

European Regulated Funds: The Options for Promoters

UCITS and Non-UCITS Structures for
Hedge Fund Investment Managers

Table of Contents

1. Demand for Regulated Product	1
2. Regulatory Framework and Structures	3
3. Fund Structures, Timelines, Mergers/Re-domiciling	10
4. Hedge Fund Servicing Solutions	15
5. Conclusions	24
6. Questions?	26
7. Contacts	27

1. Demand for Regulated Product

The Move to Regulated Product

The growing trend of alternative managers seeking to establish regulated funds is primarily being driven by investor demands.

Investor Perspective

- Investors require greater transparency around investment strategy/use of leverage/risk management process
- Investors need confidence that liquidity profiles and terms are in line with offering documents
- Investors are demanding more frequent fund valuations and dealing points
- Investors are focused on strength of regulatory framework and fund governance

Promoter Considerations

- The ability to replicate AI strategies in regulated product
- Access to a wider investor base to replace lost assets under management (AUM)
- The cost of servicing regulated product – enhanced reporting and oversight requirements
- The Alternative Investment Fund Managers Directive (AIFMD)

2. Regulatory Framework and Structures

What are the Product Choices?

AI strategies can be replicated in either UCITS or non-UCITS products within the European Union

UCITS

- Established pursuant to EU regulation targeted at “the man on the street”
- Can be offered by private placement or can avail of a European passport
- Has become a global brand attracting institutional and retail investors
- AI strategies can be pursued subject to compliance with defined requirements

Non-UCITS

- Established pursuant to country regulation
- Offered on private placement basis only
- Full flexibility in AI strategy replication

The UCITS Opportunity

The UCITS framework provides the credibility of EU-sponsored regulatory structures with investment flexibility, and established brand recognition throughout the world.

Fund Manager Advantages

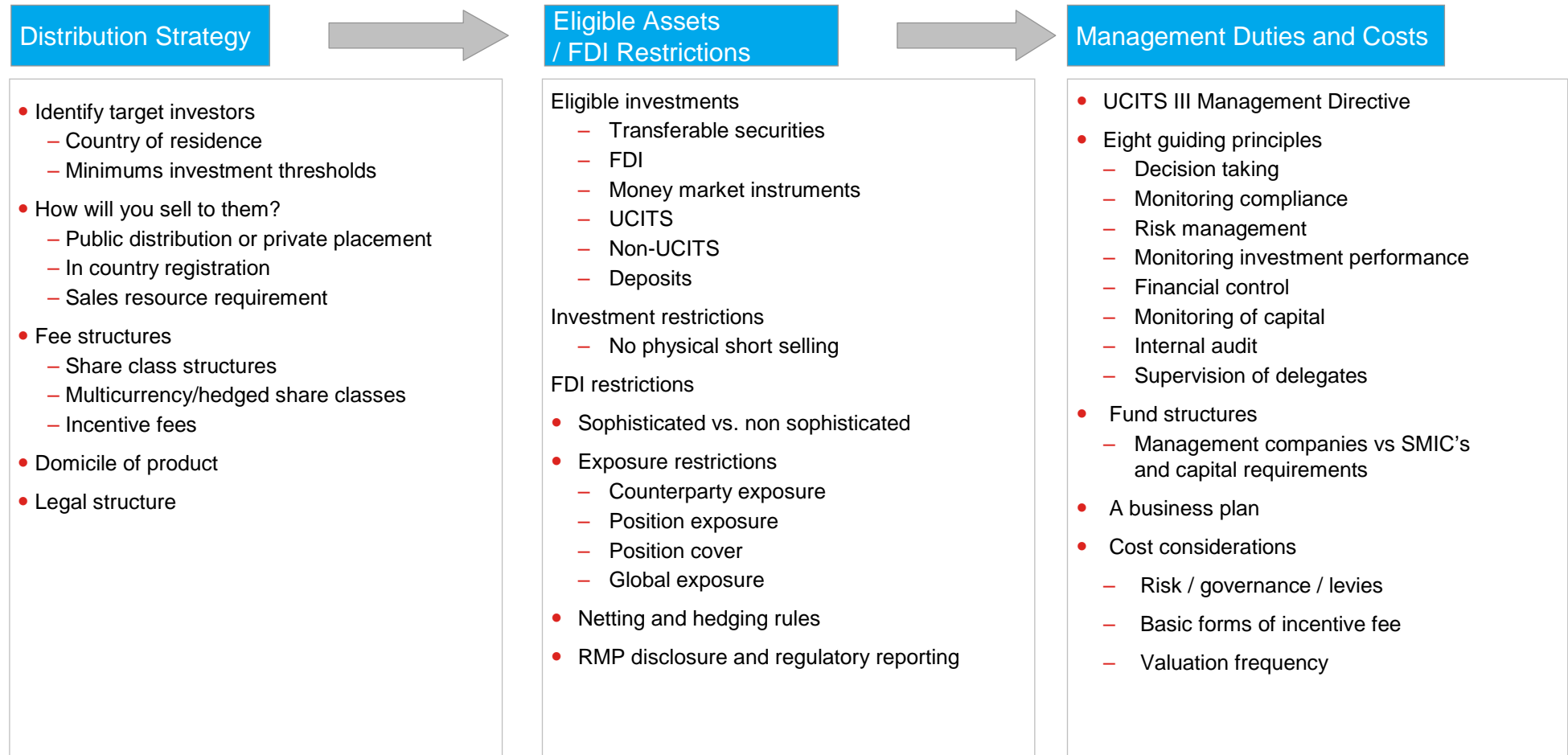
Opportunities for AUM Growth	Distribution Channels	Regulated Funds and Investment Opportunities
<ul style="list-style-type: none"> • UCITS make up EUR5.2 trillion (70%) of EU funds market • Lux and Ireland domiciled funds comprising 40% of the UCITS market • Increase of EUR615 billion from Dec 2008 • Net inflows in Q3 2009 of EUR70 billion • Inflows mainly in equities / bonds as confidence rises 	<ul style="list-style-type: none"> • Distributed in 64 countries globally • 25% of total cross border UCITS AUM sourced outside Europe as at end 2008 • 17% of cross border UCITS AUM sourced from Asia • Global banks and local brokers/financial advisors key channels for distribution in Asia and Latam • Fund supermarkets/platforms important in EU • UCITS IV and ease of distribution in Europe 	<ul style="list-style-type: none"> • Global brand and regulated tag • Defined restrictions and independent trustee monitoring • Scope of eligible assets • Flexibility to engage in hedge strategies • Defined corp governance standards • UCITS IV, the management passport and cost reductions • No impact from AIFMD

Investor Advantages

Credibility	Flexibility	Investor Recognition
Management Company Role	Listed & OTC Derivatives	Retail Distribution Options
Depository Role	Absolute Return Strategies	Familiar Among Institutional Investors
Binding Investment Restrictions	Leverage up to 100% of NAV	Truly Global Brand
Investor Reporting & Transparency	Master-Feeders Under UCITS IV	Financial Crisis Record

UCITS III: Factors for Consideration

Asset Managers need to consider three critical areas when establishing a UCITS



UCITS IV

UCITS IV can be viewed as the Investors Directive. Its primary aims are to lower Total Expense Ratios, ease distribution and enhance investor protection.

UCITS IV

- Lowering TERs
 - EU Management Company Passport
 - Cross-border mergers
 - UCITS Master-Feeder Structure
- Removing barriers to distribution
 - Distribution 10 days after notification
 - Co-operation mechanisms between Regulators
- Investor protection
 - Key investor information
- Timeframe
 - Level 2 Directive July 2010
 - Transposition July 2011
- No obvious trends developing – tax considerations for investors and management companies

Non-UCITS Opportunity: An Overview

AI strategies can be easily replicated in regulated non-UCITS products available in the EU and are ideal for funds sold on a private placement basis

Non-UCITS Alternatives		
Ireland	Luxembourg	UK
Qualified Investor Fund	Specialised Investment Fund	Qualified Investor Scheme
Professional Investor Fund	UCI Funds, Part II	Non-UCITS Retail Schemes (NURS)
Retail Non-UCITS	SICAR	

Advantages of Non-UCITS

- The “regulated” tag
- Speed of authorisation
- Less prescriptive duties
- Minimal investment restrictions
- Lower costs
- Complex incentive fees permitted

Challenges of Non-UCITS

- Direction of AIFMD
- Only offered by private placement

Non-UCITS Fund Categories

Broad range of vehicle available to AI promoters on the basis of domicile, target investor sophistication and choice of investment strategy

Ireland		
QIF	PIF	Retail Non-UCITS
<ul style="list-style-type: none"> • Min EUR250,000 investment. To be reduced to EUR125,000 • No investment limits • Short selling permitted • 24 hour authorisation • Complex incentive fees • Broad range of permissible strategies 	<ul style="list-style-type: none"> • Min EUR125,000 investment • Derogations on application • Short selling permitted • Standard authorisation 4 - 6 weeks • Complex incentive fees • Broad range of permissible strategies 	<ul style="list-style-type: none"> • No minimum investment • UCITS I type restrictions • No short selling • Standard authorisation 4 - 6 weeks • Broad range of permissible strategies

Luxembourg		
SIF	UCI Funds, II	SICAR
<ul style="list-style-type: none"> • Min EUR125,000 investment • Risk spreading limit of 30% only. Minimal restrictions • Short selling permitted • No lead time to authorisation. Must file within 1 month following creation. • Broad range of permissible strategies 	<ul style="list-style-type: none"> • No minimum investment • Specific restrictions depending on the strategy. • Short selling permitted • Standard authorisation 4 - 6 weeks • Broad range of permissible strategies 	<ul style="list-style-type: none"> • Minimum EUR125,000 investment • Restrictions specific to PE investment • Standard authorisation 4 - 6 weeks • Broad range of permissible strategies

UK	
QIS	NURS
<ul style="list-style-type: none"> • No minimum investment. sophisticated investors • Significant restrictions • No physical shorting • Authorisation – up to 6 months • Broad range of permissible strategies 	<ul style="list-style-type: none"> • No minimum investment • Wider powers than UCITS • Synthetic shorts only • Standard authorisation 4 weeks • Broad range of permissible strategies

3. Fund Structures, Timelines, Mergers/Re-domiciling

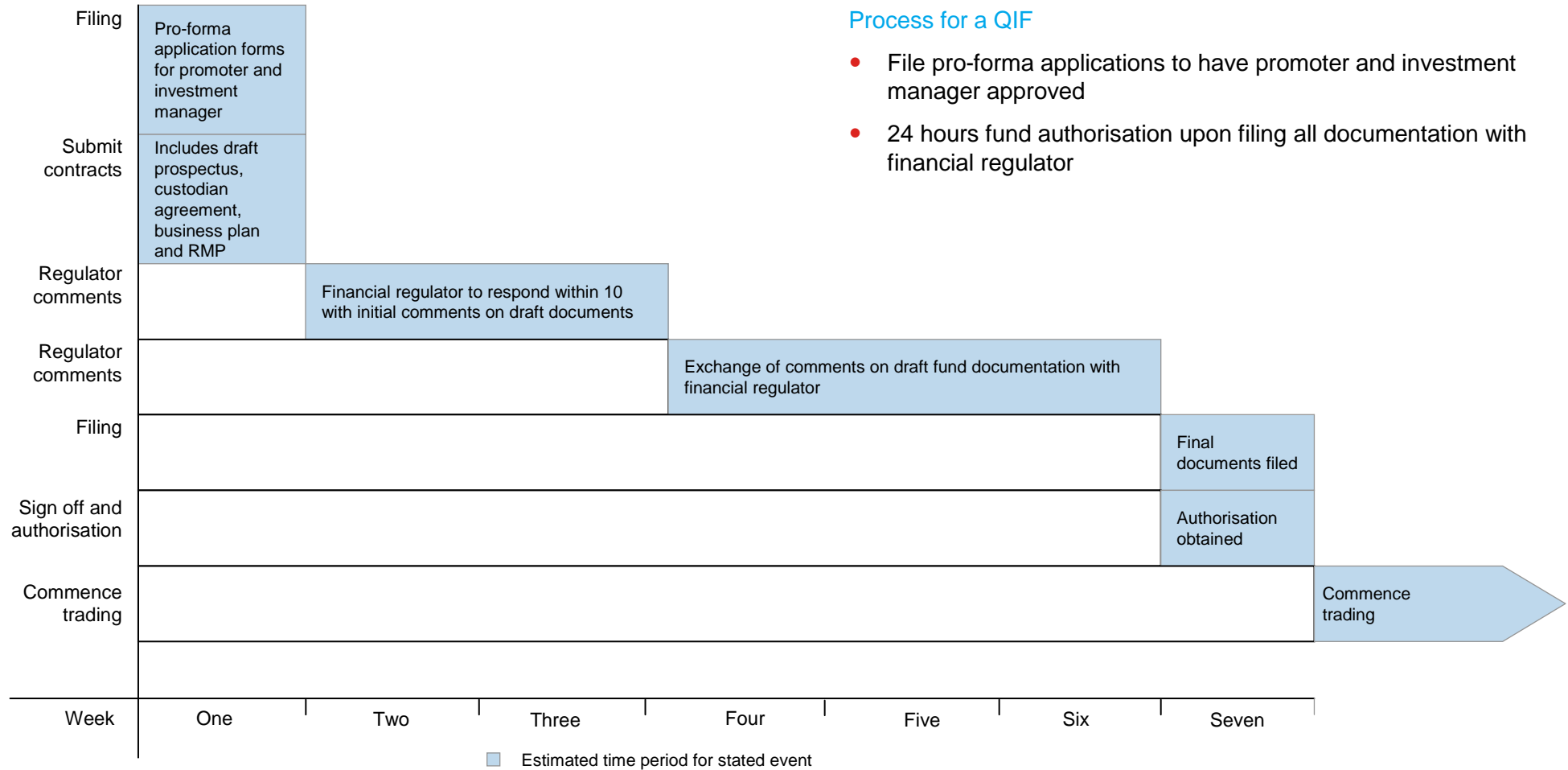
Fund Structures

There are a variety of fund legal vehicles available to the promoter which meet the requirements of different investors

Type	Legal form	Tax transparent vehicle	Dividend requirements	Open-ended, limited liquidity, closed end	Eligibility as UCITS or on-UCITS
Investment company	plc	Per se corporate in US; generally not tax transparent	None	✓	✓
Unit trust	Created by contract	Generally regarded as transparent but can “check the box” for US	None	✓	✓
Common contractual fund	Created by contract	✓	Required to distribute all income annually	✓	✓
Investment limited partnership	Limited partnership	Generally regarded as tax transparent	None	✓	Non-UCITS only

Legal Process Indicative Timeline

Authorisation of a UCITS vehicle takes approximately seven weeks. QIFs/ SIFS can be authorised in 24 hours.



Mergers/Re-domiciling Funds to EU jurisdictions

There is a trend of moving funds from unregulated to regulated jurisdictions. This can be achieved by either mergers or redomiciling the Funds entirely

Mergers

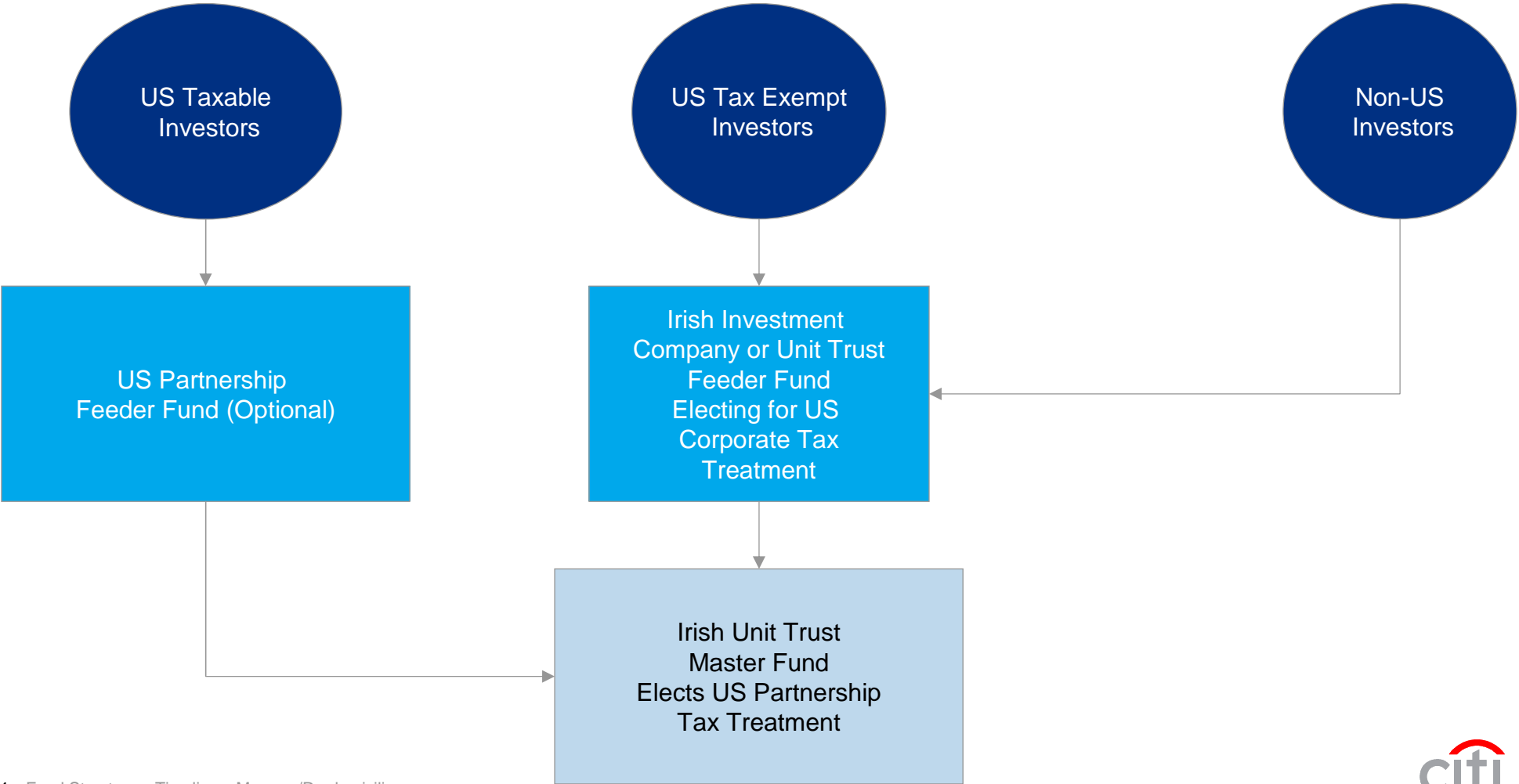
- Only assets of non-Irish fund move to Irish fund. Currently achieved through share for share exchange which might cause taxable event for investors moving to Irish fund

Redomicile of Funds

- Legislation to be introduced by year end to enable funds to re-domicile to Ireland
- Should not result in taxable event for investors

Tax Issues for US Investors

It is possible to replicate traditional structures that were engineered around investor tax status with a combination of EU and US partnership structures

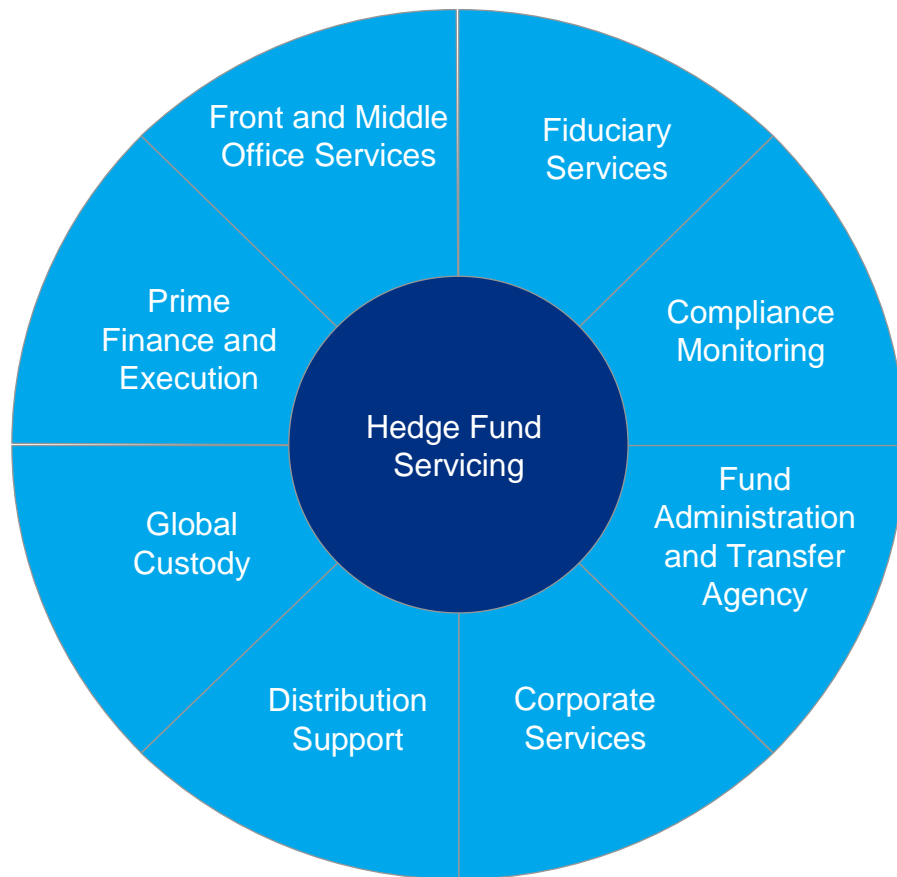


4. Hedge Fund Servicing Solutions

Hedge Fund Servicing Requirements

Citi offers an end to end solution for investment managers across all products and key jurisdictions

UCITS and Non-UCITS Offering Mix



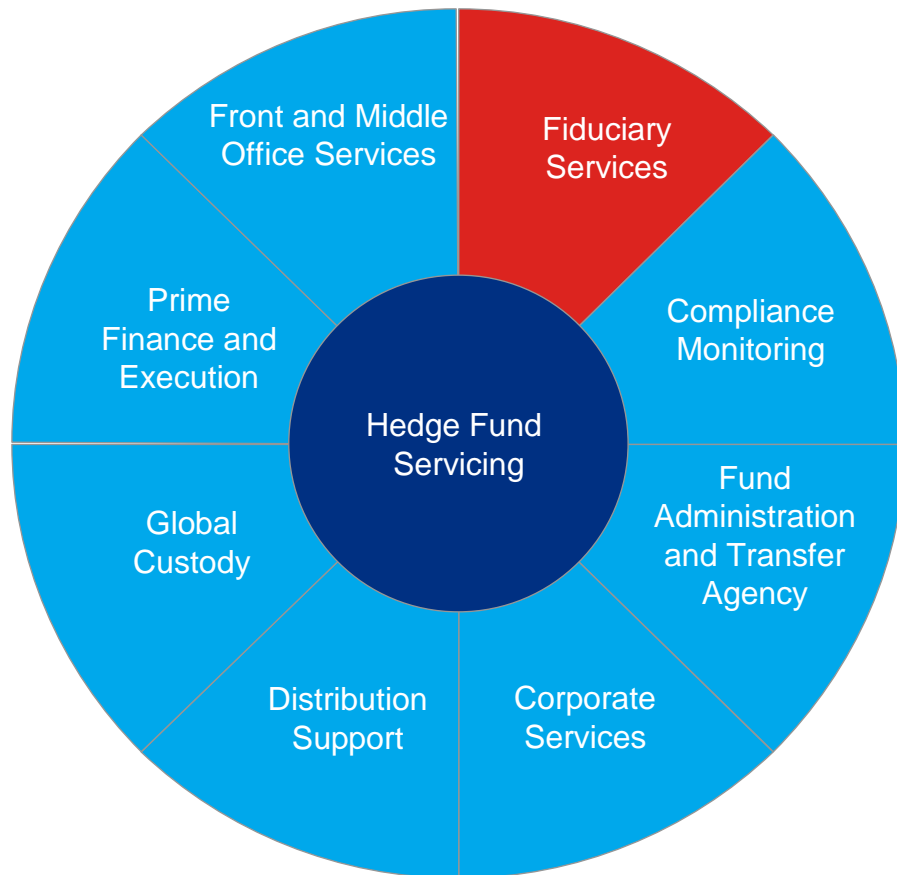
Manager Requirement Mix

- Trustee/custodian to assume fiduciary responsibilities
- Compliance monitoring of investment and other restrictions
- Fund administration capabilities for complex and vanilla instruments and also frequency of NAV calculations
- Transfer agency capabilities for retail and non-retail investors, performance and distribution fee calculations
- Distribution support for new distribution arrangements
- Corporate secretarial services for Irish and Luxembourg vehicles
- Global custody for safekeeping, clearing and spreading of counterparty risk
- Trade execution, clearing and prime finance
- Middle office services for pre and post trade activity, collateral management, risk and performance metrics and also P&L reporting

Fiduciary Services

The role of the fiduciary is pivotal to investor protection within the EU regulatory framework

UCITS and Non-UCITS Offering Mix



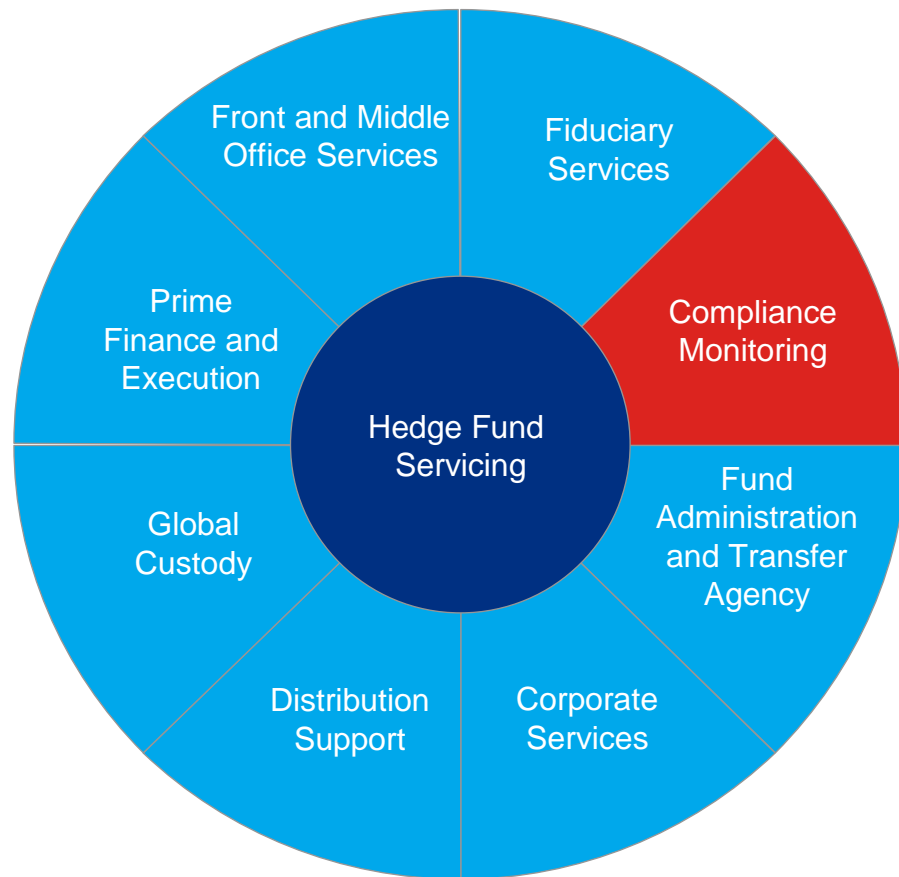
Citi's Fiduciary Services Offering Summary

- Trustee companies in Ireland, Luxembourg, UK, and Jersey
- UCITS and non-UCITS capabilities in each domicile
- Active participation in key trustee industry committees
- Fulfilment of regulatory duties associated with a trustee for fund structures
- Oversight of fund service providers through periodic onsite inspections
- Periodic review of NAV to ensure accurate calculation and compliance with fund administrator procedures
- Investment breach and price error reporting in accordance with regulatory fund documentation investment restrictions and guidelines
- Participation in fund board meetings
- Sub-custody agreements in place with all of main prime brokers

Compliance Monitoring Services

Our compliance monitoring tools deliver transparency to the investment restrictions prescribed by regulations / prospectus guidelines

UCITS and Non-UCITS Offering Mix



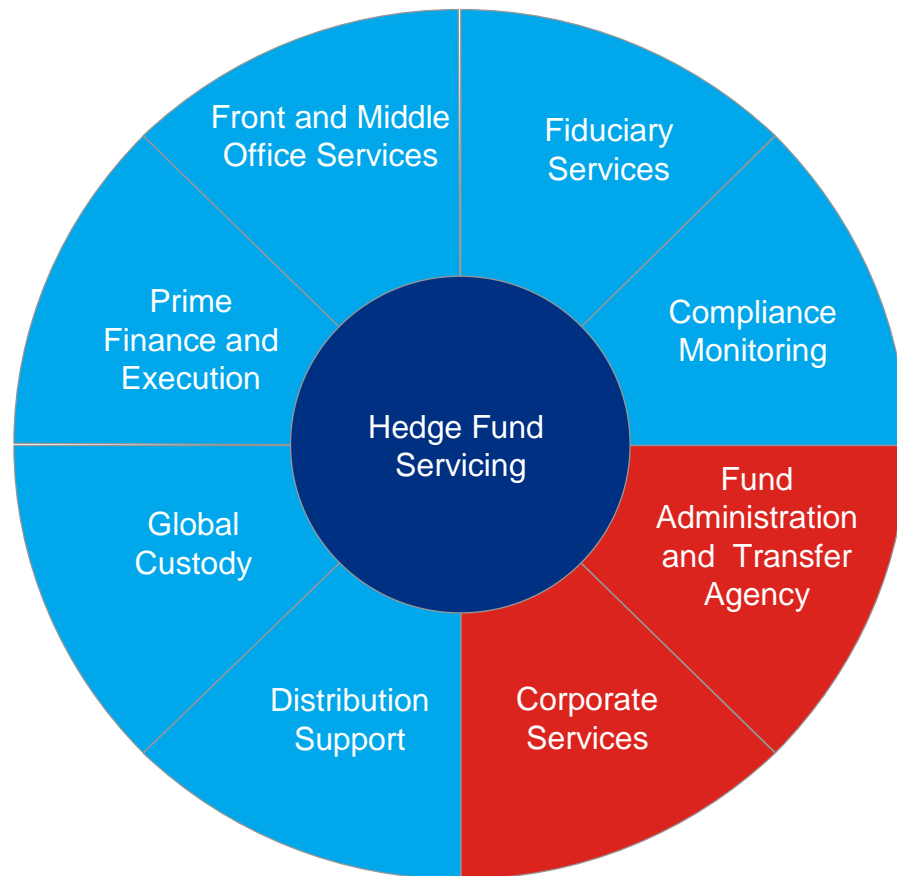
Citi's Compliance Monitoring Offering Summary

- Fulfilment of investment restriction compliance checks on behalf of fund management companies
- UCITS and non-UCITS capabilities in Ireland, UK, and Luxembourg
- Contractual investment restriction monitoring also facilitated based on client requirements
- Primary platform used MIG 21; vendor provided industry leading post-trade compliance monitoring tool
- Examples of restriction types covered include concentration, cash, borrowing, credit quality, issuer, benchmark, market cap, debt in issue, long/short positions, and derivative gross exposure
- Service provided daily, weekly, or monthly as per client requirements

Fund Administration, Transfer Agency and Corporate Services

The breadth of the product base we support across AI and traditional long funds allows us engineer investment and distribution solutions for our clients as the asset classes converge

UCITS and Non-UCITS Offering Mix



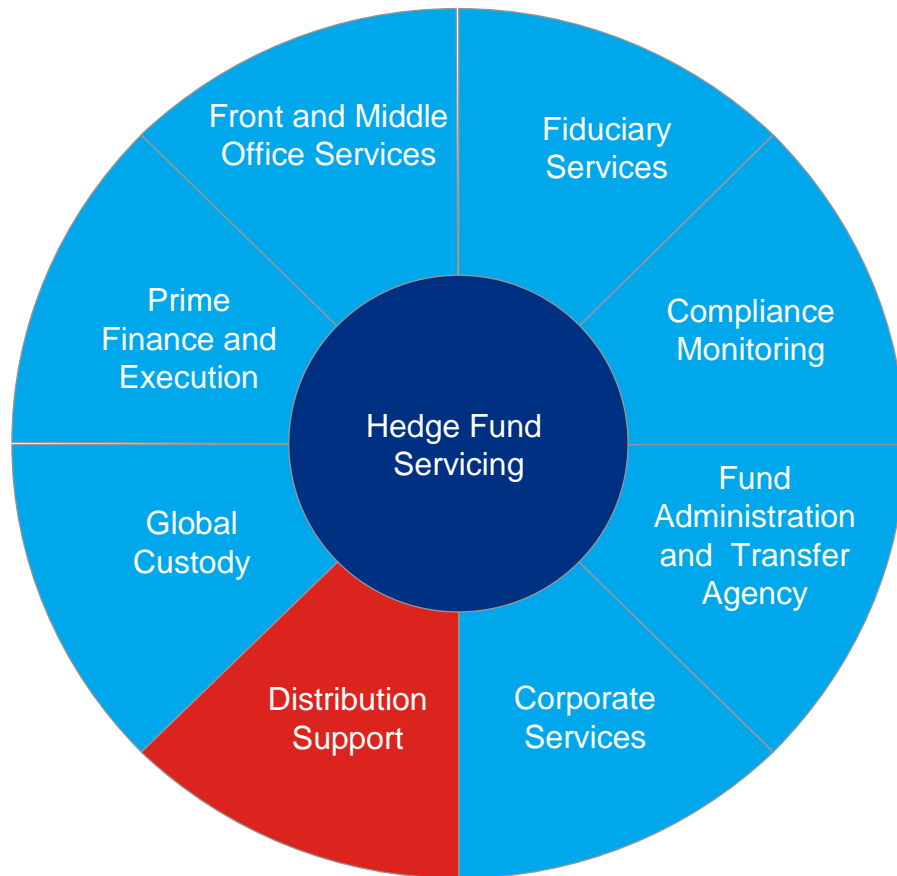
Citi's Fund Accounting, Transfer Agency and Corporate Services Offering Summary

- Fund administration capabilities for complex and vanilla instruments and for required NAV frequency
- Transfer agency capabilities for retail and institutional investors
- Corporate services capabilities for Irish, Luxembourg and Jersey vehicles
- Ability to meet board and regulatory reporting requirements
- Investor confidence in performance, stability and transparency
- Linkage to a wider end to end solution
- Overall reporting capabilities for service partners, clients and investors

Distribution Support

High quality service and delivering value add to distributors is critical to an asset managers success

UCITS and Non-UCITS Offering Mix



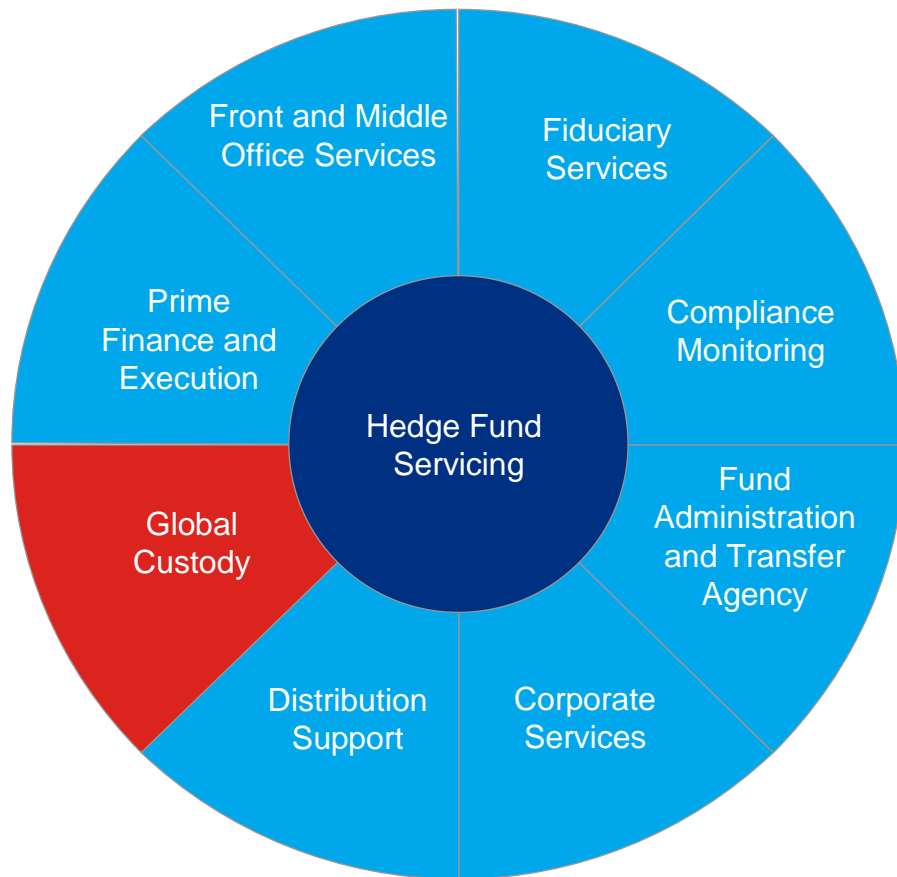
Citi's Distribution Support Offering Summary

- Distributors are our clients, clients and command top tier service
- Service institutional, intermediary and retail investors across 60 countries and 1,000+ distributors
- Relationship management of the institution or distributor including on-boarding, agreement maintenance, AML
- Distributor service centres in US, Dublin and HK
- 11 languages supported
- Connectivity to all major platforms NSCC, Euroclear, Vestima, AllFunds, BPCI, Cofunds, EMX, etc.
- Support all levels and methodologies of trailer fees
- Payment in currency of choice
- Multilingual statement

Global Custody

With AIFMD on the horizon, its critical to have a custodian in place who has the breath and depth of services to meet the heightened requirements that will evolve

UCITS and Non-UCITS Offering Mix



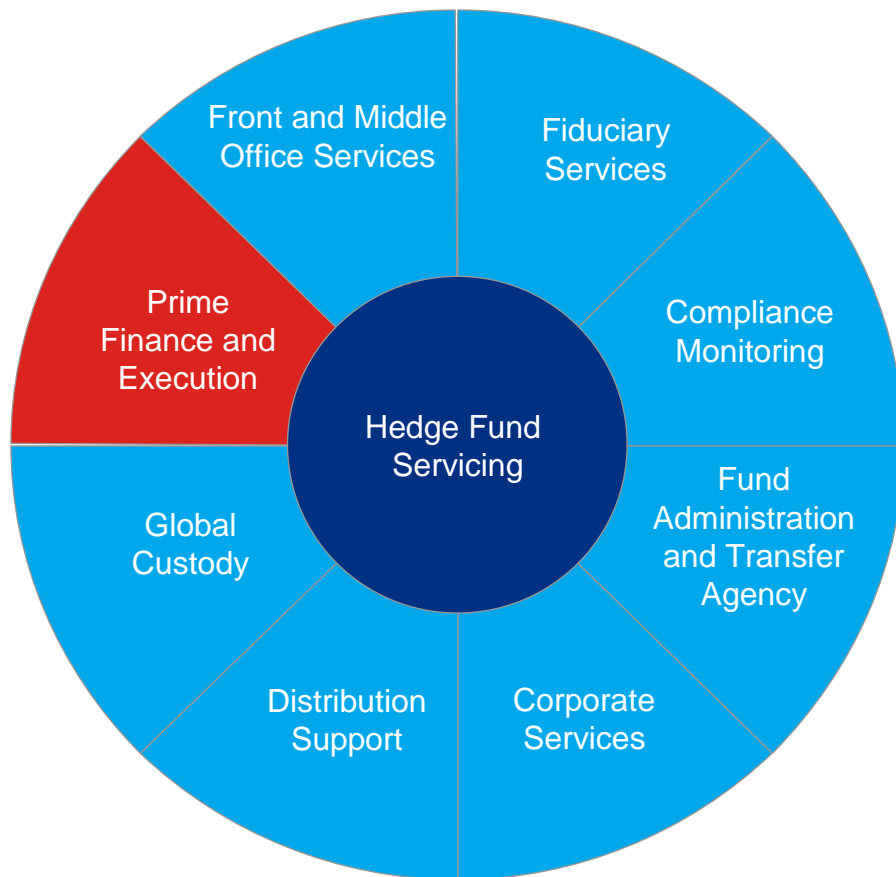
Citi's Global Custody Offering Summary

- Largest proprietary network (54 markets) with nearly US\$12 trillion in assets
- Outstanding local market expertise
- Superior service delivery consistency
- Executive reporting – holistic view of activity, performance, trends, opportunities and risks
- Market publications – on-the-ground market experts and notifications of key daily events
- Excellent execution and robust infrastructure
- Common platform – consistency in technology and information delivery
- Fully automated daily reconciliation process between sub custodians/branches
- Web-based delivery through CitiDirect
- Comprehensive pre-settlement date and post-settlements date reporting
- Full service provider – core services, settlements, corporate actions, income, foreign exchange, tax reclaims, etc.

Prime Finance and Execution

Our ability to offer Prime Finance services gives asset managers access to critical research, execution and financing services

UCITS and Non-UCITS Offering Mix



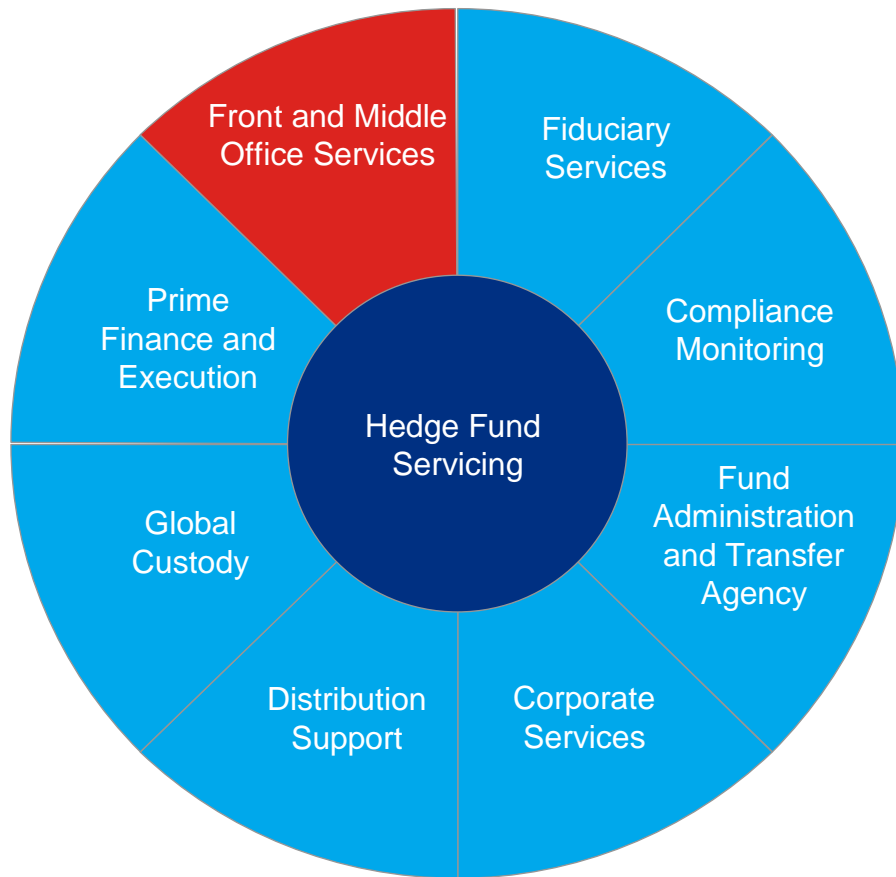
Citi's Prime Brokerage Offering Summary

- Providing leverage in the form of synthetics or repo's
- Stock loan access
- Comprehensive reporting
- Full suite of global execution solutions
- Access to global research

Hedge Fund Front and Middle Office Services

Our ability to offer front and middle office services enables managers to focus on their core business of asset management

UCITS and Non-UCITS Offering Mix



Citi's Middle Office Services Offering Summary

- Open Prime solution for front and middle office
- Middle office services for pre and post trade activity
- Trade and cash reconciliations
- Collateral management
- Risk and performance metrics
- P&L reporting
- Treasury services

5. Conclusions

Conclusions

The landscape of AI Fund structures / domicile is changing....

- There are a wide variety of EU Regulated products that a Promoter can use to achieve AI strategies
- The EU regulated market opens up new avenues for distribution and asset growth
- There are additional costs associated with EU regulated product
 - within the Fund
 - to achieve the governance / compliance needs
 - to capitalise on the distribution opportunities
- Citi is uniquely positioned to assist managers across all products and the key EU jurisdictions

6. Questions?

Contacts

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efficiency, renewable energy & mitigation

