

The further evolution of management companies within the Irish funds industry

As well as the current trend being for new fund set-ups being the appointment of management companies, increasing numbers of existing self-managed funds are also interested in working with and appointing a management company to their fund structure, writes COLIN McKEON.

Management companies supporting UCITS and AIF type fund structures have a long history within the Irish funds industry. It was not uncommon historically for various fund administrators to offer a management company structure to clients looking for a quality partner with a strong balance sheet to support their various fund offerings. In many cases, this made sense and worked well for the fund and the management company of the administrator. Some promoters (generally the larger ones) established their own management companies with an emphasis on supporting their own funds that were often very large fund ranges with multiple sub-funds.

As the industry grew significantly over time a number of independent companies entered the market to provide a third party management company service. This has proved extremely popular amongst fund promoters – never more so than today. The increased growth of third party management companies in Ireland is a testament to the need for such services across the industry.

This comes into clearer focus following the implementation of the Central Bank of Ireland Consultation Paper 86 – commonly referred to as CP86. The implications for ‘self-managed’ boards that are trying to implement all the conditions set out in CP86 are many and complex. Some self-managed funds can and will continue to manage all the day-to-day requirements that follow from CP86 through the appointment of Designated Directors and or Designated Persons. This can prove successful but is not a model that most new funds are currently choosing to follow. The current trend for new fund set-ups is the appointment of management companies. Increasing numbers of existing self-managed funds are also interested in working with and appointing a management company to their fund structure.

Many fund structures (UCITS & AIF) are appointing regulated third party management companies domiciled in



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Ireland. This allows for a fully regulated entity with the appropriate regulated capital in place to support Irish domiciled funds. Brexit has also focused the attention of many fund promoters as they look to establish their own management company in Ireland or utilise the services of a recognised third party within the Irish market. The further evolution of management companies is well underway.

Using an Independent Management Company

Careful consideration should be taken when choosing the right management company to support the fund structure(s). Initially, thought should be given to the experience offered by the Management Company team. Primarily look to their experience of working with a wide range of leading global investment management and fund service providers. By doing so, they should be able to demonstrate to both the fund promoter and to the fund’s Board of Directors an in-depth knowledge of the fund strategies and the various risks associated with managing such portfolios.

They should have a clear and detailed knowledge of how the appointed administrator and depository operate, including their various systems and processes. In our experience, this is

invaluable when it comes to the daily management of the fund and monitoring the various outputs such as NAV’s and transfer agency activity. The ability to clearly understand and support the fund’s existing Distribution framework is also a valuable and important aspect of working with the right party. In particular, understanding the various requirements in each market, how this can affect the fund and how best to overcome these barriers to ensure the fund promoter’s distribution and sales efforts remain uninterrupted comes for choosing an experienced and well informed Management Company.

Investment in the right systems is another critical element that creates a sustainable process in supporting a fund range. At Bridge Fund Management we believe that creating an optimum operating model adds value not only to the management company itself, but more importantly to the fund(s) and ultimately its investors. Our clients appreciate this approach and it allows them to focus on other key areas of their business more efficiently.

The appointed management company can also offer significant guidance and help with the challenge of compliance and governance that come with the operation of a fund structure. Review of various risks associated with the fund portfolios is another significant independent check undertaken by the management company that is then reported in detail to the fund board and presented on a quarterly basis. In summary, the following are the main points that any fund promoter should consider when appointing a third party management company:

- Look for an experienced team that understand the promoters business and its funds. Ensure they have good experience of working with investment management teams.
- Understanding risk and testing funds in various risk scenarios will bring significant benefit and help to minimise unnecessary risks and potential downside risk. A good risk team within a management company is important to the funds, the fund Board and ultimately

to the unitholders or shareholders whose funds are being invested.

- Ensure the management company is managing all regulatory governance and compliance on behalf of the fund. Experience and experienced staff within the management company is invaluable as it ensures the funds are constantly meeting all the regulatory and compliance challenges.
- The management company should have all the necessary regulatory capital required to provide support not only for today but also importantly in the future, as the funds grow.
- Check that the management company can add value to the existing business by providing, for example, additional areas of support related to Risk calculations, KIID oversight and production, fund registrations, Distribution support etc.

Top down expertise and support

When appointing a third party management company it is important to consider all of the above but equally as important in the process is ensuring that

the board of the management company has the adequate experience and knowledge necessary to support the funds and engage effectively with all the stakeholders within the fund structure.

Often within the market, a management company board is supported by technical sub-committees, appointed by the main board with specific terms of reference. These sub-committees include, but are not limited to, Investment, Risk and Compliance and Pricing issues. The technical sub-committees meet regularly to support the ongoing business of the funds and report directly to the board of the management company. Depending on the scale of complexity of the fund structure, these committees are a helpful support to the overall smooth operation of the fund.

Substance matters

To ensure that efficient control and support mechanisms exists within a management company Bridge Fund Management Limited have created a fully functionalised service team supporting our clients. The management company

services we provide operate across four key areas each of which are overseen by a highly experienced team.

Operations, Compliance, Risk, Capital and Financial Management

Our model creates operational efficiencies and allows the fund promoter to focus on the activities that are core to them such as investment management, distribution and marketing.

Our clients appreciate the level of oversight and substance we have invested into our business. It reflects a level of expertise and support that we believe is necessary to ensure that we can act as an effective and supportive partner to our client's business. Substance matters in an ever-increasing complex marketplace. Working with a partner who understands your business and supports with technical expertise is invaluable when minimising risks and allowing for continued growth and success.

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