Creating your OWN Fund with

International Finance Bank
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Integrated Solutions for Wealth Managers

IT IS NOW POSSIBLE FOR SMALL – TO -MEDIUM SIZED WEALTH - MANAGEMENT FIRMS TO CREATE THEIR OWN INVESTMENT FUNDS

WITH BOTH MODEST SETUP AND ON GOING OPERATIONAL COSTS.

OVERVIEW

Although investment funds such as mutual and pool funds have been in existence for many years, they have traditionally been offered mostly by large asset management firms due to the high operational cost structure of managing such funds. In other words, historically, a significant base of client assets were required to create an economically viable offering that spread the various operational costs such as custodian, fund accounting, recordkeeping, regulatory, audit and legal across the fund's investors.

Over the past few years, though, the international marketplace has experienced the entrance of established investment fund operational suppliers such as custodians and fund accounting & recordkeeping firms, who provide high quality services but at a materially lower price point than the traditional fund

These new entrants are not targeting the large mutual fund complexes but are instead focusing the delivery of their services to independent investment and advisory firms. As a result, it is now possible for small-to medium sized wealth management firms to create their own investment funds with both modest setup and ongoing operational costs.

Key Design Features

The creation of your own investment fund is not only an opportunity to provide a new investment offering that meets the unique needs of your clients but also an ability to extend the brand of your firm. For these reasons, IFB believes that you should give careful consideration to the following design components of your fund.

A. INVESTMENT FUND STRUCTURE

Depending upon the nature of your clients, you will need to decide whether to create a prospectus-based mutual fund or a prospectus-exempt pool fund. In addition, although most investment funds are structured as trusts, some wealth advisory firms have chosen to use other legal structures such as corporations. As the merits of using a corporate versus a trust structure generally involve tax considerations, it's important that appropriate legal counsel and tax advice be engaged when making these structural decisions.

B. INVESTMENT MANAGEMENT

The investment management of fund can be structured for proprietary (in-house) money management, external money management, or a combination of both proprietary and external management. Specifically, for firms who are appropriately licensed and already provide proprietary discretionary investment management services to their clients, the investment management role of their fund can be structured so they will act as the money manager, and therefore responsible for the security selection within the fund. Alternatively, external investment managers, with expertise in specialized areas of the capital markets, can also be incorporated into the investment management offering of a fund. The use of proprietary versus external money management is a design issue that can be tailored to the unique needs of each wealth management firm.

C. INVESTMENT FUND OPERATIONS

Funds are investment vehicles that require specialized operational support compared to the management of segregated investment portfolios. Specifically, all investment funds need to be valued on a periodic basis and the proportionate ownership level of each fund investor needs to be maintained. The valuation role is conducted by a Fund Accounting firm who specializes in the calculation of a given fund's net asset value on a periodic basis, whether it be daily, weekly or monthly, while the investor ownership is tracked by a Registrar (also known as a Record-keeper) who maintains an ongoing ledger of the number of units/shares that each client investor holds in a given fund. Accuracy and efficiency of these two roles, Fund Accounting and Registrar, are critical to the operational success of any investment fund.

In addition, the selection of the "best fit" custodian for your firm's investment fund is also a critical decision. Today, there exist two broad types of custodians: Trust Companies and Carrying Brokers. The features of both types of custodians need to be measured against the needs of your firm and your clients in order for you to select the appropriate custodial provider.

D. BUSINESS MANAGEMENT

Once set up, an investment fund requires ongoing support in all business functions such as operations, technology, compliance,

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finance & accounting. As a result, your investment fund will become a separate and additional business to your current wealth management firm.

Given this, all investment funds require a Manager, or Sponsor, who assumes the legal responsibility for the "business management" of the investment fund. Depending upon the available resources within your current firm, you will need to determine whether your firm, or a related entity, will act as the Manager of your new fund, or if you will outsource this function to an independent third party.

E. INVESTMENT FUND GOVERNANCE

Over the past few years, governance has properly become a very important component of investment fund management. At IFB, we believe that investment funds should be managed for the benefit of their unit holders / shareholders. As a result, a prudent fund governance structure should not only addresses the roles and functions of groups such as Boards of Directors, Trustees, and Independent Review Committees but also the business management processes of key areas such as investment management and regulatory compliance. A sound fund governance structure will not only benefit the fund's unit holders/shareholders but also mitigate the regulatory and brand risks for the Manager and Investment Managers of investment funds.

F. PROFESSIONAL SERVICES

In addition to the key operational services provided by suppliers such as custodians and fund accountants, there are potentially three professional services that are required in the setup and ongoing management of investment funds.

The first professional is legal counsel. Given the regulated nature of investment funds, it is absolutely critical that any firm who has made a business decision to establish their own investment fund engage the appropriate legal counsel, specifically one who specializes in securities law.

The second professional is the fund's auditor. All investment funds should have independent audits conducted on a periodic basis by an accounting firm that not only has an audit capability but with a sound understanding of the investment fund industry. Prudently audited financial statements are critical documents required by the governing bodies of any investment fund.

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The final professional that may be required by an investment fund is an investment manager research firm. For those wealth management firms that desire to setup a multiple manager investment fund, we believe that it's very important to ensure that the investment managers selected for your fund not only have an attractive performance track record but also have a well-defined investment philosophy & discipline, high quality money managers, and a solid set of operational best practices. Some wealth management firms have the internal capabilities to provide the investment manager selection and ongoing monitoring functions while most wealth management firms outsource this investment manager search and monitoring role to an independent manager research firm.

BENEFITS OF HAVING YOUR OWN INVESTMENT FUND

G. BROADEN YOUR CLIENT RELATIONSHIPS

Many wealth management firms have their own segregated securities portfolios that they manage for their clients or distribute third-party investment funds. Although these offerings satisfy the needs of certain clients, they don't always meet the needs of all clients. The creation of your own firm's investment fund can extend your set of investment solutions and broaden your relationship with your valued clients.

H. CLIENT SEGMENTATION

Although an investment fund is fundamentally constructed as a single pool of capital, each fund can have various classes of unit holders / shareholders in order to meet the unique needs of different client groups. For instance, by using the appropriate class structures, your firm could create one class for your clients with moderate sized investment portfolios and another class for large sized investment portfolios. As the pricing of these classes can be tailored, your firm will then be able to deliver investment fund solutions that speak to the unique pricing needs of different client segments.

I. ENHANCE YOUR FIRM'S OPERATIONAL EFFICIENCY

Many investment and advisory firms manage client portfolios that are comprised of individual/ segregated securities. Although customized securities portfolios are attractive to large clients, the creation and maintenance of segregated securities portfolios for small-medium sized clients can create many portfolio and operational challenges. This approach can often result in many operational inefficiencies. We believe that the use of proprietary investment funds can be a good solution to address this issue of segregated money management of small-medium sized client accounts, as the money manager is then managing one large fund portfolio instead of hundreds, or sometimes thousands, of individual small-medium sized client accounts. In addition, with the use of various classes of funds, these increased operational efficiencies for your firm without sacrificing the unique needs of your clients.

J. LOWER COST OF OWNERSHIP

Today, many clients consider the total cost of mutual fund ownership to be high. For instance, it is not uncommon for the Management Expense Ratios (MERs) of many Equity Funds to be in excess of 2.50% per annum. Although clients may be willing to pay these fee levels during periods of robust capital markets, they are typically very cost conscious during periods of moderate capital market returns. With the entrance over the past few years of established investment fund operational suppliers such as custodians and fund accounting & recordkeeping firms, who provide high quality services but at a materially lower price point than the traditional fund suppliers, it is very attainable for independent wealth management firms to create their own privately branded investment funds at a total cost of ownership to their clients that is significantly below the current industry benchmarks of traditional mutual funds.

K. EXTEND YOUR FIRM'S BRAND

The creation of your firm's own privately labeled investment fund can create many opportunities for the future growth of your firm. Specifically, many firms that create their own funds typically distribute their new fund only to their own clients. For these firms, the creation of their own investment fund is an extension of their core money management capabilities that they desire to restrict to only their own clients. In contrast, some firms may ultimately decide that they wish to distribute their proprietary investment funds to not only their own clients but also to the clients of other select advisory firms. By doing so, these investment firms have extended their brand by distributing their funds to a broader client base.

WHAT FIRMS CAN CREATE INVESTMENT FUNDS?

Although there are regulatory restrictions on the distribution and portfolio management of investment funds, many different types of wealth management firms – IDA, investment counselors, MFDA, insurance, multiple family offices – can create their own privately branded investment funds. To ensure compliance with the pertinent regulatory requirements, it is imperative that appropriate legal counsel be engaged prior to the launch of any investment fund.

HOW CAN IFB HELP?

IFB has extensive experience in the design, implementation and ongoing management of many types of investment funds.

Privately branded investment funds can provide many client and firm benefits but the design, implementation and ongoing management of these funds can be challenging as there are numerous interdependent functions such as governance, operations, compliance, and investment management all involving several participants such as money managers, custodians, fund accountants, legal counsel and auditors.

IFB can help your firm design and implement an investment fund offering that is tailored to the unique needs of your clients and your firm. Afterwards, we can also continue to work with your firm to provide ongoing governance, business management and oversight to your investment fund.

FEES

- The fees for the creation of a Fund are typically 400.000,00 € (or equivalent in USD) including prospectus and listing. The fund can be as large as the client needs.
- Fund will be audited by an international auditing company at client's expenses.
- Roadshow-costs will be paid by client

TIME

- Time to establish a Fund is less than 2 months

IFB CAN HELP YOUR FIRM DESIGN AND IMPLEMENT AN INVESTMENT FUND OFFERING THAT IS TAILORED TO THE UNIQUE NEEDS OF YOUR CLIENTS AND YOUR FIRM