INCISIVE VIEWS FROM PROFESSIONALS
HEDGE FUND INSIGHT

Marketing Hedge Funds in Switzerland – a Swiss Representative's View

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On June 5 2014, we contributed an article to Hedge Fund Insight: "The New Rules For Distribution of Funds in Switzerland." Thirteen months later it is interesting to take a look at how the new Swiss rules have been adopted by market participants, how they are perceived, and share some observations and experiences.

Hugo Fund Services is a Swiss representative specialized in alternative investment funds looking to market only to qualified investors. We were one of the first players operating in this new regulatory space and since obtaining our license in February 2014, we have on-boarded hundreds of funds, and spoken with thousands as they were evaluating their options. From this activity we have achieved an unexpected, unique and global view of marketing activities within Switzerland. As information is collected on funds coming to Switzerland to market, trends quickly emerge such as investor interest for strategies or regions and also as to areas of the world where funds are focusing their marketing efforts.

March 1 2015 Deadline

The mechanism for achieving compliance for distribution to qualified investors in Switzerland can be summed up to appointing a representative, appointing a paying agent (in the form of a Swiss bank), that in most cases is organized by the representative, and adapting any documentation used for marketing in Switzerland (inclusion of specific wording and disclaimers). The deadline for compliance with the new rules was March 1 2015. A vast majority of managers waited until January to move forward with the implementation of the Swiss guidelines. This led to quite an impressive spike in on-boarding requests over a short time period –approximately 200 funds were on-boarded over a 3 month period at Hugo. Representatives in most cases have a selection process for accepting funds, requiring the collection of certain documents relating to the funds, the investment managers, and third party marketers, should these be used. The ability to on-board hundreds of funds in a short time frame clearly required a complete understanding of the alternative fund universe, including the various set-ups and structures of funds across a variety of jurisdictions.

A factor enabling the handling of this high number of funds was the development of a proprietary web-based system streamlining the receipt of information, automating and optimizing the different levels of compliance checks. Feedback from managers overall has been good both from the perspective of the on-boarding phase as well as their dealings with Hugo. Jonathan Greenwold of Aspect Capital, the London-based CTA: "Hugo Fund Services were very helpful and professional in helping us understand the full implications of this regulation".

European Fog

When looking back a year, AIFMD was in its earliest implementation phases, the Swiss rules seemed far away with their implementation deadline earmarked for early 2015. For most fund managers sitting in the US or in Asia, Europe as a whole seemed like an island lost in thick fog. The most common response was "we will rely on reverse solicitation for marketing in Switzerland and Europe." As the various deadlines have passed, COOs, lawyers, marketing, compliance and legal departments have had more time to dedicate to the understanding of AIFMD and Swiss rules. This has led to a lifting of the European fog, highlighting big differences between various countries' legal frameworks. On the hard-to-approach side, Italy, France and Spain seem to be the leaders. However, the UK and Switzerland have emerged as most accessible from a regulatory perspective. As luck would have it, or dare we say, due to smart regulators, these two countries also host a large chunk of investor assets active in alternative strategies.

Asset Raising Potential versus Costs

The question for an investment manager is to balance the costs of compliance with local regulation in each country versus their estimated ability to raise capital in each of these regions. As described by Louis-Vincent Gave, CEO of Hong-Kong based Gavekal Limited: "In almost every market, the regulatory and compliance burden keeps on increasing. Small and mid-size firms such as ours are basically forced into making one of two choices: either concentrate one's marketing efforts on one, or two, markets. Or, alternatively, seek out specialized partners to help cope with the increased regulatory burden. The option of doing it all in-house is probably sub-optimal. When it comes to the Swiss market, our partner of reference is Hugo Fund Services." On the upside, hedge fund assets are increasing and capital raising efforts seem timely. According to HFMWeek's July 1 article citing Citi data, hedge fund assets reached a record high of USD 3.17 trillion at end May 2015. This article does however point to Citi's analysis confirming the trend of assets moving to larger managers, with a staggering number of 75% of assets allocated to managers with AUM above USD 500M. Regulatory barriers such as those seen across Europe will not help decrease this tendency as the costs required are often prohibitive for smaller managers, and in the end will reduce the diversity of funds on offer for investors.

Trends and Observations

From a practical perspective, we would like to share some statistics. Of managers represented by Hugo Fund Services, 80% are hedge funds, 20% are private equity funds and other closed-ended asset backed funds. Investment managers of the funds represented are 40% based in the US, 35% in the UK, 15% in Asia and the remainder is a combination of Canada, Africa, Australia and other European countries. Of note as well, and quite contrary to what is generally heard and read, a majority of the funds are Cayman Islands structures, and yes, they are raising capital in Switzerland. As to manager and fund size approximately half of the funds represented by Hugo are above the USD 500M mark. However, the USD 150M-500M bucket contains a number of attractive funds with interesting strategies, good performers with strong track records, and are often located in other areas than New York and London. There is a wealth of information to look at when stepping off the beaten path.

A few trends we have observed since early 2014:

- Following the strong pickup in performance by CTAs in 2014 and early 2015, a wave of requests for information on the rules for marketing in Switzerland indicating their interest to reignite marketing of their funds.
- Asian-based managers have displayed high demand for representation services since the end of Q1 2015, and Asia has been the region with the most growth since Q1 2015.
- Private equity funds have been in steady demand of representation since the beginning of our operations. PE funds are clearly of interest to a wide variety of investors dispersed across Switzerland, in particular to family offices and pension funds. There is however no observable trend across their strategies as emerging markets, country specific, industry specific and theme specific private equity funds are on offer.

The Swiss Qualified Investor Marketplace

The first wave of investment managers keen on being compliant day one and registering for representation was, for a large part, managers with an already active presence in Switzerland. Once the deadline passed other managers have more time to consider needs, to proceed with balancing costs and the ability to raise assets, as well as proceeding with a thorough analysis of each country's regulatory framework.

As a Swiss representative, we are in a unique position to see the flows of funds marketing in Switzerland, or close to doing so. Representatives have numerous discussions with marketing teams, lawyers, third party marketing firms and placement agents. Hugo is a company with a thorough understanding of the alternative investment universe as partners and employees mostly are ex-allocators to alternative investment funds. Our market intelligence tells us that you should not look away from Switzerland if trying to raise assets for your fund. Indeed, the landscape has changed, and investors may not be as easy to reach as in the past, requiring more effort to identify them and a longer sales process. There is however a continued level of interest with a steady flow of assets into alternative investment funds. The current regulatory framework in Switzerland, not limiting any type of fund structure to market to qualified investors, should increase comfort levels of professional investors in Switzerland to venture further into diverse strategies and structures.

Hugo Fund Services is a *FINMA authorized Swiss fund representative based in Geneva* – *www.hugofunds.ch*