

Strong position to attract new managers

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Hedge fund start-ups were big business during the decade leading up to 2007. Then volumes dropped off amid the financial crisis and the negative impact of the Madoff implosion. But there are now clear signs of a pick-up in activity and Malta is in a strong position to attract new managers.

Andrew Zammit, managing partner of Zammit & Associates, a Malta-based law firm, says: "There is a lot of talk about the redomiciling of funds from the Caribbean to onshore centres, but we are seeing more brand new funds setting up here. New funds ground to a halt last year but there was still plenty of interest waiting on the sidelines and this is coming through now."

Referrals tend to be made from the UK, where hedge funds are once again being spun out of prop desks or larger funds, and from Switzerland, where family offices are looking to set up funds. Zammit says: "Family offices manage to a mandate so rather than customising advice to each client they are increasingly looking to set up test funds. This then creates a track record which they can sell into the market."

New funds are heading for Malta partly because of the potential risks to offshore funds posed by the Alternative Investment Fund Managers directive, but also because of the local fund expertise and regulation, reasonable costs and favourable tax regime.

But fund service providers need to be able to provide easy-to-understand advice given that most start-ups do not have teams of legal experts on their payrolls. "We aim to provide a quick response, accurate, down-to-earth advice and plain English," says Zammit. "Most funds don't want to be involved in the details of legal analysis. We feel that this capability gives us the edge over large law firms which tend to be more bureaucratic."

The ability to present a fund's operations and strategies in a simple way is key to both satisfying investor demands and to easing any regulatory concerns. Zammit notes: "The Malta Financial Services Authority can be quite risk-averse and certainly won't be pushed into making a decision if you don't provide it with the right information in the right format. It is a pro-business regulator, but you need to establish an open rapport to win its confidence and trust."

A question being asked by some industry observers is whether the pro-business stance of the MFSA, combined with the inherent cost and tax advantages plus the government commitment to provide trained graduates for the industry - will help Malta to become the "Cayman of Europe". However, Zammit believes this is unlikely to happen, and is perhaps not even desirable as an aim for the island.

"We need to keep things in perspective," he says. "We are small and not even able to take in the kind of volumes or work that Luxembourg or Ireland receive. Luxembourg can source labour in France, Switzerland and other countries, which an island is not necessarily able to do. "

"Malta does not necessarily need to become the "next" anything. The island is carving out its own role in international hedge fund circles and the combination of factors mentioned will play a key role in shaping Malta's future as a stable regulatory foothold within the European Union. Malta will be taken more seriously as a major name in fund servicing because of the quality of life, the services and the low costs, but we would not want to become too dependent on one source of revenue."

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