

MARKET TRENDS

Navigating the debt fund forecourt

There are multiple choices to be made when choosing the right private debt fund, including where it should be domiciled and who should administer it.

Stephen Osmont of the Aztec Group considers the options

Manual or automatic? Practical people carrier or flash sports car? Petrol, diesel or hybrid? Are you inclined to go with a manufacturer you know and trust, or are you open minded about the alternatives out there? Where do you stand post-purchase? Can you rely on the car dealer for ongoing service and support? These are just some of the questions you may have asked yourself or discussed with your friends and family when deciding on a new car.

Of course, some people already know exactly what they want and the process is short and sweet, but for many of us it's a rigorous one involving extensive research, test drives and, ultimately, some tough negotiating.

Given the title of this article, you can probably see where this is going. Choosing another type of vehicle – a debt fund vehicle – can be equally as painstaking. You'll need to make a number of important decisions, from the type of vehicle you select, in which jurisdiction, to who will service it.

GETTING A STEER

You'll no doubt turn to the internet, specialist publications and trusted friends who know a thing or two about motors for guidance on which car to buy. Many of these information sources will also apply when exploring options for a suitable debt fund vehicle, albeit to different extents.

The "trusted friend" or, in this case, trusted advisor, will be the most important one. Whether it be a lawyer or an accountant, they'll work with you to build a shortlist of viable vehicles based on your



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circumstances and objectives. Answers to such questions as where you are investing, who your investors are likely to be and what your timeframe for launch looks like will help shape that list.

For example, if the fund has a predominantly EU investor base, only vehicles which are compliant with AIFMD [Alternative Investment Fund Managers Directive] or provide access to the market through national private placement regimes may be an option. Equally, if there are only a limited number of investors and those investors are professional institutions, the manager may lean towards vehicles that are subject to lighter-touch regulation.

Similarly, a manager may be in the latter stages of fundraising, looking to strike when the iron is hot and launch the fund as soon as possible. In this instance, a vehicle established under a regime that

facilitates speed to market would be high on the list of priorities.

And of course, any deliberation over potentially suitable vehicles cannot be done in isolation from the jurisdiction of the domicile. After all, it is the jurisdiction that provides the regime under which the vehicles operate and the environment in which they are managed and administered (you wouldn't buy a car without taking into account who the manufacturer is, would you?)

The kinds of qualities you'll be looking for in a jurisdiction include ease of doing business (and cost), a sophisticated and responsive local regulator, a pragmatic and flexible approach to regulation, depth of the local service provider market and an appropriate and attractive tax regime. No vehicle or jurisdiction will score ten out of ten on every aspect, so you'll have to weigh up those which are most important.

CHOOSING THE RIGHT VEHICLE (AND JURISDICTION)

Having determined your requirements and had some initial discussions around your options, it's now time to make your decision. Among the leading fund jurisdictions, our experience suggests that Guernsey, Jersey and Luxembourg remain popular choices when it comes to domiciling a new debt fund.

All of these jurisdictions have deep industry knowledge together with the legal, regulatory and fiscal framework designed to support the creation and administration of alternative investment funds across a range of different asset classes and investor scenarios. What also

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distinguishes these jurisdictions from others is their propensity to be innovative in legislating new structuring solutions to support fund managers with their evolving requirements.

For example, we've already identified speed to market as being an increasingly important requirement for fund managers and this is one area in particular where both Luxembourg and Jersey have enhanced their offerings in recent times.

Luxembourg did this through the introduction of its Reserved Alternative Investment Fund Regime (the RAIF) in 2016 and Jersey through the consolidation of its three core private fund regimes into a single one with the launch of the Jersey Private Fund earlier this year. Both regimes have succeeded in streamlining the launch process considerably to dramatically cut down the lead time in getting a new fund to market.

To return to the motoring analogy, these jurisdictions might represent some of the premium marques, with a history of, and reputation for, high quality and innovative design.

SELECTING YOUR ADMINISTRATOR - MUCH MORE THAN AN 'AFTER SERVICE'

You've chosen your fund vehicle and domicile. The next thing for you to think about is the day-to-day administration and operational aspects.

Outsourcing to a specialist administrator can deliver a number of advantages, from the sector-specific expertise and experience they offer in relation to the set-up, launch and ongoing administration of the fund, to the independence they bring to the table. The pace of technological and regulatory development in the industry can make it difficult for an investment manager to find the time and resource to keep up whereas this is core business for an administrator.



"JUST LIKE EVERY CAR DEALER WILL MAKE PROMISES OF WARRANTIES, AFTER-CARE AND UPGRADES, SO WILL EVERY ADMINISTRATOR MAKE PROMISES OF SUPERIOR SERVICE"

But, of course, just like every car dealer will make promises of warranties, after-care and upgrades, so will every administrator make promises of superior service. Your administrator will form part of your team, be central to the smooth running of your fund and often represent you to your investors, so you'll want to make sure you pick the right one.

First of all look for high staff retention and stable leadership. Employee turnover and frequent strategic or management changes can have a direct impact on service continuity and quality.

Next, lift the bonnet to understand their approach to client service. Will you be serviced by a variety of different departments, each looking after their own specific area, or will a dedicated and focussed client-facing team be built around you?

Also, take a look at what everyone else is doing. There's often a reason why your peers return time and time again to a particular administrator, just like there's

usually a good reason for brand loyalty among the car-buying public. If you don't want to take what you're being told at face value, speak to the administrator's existing clients or enquire about their client and staff retention rate. A low retention rate might suggest that promises aren't kept.

And last but not least, expertise. Just as you are a specialist in your field, you should expect your administrator to be a specialist in theirs. Administering a private debt fund requires specific technology, skills and a level of flexibility and tailoring which can only be offered by a specialist. The world of funds is a very different place these days. With so many reporting requirements in place, finding a partner with in-depth expertise in your asset class, as well as in areas such as CRS [Common Reporting Standards] and FATCA [Foreign Account Tax Compliance Act], is critical.

DECISION MADE?

Unfortunately, you can't take this type of vehicle out for a test drive, so you'll need to make sure you make the right decisions first time round.

If you are sure what your "must-haves" are and where there's room for compromise, you will be best placed to identify the right structure for your fund. Finally, who do you want to trust to service your vehicle? Making sure the administrator possesses the right credentials might save a great deal of time and frustration further down the line. Hopefully this article has provided some things to think about on what to look for when you're out there on the forecourt. ■

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