

FUND or Internal Portfolio (IPF) Setup and Management

by



SETUP

Entities/Roles

- Advisors or Managers
- Operational Trading
- Back Office
 - Processing
 - Controlling
- Custodian
- Broker
- Administrator
- Auditor
- Shareholders

We shall now look at these entities or roles identifying their core responsibilities and/or competencies along with technical requirements.

▶ **Advisor and Fund Managers**

- **Competencies:**
 - Asset Allocation Assessment and Reviews
 - Investment selection:
 - Algorithms
 - Assessments
 - Information collection
 - Portfolio analysis and valuation
 - Risk assessment
 - Funds collection

- **Needs:**
 - Asset Allocation tool linked to real Portfolio situation

▶ Operational Trading

- Competencies:
 - Buying and selling
 - Trading administration
 - Assessment and valuation of positions
 - Liquidity management for yield maximization
 - Hedging of risk excluded from fund intent
 - Highlighting issues in investment selection

- Needs:
 - Trading desk tool linked to Portfolio System for real posting eventually with pre-check of asset allocation

▶ **Back office**

- Competencies:
 - Trade Confirmation
 - Reconciliation of trades
 - Broker and custodian administration

▶ **Controller**

- Competencies:
 - Assessment and valuation of portfolio, NAV calculation
 - Highlighting administration risks
 - Highlighting risks not included in the scope of the fund
 - Process improvements
- Needs:
 - Need PMS system for accounting ready to be used by Administration

▶ **Custodian and / or Broker**

Custodian and broker can be the same entity.

- Competencies:
 - Security administration
 - Accounts administration

- Needs:
 - Access to a Data Feed for trade confirmations

▶ **Administration**

- Competencies:
 - Shareholder register
 - Shareholder administration
 - Subscriptions and Redemptions administration
 - Shareholders' Reporting
- Needs:
 - A IT platform linked to PMS System with fully compatible Accounting System for NAV calculation (daily, weekly, bi-weekly, etc) and ready to be used by the auditors

▶ Auditor

▪ Competencies:

- Audit of accounts and trading activity (realized & unrealized)
- Audit of administration
- Annual Audit Report

▪ Needs:

Access accounting system with Query support to fit auditing requirements or special reporting needs

▶ Shareholders/Investors

▪ Competencies:

- Understand nature of investment fund
- Information assessment

▪ Needs:

- Statements with NAV on regular basis and selected reporting including annual auditor reports quickly accessible via Internet secured website.

What does the IT Platform for all mean

▶ Pros:

- Build a consistent strategy and investment policy, regularly monitored, even in Real Time or with pre-trade checks (simulations) in order to achieve
 - Asset allocation compliance
 - Trades impact on positions or portfolio in advance of execution
 - Valuation of positions highlighting security pricing and currency changes vs reference currency

- IT Platform with defined reporting for all above described entities
 - IT supports a „clean“ structure of responsibilities plus the monitoring of these:
 - Who Logged user
 - When Time stamps in secured DB
 - Where Execution terminal (location, etc..)
 - What For example sell, sell by stop loss, closing positions, cover, quantity and pricing, etc.
 - Why Asset allocation, market opportunity etc...

A Unique IT Platform for all

▶ **Contras:**

- Traceability: when a trade is done and confirmed, it is immediately accounted and no one can change it (less flexibility).
- Only one platform to which all entities need to adapt to and are forced to interact with.
- Costs of IT platform and people training.

▶ Enforcement of rules in Real Time

▶ Guarranteed Communication in Real Time

▶ No excuse for missing tasks execution

▶ No hiding behind excuses

▶ (+) Replicability of structure for other „funds“of the group

▶ (+) Meaning that costs can be reduced and a „asset manager“ can offer more „funds“ to it's clients with different asset allocation i.e. risk characteristics

FUND vs Internal Portfolio (IPF)

- ▶ Fund legal structures follow roles, responsibilities and competencies; seldom they are dependent on jurisdiction, whereas far more on the integrity of the organisation
- ▶ Most jurisdictions and legal requirements follow the fundamental principles of:
 - protection of the investor,
 - independence of „roles“,
 - timely reporting
- ▶ The reason for setting up a FUND in one versus another jurisdiction is „marketability“ but there is no guarantee of success.
- ▶ The reason for setting up a FUND versus an Internal Portfolio is also one of „sellability“: that the asset manager or institution wants to grow.
- ▶ But if the asset manager already has „funds“ entrusted by investors it is more cost efficient to offer a „Internal Portfolio“,

Activities in launching a FUND vs Internal Portfolio

▶ Activities	Fund	IPF
▪ Identifying Investor Segment	☑	☑
▪ Product and Market Analysis of Fund Offering	☑	
▪ Legal and Tax Fund Structure	☑	
▪ Licensing and Regulation	☑	
▪ Budget for start-up	☑	
▪ Drafting of Information Memorandum	☑	☑
▪ Due Diligence Docs on Fund Principles	☑	☑
▪ Incorporation of Fund Entities	☑	
▪ Appointment of Key Service Providers	☑	☑
▪ Opening of Fund Accounts	☑	☑
▪ Office and Staffing Operations	☑	☑
▪ Trading and Research Facilities	☑	☑
▪ Anti-Money Laundering Procedures	☑	☑
▪ Compliance Manual	☑	☑
▪ Internal Risk Management	☑	☑

Cost FUND vs Internal Portfolio

▶ One time costs (Start-up)

- Legal entities
- Licensing
- Regulatory compliance
- Initial Auditor Fees

Fund

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-
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IPF

▶ Recurring costs

- Management Fees
- „Watermark“
- Administration costs
- System costs
- Auditor Fees

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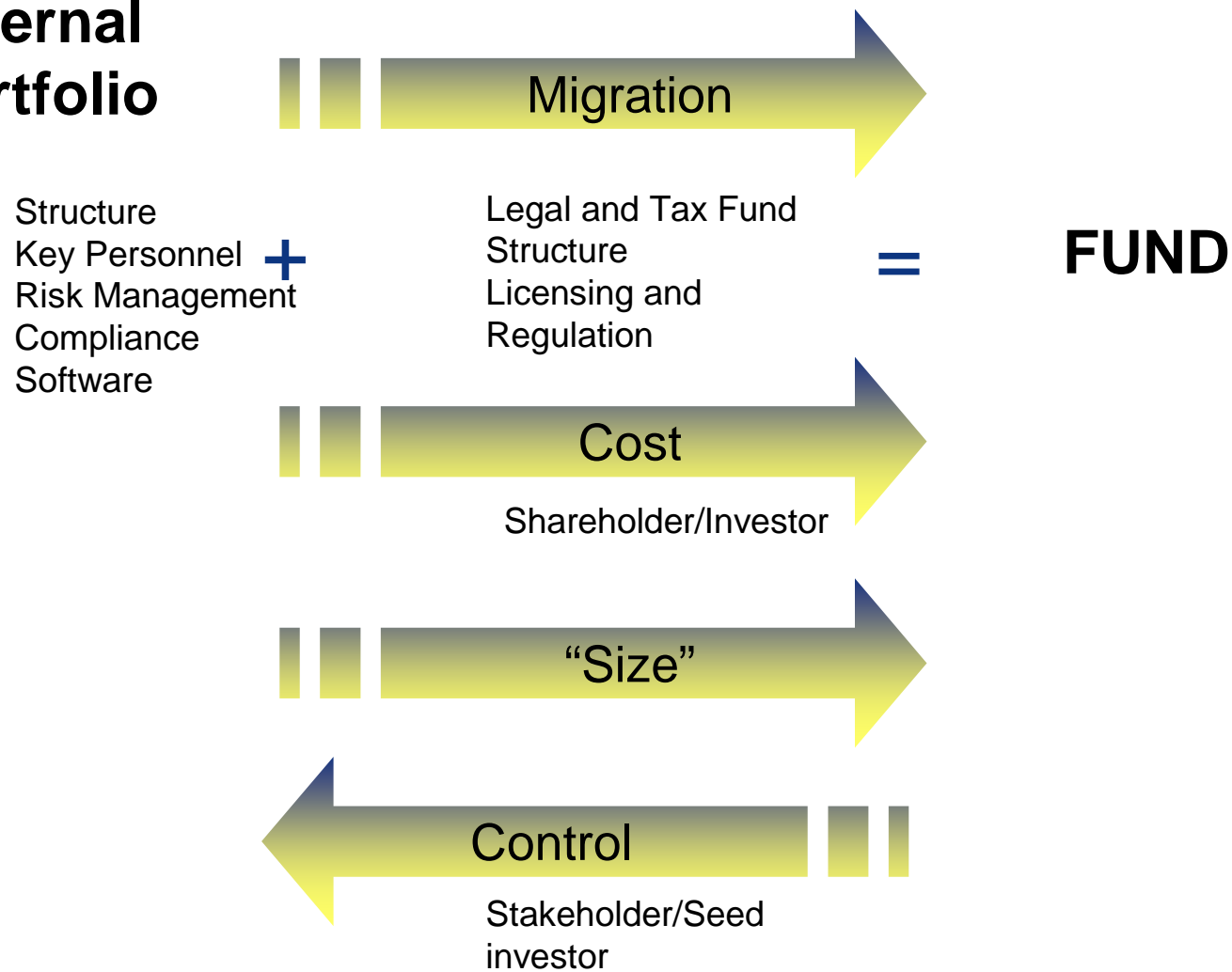
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Entities in a FUND vs „function-roles“ in an Internal Portfolio

▶ Entities	Fund	IPF
▪ Advisors or Managers	☑	☑
▪ Operational Trading	☑	☑
▪ Back Office	☑	☑
• Processing	☑	☑
• Controlling	☑	☑
▪ Custodian	☑	☑
▪ Broker	☑	☑
▪ Administrator	☑	☑
▪ Auditor	☑	☑
▪ Shareholders/Investors	☑	☑

Migration

Internal Portfolio



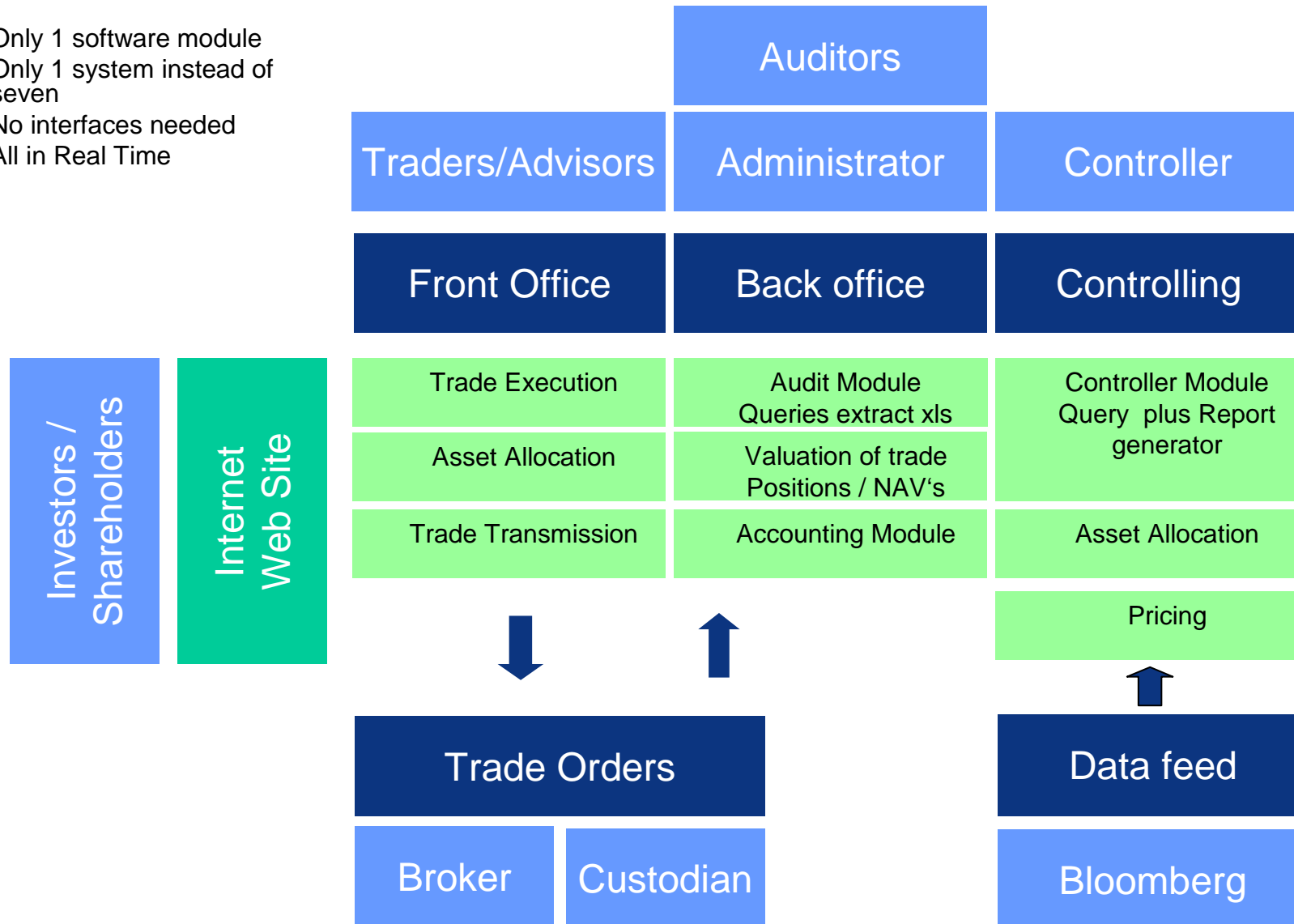
▶ **Technical Overview**

The design of Data Structures and Procedures have to follow the same rules and tasks defined for the management-, administration- and decision entities.

In order to have at the same time the same information, a good idea is to build all platforms on the same server.

IT modules application tier

- ▶ Only 1 software module
- ▶ Only 1 system instead of seven
- ▶ No interfaces needed
- ▶ All in Real Time



▶ Key Aspects of Success

- Strategy and investment policy:
 - asset allocation
 - picking the “right” investments (“algorithms”)
- Clear structure and responsibilities:
 - professional competencies
- Rules and communication: leadership
 - Character and integrity
- Systems and competent support for real time reporting and controlling:
 - Robustness and data integrity

Thanks