

Specialist Fund

The fund structure for
Alternative Investment



Isle of Man – Specialist Fund

The Isle of Man prides itself on creating the right business environment with pragmatic regulation, providing the capacity to grow and offering a financially compelling alternative to more expensive locations. More information can be found on the Isle of Man Finance website: www.isleofmanfinance.gov.im

As part of this complete solution, the Island has a full suite of fund vehicles with the fund category of choice for institutional alternative investment being our Specialist Fund. Through this fact sheet we will describe the key features of the SF and answer important questions on the vehicle and how it may be used.

Details within this document are for guidance only – the original legislation should be consulted for legal purposes. For more general information on the Isle of Man as a fund domicile jurisdiction, See ‘**Isle of Man – Alternative Fund Domicile**’.

How flexible are the fund vehicles you offer?

Pragmatic regulation is important to us, so we offer a full range of vehicles for use as fund structures. Corporate vehicles can be established either as traditional companies or under the Island’s new Companies Act 2006, which offers a stand-alone vehicle with minimal administrative requirements, flexible capital structure and limited disclosure requirements. Both types of company can be established as protected cell companies are ideal for use in both multi-class/single manager structures and in multi-manager offerings.

If corporate structures are not suitable, Isle of Man limited partnerships offer tax transparency and a flexible legal framework. A limited partnership may return capital prior to the winding up of the partnership. Furthermore, in order to provide comfort to investors, the statute sets out a “white-list” of activities that will not result in limited partners being regarded as involved in the management of the partnership, thereby prejudicing their limited liability status. As a fund

vehicle, the unit trust arrangement offers huge flexibility. To aid familiarity, the Isle of Man follows England in its trust law.

Are there restrictions in asset categories?

Again, pragmatism reigns with no regulatory restrictions on asset classes; trading strategies or leverage for an SF. This means that the SF is suitable for, quite literally, any type of alternative investment fund. However, in the interests of investor protection it is a requirement that an SF must receive (either directly or indirectly) investment advice or management services from an appropriate entity that is acceptable to fund’s board of directors.

Capacity to grow and expand is vital to any business and the Isle of Man is unique among international finance centres in continuing to have the capacity to attract and accommodate real business operations. The Isle of Man Financial Supervision Commission ‘FSC’ is mandated to continually review its licensing policy with a view to accommodating features designed to attract hedge fund management and related operations to the Island.

Do I need a regulated administrator?

Of course, investor protection is important and, as a result, an SF will need to appoint a regulated fund administrator to perform its core administration requirements, valuations, pricing and fund accounting services. Whilst already a low cost jurisdiction we recognise the need for flexibility, therefore whilst this role may be fulfilled by an Isle of Man based service provider, it is not a mandatory requirement. However, the appointed administrator must be based in a jurisdiction that the FSC regards as providing an acceptable level of regulation and mutual assistance arrangements.

The administrator has regulatory responsibilities for ensuring that the target investor requirements for an SF (see below) are met, making certain periodic reports and declarations of compliance to the FSC and notifying the FSC of certain material events in relation to the SF. Governance and board composition are also relevant: an independent non-executive director must be appointed to the board of an SF.

What are the responsibilities of the directors?

As with any board, the directors of an SF have responsibility for ensuring that the SF complies with its regulatory requirements and, amongst other things, for ensuring that the fund's offering document (see below) is compliant and contains all material information. They are also required to make certain that the fund is managed and operated in accordance with its constitutional documents and offering document.

In the interests of speed, no regulatory pre-approvals apply but a return notification is required within 10 working days of the launch. This means that an SF can be launched quickly and without any risk of regulatory delays. At present there are no initial or ongoing fees in the Isle of Man relating to the establishment or operation of an SF, although a modest annual corporate charge is payable in relation to the use of an Isle of Man corporate vehicle. Modest fees are likely to be introduced in the near future by the FSC.

It is important to note that where an overseas administrator has been appointed, there is a requirement for an Isle of Man resident director who is either licensed as a fiduciary or working for a licensed fiduciary services provider. The Isle of Man resident director is required to monitor compliance by the overseas administrator with the SF requirements.

What investors is the SF suitable for?

To be clear, the SF is aimed at institutional investors. To ensure this is the case, prospective investors must certify that they are sufficiently experienced to understand the risks associated with an investment in the SF in question and must fall into one of the categories of permitted investor. Broadly speaking,

these cover institutional investors, affiliates of the fund's promoters and managers, and individuals with a net worth in excess of US\$1m.

Is there a minimum subscription?

Yes. There is a minimum initial investment requirement of at least US\$100,000 (or its foreign currency equivalent) for an SF, with pooling of assets being specifically prohibited. The administrator is required to ensure that compliance with the minimum investment thresholds is met.

What is the taxation position?

To ensure our offering is financially compelling, the Isle of Man offers a tax neutral environment for fund operations. Simply put, there are no capital taxes and a zero rate of corporate tax for fund companies. This means that a corporate fund vehicle will benefit for a zero rate of income tax, as will any fund management or administration business based in the Isle of Man. To further improve our offering, we can confirm that the fees levied by fund administrators and investment managers based in the Isle of Man in respect of services to SFs are exempt from value added tax in the Isle of Man. More of the investment returns stay with the investors.

Do you need an offer document?

Yes – Every SF is required to have an offer document. The board of directors of the SF must all sign a statement in respect of the offering document in which they acknowledge that they are responsible for its contents. However, there are only a limited number of prescribed statements to be included and, by and large, the content of an SF's offering document is a matter for its board of directors, subject

to an overriding requirement that the offering document should accurately set out all material information necessary to enable a prospective investor to make an informed investment decision. The SF is also required to have an investor application form that contains certain prescribed statements, including a certification by the investor that it meets the target investor requirements (see above).

How flexible are custody arrangements

There are no prescriptive requirements for the appointment of a custodian in relation to an SF. The fund is free to appoint various custodians or prime brokers as it sees fit and may appoint different parties to act in relation to different types or groups of assets. However, the arrangements for the custody of the assets of the SF must be described in the offer document.

What are the accounting and audit requirements?

In line with good practice, an SF is required to prepare annual financial statements in accordance with either international financial reporting standards or UK GAAP. The annual financial statements must be audited by a qualifying auditor. In order for an auditor to be qualified to report on the financial statements of an SF, the auditor must be a member of a relevant professional body of accountants, must have a permanent place of business in the Isle of Man and must maintain appropriate professional indemnity insurance to a level of at least £20M. The audited financial statements of an SF must be distributed to its investors within not more than 6 months of the end of its financial year.

The Isle of Man is a land of possibility where people and business will find the right environment in which to reach their full potential



Isle of Man
Government

Reillys Ellan Vannin

Isle of Man Finance
2nd Floor
Illiam Dhone House
2 Circular Road
Douglas
Isle of Man IM1 1PG

Tel: +44 (0)1624 687597

E-mail: enquiries@isleofmanfinance.gov.im

Web: www.isleofmanfinance.gov.im

www.isleofmanfinance.gov.im/funds