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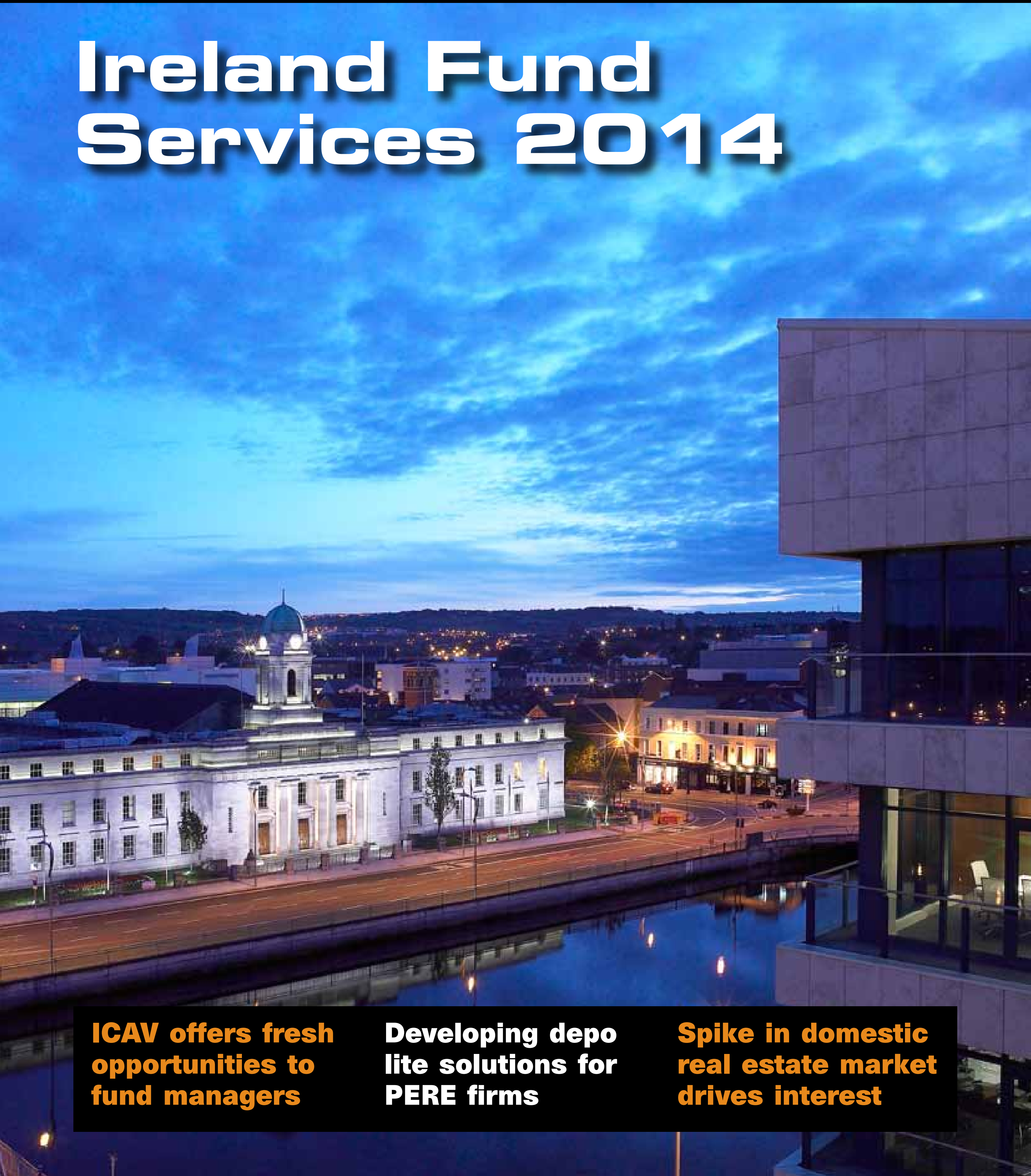

ICAV offers fresh opportunities to fund managers

Developing depo lite solutions for PERE firms

Spike in domestic real estate market drives interest

In this issue...

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Product and legal innovations keep Ireland one step ahead

By James Williams

It is highly anticipated that Ireland will have a new corporate vehicle for Irish funds in place by the end of 2014: the Irish Collective Asset-Management Vehicle or ICAV.

Its imminent introduction will provide managers with an alternative to the public limited company (PLC) that has, to date, been the most popular vehicle for Irish collective investment funds. The Bill was introduced at the end of July 2014 and is being treated as a high priority by the Irish parliament.

Brian Kelliher is Partner, Asset Management & Investment Funds, at Dillon Eustace and is in no doubt that the ICAV will enhance Ireland's competitiveness.

"There is a lot of interest in it from some of our clients, in relation to both UCITS and non-UCITS funds they manage," says Kelliher, who caveats the point by adding: "I suspect that many of these managers will not, however, avail of the ICAV unless the funds they manage specifically intend to target US taxable investors, which is one of the key benefits of the ICAV.

"As a result some managers may look to restructure their current Irish plc vehicle. We're already getting enquiries from existing Part XIII clients. I suspect that is where the interest will be initially. I can't see existing Part XIII companies that are not targeting US taxable investors going down the ICAV route."

If they wanted to invest offshore, Ireland didn't have a corporate fund that could elect to be treated as a partnership for US tax purposes.

"We do have unit trusts and investment limited partnership structures but if US taxable investors are looking for a corporate structure that can check the box to be a flow through for US tax purposes, until now we haven't been able to offer one. Now we do with the ICAV so that's clearly going to benefit Ireland," adds Kelliher.

There are possible tax-adverse implications for US taxable investors if they invest offshore and that fund cannot check the box and be classified as a partnership. Ultimately, that fund, like an Irish Part XIII company currently, is classified as a PFIC; passive foreign investment company.

"We expect that any new funds will be structured using the ICAV. The provisions allow for full conversion of an existing Irish plc into an ICAV with continuity in terms of performance history, contractual relationships, etc. Ireland's redomiciliation legislation has actually been amended so that a limited company or equivalent company in the Cayman Islands or elsewhere can redomicile and convert to an ICAV at the same time," explains Shay Lydon, Partner at Irish law firm Matheson.

Ireland's investment company structure falls under Company Law, whilst unit trusts are anchored in trust law. What the ICAV now offers is a corporate-type vehicle specifically for investment funds; the legislation that governs ICAV has been designed purely for ICAV funds.

"One can compare the ICAV to the UK OEIC structure. The Irish ICAV is going to be broader than that and won't be restricted to open-ended vehicles, but the advantage of OEIC legislation was that it sat outside, to a large extent, Company Law, and is a successful fund-specific vehicle," says Michael Barr, partner in A&L Goodbody's Asset Management & Investment Funds Group.

Ireland's Companies Acts range all the way from the 1963 Companies Act to the latest 2013 Companies Act. All of these revisions apply to an investment company unless it is dis-applied specifically for Part XIII. The ICAV will do away with this scattergun approach, where investment companies are regarded just the same as

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Brian Kelliher, Dillon Eustace

any other trading company, and take a more focused approach.

"There is this element of the entire realm of Company Law applying to an investment company and some of that is just not appropriate. Company Law is more applicable to trading companies than investment companies. That is the main concern," comments Kelliher, who continues:

"With ICAV, the whole legislation is simplified into one Act and is tailored to the corporate fund structure. It's taking advantage of a lot of the flexibilities that we have seen to date in the unit trust structure and the corporate structure we have for existing Part XIII companies, and applying them appropriately to the ICAV. It's going to be a more streamlined, flexible structure."

A few key features of the ICAV

It is envisaged that the ICAV will have some common features with Corporate Fund PLCs:

- Authorisation and supervision by the Central Bank;
- Establishment as a UCITS fund or an AIF;
- If established as an AIF, it may be structured as open-ended, closed ended or with limited liquidity;
- Possible establishment as an umbrella fund with segregated liability between sub-funds;
- Multiple share classes;
- The assets of the ICAV must be entrusted to a depositary;
- The paid up share capital of the ICAV must be equal to the net asset value of the ICAV;
- Registered office in Ireland;
- Board of directors and a minimum of two directors;
- A secretary must be appointed;
- The name of the ICAV must be approved by the Registrar of Companies;
- Minimum of two shareholders.

▶ 7

Spike in domestic real estate fund activity

Interview with Clara Dunne

Market sentiment has been shaken recently over fears of low growth in the Eurozone and a potential slide back into recession. The German government downgraded its economic forecast to 1.2 per cent for 2014; and this is meant to be the Eurozone's powerhouse economy.

Nevertheless, pockets of growth are emerging for investors to exploit. "We are seeing an uptick in domestic real estate activity in Dublin. It has really picked up in the last year. International managers are looking to buy in to the recovery in Ireland and a number of them are choosing to do it through regulated fund vehicles," confirms Clara Dunne, Senior Country Officer, Caceis (Ireland).

Clara Dunne, Senior Country Officer, Caceis (Ireland)

Caceis is France's leading fund administrator and foremost depositary bank. As such, this increased activity in real estate fund formation – either through Reits or, increasingly, through QIAIFs, the Irish AIFMD-compliant regulated fund vehicle – places the bank in a strong position to support global asset managers as they look to respond to investor demand.

"We now have a number of clients whose underlying property investments are based here in Ireland. It's probably been one of the first occasions where the domestic real estate industry and the funds industry – which in Ireland has always been international – have merged to come up with a product that is being marketed to international investors. Most of the managers we are working with currently are UK and US managers," explains Dunne.

Some vehicles are a pure Irish play. Others are pan-European where they have a portfolio of properties including, but not solely, Irish properties. This is good news for the jurisdiction and for service providers like Caceis as regulated funds begin to be adopted by the offshore fund manager community.

Ireland's economy has grown 7.7 per cent in the past year and finance minister Michael Noonan recently stated his hopes of Ireland growing at around 3 per cent "for the next five years". Moreover, tight supply and high demand for both residential and commercial real estate has re-ignited Ireland's property market.

"There's so little yield out there at the moment that Ireland, and in particular its real estate sector, is a bit of an outlier in the Eurozone at the moment," comments Dunne.

Pure real estate funds or Reits have been the typical launch vehicle in 2014 but the fact that the Central Bank of Ireland has now given its imprimatur to allow direct lending funds to be registered as AIFMD-compliant funds means that the real estate debt fund could well become a popular third vehicle.

"It should garner a lot of interest. It follows on from Ireland having been a well-established centre for securitisation products. Ireland has a lot of expertise both on the tax side and the servicing side with regards to supporting debt vehicles," says Dunne.

On the depositary side, Caceis brings a depth of expertise to managers who need either a full depositary or depo lite solution under the AIFMD.

"We have approximately EUR50bn in PERE assets so we understand the specific concerns of those managers as they start to move towards regulated fund structures. For PERE funds we have client-specific teams; the same team will provide a full service to the client from depositary services to cash monitoring, investor relations, etc. Everything is managed by a dedicated team." ■

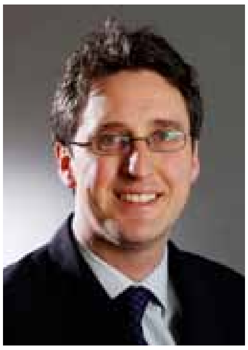
4 ▶ These new separate provisions will allow the ICAV to evolve and adapt as the fund industry itself adapts and this will help the ICAV become best in class in terms of its suitability for corporate vehicles, according to Liam Collins, Partner, Matheson.

"It is expected that the ICAV will be able to prepare financial statements on a sub-fund basis. That's very useful where managers have sub-funds in their umbrella structure in the high teens or twenties. Shareholders in the umbrella that might only be invested in one sub-fund receive financial statements that relate to all sub-funds in the plc. They might end up getting a 400-page document of which perhaps only 10 per cent is directly relevant to them. Under ICAV, it will be possible to provide them with financial statements that pertain to the sub-funds they are invested in only.

"This is just one example of the benefits of having bespoke legislation for the corporate vehicle," comments Collins.

Another significant development, on the product side, for Ireland is a direct lending fund vehicle. The Central Bank of Ireland has given its imprimatur, making Ireland the first European jurisdiction to recognise such a fund under the AIFMD.

Lydon thinks this is a "huge step forward", commenting: "This creates an Irish regime for a fund that sits within AIFMD but has a set of tailored rules that are designed for these loan origination structures. It follows a consultation that the CBI began last year with the funds industry as well as with other regulators and the Financial Stability Board. They released a consultation paper and based on the feedback they swiftly adopted a new rulebook for loan origination funds. Bank loan fund promoters have, for years, expressed their desire to not acquire loans in the secondary market but to originate their own loans as well."



"We expect that any new funds will be structured using the ICAV. The provisions allow for full conversion of an existing Irish plc into an ICAV with continuity in terms of performance history, contractual relationships, etc."

Shay Lydon, Matheson

Kieran Fox is Director, Business Development at the Irish Funds Industry Association (IFIA). He says that there's a growing acceptance that bank financing is unlikely to have the capacity over the next few years that Europe's political leaders would like it to have to stimulate economic growth.

"In the meantime, the US has a large well-established direct lending market that probably assisted in stimulating their economy in recent times. It's time to accommodate this market in Europe and take up some of the slack as banks continue to deleverage.

"This led to the CBI's consultation paper, following which they referred the issue to the ESRB – European Systemic Risk Board. In March 2014 the ESRB published a response. They said that non-bank financing could be a valuable source of funding to Europe's real economy but that it probably has the potential to give rise to systemic risk issues if not subject to adequate regulation. They advised the CBI that if they introduced a direct lending vehicle they should be aware of the potential for specific systemic ▶ 9

The ICAV: New opportunities

By Brian McDermott & Nessa Joyce

Ireland took a significant step closer to paving the way for the establishment of the Irish collective asset-management vehicle (the ICAV) with the publication of the ICAV Bill on 29 July this year, the early enactment of which has been cited as a priority for the Irish Government.

The Central Bank of Ireland, which will act as both the authorising and regulating body for the ICAV, has indicated that it will be ready to process applications for ICAVs within two weeks of the enactment of the legislation.

The ICAV will sit alongside the available legal structures in Ireland for funds, being the variable capital company (VCC), the unit trust, the common contractual fund and the investment limited partnership. Notably, the ICAV Bill provides for the authorisation of ICAVs as either alternative investment funds (AIFs) under the ICAV Act (once enacted) or as undertakings for collective investment in transferable securities (UCITS) under the UCITS Regulations and so a manager's decision on the most appropriate fund structure to utilise will not be limited by their choice of legal structure.

In practice, the ICAV will most closely resemble the VCC. Unlike the VCC which is governed by the Irish Companies Acts, the ICAV will benefit from being subject to a separate and distinct corporate fund regime which has been drafted specifically for use by the funds industry. As such, the ICAV will not be subject to a number of the general Irish and European company law requirements which are applicable to VCCs but are generally more appropriate to trading companies. The ICAV should, accordingly, represent a simpler and more cost effective choice of corporate vehicle for funds.

Brian McDermott, Partner, A&L Goodbody

Nessa Joyce, Associate, A&L Goodbody

Additionally, the ICAV will be able to elect its classification under the US 'check-the-box' taxation rules. This will allow an ICAV to be treated as a partnership for US tax purposes and so avoid certain adverse tax consequences for US taxable investors. This is in contrast to the status of the VCC which is not able to 'check-the-box' for US tax purposes. This gives rise to potential treatment as a passive foreign investment company (PFIC) for US investors which, depending on the precise status of the investor and the elections it makes, can give rise to a greater tax and administrative burden than if the fund is able to 'check-the-box'.

While the ICAV Bill has yet to be enacted and so is subject to further amendment, we do now have proposed high level processes for (i) registering as an ICAV, (ii) converting an existing VCC to an ICAV, (iii) migrating a fund from a prescribed jurisdiction and registering it as an ICAV by way of continuation, and (iv) merging ICAVs.

The publication of the ICAV Bill is heralded as a significant step, not only because of the importance of providing for the establishment of a new vehicle with such key benefits, but also in light of its timing in a year during which we saw the deadline for compliance with the Alternative Investment Fund Managers Directive come and go. The publication of the ICAV Bill in such circumstances strongly signifies the government's commitment to constantly striving to enhance and develop the investment funds regime so as to reinforce Ireland's reputation as a domicile of excellence for the establishment and operation of investment funds. ■

7 risks and that adequate macro- and micro-prudential regulations should be put in place.

"As a result, the CBI has proposed a loan origination QIAIF to sit within the general AIFMD framework but it has added additional requirements around reporting, credit assessment, leverage, diversification, skin in the game, whether banking entities are connected to the vehicle and so on, to address the systemic risk issues flagged by the ESRB," explains Fox.

In effect then, the Irish direct lending vehicle will be a beefed up QIAIF.

"By itself it wouldn't be enough to create a successful jurisdiction but put it together with everything else that Ireland can offer and it enhances the domicile," adds Lydon. To underscore how committed the CBI is to pushing product innovation, another area of potential interest could be for UCITS funds to tap in to China's fixed income market, in particular its interbank bond market (CIBM).

"This has started to attract a lot of interest. We asked for clarification from the CBI earlier this year on whether the CIBM was a recognised, regulated market for UCITS purposes. The response by the CBI was that it intends to update its policy and its new rulebook. There is now clarity that the boards of Irish UCITS may evaluate individual markets, including the CIBM, in order to satisfy themselves that they are a regulated market. That will create a lot of opportunities to invest in Chinese fixed income under the UCITS regime. We expect to see funds coming on stream in the next couple of months," says Lydon.

With the Renminbi Qualified Foreign Institutional Investor (RQFII) quota up and running in Ireland, and the imminent introduction of a direct lending vehicle, Ireland is making itself very attractive to global investment managers, and especially Asian managers who are keen to launch European funds and raise global assets: either to invest back into China via RQFII or to invest across European SMEs with a direct lending QIAIF.

"We have seen a Chinese manager using the UCITS regime in Ireland for RQFII but we'd like to see a bit more interest. Once we do, more managers will follow. With RQFII, and the Shanghai-Hong Kong stock connect programme, it is presenting a lot of

"The US has a large well-established direct lending market that probably assisted in stimulating their economy in recent times. It's time to accommodate this market in Europe and take up some of the slack as banks continue to deleverage."

Kieran Fox, Irish Funds Industry Association

opportunities for inward investment to China. What we want to see is Asian asset managers also trying to avail of European fund structures to raise European assets: a two-way flow," according to an undisclosed source.

Fox points out that there are a number of positive factors that count in Ireland's favour with respect to garnering interest in Asia-Pacific.

"Firstly, the business environment and the servicing of companies here is second to none. Secondly, the CBI has an excellent reputation when it comes to investment funds. Right now it is closely liaising with its counterparts in Hong Kong and in China," confirms Fox.

Earlier this year, London-based ETF provider Source launched a China A-shares ETF with Hong Kong-based CSOP Asset Management Limited out of Ireland. More joint ventures will likely follow. As Stephen Tu, senior analyst at Moody's, wrote in a recent special comment entitled "New Wave of Chinese ETFs Provide Footprint for Western Asset Managers, Moody's expects RQFII quotas to grow and become an important cross-border conduit for the next several years.

"Over time, the proportion of China equities that investors hold will become materially higher than where it is right now. With RQFII, the end investor is able to move in and out of China very easily. You have physical ownership of A-shares unlike previous A-share ETFs, which relied on swaps and other derivatives. That means less tracking error and no counterparty risk," says Tu.

12

Overcoming AIFMD challenges

Interview with Ken Somerville

Quintillion Limited is a European-based affiliate of U.S. Bancorp Fund Services, a global alternative administrator with assets under administration of USD117bn, with Europe's AuA totalling approximately USD19bn.

Over the last two years, Quintillion focused on making structural changes to the business in response to European regulation. According to Ken Somerville, Head of Business Development, Quintillion, depo lite has been a "distinct and absolute" change to the business model.

"That has been facilitated in part through operational changes, in part through the banking license we have. There are quite a few moving parts to depo lite that need to be bundled together to meet regulations, to create a product offering and then roll it out to managers," says Somerville.

"That has been a distinct change for us. We're going to extend beyond that with a full depositary license. Planning is underway with a view to providing full depositary services in around 12 months time. That is in part driven by having the resources and the facility to do it under the bank and also the fact that we view some of the implications of AIFMD such as depositary services as becoming more necessary moving forward," explains Somerville.

Adapting to AIFMD has therefore been less of an operational burden and more a business planning and infrastructure exercise. "Get that right and your operations model looks and feels much like the existing model pre-AIFMD," adds Somerville.

Approximately 40 managers running around 130 individual funds use Quintillion's administration services, of which Somerville estimates that a substantial proportion are now availing of depo lite.

"Both existing offshore managers who are looking at the prospect of establishing an Irish vehicle as well as an upshot in interest among US managers who are considering both the QIAIF and the UCITS fund structure. They are presently at the fact-finding stage. They can see the growth opportunities in the regulated fund space.

Ken Somerville, Head of Business Development, Quintillion

"We are working with US managers to give them a complete picture of what is required to establish one of these vehicles. I think next year we'll certainly see launches. But understandably, there's a lot of planning that has to go into launching a regulated fund outside of one's default jurisdiction," says Somerville.

The most pressing issue for managers, presently, is preparing for the first round of Annex IV reporting. Somerville says that Quintillion has been preparing thoroughly, building output files to support Annex IV.

"We started working with one external partner six months ago. They've been very competent at taking data from us, manipulating it, to produce regulatory reporting to meet managers' needs.

"We are building our own supplementary information and reporting in tandem with some of theirs, and working with managers to build out the range of data needed in areas such as trade files," confirms Somerville.

The real focus for Quintillion has been on data management. Using and producing quality data is the secret to getting a good reporting solution in place. "We provide ourselves on using 'smart' technology; piping good quality data in and out. That's how we build the information model. We're using data not only for administration but extending that use to regulatory reporting.

"Until a few cycles of Annex IV reporting have been completed there will be some teething problems. At this point, getting that first filing done is critical," concludes Somerville. ■

9 ▶ As China liberalises its markets, jurisdictions like Ireland will be ideally placed to capitalise on the fact.

Bringing the focus back to Europe, Ireland has this year seen strong growth on the AIF side under AIFMD. According to Fox, QIAIF assets are up 24 per cent through August 2014, over which time 170 QIAIFs launched.

"That 24 per cent growth in QIAIF assets represents EUR55bn. Within that, something like EUR23bn is from net inflows and the remaining EUR32bn is from capital appreciation. As of end of August assets in the QIAIF were EUR291bn and across all AIFs in Ireland that number was EUR356bn. Those managers establishing QIAIFs are a broad mix but by far and away the two largest countries where the asset managers are based are the UK and the US," says Fox.

Having just come back from a series of roadshows in the US, on both coasts, Fox confirms that the tone of US managers has changed with respect to AIFMD. There is, he says, a realisation now that reverse solicitation to stay out of scope of the directive is no longer a viable strategy.

"If you're a marquee manager then it might be easier to allow reverse solicitation because investors come to you. The other category would be managers of soft closed funds that have a waiting list of investors. However, for the vast majority of managers who wouldn't fall into those two categories, and who are in active asset raising mode, they realise they're going to have to do something else; either private placement or avail of a fully AIFMD-compliant structure and use the marketing passport.

"We are starting to see more third party AIFMs being established in Ireland, in either in their own right or via third party structures. There's definitely a lot of interest among US managers," confirms Fox.

Clara Dunne is Senior Country Officer, Caceis (Ireland). She confirms that the private placement regime is potentially tricky for managers, both European and non-European, given that there are so many different rules in each EU Member State to potentially fall foul of.

"Bigger, more established managers will doubtless be able to rely on local expertise but boutique players who are likely still in asset raising mode and using private placement could unwittingly misunderstand what is required in certain jurisdictions.

"US managers are still uncomfortable with the AIFMD; it's more likely that they would just market a new fund to a small number of EU jurisdictions," comments Dunne.

Regardless of regulation, Ireland seems to be going from strength to strength as Europe's leading domicile for alternative funds. With the introduction of ICAV, a direct lending QIAIF, an RQFII programme in place, and a committed central bank, the jurisdiction is doing all that is necessary to appeal to today's global fund management community. ■

New tool for operational risk

Interview with Tom Kirkpatrick & Colin Keane

Under the AIFMD, European fund managers must focus more intently on operational risk. Earlier this summer, the Central Bank of Ireland produced an AIF rulebook highlighting 16 requirements to which an AIFM should adhere in order to establish best practices around operational risk.

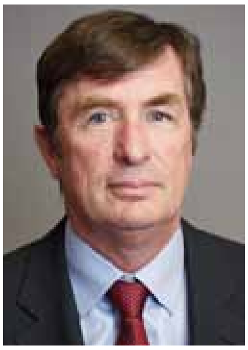
"What transpired from this was a feeling among AIFMs of an increased burden on compliance and a huge cost associated with adhering to the CBI's guidance," says Colin Keane, Ireland Country Head at SS&C GlobeOp. The CBI listened to managers' feedback, issuing a further consultation paper. There will likely be further guidance if not at the end of 2014 then in early 2015 on how the ManCo and board of directors should align their operational risk and organisational framework, says Keane.

What is generally needed by AIFMs is a framework in accordance with the business plan originally submitted to the CBI that enables them to act on and evidence the policies and procedures needed for AIFMD compliance.

"As a broad-based service provider and administrator, we are well placed to provide such a capability. Managers can leverage our experience around operational risk to demonstrate their own oversight and governance," states Tom Kirkpatrick, European COO at SS&C GlobeOp. "We've developed technology that allows us to control our operational risk and then apply that to support our clients.

"We do a lot more than just fund administration and NAV calculations. We provide a range of middle office services; operational support for derivatives lifecycle processing and EMIR reporting; risk reporting – a broad range of activities. We control that through our internal technology infrastructure."

As Kirkpatrick confirms, when AIFMD appeared on the horizon the logical question to ask was 'How can we leverage our experience and technology to provide our clients and related parties with the same tools that we use for our own operational risk oversight capabilities?'



Tom Kirkpatrick, European COO at SS&C GlobeOp

SS&C GlobeOp monitors its operational risk using an in-house system called GoCheck™. It is now in the early stages of expanding this capability as a broader service to its clients.

"It's something that is particularly interesting to emerging AIFMD platforms which will potentially support large numbers of managers," says Keane. "What we are talking about here is not only regulatory filings such as Annex IV but the granular detail of NAV reporting, investment policy monitoring, risk monitoring, liquidity management, as well as supervision of delegates. AIFMs can delegate responsibilities. However, they need to clearly evidence that they have oversight and governance of those delegates."

In GoCheck™, SS&C GlobeOp has developed an infrastructure tool that will allow managers to prove they are adhering fully to the fund's policies in an auditable manner.

As the dust settles around AIFMD the regulators are going to start paying visits to managers to ensure that they have operational oversight and are properly managing their operational risk.

"It's all about being able to have a complete record of all organisational activities and demonstrating proper control of those activities. GoCheck™ is an online task management tool that allows managers to define their procedural structure, their controls and to retain evidence of all the controls and reports that are required," says Kirkpatrick.

"We expect GoCheck™ to become a key feature for managers next year to help them meet their AIFMD operational risk oversight requirements." ■

A one-stop sub-custodian service

Interview with Sean O'Donovan & Bernard Tancré

On 3 October 2014, Clearstream, a Luxembourg-headquartered international central securities depositary, successfully completed the acquisition of Citco Global Securities Services Limited ("CGSS"). With the integration of around 300 Citco employees, the Cork-based office is now Clearstream's largest operational hub for processing funds.

"With our expertise in processing transactions in hedge funds for financial institutions, and Clearstream's expertise in mutual funds, the acquisition has brought together two market leaders in investment fund sub-custodian services," comments Sean O'Donovan, Managing Director of the newly named Clearstream Global Securities Services (CGSS) Ltd.

What makes this acquisition important, both to Ireland and the fund management community at large, are the enhanced automated services that Clearstream will be able to apply to all funds.

"Everything we do is around efficiency and safety for our financial institution customers; that's what we've applied to the mutual fund market and we felt the time was right to apply that to hedge fund processing as well," explains Bernard Tancré, Executive Director, Head of Business Solutions, Investment Fund Services, Clearstream Banking.

"The acquisition of CGSS and the licencing of Citco's custody IT infrastructure was a great opportunity for us to get up to speed quickly both from an expertise standpoint – all of Citco's IT systems are fully developed and specialised to handle hedge funds – and also in terms of volumes. Volumes are extremely important because a lot of the good things that we want to do are about building intimacy with transfer agents and hedge fund administrators. When we have conversations with hedge fund administrators the question is always 'We hear your desire to develop automation and

Sean O'Donovan, Managing Director of Clearstream Global Securities Services (CGSS) Ltd

Bernard Tancré, Executive Director, Head of Business Solutions, Investment Fund Services, Clearstream Banking

connectivity but how much volume are you really talking about?'

"We want to offer our clients a one-stop shop for their business. The acquisition of CGSS gives us a jumpstart in getting the necessary volume" confirms Tancré.

Indeed, Clearstream now services more than USD50bn in hedge fund assets and safekeeps approximately USD700bn in mutual fund assets.

From a CGSS perspective, O'Donovan says that the financial institution clients they serviced were increasingly looking to increase and improve their settlement and custody capabilities in mutual funds

Typically, Clearstream approaches transfer agents on behalf of its financial institution clients. Building intimacy takes time – the aim being that a fund uses the Clearstream infrastructure to clear and settle trades.

"That's what we already did for the bulk of transfer agents on the mutual fund side and that's what we want to bring to alternatives," emphasises Tancré.

Currently, CGSS provides hedge fund services for 60 major financial institutions with positions in over 25,000 hedge funds, integrating in Clearstream's Vestima fund processing platform. Such is the level of expectation with CGSS in Cork that Clearstream hopes to continue attracting large hedge fund portfolios and grow its related revenues by a solid 20 per cent in 2015.

The two servicing centres will continue to work to the preferences of their respective clients, supporting them separately and only combining forces when it makes sense. "We are not looking to achieve operational synergies at all costs," says Tancré.

O'Donovan concludes by adding: "We can tailor our services when needed. If clients want a similar high-touch service for their mutual funds as well, we now have the ability to offer that." ■

Regulated fund market set to grow with direct lending vehicle

By James Williams

With total hedge fund AuM now nearing USD3trn, the last 12 months have been a noticeable period of growth for the industry at large. Admittedly, 2014's performance figures aren't as strong as 2013 but as the regulatory dust in Europe settles many more managers are striking out and launching new funds.

Indeed, Clive Bellows, Country Head, Ireland, at Northern Trust, observes that the most obvious trend this year is "growth".

"Across all asset classes we have seen significant new fund launches and inflows into product. Of our USD420bn in AuA our top 25 clients account for about USD370bn of that. Of those 25, 22 have seen net inflows into their funds this year.

"In terms of asset classes, where we've seen the most growth and the most fund launches this year has been in real estate. We are seeing existing players launching new products and a number of the big US property managers coming in and establishing Irish-domiciled vehicles to invest in Ireland's commercial property sector. Most of the launches we've seen have been QIFs to support a single property; not AIFMD-compliant QIAIFs," explains Bellows.

The Irish economy is probably the one that has emerged the fastest from the challenges of the Eurozone and that has created opportunities. Bellows says that whilst managers are choosing Ireland to domicile the fund to pursue a pan-European real estate strategy "most of that initial investment, not all, has been focused on Irish commercial real estate".

John Bohan is Managing Director of Apex Fund Services in Ireland. A few years ago, Ireland saw a lot of US vulture capital funds moving in to snap up distressed assets when its real estate sector imploded. With the economy back on track and commercial property prices rising, these have been replaced by more mainstream PERE managers.

"There's been a lot of land re-zoned for commercial and retail purposes in the last Irish budget so it's an asset class that has once again become very attractive, especially given the growth rates we've seen over the last 12 months. The QIAIF regime has opened up the door. There are a lot more US managers beginning to look at it who aren't seeing quite the same level of hurdles as previously. The conformity isn't as complex as managers originally thought.

"For example, we are seeing managers with funds of USD50-100m in AuM beginning to consider the external AIFM solution to take advantage of the third country passport when it comes into effect next July. The opportunity costs are not as great as once feared," says Bohan.

Whereas once the typical hedge fund manager ran a Cayman fund and nothing else, today's reality is one that dictates a need to run multiple fund structures in order to cater for different investors. UK and Scandinavian institutions have no problem investing in offshore vehicles. What AIFMD has done – and which ESMA hopes will develop the same kudos as the UCITS brand – is open up alternative funds to Europe's more conservative institutional investors in Germany, France, Italy and so on.

This is good news, both for non-European managers who are still in asset raising mode, and investors who want continued access to top talent.

Ken Somerville is Head of Business Development at Quintillion Limited, the European fund administration affiliate of U.S. Bancorp Fund Services. He notes that there has been some real estate fund activity among its clients "but I wouldn't say it has been significant. By a long shot, credit, fixed income and long/short equity are still the bulk of strategies that we see coming on stream.

"Managers who are looking at Europe for the first time are looking at the practical challenges of setting up the fund and the management company. In addition, they are looking at whether they need to adapt their strategy to meet European regulations before establishing a QIAIF or a UCITS. Clients we speak to are constructing their business plan to launch a vehicle next year; in Q3 we've

"In terms of asset classes, where we've seen the most growth and the most fund launches this year has been in real estate."

Clive Bellows, Northern Trust

seen a strong level of interest so that will hopefully translate to real opportunities in 2015 and beyond," confirms Somerville.

According to Tom Kirkpatrick, European COO at SS&C GlobeOp (Ireland), while most US hedge fund managers are considering how best to market into Europe, private equity managers are looking at options available to them.

"At the moment, some are considering a Section 110 vehicle; this is a tax efficient vehicle for private equity companies and could be an area of growth for Ireland. It will be interesting to see, as the brand recognition of AIFMD comes to the fore, whether US managers will take that extra step forward and come into the regulated private equity space," comments Kirkpatrick.

Bellows confirms that Northern Trust is starting to see early signs of interest among managers wishing to launch loan origination vehicles.

"Questions remain around what types of companies those funds will invest in and how easy it will be to value those investments. These are going to be regulated products so we'll have full responsibility as the onshore depositary. We have to be certain that we can independently value these funds. They may be used for infrastructure projects where the assets will be less easy to value. Until somebody comes up with a definitive product and says 'This is what we plan on putting into the fund', the industry can't be 100 per cent clear on how that process is going to work," cautions Bellows.

Bohan is unequivocal in his response: "It's definitely a big opportunity for Apex Fund Services. We have offices in 34 different locations and we see lots of different strategies launch. Now that managers have the ability to establish a loan fund using an Irish regulated structure it certainly opens that door for us."

▶ 21

Full depo lite flexibility for PERE managers

Interview with David O'Keeffe

"We're seeing more interest than we did in the past. PERE managers are looking for expertise from their service partners under the AIFMD. In the past they would have gravitated towards other jurisdictions. More service providers are now comfortable with PERE as an asset class," comments David O'Keeffe, CEO of SMT Trustees (Ireland) Limited ("SMT Trustees").

Ireland has until now not really been a favoured jurisdiction to set up PERE funds but that's changing.

"We are seeing more demand for non-correlated asset classes compared to traditional assets. Service providers like these funds because they are often of a substantial size and by their nature they are long-term investments," says O'Keeffe, who notes that loan funds have become an increasingly popular fund vehicle this year: "A good many funds launched by SuMi Trust this year include loans as an asset class or at least have loans as an investment component to them."

SMT Trustees is backed by Sumitomo Mitsui Trust Bank Ltd (SMTB), the largest Trust Bank in Asia with over USD2trn in assets under custody. SMT Fund Services (Ireland) Ltd is the administration arm of SuMi TRUST and operates as a completely separate legal entity.

The ability to offer depositary services to the funds of independent administrators is working well for SMT Trustees, which has been providing custody services for the last 20 years to regulated funds. Across its fund administration and custody businesses it counts more than 200 employees in Dublin and Dundalk.

"We offer custodial services to independent fund administrators who need to bring a depositary to the table. We now support five hedge fund administrators in Dublin in this capacity for their Irish regulated funds. Therefore the promoter of a fund is not limited to utilising the service providers who offer both depositary and administration services," adds O'Keeffe.

David O'Keeffe, CEO of SMT Trustees

Under the AIFMD, PERE managers need to get their ducks in a row. For EU-based managers, making sure that they have the right service provider in place to provide depo lite services is vital, especially if, further down the line, they decide to launch onshore funds in the form of an Irish QIAIF.

SMT Trustees has been providing depositary services to both UCITS funds and what were previously QIFs, since 1994. Supporting alternative fund managers under the Directive has not required significant operational overhaul.

"What probably distinguishes us from a number of others is that we also separate the three core duties of oversight, asset safekeeping and cash flow monitoring and can provide one or more of these as individual roles if the client requires it."

"We are quite flexible in that regard and act not only with different administrators but also work with a number of different sub-custodians depending on the assets and requirements of the client. We have a custody network spanning more than 100 markets and also have a dozen sub-custodians independently appointed by us here in Dublin," explains O'Keeffe.

"The administrator is already doing the record keeping so why not do cash flow monitoring also? The prime broker already has the assets so why not have the AIFM appoint them to do the safekeeping? We would then step in to safekeep and verify the assets that they don't hold and also provide the required oversight function".

"It's the fastest to market option for a manager and invariably it's the most cost-effective option as well," concludes O'Keeffe. ■

18 ▶ Colin Keane, Country Head, Ireland, SS&C GlobeOp notes that its clients are particularly interested in the ICAV and how that could work in tandem with establishing a loan origination fund. "I believe that once it is fully enacted, alongside ICAV the loan origination vehicle will be of particular interest to the US private equity market as the ICAV allows check the box provisions for US taxable investors," says Keane.

David O'Keeffe is CEO of SMT Trustees (Ireland) Limited ("SMT Trustees"), part of Sumitomo Mitsui Trust Bank Ltd (SMTB), the largest Trust Bank in Asia with over USD2trn in assets under custody. O'Keeffe says that there will potentially be a tangible benefit as SMT Trustees will now be in a position to service any newly established European loan funds out of Ireland. Previously, SMTB established a number of offshore funds for Japanese institutional investors where the investment policies were large bank real estate and corporate loan funds, where these funds purchased such loans on the secondary market.

"Even before this loan origination announcement was made, we saw a good deal of these funds, which are managed by some of the biggest and best global investment managers. A number of funds launched by this year alone include loans as an asset class or at least have loans as an investment component to them. We expect there will be keen interest in originating loans as opposed to having to buy them in the secondary markets," states O'Keeffe.

Quintillion is well placed to support these loans given that its corporate trust business in London is a leading provider of European loan services.

"We already have a number of collaborations with the administration and investor servicing businesses and the loan servicing business where we have a common group of clients running offshore loan funds. We've got Cayman funds where we collaborate together, so if those firms extend into Irish loan origination funds, the fact that there's a pre-existing working model could be a significant advantage," says Somerville.

One of the immediate challenges facing AIFMs is regulatory reporting in the form of Annex IV – something that even non-EU managers who are privately placing their

"There's been a lot of land re-zoned for commercial and retail purposes in the last Irish budget so it's an asset class that has once again become very attractive, especially given the growth rates we've seen over the last 12 months."

John Bohan, Apex Fund Services

funds in Europe must adhere to. Pacific Fund Systems last month announced the launch of an automated Annex IV reporting solution within its PFS-PAXUS system. According to Keith Parker, owing to the enormity of the work involved in collating the required data, and given the fact that its system contains an overwhelming percentage of that data, "there was a compelling case for us to design an Annex IV reporting capability for our clients.

"This new capability in our system should make the lives of AIFMs infinitely easier in terms of this challenge and also allow our clients, the fund administrators, to generate revenue for providing this service as the ultimate aggregator of this data."

As well as having the ability to generate Annex IV reports automatically, the system will allow users to edit the data before providing an option of generating the XML file for submission. As Parker notes: "We don't see language as a barrier as most of the data is numerical."

Only those already using PFS-PAXUS will be able to avail of the AIFMD reporting solution.

Keane states that SS&C GlobeOp has already done a lot of the hard yards in terms of building a regulatory reporting solution given that it has built comprehensive data collection and report formatting software in support of clients filing Form PF, CPO-PQR, FATCA, EMIR, UCITS and other compliance and reporting rules.

"We ensure accuracy, control and transparency over the entire reporting process – from the collection of data, to the approval of the form, to the submission of the filing. ▶ 24

AIFMD Annex IV reporting made simple

By Bradford Rowley

Any association between Annex IV and the word 'simple' may appear to be an oxymoron as the Annex IV fund and manager filing typically requires the completion of a combined 339 questions on a recurring basis for larger managers.

These questions bring together many different data points typically found in different departments of fund administrators and across different systems. Where fund administrators have adopted a multi-platform environment with different systems for each of portfolio management, transfer agency, general ledger and risk they now find themselves having to combine the outputs into a single Annex IV filing and then compile those results into an XML file.

PFS-PAXUS has adopted a different approach from the beginning by building a fully integrated platform for fund administration that combines all the elements into a single database thus making Annex IV 'simple', or at least 'simpler'.

It has been said that for some fund administrators the compliance team is likely to end up being the biggest department in their asset servicing operation. Whilst this is possibly an exaggeration it does reflect the changing nature of the administrator's role. The Annex IV reporting obligations by fund managers under the Alternative Investment Fund Managers Directive (AIFMD) is one of the most significant new reporting requirements in recent years and is similar in scale to the US Form PF requirement. This directive requires AIFMs to report in the ESMA (European Securities and Markets Authority) format on a wide variety of areas, including investment profile, portfolio concentrations, fund performance and the risk profile of their AIFs.

The 'simple' approach taken by Pacific

Bradford Rowley, Pacific Fund Systems

Fund Systems Limited (PFS) is different from many competitors. As PFS-PAXUS is a fully integrated fund administration platform, most of the data elements required for population in the Annex IV already reside in a single relational database. Populating the Annex IV report can be achieved with a single button click with the results of the system calculations available for user review. Many participants in the industry are building data warehouses to combine all the required data elements from their different systems.

However, this layer of complexity is largely removed due to the integrated architecture of PFS-PAXUS. The PFS-PAXUS solution automatically generates the XML file in ESMA format for submission to local regulatory authorities.

Although not all Annex IV data elements are available from within PFS-PAXUS, any additional information can be easily added into the Annex IV filings by direct editing of the report before generating the XML file for submission. For example, in Section 24(1) there are 120 questions which typically can be auto-populated to 86 per cent by PFS-PAXUS leaving only 14 per cent of the questions of user input where the questions are subjective or the data is not currently available in PFS-PAXUS.

It is no surprise that other industry participants are racing in an attempt to combine separate systems, but PFS-PAXUS has been integrated from the start and the benefits of full integration are now more profound than ever. ■

Bradford Rowley is a chartered accountant with 16 years of fund accounting experience. Bradford has been working with Pacific Fund Systems Limited since 2004 in European and North American markets.

21 ▶ "With Annex IV there were some overlaps, some areas of difference, but we were able to start building our solution relatively quickly. That has proven to be very successful. Even managers who do not use us as their administrator are signing up for regulatory reporting services. We now service a substantial client base on both sides of the Atlantic.

"We have our clients' fund data, a robust risk engine and a hugely experienced internal risk department, so the ability to manage large quantities of data and perform complex calculations has really helped us provide a complete outsourcing solution to our clients. New regulation often leads to a disconnect in expected treatments and methodologies across different regulators and their respective jurisdiction. Harmonisation will surely follow in time but because our staff operate across a wide range of funds and jurisdictions, we can feed a lot of that knowledge and expertise directly back to our client base," comments Keane.

AIFMD is beginning to be made manifest, particularly in reference to the number of managers appointing depositaries. According to Northern Trust's Bellows, getting the depositary solution in place was a major effort in the first half of 2014.

"We are live with over 40 authorised AIFMs. We had to recruit 40 additional staff into our depositary team this year; both to support new AIFMs and to do the additional monitoring that AIFMD requires of the depositary. We effectively, in the space of 12 months, doubled our depositary team," confirms Bellows.

When asked about the particular challenges of providing oversight to PERE funds, O'Keeffe responds by saying that it is up to the depositary to ensure that it has sufficiently vetted the transfer agent who is going to be holding the books and records of private equity funds.

"These are regarded as 'other assets' when recorded in the name of the AIF and under AIFMD do not attract the same near strict liability for the depositary as financial assets held in custody. However, if such assets are held in the name of the depositary and are lost, the depositary is obliged to return the equivalent assets.

"European investment managers already

managing onshore funds have a clearer understanding of AIFMD. For those who have been managing funds in the offshore world they are looking for the least amount of frustration, the quickest turnaround and the most cost-effective depo lite solution," comments O'Keeffe.

Clara Dunne is the Senior Country Officer, Caceis (Ireland). Given that Caceis has approximately EUR50bn of PERE assets under custody, it understands the specific concerns of these managers as they start to move towards regulated fund structures.

"You need to be involved with them for the full lifecycle from initial investment to the exit, including managing capital calls and distributions. Whereas for more traditional asset classes we would be organised on a functional basis, for PERE funds we have client-specific teams; the same team provides a full service to the client from depositary services to cash monitoring, investor relations, etc. We find that works well because these managers have specific requirements, their investors have specific requirements and you do need an expert team who understands that as opposed to treating PERE as just another asset class," says Dunne.

Bohan says that Apex Fund Services has made sure that it is positioned to provide a one-stop solution to its clients, noting that the firm has strengthened the alignments it has with the depositary banks (which are required to perform the asset safekeeping function for financial assets).

"We can provide full depositary services, all the regulatory compliance reporting, an AIFM wrapper (not necessarily with us). We have mapped out every aspect and integrated the costs into one complete package. One-stop doesn't necessarily mean all services have to be provided internally. We still maintain that having an independent fund administrator from the custodian is a much stronger arrangement than having it all under one roof," concludes Bohan.

Once direct lending gathers impetus, Ireland will see an increase in the number of regulated fund structures. Like Northern Trust, Ireland's administrators and custodians are going to need to keep strengthening their teams, which in turn should create more jobs and deepen Ireland's standing as Europe's leading alternative funds centre. ■