LIQUID ALTERNATIVES

Why Ireland for Alternative UCITS

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INTRODUCTION

Undertakings for Collective Investment in Transferable Securities (UCITS) are a universally recognised global funds brand which continues to experience exceptional growth. Total UCITS assets stood at €9,004 bn at the end of March 2015, an increase of 25% from the preceding 12 months.[1] The Alternative UCITS arena, which utilises sophisticated strategies, is the European counterpart to the US ’40 Act open-ended liquid alternative fund and has also experienced significant growth.

Assets in the Alternative UCITS market grew 34% to €349bn in the year to March 2015.[2] While assets in European hedge funds have grown by 13% a year since 2008, alternative UCITS have grown by more than 30% a year over the same period.[3]

Ireland is an established investment fund centre, the domicile of choice for UCITS and the leading alternative servicing centre globally. Ireland offers a global reach to investment managers as well as unrivalled expertise in terms of regulatory, tax, depositary and client servicing considerations. Ireland’s strength in Alternative UCITS combines proven skills in the servicing of alternative strategies with a proven UCITS pedigree.

1 Source: EFAMA Investment Fund Industry Factsheets March 2015 & March 2014
2 Source: HFMweek UCITS 2015 Report
3 Source: PWC Alternative Asset Management 2020: The Alternative Asset Management Landscape in 2020

WHY UCITS

Why UCITS?

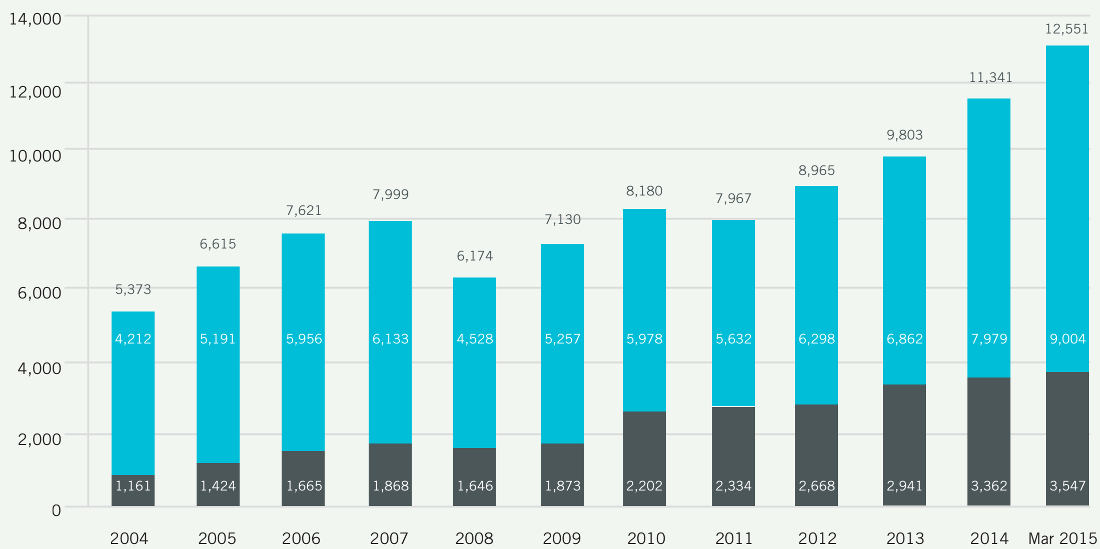
UCITS are a harmonised European retail fund product that can be sold globally and within the European Union (EU) on a passporting basis. UCITS offer a robust and consistent level of investor protection and regulatory compliance combined with a high level of acceptance by regulators worldwide. UCITS can be marketed to both retail and institutional investors.

UCITS Benefits

- UCITS - a globally recognised brand distributed in over 70 countries
- Authorised to sell and market across EU member states (EU Passport)
- Transparent, tried and tested regulation[4]
- Focus on risk management and investor protection
- Appointment of a depositary to safe-keep assets
- Alternative UCITS offer the return potential of hedge funds in an onshore regulated vehicle
- Liquidity benefits for investors from daily through to fortnightly dealing
- Caters for the majority of traditional hedge fund performance fee models
- UCITS products offer tax advantages for key European markets including UK, Germany and Austria
- Access to European capital
- Provides wide distribution to both professional and retail investors

2014 was a record year for the European investment funds industry. Net assets of UCITS increased by 16.3% from €6.862 trillion to €7.979 trillion. This growth has continued into 2015 with AUM in UCITS funds increasing by a further 13% YTD to €9 trillion in Q1 of 2015.[5]

Net Assets of European Investment Funds €BN



UCITS

NON UCITS

SOURCE: EFAMA, March 2015

[4] Continuous evolution – UCITS I (1985) / UCITS III (2001) / UCITS IV (2009) / UCITS V (2014) / UCITS VI (pending)

[5] Source: EFAMA, Investment Fund Industry Factsheet March 2015

WHY IRELAND

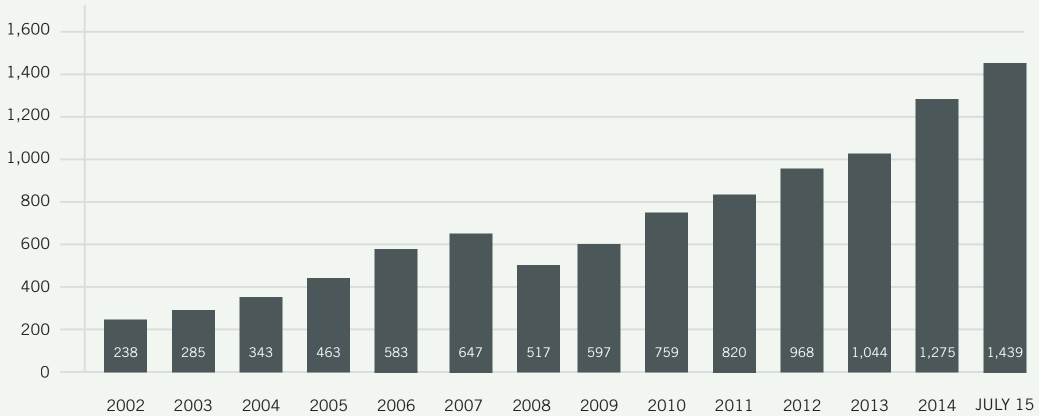
Why Ireland

Since the establishment of the funds industry in Ireland over 25 years ago we have helped investment managers from all over the globe to succeed in developing and expanding their international distribution footprint. Over 800 global managers already use Ireland and 21 of the top 25 global asset managers have Irish domiciled funds.[6] Ireland is the ideal domicile for Alternative UCITS and continues to attract managers seeking to establish UCITS which provide investors with exposure to more sophisticated strategies but with the added security, transparency and liquidity attached to the UCITS brand.

For over 25 years Ireland has been used as a domicile from which to distribute UCITS globally. Almost 80% of the assets of Irish domiciled funds are held in UCITS.[7] Ireland continues to play a lead role in the development of the UCITS product.

Ireland has the largest stock exchange for listed investment funds with 7,300 fund classes listed on the Irish Stock Exchange.

Irish Domiciled UCITS Funds €BN



SOURCE: Central Bank of Ireland, July 2015

[6] Source: Irish Funds and Monterey Ireland Funds Report 2014
[7] Source: Central Bank of Ireland, July 2015

WHY IRELAND

SOURCE: Central Bank of Ireland, Monterey Insight Ireland Survey 2014 and Irish Funds (Net assets and number of funds valid as of March 2015)

836 Fund Promoters

(455 promoters of Irish Domiciled Funds)

Irish Investment Funds Industry

€3.8

TRILLION TOTAL AUA

€1.9

TRILLION DOMICILED AUA

13,037 TOTAL FUNDS

5,897 IRISH DOMICILED

7,140 NONDOMICILED

DISTRIBUTION TO OVER

70 COUNTRIES

LAWYERS
ACCOUNTANTS
LISTING BROKERS

45
ADMINISTRATION
COMPANIES

18
TRUSTEE /
CUSTODIAN BANKS

Ireland was named by Forbes as one of the best small countries in the world to do business.[8]

The IMD World Competitiveness Yearbook 2014 ranks Ireland:

- 1st for availability of skilled labour
- 1st for flexibility
- 1st for adaptability of workforce
- 1st in the world for productivity

An EIU Benchmarking Competitiveness Report ranks Dublin as the best city in the world for human capital.

Industry competitiveness has increased in the period since 2009 with Irish labour costs remaining stable compared to an increase of 8% in the EU.[9]

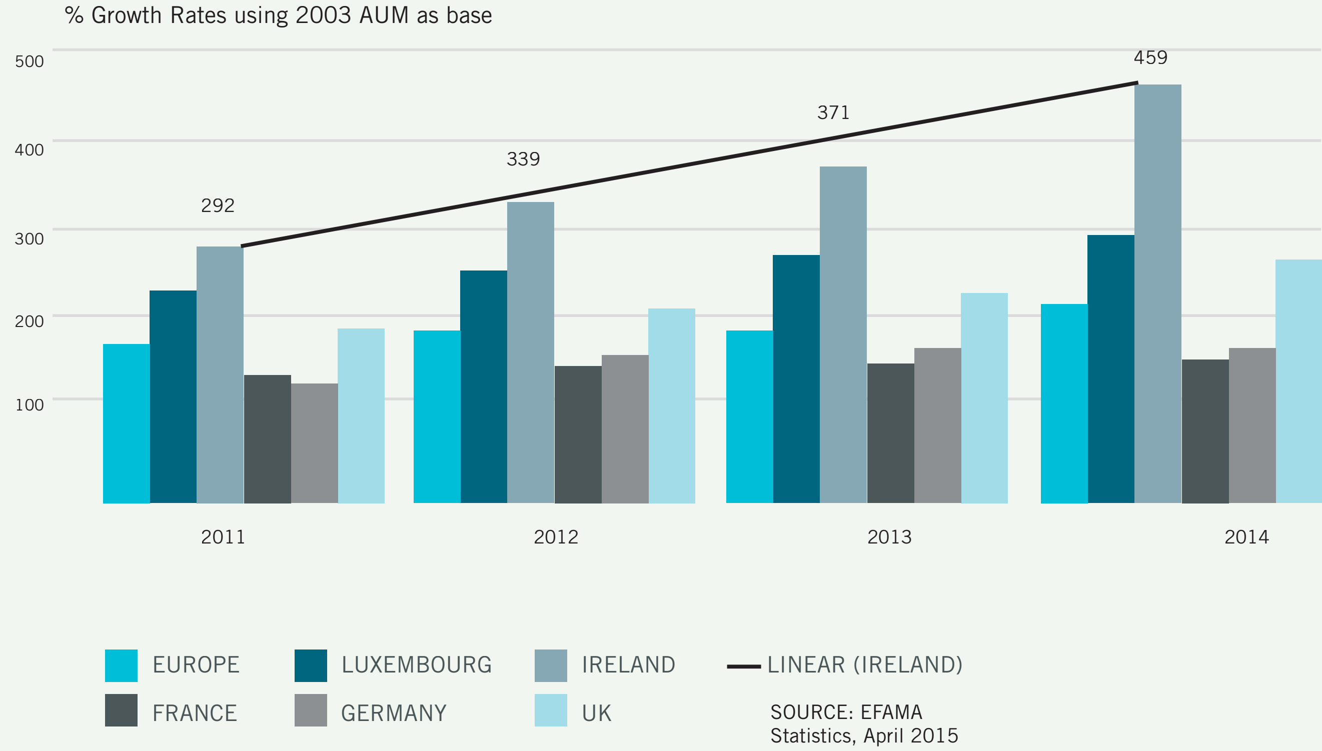
Research shows Ireland to have, on average, a 12 basis points lower total expense ratio for equity funds compared to other major European cross-border funds domiciles. [10]

8 Source: Forbes, 2014
9 Source: IDA Ireland, 2015
10 Source: Fundsquare and Deloitte Luxembourg in Funds Europe, March 2015

WHY IRELAND FOR UCITS

Ireland is the fastest growing major cross-border fund domicile in Europe. Growth in Irish domiciled funds consistently outstrips other European locations over the last 10 years.[11]

Growth Rates for 5 Largest European Fund Domiciles 2011 - 2014



SOURCE: EFAMA Statistics, April 2015

[11] Source: Irish Funds 2015 and Central Bank of Ireland

STRATEGY RANGE

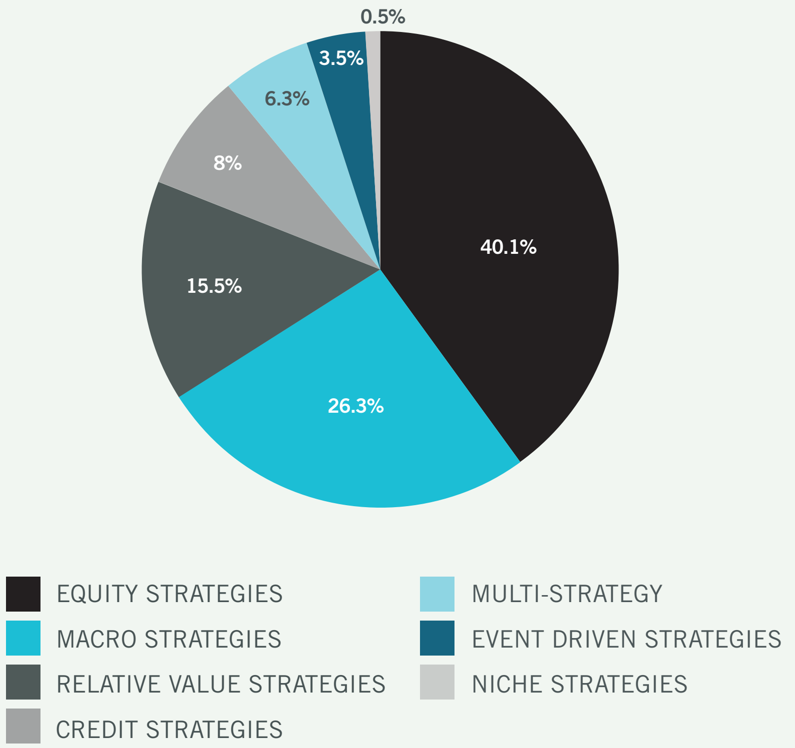
A broad range of investment strategies can be managed within the UCITS framework. These strategies range from physical to synthetic, discretionary to systematic, and equity to commodity structures.

UCITS Investment Possibilities

UCITS facilitate a range of instruments and portfolio mangement techniques to enable managers to deploy their investment stategies.

Irish service providers have extensive experience in establishing varied structures and strategies in the UCITS framework. By choosing to domicile in Ireland, new entrants to the alternative UCITS market can tap into this pool of knowledge and have comfort that they are partnering with professionals who understand what fund promoters want to achieve and who will provide the required support and expertise to ensure they achieve their goals.

Breakdown of Europe-Based Alternative UCITS by Fund Strategy



SOURCE: Preqin Alternative UCITS, March 2015

UCITS INVESTMENT POSSIBILITIES

Short positions through derivatives	Y	Physical short selling	N
Leverage	Y	Futures and options	Y
Absolute return	Y	Long/Short 130/30 funds	Y
Hedge fund indices/financial indices	Y	Repos & other EFM derivatives	Y
OTC derivatives (subject to criteria)	Y	Derivatives on commodity indices	Y
Derivatives on commodities	N		

WHY IRELAND FOR ALTERNATIVES

Reasons why Ireland is the preferred choice for alternatives:

- Ireland has been at the forefront of alternative fund developments for over **20 years**.
- The Irish funds industry is extensive with over **13,000 people** employed across **45** administration companies, **18** depositaries and a large number of legal, accounting/tax advisors and listing agents.
- **50%** of the **top 10** European alternative investment fund managers have set up alternative funds in Ireland.[12]
- Irish domiciled alternative investment fund assets stand at over **€350 bn**.[13]
- All of the **top 10** hedge fund administrators have established operating centres in Ireland.[14]
- Over **40%** of global hedge fund assets are serviced in Ireland.
- As the major centre for alternatives servicing Ireland has unrivalled connectivity with the global prime broker and counterparty network.
- In total, **836** fund promoters from **55 countries** (346 UK, 162 US, 57 Swiss, 52 Asian and 219 other managers) have chosen Ireland as their international hub.[15]
- Over **€3.8 trillion** investor assets are serviced by Irish service providers.[16]
- Ireland's service providers support **28 currencies** and **30 languages**.
- Net assets in funds domiciled in Ireland are growing strongly:
  - Total assets in Irish domiciled funds increased by **24%** in the 12 months to the end of 2014 (from €1,345bn to €1,661bn).
  - Irish domiciled UCITS increased by **22%** in the same period (from €1,044bn to €1,274bn).
  - Irish domiciled alternatives increased by **29%** in the same period (from €301bn to €387bn).[17]

[12] Source: PWC 2015
[13] Source: Central Bank of Ireland, QIAIF Assets March 2015
[14] Source: PWC 2015
[15] Source: Monterey Ireland Fund Report 2014
[16] Source: Irish Funds and Central Bank of Ireland March 2015
[17] Source: Central Bank of Ireland, 2015

INTERNATIONAL DISTRIBUTION

- Irish funds are distributed across 70 countries globally covering Europe, the Americas, Asia-Pacific, the Middle East and Africa.
- UCITS funds benefit from a European-wide "passport" which means that once they are authorised in one EEA member state, they can be sold in any other EEA member state without the need for any additional authorisation. The top 10 countries for distribution in Europe are Germany, Switzerland, Austria, France, UK, Netherlands, Spain, Italy, Sweden and Finland.
- Europe is the most popular region for distributing UCITS funds, with over 63,000 registrations at the end of April 2015.[18]
- The distribution of Irish funds spans the major European markets. 2013-2015 saw a 23% growth in the number of Irish funds registered for sale across the top 10 European markets for Irish funds.[19]

Top 10 Countries Where Irish Funds are Registered for Sale

NO.	COUNTRY	NUMBER OF FUNDS 2013	NUMBER OF FUNDS 2015
1	UK	1,426	1,784
2	Germany	1,228	1,438
3	Switzerland	907	1,186
4	France	776	1,093
5	Netherlands	866	985
6	Austria	788	963
7	Luxembourg	815	962
8	Spain	732	885
9	Sweden	659	878
10	Italy	749	846

SOURCE: Lipper IM, April 2015

[18] Source: Lipper IM, April 2015
[19] Source: Lipper IM 2013-2015

WHY IRELAND
FOR ALTERNATIVE UCITS

Investor Protection and Governance

The UCITS product is regarded as the most highly regulated internationally recognised fund brand.

Ireland is an internationally recognised jurisdiction with membership in the EU, Eurozone, OECD, FATF and IOSCO. Ireland does not operate a banking secrecy regime. Openness, transparency and regulation are the pillars of the industry. Ireland cooperates with all EU states on the basis of the European directives and has signed Memoranda of Understanding with numerous countries. Ireland was the first international fund centre to be included on the OECD 'white list' of jurisdictions deemed to have implemented OECD standards for transparency and exchange of information when published in April 2009. [20]

The Irish funds industry, in conjunction with the regulator, has implemented Corporate Governance Codes for funds and their service providers. These codes set high standards of corporate governance. Irish fund boards must have at least one fully independent director and two Irish resident directors.

The Central Bank of Ireland (CBI) has implemented a Fitness and Probity regime for all directors and officers of funds and their service providers. All directors and officers are subject to a vetting process including a detailed online questionnaire and background checks. Directors are obliged to reconfirm these details to the CBI on an annual basis.

Irish funds benefit from having an independent depositary who is responsible for checking that the fund is in compliance with its investment objectives and policies and all UCITS investment and borrowing limits. This is not the case in all jurisdictions. The trustee will also perform independent oversight on the fund administrator and transfer agent.

Speed to Market

The CBI is committed to working with managers to provide a swift and efficient fund approval process. The CBI applies pre-agreed review times for fund documentation which provide certainty around the approval of documentation within the launch process. The approval process can be completed in six to eight weeks from the initial filing, allowing managers to get new products to market in a timely manner.

Taxation Benefits

The stable Irish tax regime remains a cornerstone of Irish economic policy. The Irish tax system is highly efficient and transparent and as evidenced by recent reports is one of the least onerous in terms of time to comply and total tax take in the EU14.

Ireland is committed to tax transparency and international co-operation. Ireland has signed tax treaties with over 70 countries and is continuing to build this network. Ireland is a signatory to the FATCA Inter Governmental Agreement model 1 and was the first cross-border fund domicile to sign the agreement.

In relation to funds, Ireland adopts a tax neutral regime. This has been the case since the establishment of Ireland's funds industry 25 years ago and it remains a key element of the industry. Irish regulated funds are exempt from tax on investment income and gains derived from investments. There is no net asset value tax comparable to the subscription tax in Luxembourg.[21] In addition, investors who are non-Irish residents do not suffer any net asset, transfer, stamp duty or capital taxes on the issue, transfer or redemption of their investment units, nor are they subject to any withholding taxes. Irish funds are also able to recover VAT (sales tax) on expenses either wholly or partly depending on where the assets are invested.

UCITS management companies enjoy one of the lowest rates of corporation tax in Europe at 12.5% and this consequently positions Ireland well in relation to establishing pan-European management companies. These advantages make Ireland an extremely competitive location in which to domicile your fund both from the fund and the investor point of view.

[20] Source: OECD 2014
[21] "tax d'abonnement"

WHY IRELAND
FOR ALTERNATIVE UCITS

The ICAV Solution

The ICAV is a new Irish corporate vehicle designed specifically for investment funds.

On 5 March 2015, the Irish Collective Asset-management Vehicles (ICAV) Act was formally enacted. Minister of State, Simon Harris, TD, welcomed the passage of the Act noting that: "it is an important part of the Government's strategy for the continued development of the international financial services sector."

Benefits of the ICAV structure include:

- The ICAV provides a tailor-made corporate fund vehicle for both UCITS and alternative funds, making it the ideal choice for Liquid Alternatives
- The ICAV is not a company under the Irish Companies Acts, but rather a corporate entity with its own facilitative legislation that has been drafted specifically with the needs of investment funds in mind
- Availability to 'check the box' for US taxation purposes
- Lower administrative costs
- May be managed by an external management company or a self-managed entity
- Flexibility in terms of which accounting standards, and financial statements can be drawn up at sub-fund level
- Ability to have umbrella structure and/or stand-alone structure
- UCITS / AIF compliant structure

Ireland offers a re-domiciliation regime which enables funds from many offshore jurisdictions to be re-domiciled in Ireland as either UCITS or non-UCITS. Key benefits are that there is no change in legal identity – the migration should not constitute a taxable event for investors. In addition, the fund should retain its performance track record post migration.

The ICAV has enhanced the attractiveness of Irish funds to investment managers seeking to market their funds in the US.

PERMAL IS AN EXCELLENT EXAMPLE OF A FIRM WHO HAS TAKEN ADVANTAGE OF THE NEW ICAV STRUCTURE. THE FIRM MOVED TO ONSHORE NEARLY $4 BN IN ASSETS FROM THE BRITISH VIRGIN ISLAND IN MARCH 2015. COMMENTING ON THE MOVE, PERMAL CEO, OMAR KODMANI SAID IN A STATEMENT.

"BY CREATING ICAVS, IRELAND HAS DEVELOPED A FIRST CLASS ONSHORE STRUCTURE - A MOVE THAT ENHANCES ITS ALREADY LEADING JURISDICTION STATUS FOR REGULATED FUNDS. THIS IS THE DIRECTION OF INVESTOR TIDE, PARTICULARLY FOR EUROPE WHERE INVESTORS ARE SEEKING EU-DOMICILED FUND STRUCTURES AND ENHANCED SUPERVISION BY THE LIKES OF THE CENTRAL BANK OF IRELAND. WHILE WE CONTINUE TO BELIEVE THAT OFFSHORE DOMICILED MANAGERS AND FUNDS HAVE A ROLE TO PLAY, AS A GENERAL TREND WE ARE SEEING GREATER INTEREST IN MORE ONSHORE OPTIONS, AND WE WILL CONTINUE TO BUILD IN THIS AREA."

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