

Fund Domicile in Sweden - For all the Right Reasons

Stockholm (HedegNordic) - Setting up a fund company has become an increasingly challenging and complex task, not to mention a costly one. In order to meet with regulatory requirements and to make sure that crucial aspects of the day-to-day routines for managing a fund are being met, fund companies are facing a real challenge in setting up fully compliant organizational structures and routines. Since 2014 FCG Fonder, through its Swedish fund hotel solution, offers a way for these companies to outsource critical functions, thereby allowing fund managers to focus on their core competence - managing money. At the same it allows for a more cost-efficient structure, and potentially lower

"It is all about putting the interest of the investor first", Andreas Julin, head of sales at FCG Fonder tells HedgeNordic when we meet him and founding partner Mikael Olausson in FCG's premises in Stockholm, overlooking Östermalmstorg.

"The classic way of setting up a fund, where a so-called SICAV-fund is being put in place through a management company in Luxembourg, is being challenged. A solution like that tends to work in the interest of the fund's owners rather than benefiting the end-investors. It allows for more flexibility when it comes to charging costs to the fund, which in turn increases the fee burden on the investor", Julin argues.

His argument is supported by recently published data from Morningstar that suggest Luxembourg-domiciled funds are charging a significantly higher fee than Swedish-domiciled ones. For equity funds, the average annual capital-weighted fee load stood at 0.94 percent for Sweden while Luxembourg funds charged 1.43 percent, the corresponding figure for Europe was 1,27 percent.

Of the around 8.800 funds approved for distribution in Sweden, sub-funds and Alternative Investment Funds (AIFs) combined, close to 90 percent were registered abroad in 2017.

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"Approximately 20 percent of Sweden's 4,200 billion SEK in fund savings are put into foreign structures, to me that is questionable as it translates into many billions of often unnecessary costs for Swedish fund investors each year. However, as investors are starting to put more focus on fees, this will ultimately lead them into Swedish domiciled funds as many investors don't want to pay the "Luxembourg premium". This trend is important to have in the back of your mind as fund manager when deciding on your fund domicile, especially if you target Swedish investors", Julin says.

Bringing consultancy competencies to fund solutions

FCG started its fund hotel operations, FCG Fonder, in 2014 when they were approved by the Swedish Financial Supervisory Authority, FI, to manage UCITS as well as Alternative Investment Funds. Today, the fund hotel arm of the business manages more than 10 billion SEK across 25 funds. FCG Fonder is part of the FCG Group, which is the leading consultancy firm in the Nordics focusing on risk, compliance, outsourcing, finance and treasury and customer insight for financial

institutions.

The way the fund hotel structure works is that FCG holds the license for the management of the fund and when signing up a new client, outsources the actual portfolio management to the external manager while keeping control of all other activities including risk function, regulatory reporting, NAV and performance calculations. The outsourcing of trading requires for most fund strategies that the fund manager has approval from the FI to conduct discretionary portfolio management services. If not so, FCG can even take care of the actual portfolio management.

The entire process from producing the basic fund documentation to when the fund is set up in FCG's system is 3-4 months.

According to Olausson, there are a number of traits that make FCG's offer stand out from the competition.

"First of all, FCG is a full-service partner. We can build on the competencies that we have in our consulting business to offer a wide range of services that are necessary for a fund company to have today in order to meet the demands of the regulator. That includes risk management and reporting, compliance, treasury functions, auditing and performance calculations, not to mention the built in processes we have for communicating with regulators.

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"Secondly, we are the only fund hotel to manage all asset classes and all types of instruments, which means that we can deal with all sorts of clients including more complex hedge funds and private equity structures."

"Thirdly, I think the fact that we are based in Sweden and completely independent from banks and other trading counterparties make us more trusted and allow us to quicker adapt to new requirements from clients or regulators.

"What I believe is appealing with the fund hotel set-up is that there is an alignment of interest between the fund managers, ourselves and the investors of the fund. We want the managers to succeed and build their business, that will translate into better profitability for us. At the same time, the managers are checking on us, so that we do our work properly. This to make sure that the fund stays on top of regulations and gives the service required to investors and ultimately gather more assets, hence increasing their profitability."

New markets and services on the roadmap

FCG Fonder are increasingly looking at how to expand onto new markets and how to add new services to its offering. The fact that FCG recently announced a partnership with private equity group Bridgepoint is likely to further accelerate those efforts.



MIKAEL OLAUSSON

PARTNER, FCG FONDER



ANDREAS JULIN

HEAD OF SALES, FCG FONDER

“The partnership with Bridgepoint is all very new, but there is no secret that they want to speed up our international expansion as well as looking into new ways of increasing our footprint in the market, to that end we are open to looking into new type of funds and taking on an even greater responsibility for our clients. We are for instance looking at the alternative investment space with great interest, none the least the real estate and private equity sector. Despite being a game changer for the alternative investment industry, the Swedish “specialfonder” was pretty well prepared when AIFMD was implemented, as opposed to often lightly or unregulated private equity and real estate funds who came to face a completely new reality. For a registered private equity or real estate manager who wants to opt-in to full authorization FCG Fonder can offer turnkey solutions, Olausson says.

Offering support when it comes to helping managers with marketing, distribution and communication is another area where we like to be seen as a value partner in the future, Julin continues. If there is one thing that managers have in common regardless of strategy is that they are all looking to raise assets. This needs to be supported by a clear marketing strategy. The marketing field has become very challenging over the last couple of years, not only driven by increased competition in terms of competing funds, but the marketing landscape has changed as well. In a digitized world you need to be visible in new and smart ways.

Another thing that is currently driving change and possibly growth for FCG is the recent decision from the Swedish premium pension system, PPM, to tighten up the requirements for being included on their fund platform.

“There has been a significant increase in the amount of fund companies that come to us asking for advice on regulation and alternative setups to their fund structures, the PPM decision to clean up its fund platform is definitely playing into that.”

“Sweden is working at the forefront when it comes to fund regulation which is why we believe that as a fund company, you will benefit from setting up the structure here, it simply makes your investor base better protected. Outsourcing to a fund hotel makes even more sense in that context. We are one of the few winners of the heightened focus on regulation”, Julin concludes.

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