

**hedge**week guide to setting up

# Alternative Investment Funds

August 2011

## Focus Report:

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**Be informed and contact us to learn more:**

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# Professionalism is key for fund start-ups

## Interview with Julian Stockley-Smith

The pressure for investment managers to get things right from day one is immense. According to Julian Stockley-Smith, a Director of JP Fund Foundations, investors are now much more inclined to seek professional and independent oversight when assessing prospective funds. "We're seeing substantially increased due diligence; investors want a clear idea of a fund's infrastructure, the service providers they're using and the protections via independent oversight that exist. We were recently asked to give a review of our disaster recovery programme. That's the first time we've been asked that by a potential investor," explains Stockley-Smith.

The JP Funds Group provides a one-stop shop solution for hedge fund formation, servicing and administration. Typically, it takes four to six weeks to establish the fund structure, and as Stockley-Smith explains: "We handle a lot of initial drafting work and finalise the offering documents in close co-operation with external legal counsel. What often takes much of the time is communicating and finalising the description of the investment strategy; it's a critical part of the process."

As well as establishing the fund structure(s), JP Fund Foundations appoints independent directors and auditors. A key attraction of the structure to investors is the true independence that exists between the board of the investment management company and the board of the fund. The relationship between the investment manager and the fund is a contractual one and decisions are made by independent directors who are independent both of each other and all other parties to the fund.

Being able to demonstrate third party independence, particularly in areas such as asset valuation, is a critical consideration in Stockley-Smith's opinion. If an investment manager is self-administrating and calculating his own NAV, the opportunity to do the wrong thing is markedly increased. The trend now is



**Julian Stockley-Smith, Director of JP Fund Foundations**

to adopt third party administrators in response to both investor and regulatory demands.

"We've heard numerous stories of investment managers faxing the Net Asset Value ('NAV') calculation to the fund administrator to report. While this is outrageous, it's not uncommon. Investors today are far more sophisticated than previously. The failures of 2008 and 2009 have added greatly to investor caution; people are much more aware of the pitfalls," says Stockley-Smith.

Start-ups must evaluate costs. The smaller a fund's assets are at launch, the more fixed costs are going to eat into performance. The JP Funds Group can set up fund structures at low cost but as Stockley-Smith points out: "There remain critical levels below which a fund may not be economic and an attractive, viable option to investors." Based on the introduction of efficiencies, he believes the AUM minimum can be as low as EUR2million.

Another key issue for investment managers to consider is the domicile of the fund itself. The alternative investment fund industry faces increasing regulatory and supervisory scrutiny, with many jurisdictions having restrictive regulations that many consider lack merit. "When managers add up all the regulatory and compliance costs, they realise that regulatory costs can materially affect smaller funds while imposing limits on strategy that compound the difficulties," says Stockley-Smith.

"Most investment managers find the Caymans regulatory regime fairly pragmatic. It can be less restrictive while still providing the more attractive common law-based system of law, highly developed funds law and fully recognised application of the best standards of international anti-money laundering rules."

The JP Funds Group support a full range of hedge fund and private equity funds from start-ups through to established heavyweights looking to set up additional fund structures for new investment strategies. ■