Start-up funds warm to combination of quality and affordability

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At a time when the certainty of hedge fund managers' fee income has been sharply called into question and managing costs has become a much more important priority even for the biggest groups, Malta's ability to offer start-up managers and funds efficient service at a much more competitive price than rival European jurisdictions is becoming a more important factor as promoters decide where their funds should be domiciled and serviced.

Even a year ago, many managers in this position might have opted to register their funds in offshore territories in and around the Caribbean where start-up and ongoing administration, regulatory, legal and compliance expenses could be kept to a minimum. But a significant number of fund promoters seem to be thinking twice about this choice as European institutional investors in particular express their preference for vehicles domiciled and serviced in a European Union jurisdiction under regulation acknowledged as sound.

The market leaders within the EU, Ireland and Luxembourg, have many impressive qualities as centres of alternative investment business but no-one has described them as low-cost any time recently. The emergence of Malta as a centre first for traditional funds and now increasingly for hedge funds and other alternatives reflects the country's ability to provide the right quality of service at prices that significantly undercut its competitors.

A good example of the jurisdiction's growing appeal to new investment ventures is provided by Golden Hedge, manager of a multistrategy fund launched in May. Founded last year by Andreas Koettner and Bernhard Goetsch, Golden Hedge specialises in relative value commodity trading and stock index arbitrage strategies with low correlation to traditional managed futures and hedge fund styles. The Golden Hedge Multi-Strategy Fund currently has less than EUR5m in assets but the firm is currently negotiating a seeding agreement with prospective investors.

The firm's director of portfolio management, Koettner notes that not only has the fund been licensed by the Malta Financial Services Authority but he himself works out of an office in Valetta, part of a small but expanding community of asset managers that are both domiciling and servicing their funds on the island and basing at least part of their operations there too.

'We have an office physically here in Malta,' he says. 'We have been here just a few months, but I have already met other hedge fund managers based here. It's a small island and asset management community, and everyone here knows everyone else. There is a good pool of skilled staff available to the financial industry, such as fund administrators, and the English-speaking environment is also a very big advantage.'

Koettner says Malta now offers all the infrastructure necessary to provide a good service to funds. 'You can find all the fund service providers you need among here,' he says. 'There are legal advisers, auditors, all the Big Four professional services firms, fund administrators and banks, and the industry continues to grow rapidly.

It's particularly attractive to start-up funds, he argues, because of the ability of service providers to offer a one-stop shop that lifts many of the organisational headaches from new managers. 'We are with Valetta Fund Services, the largest administrator in Malta, and we get a one-stop solution including administration, legal work and banking services, and they also help us to find an auditor, all part of a single package,' Koettner says.

The high reputation of the island's service providers is helping to bring in new business, but it sets standards against which firms will be measured, according to Dr Simon Tortell, senior partner with

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law firm Simon Tortell & Associates, which advises on both Professional Investor Fund structures used by hedge funds and Ucits funds that can be marketed to a pan-European retail clientele.

'Malta's solid and transparent financial services regulatory regime together with the pro-active and pro-business approach of the Malta Financial Services Authority is bringing a number of new opportunities in the investment fund business to Malta,' Tortell says. 'In this challenging and competitive environment, it is crucial for Maltese law firms to be innovative, dynamic and responsive to developments in this business in order to meet clients' needs and expectations.'

Koettner makes no secret that Malta's competitive level of costs has been an important consideration. Golden Hedge examined various options before the launch of the firm and of its multistrategy fund, and the decision was based on thorough in-house research of the various options. 'We did the research to make a decision between Luxembourg and Malta, and we decided to go to Malta because of cost and other factors,' he says.

'It is especially important for start-up funds like ours that Malta is a very cost-effective location compared with Luxembourg or Ireland. You can get the same structure with half of the cost. In Malta you can set up a Professional Investor Fund, the legal structure for hedge funds, for about EUR25,000, which is about half the cost of a Luxembourg structure of around EUR50,000, and at EUR35,000 annual running costs are also low compared with other jurisdictions.'

However, Koettner says Malta's geography was also a factor that influenced the decision. 'It has a strategic location in the centre of the Mediterranean and the door to the Middle East, as well as within easy reach of the heart of Europe,' he says. 'At the moment we are mainly focused on Switzerland because we already know investors there, but we have good contacts in the Middle East and we plan to expand in the future.'

He emphasises the importance of Malta offering an onshore domicile within the European Union. 'That is important for the investors we are looking to attract,' Koettner says. There is very high demand for EU-regulated funds. That's an important consideration if your investor base is within the EU as well.'

It helps that Malta's legislation and regulatory structure is closely aligned with that in the UK, where a large majority of Europe's hedge fund managers are based and regulated. 'The Malta Financial Services Authority has a similar legal framework to the FSA in the UK, which is also very important to us, and our dealings with the regulator are very open.

'First, they want you as the fund promoter to come to a meeting with them before you receive a licence. I don't know any other regulator with whom you can meet personally and discuss your needs. They really want to get to know you, and they have a culture of getting things done - and in very short timeframes. For example, it takes five to six weeks to get your licence after you have submitted every document. They are very flexible and there is no waste of time.'

He believes that Malta is set to welcome a surge of new business not only from start-up managers and funds but from established operators that have decided they need to use an onshore jurisdiction. 'More firms are learning about what Malta has to offer as a base for their funds,' Koettner says. 'We have spoken with other fund managers that are currently redomiciling from the Cayman Islands and other offshore jurisdictions, and are coming to Malta because of the regulation and most of all because it is within the EU.'

Many of Koettner's arguments are echoed by Dermot Butler, chairman of Custom House Administration and Corporate Services, which obtained a presence in Malta through its merger last year with the fund services business of Equity Trust. Butler's firm also has operations in Dublin, where it was founded, and Luxembourg, as well as Chicago and Singapore, but he believes that in many respects Malta is better positioned for growth than its European rivals.

Recently Custom House chose Malta as the domicile of a managed account platform because, Butler says, 'it's in the EU, the law firm we use there is extremely good, and the regulator is very pragmatic. There is strong regulation, but the regulator is willing to listen to firms and take decisions

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that make sense rather than just slavishly following a rulebook.

'Whereas other regulators stick strictly to EU prescriptions, even if they don't follow common sense, the Maltese regulator will actually try to help you if they can. If necessary they may even change the law a bit. The fact they are prepared to do that makes me feel a lot more comfortable.'

Malta is also ready to respond to the increased desire of investors for alternative funds to have a stock exchange listing, in order to increase regulatory scrutiny and transparency - another area in which the country can compete with its European rivals, according to Mark Guillaumier, chief executive of the Malta Stock Exchange.

'As investors become more cautious in their investment strategies and fund managers continue to seek reputable and well-regulated jurisdictions, Malta presents itself as a financial centre of quality, fully compliant with EU standards yet providing a flexible and cost-effective approach to regulation,' he says. 'The Malta Stock Exchange is looking at innovative ways to convince these funds not only to establish themselves in Malta but also to list there.'

Butler observes that in the eyes of some fund promoters, Dublin and Luxembourg may have lost some of their shine - Dublin because the near-collapse of the country's domestic banking sector has raised questions over the requirement for managers to use a local custodian, Luxembourg because it has found itself in the firing line of the G20 group of nations and of the Organisation for Economic Co-operation and Development for its perceived reluctance to abandon banking secrecy and embrace international standards on transparency and exchange of tax information.

He also points out that while Malta might superficially resemble other island financial centres, it is significantly bigger than Bermuda, the British Virgin Islands, the Cayman Islands or any of the British crown dependencies, with a population of some 400,000. This means there is a large, well-educated workforce available to the fund services sector for growth in the future.

'And it's less expensive,' Butler adds. 'They can do everything Luxembourg or Dublin can, but they're more responsive, more proactive, and they really try to understand the business. In a nutshell, Malta offers a cost-effective alternative hedge fund domicile with the clear advantages of being a full EU member state, supported by a very pragmatic and pro-business regulator, together with a large pool of indigenous qualified accounting staff to hand. Nowhere else can offer that package today.'

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