

Registered private funds offer greater leeway

Interview with Tony Fischer

Much is made of '40 Act alternative mutual funds but with their myriad investment restrictions and daily liquidity provisions, the lesser-known registered private fund could be a more compelling proposition for hedge fund managers.

This is the view held by Tony Fischer, President of UMB Fund Services, whose Registered Fund Solutions platform provides a full turnkey solution for establishing and running a registered hedge fund.

"We put the turnkey platform together over four years ago and there has been steady demand for these types of structures. Liquid alternatives haven't exactly lived up to people's expectations. They can only hold up to 15% illiquid securities, for example.

"The thinking among some hedge fund managers now is, if they could run their portfolios like they do their private funds, they would be better able to deliver returns as they feel they should be able to," says Fischer.

Alternative mutual funds delivered -2.77% in 2015 (2016 Preqin Global Hedge Fund Report). As the *Financial Times* reported 27th November 2015, performance issues led to twenty alternative mutual fund closures (citing data provided by Preqin) last year, and a contraction to USD310 billion, having doubled to USD314.67 billion between 2010 and 2014.

Interest in registered private funds – also referred to as 'interval funds' – is building among wirehouses and independent broker-dealers, and as financial intermediaries begin to better understand the benefits of the structure, Fischer believes the next few years could see increased growth in fund formations.

"At the one end of the spectrum you've got US mutual funds and at the other end you have private funds; limited partnerships that are designed for a limited number of accredited investors and have limits in terms



Tony Fischer, President of UMB Fund Services

of how much money they can take in certain categories such as ERISA.

"In between is the interval fund. These registered private funds provide a lot of the benefits of a US mutual fund in terms of unlimited numbers of investors, the type of investments the fund can accept, but also allows the fund manager to hold high levels of semi-liquid or illiquid securities in the portfolio so that they can meet performance objectives.

"Also, rather than redeem every day managers redeem on a quarterly basis," explains Fischer. "We continue to see reports of intermediaries planning to increase allocations to alternative products and I believe many will be open to understanding the interval structure and its benefits."

Rather than being confined to liquid hedge fund strategies, the interval fund can be used for a wide range of strategies such as bank loans, peer-to-peer lending, CLO/ CDO strategies, private equity, etc, and gives investment managers the opportunity to use leverage.

"Our turnkey solution lowers the barriers to entry through shared costs and service providers. We handle all of the regulatory and financial requirements. We understand what is needed to successfully run one of these products and can offer a more streamlined and centralised approach to launching these funds," confirms Fischer.

An interval fund turnkey solution provides the full infrastructure to handle: administration, accounting, auditing, legal counsel, chief compliance officer support, and a board of directors to provide oversight.

"With more than 9,000 mutual funds it's hard to differentiate yourself. The mutual fund structure can be challenging for hedge fund managers. In some cases, the strategy will be a better fit for the interval fund structure," concludes Fischer. ■