



Placed Article
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SIFs Offer Luxembourg Fund Providers A Faster Time To Market

The Holy Grail in investment management is to discover an original idea for creating alpha. Investors also need to gain first-mover advantage. In one of the best-known and most successful moves of recent years, New York hedge fund Paulson & Co. launched its Paulson Credit Opportunities Fund I and II in the middle and end of 2006, respectively, both dedicated to shorting subprime mortgages. The firm raked in profits of \$15 billion last year as its bet against the U.S. housing market was proved right.

Great investment ideas are often time sensitive, either because once others discover the idea the opportunity is arbitrated away, or because the market eventually moves against the trade. Having a good idea, therefore, is not enough; an asset manager or IFA needs to find or create a vehicle to implement the positions at the right time.

Asset managers are developing strategies to invest in distressed securities, clean energy, water and agriculture, among other themes. Investors should ask themselves whether these asset classes have become overcrowded, which managers were first movers into the sectors, and who has proven expertise.

For asset managers, the mechanics of establishing an investment fund sometimes become a significant obstacle. Funds can take months to set up, by which time the manager may have missed the best buying opportunities. Depending on where the fund is domiciled and distributed, the asset manager may have to satisfy a myriad of regulatory hurdles. Setting up a fund from scratch is hard work, extremely time consuming and costly.

On 13 February 2007, Luxembourg enacted the Law on Specialised Investment Funds (SIFs) to create a tax efficient vehicle with minimal regulatory restrictions and a faster time to market. SIFs can be launched without prior approval from Luxembourg's regulator, the Commission de Surveillance du Secteur Financier, so in theory they can be established straight away. SIFs must subsequently apply for CSSF authorisation in the month following launch.

The SIF law was a step in the right direction because it greatly simplified the regulatory process for establishing Luxembourg-domiciled funds. Several obstacles to IFAs and other entities wishing to launch a SIF remain, however. To create a fund, the initiator has to apply to several large banks, undergo all of their vetting and internal decision making processes, and then join the queue with a multitude of other applicants. It is also imperative to find a Luxembourg-based custodian. The largest asset management houses tend to have all these arrangements in place, but for smaller players, finding the right bank or administrator can be extremely time consuming.

KMG SICAV SIF has developed a platform to enable asset managers, IFAs, high-net-worth individuals, family offices and entrepreneurs to create Luxembourg-domiciled SICAV SIFs in a matter of days. KMG will handle the fund's registration, incorporation, custody, transfer of assets and administration—simplifying the entire process. The faster time to market can save investors' money by reducing opportunity costs.



SIFs can invest in a wide range of asset classes, including real estate, hedge funds, private equity, unlisted securities and commodities. Leverage is also permitted. So long as the principle of risk spreading is adhered to, there are no further limitations regarding eligible assets or the style of investment. Because of their flexibility, SIFs are fast becoming a vehicle of choice for investing in esoteric strategies. KMG has received interest from entities investing in forestry holdings in South America, property development in Central and Eastern Europe and also in Dubai, shipping, fund of funds, and pre-IPO private equity holdings.

SIFs are also an ideal vehicle for more plain vanilla investment strategies. Last year, 40% of all new funds launched in Luxembourg were SIFs. Around EUR120 billion was invested in the 350 SIFs that were established in 2007.

Firms taking advantage of the flexibility offered by the SIF model include the GMT Global Multi-Strategy Fund of Funds SCA, SICAV-SIF, Amanda Capital's Amanda SICAV-SIF - Liquid Private Equity Fund, and clean tech fund Athamas SICAV-SIF. Luxembourg SICAV SIFs can be distributed throughout the European Union and beyond, including Asia and the Middle East.

Additionally, IFAs and high-net-worth individuals can launch their own SIFs. KMG talked to a large number of IFAs as part of its market research before launching its platform. Several financial advisers said they needed a faster, simpler method for moving clients' money around. They were frustrated by the enormous amount of time they were spending on administration.

By pooling clients' assets into a SIF, IFAs can greatly simplify the execution of an investment idea. Instead of writing to every client and shifting monies between the hundreds of different funds that individual clients have invested in, the IFA would only need to alter one portfolio. A SIF can be set up as an umbrella fund with multiple compartments, enabling an IFA to cater to clients with different risk appetites.

*This article was written by **Kevin Mudd**, Founder and Director of **KMG SICAV SIF**. Kevin Mudd has 30 years of financial services experience. He is chairman of the Board of Cyprus International Financial Services Association (CIFSA), a member of the Board of The Fédération Européenne des Conseils et Intermédiaires Financiers (FECIF), and a member of the Institute of Directors. Earlier in his career, Kevin founded OFS International, which became Inter-Alliance WorldNet. In 1996, he established the Private Client Portfolio Mutual Fund.*