that assessment, Loyens & Loeff and Alter Domus have developed four areas of enquiry through which managers can test their AIFM model. Strong answers may confirm the current set-up; weak or uncertain answers suggest the model should be revisited.

## 01

Scale

### Can scale carry the model?

## 02

Regulation

### Can regulatory requirements be credibly met?

## 03

Continuity

### Can continuity survive change?

## 04

Cost

### Can the cost still be justified?

**Strong answers**
may confirm the current set-up

**Weak or uncertain answers**
suggest the model should be revisited

Test 01 · Scale

01

# Can scale carry the model?

Scale is the entry point, not the answer. Ownership may become more efficient for managers with an established Luxembourg presence, regular fund activity and the ability to spread fixed costs across a broader platform. A third-party AIFM may be the better answer where shared infrastructure, specialist systems and regulatory depth would be costly to replicate.

Scale must be understood more broadly than assets under management (AUM). AUM remains relevant, but so do the number of strategies, launch rhythm, delegation chains, jurisdictional footprint and growth trajectory. A smaller but highly active platform may place heavier demands on its AIFM than a larger but less complex business.

| | | |
|---|---|---|
| 01 **AUM** | 02 **Number of strategies** | 03 **Launch rhythm** |
| 04 **Delegation chains** | 05 **Jurisdictional footprint** | 06 **Growth trajectory** |

Scale must be understood more broadly than assets under management.

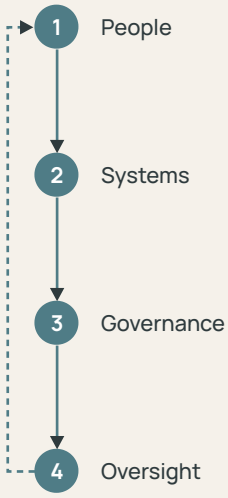
The review should focus on fit. Is the platform used fully, or carrying capacity the business no longer needs? Where external support is used, does it still provide the depth and responsiveness required, or has it become a constraint? Fit comes down to where control, capability and flexibility are best placed for the next stage of growth.

Growth should be tested in the same way. New strategies may require expertise, technology, governance and regulatory engagement that are hard to build quickly. Some managers can absorb those demands; others may need specialist support, or a mixed approach that adds infrastructure where it is needed.

Test 02 · Regulation

02

What a credible model must keep funding




# Can regulatory requirements be credibly met?

The regulatory test follows from scale: the larger, broader or more complex the platform, the more the AIFM model must absorb. AIFMD II, DORA, SFDR-related data expectations and the CSSF's focus on substance and delegation have raised the standard of what a credible AIFM model must deliver.

That standard affects both models differently. An in-house AIFM must keep funding the people, systems, governance and senior oversight needed to keep substance real. A third-party AIFM may bring scale, specialist infrastructure and regulatory depth, but it places the manager in a more disciplined delegated role. Commercially the AIFM may look like a service provider; regulatorily it remains the party in control, with the manager performing delegated functions under its supervision.

That distinction matters more as supervisory expectations tighten. Delegation must be real, controlled and evidenced, as reflected in the CSSF's 2025 annual report. For managers using a third-party AIFM, this means more than appointing a provider and relying on its licence: it involves structured onboarding, periodic due diligence, evidence requests, and controls testing. The burden does not disappear; it becomes more formal and more capable of being tested. Neither model escapes the load: in-house platforms must show that the regulated entity remains properly resourced, resilient and senior enough to support the business, while third-party models must show that the provider has the depth to supervise delegated activities and the manager the discipline to respond.

Technology sharpens the point. A third-party AIFM can invest once in systems, controls and specialist teams and deploy them across several mandates; an in-house AIFM may be more closely integrated with the manager's processes, data and risk profile. Each advantage is valuable only if maintained. Shared infrastructure must be responsive and asset-class aware; proprietary infrastructure must be funded and kept current.

The risk is rarely that a model fails overnight. It is the gradual widening of the gap between the structure and the demands placed on it.

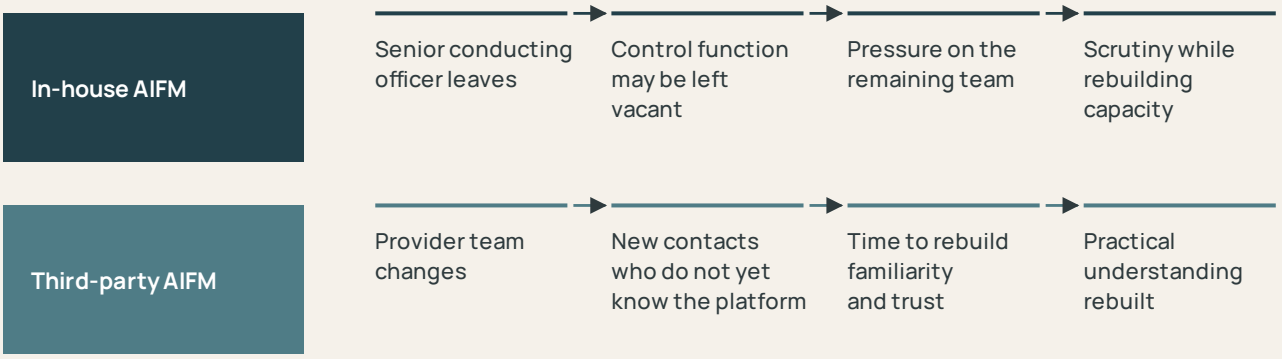
Test 03 · Continuity

03

# Can continuity survive change?

People risk is one of the clearest ways in which an AIFM model can be stress-tested. For an in-house AIFM, the question is what happens if a senior conducting officer or other key person leaves. For a third-party model, it is what happens if the provider team changes and the manager has to work with new contacts who do not yet know its platform, investment process or operating routines.

An in-house AIFM often depends on a small number of experienced people whose credibility sits at the heart of how the regulator views the manager. When one of them leaves, the impact is immediate: a control function may be left vacant, pressure increases on the remaining team and scrutiny can arise precisely when the manager is trying to rebuild capacity.




The same issue, in two forms.

The same issue appears in another form under a third-party model. The manager may benefit from a deeper institutional bench, but the relationship still depends on the people who understand its strategies, structures, escalation habits and operational preferences. If those contacts rotate or leave, the replacement team may be capable, but time is needed to rebuild familiarity, trust and practical understanding.

In both cases, the question is not only whether a replacement exists, but whether the model preserves knowledge, continuity and oversight while the replacement is integrated.

Test 04 · Cost

04

**Which balance sheet carries the cost?**

- The manager
- The fund
- Shared across entities

# Can the cost still be justified?

Cost is the most visible part of the AIFM debate and the easiest to oversimplify. In a third-party model, the economics are relatively easy to see: the manager or fund pays a provider fee for access to a regulated platform, specialist teams and operating infrastructure. Some internal cost remains, particularly where the manager has to respond to due diligence, controls and delegation oversight. These are mainly operating costs: they buy access to capability; they do not create an asset owned by the manager.

An in-house AIFM tells a different cost story. Salaries, systems, governance processes, regulatory capital and senior oversight are all part of the running cost, yet part of that expenditure can also build substance. If the platform is well designed and actively used, it may strengthen the manager's Luxembourg presence, support future funds or strategies and increase the value of the overall structure — value that can sometimes be realised later, for example if the AIFM platform is sold or transferred.

That possibility should not be overstated: substance has value only if it is relevant, maintained and used. An in-house AIFM that is underused, underinvested or built for a platform that no longer exists becomes a fixed cost rather than a strategic asset. A third-party AIFM may be more efficient where the manager wants established infrastructure without the full cost and execution risk of building it alone.

Allocation can change the analysis again. Depending on the fund documents and investor disclosures, AIFM costs may sit with the manager, be charged to the fund or be shared across entities. The same model can look very different depending on which balance sheet carries the cost.

The real cost question is broader than the invoice. Capital tied up in an in-house AIFM cannot be used elsewhere, and senior time spent on governance, hiring, technology and regulatory engagement is time not spent on clients, fundraising or strategy. In a third-party model, the fee may replace a lot of that fixed cost base, but it creates dependence on the provider and requires internal capacity to oversee and respond.

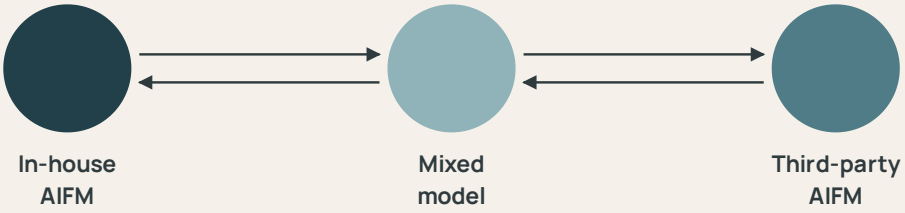
The right comparison is not payroll against provider fee, but whether each euro spent creates lasting substance and possible future value or merely keeps the chosen model running. The question is then commercial: does the manager receive enough control, capability, resilience and flexibility for the cost it is carrying, and would the same answer hold if the model were chosen today?

# Reconfiguration, not demolition

Reconfiguration

The greatest barrier to reviewing an AIFM model is often the fear that change means dismantling the structure. It does not: reconfiguration can be selective and sequenced. Managers need not give up their European capability to reconsider how the regulated AIFM function is organised, nor own that function from day one for ownership to become the right answer later.

The direction of travel runs both ways. A manager may move from an in-house AIFM to a third-party or mixed model where shared infrastructure offers greater depth or efficiency. Equally, it may start externally to bring funds to market quickly while building the substance, governance and regulatory experience needed for its own authorised AIFM.



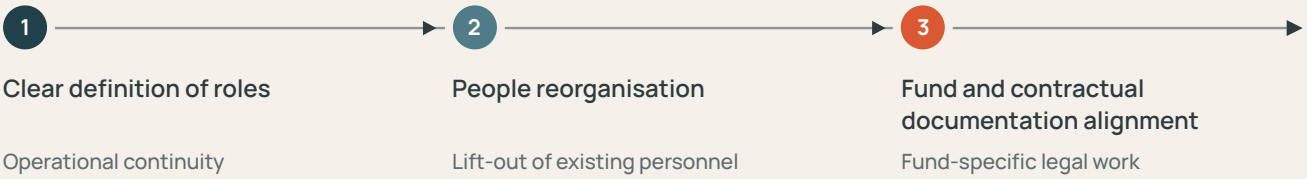

The direction of travel runs both ways.

This makes the range of options wider than a binary make-or-buy choice. Selected funds can move, new strategies can be launched on an external platform while legacy funds remain in-house, and arrangements can differ by asset class, jurisdiction or investor base.

The legal work is fund-specific. Fund documents need to be reviewed and, where necessary, updated, and agreements may need to be terminated, replaced or aligned for a transitional period. CSSF notifications must be coordinated between the relevant AIFMs, and investor communication or approval requirements confirmed from the fund documents rather than assumed.

Operational continuity is critical. Before any transition to a third-party AIFM takes effect, there should be clarity on which activities stay with the manager, which sit with the third-party AIFM, and how data, reporting, decisions, escalation and oversight will work in practice. Where people move as well as processes, a lift-out of the manager's existing personnel into the third-party AIFM can preserve institutional knowledge and continuity of oversight through the migration — an approach Alter Domus has used in practice. Partner selection is therefore decisive. The same applies where the move is in the opposite direction. A manager bringing the AIFM function in-house must be ready to assume governance, systems, regulatory interaction, reporting and control responsibilities before the handover takes effect. In both directions, the transition should preserve oversight, timely decision-making and clarity for service providers, so that the formal change of AIFM does not disrupt how the funds are managed.

**Critical path to reorganisation**




Done well, reconfiguration preserves strategic intent while changing how regulated capability is assembled over time: investors continue to receive consistent oversight, investment teams operate within a clear governance framework, and the manager retains optionality as its platform develops. The point is not demolition but a deliberately designed path between what remains inside and what is supported externally.

Checklist

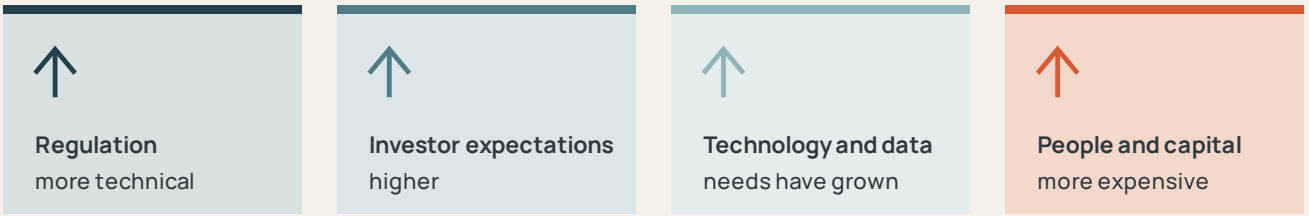
# Questions worth answering honestly

| | |
|---|---|
| 01 | Does the current AIFM model still support the manager's strategy, or preserve a historic choice? |
| 02 | Has the European platform grown in scale, activity and complexity in the way the original model anticipated? |
| 03 | Do regulatory, data, resilience and delegation-control requirements still fit the resources and systems behind the chosen model? |
| 04 | Can the model absorb people changes, whether a key in-house departure or staff turnover at the third-party AIFM, without losing continuity or institutional knowledge? |
| 05 | Is technology investment, whether internal or accessed through a provider, keeping pace with what regulators, investors and the business now expect? |
| 06 | Which costs are operating expenses, which build substance and possible future value, and which balance sheet ultimately carries them? |
| 07 | Which functions remain genuinely differentiating, and which could be supported more effectively through shared infrastructure? |
| 08 | How much of the manager's oversight burden genuinely transfers under a third-party model, and how concentrated would the firm become on a single provider across funds and jurisdictions? |
| 09 | If a third-party AIFM is used, does the provider have the asset-class knowledge, team depth, systems and operating model to support the manager as it is likely to look in five years? |
| 10 | Would ownership, a third-party AIFM or a mixed model place control, cost and capability in the right place for the next stage of growth? |
| 11 | Is reconfiguration possible without demolition, by moving selected funds, launching new strategies externally, exploring lift-outs or acquisitions, building towards an in-house AIFM or using a mixed model across funds, functions, asset classes or jurisdictions? |

# Don't let the structure become the strategy

Conclusion

The choice now sits in a more demanding context. Regulation is more technical, investor expectations are higher, technology and data needs have grown, and people and capital are more expensive. The manager may also be different from the one that first selected the model.




The choice now sits in a more demanding context.

The answer should come from the tests, not from inertia. Weak answers should not be ignored, because cost, dependency, regulatory exposure and people risk build quietly.

Even the most impressive operating structure should not be preserved merely because it was once a source of strength. Ford's River Rouge and Boeing's rethink of Spirit AeroSystems point to the same discipline: respect the original logic, but do not let it become untouchable.

Managers should not wait for a regulatory event, a failed hire, a strained provider relationship or an investor challenge to prompt that review. The best time to test the AIFM model is from a position of strength, while the choice is still genuinely open and the next step can be designed on the manager's own terms.

# The authors



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Conor joined Alter Domus in June 2021. He is a Managing Director within the Client & Industry Solutions group. In his role, Conor supports North American clients in executing global distribution and operational strategies through the Alter Domus global service offering. Previously, he managed the AIFM product for Alter Domus in Europe.

Conor has over 15 years of industry experience. Prior to joining Alter Domus, he held roles at Beechbrook Capital, AlbaCore Capital and Susquehanna International Group.

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Vantage Point*

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Vantage Point in Print is an Alter Domus publication series produced with partner firms. Each paper pairs Alter Domus's operating experience with a partner's specialist expertise to give a practical view on a question facing private markets managers. This edition was written with Loyens & Loeff.

Edited by Anna Krayn, Global Head of Alliances & Partnerships

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