FundRock: Growing Laterally and Geographically with SEB Fund Services Acquisition

Stockholm (HedgeNordic / FundRock) – "We want to extend our market-leading position to become the premier independent fund management company in Europe. Our strategy has never been to grow vertically but to bring clients more value across multiple geographies while working with best in breed partners to bring seamless end-to-end fund solutions to clients. Our strategy is to grow laterally, by product range, and geographically, so SEB was a perfect fit for our Nordic expansion" says FundRock CEO, Revel Wood (*pictured*)

SEB's sale of its Luxembourg SEB Fund Services (management company) was analogous to FundRock's own attainment of independence from its former parent, RBS Plc. In both cases, the manco was not core to the parent bank's banking activity. All SEB Fund Services staff, including some Swedish and Danish speakers, have been retained. Given the similar DNA and operating models, Wood is confident about seamlessly integrating the new business without impacting clients and the team. As part of the preparation, expanded office space has already been secured to welcome and accommodate the staff into the One FundRock Team.

FundRock will now run the SEB Prime Solutions UCITS platform, which has existed since 2010 and is home to seven active sub-funds from five different managers (Sissener Canopus, APS Global Equity, Carn Long Short, three funds run by Nordic Cross, and SEB Commodity Index). This platform offers an umbrella structure where managers can rent a cell, rather than setting up their own structure afresh, with access to best in breed SEB Prime Solutions.

FundRock has been running UCITS since it entered Luxembourg in 2004 and has also in effect been an AIFM since 2008, long before AIFMD required this in 2013 when FundRock became a recognised AIFM. Thus, FundRock is a Super Manco, combining UCITS and AIF capabilities.

The SEB deal has expanded FundRock's suite of liquid alternatives, and FundRock is seeing significant interest in the less liquid strategies of real estate, private equity, infrastructure, and debt.

Vehicles and platforms

FundRock services a wide spectrum of investment vehicles, including UCITS, UCI Part II funds, SICAVs, RAIFs (where the management entity is regulated but the fund is not), LPs, and FCPs.

FundRock has a long-track record servicing large investment banks running funds for their structured product desks, ETF and Quantitative strategies in addition to managed accounts that require a buy side manco to be segregated from their sell side activities such as market-making.

Time to market

Nordic managers contemplating setting up a Luxembourg entity may wonder how long it might take. "Time to market depends on a range of factors: the legal structure and complexity of the fund, and the strategy and providers selected. The fastest can be one month for a Luxembourg RAIF or an Irish QAIF. The average is more like four to six months for more complex, and larger UCITS structures and the longest timeframe that FundRock has experienced is eight months" says Wood.

“We help clients with the regulatory on-boarding process, as a key contributor to being able to achieve a successful filing with the relevant regulator. Once this first filing is submitted, we expect to receive questions within four weeks, which we endeavour to answer within ten business days. This may of course involve some back and forth with the manager, and the final offering memorandum comes later on” explains Wood.

Client sizes and costs

“Our client base is generally made up of blue-chip firms with big and prestigious brand names, but the platform does also work with smaller boutiques that have strong track records. No hard minimum is specified for day one assets, but we expect that a standalone fund should reach assets of at least EUR 50 or 100 million within a year, in order to attract large institutional investors, who want to allocate at least $10 million without becoming too big a part of the fund and breaching their own diversification rules” says Wood.

Wood believes that Luxembourg is misperceived as being expensive, for two reasons. Firstly, he argues that the bar for demonstrating substance is rising everywhere in the wake of guidance from various regulators in response to ESMA’s harmonisation drive. “We have never been challenged on substance. We have 90 staff in Luxembourg and 120 globally and EUR 60 billion of assets on the platform” he says.

Secondly, “smaller and medium-sized managers can reduce initial outlays, cut ongoing costs, and expedite their time to market, by accessing their own infrastructure – via platforms such as FundRock” he adds.

Indeed, Wood argues that “the costs for asset managers building their own infrastructure could be at least one million euros, and therefore it is mainly the larger asset managers, such as Blackstone, Carlyle, M&G or Jupiter who will go down this route. Historically we have seen some large managers such as Aberdeen, temporarily rent FundRock’s platform while they build their infrastructure, we see more demand for this as a result of Brexit uncertainty.

Prix fixe or a la carte?

“FundRock offers a full manco or AIFM service, including investment management, risk oversight, and oversight of delegates. FundRock can be the named Manco, or can offer these services on a “white label” basis – providing substance and support without being the named manco. As an extension of these services, FundRock can offer corporate secretarial, MLRO, and KIID production, regulatory reporting and other value add services”. Wood explains.

FundRock can offer on a standalone basis due diligence, risk management or compliance in support of Management companies without sufficient scale, who don’t see this as core, or due to market uncertainty and most importantly want to focus limited resource on core portfolio management and distribution activity.

Service providers and directors

In general, the model is open architecture, with fund boards appointing auditors and lawyers while FundRock can provide contractual templates that may help to speed up the paperwork with other service providers. FundRock has already wired up connectivity with the major custodians and administrators.

In general, Wood argues “it is not best practice for employees or directors of a manco to sit on the board of an associated investment vehicle which has its own legal personality". The Directors of the Board of FundRock do provide the required presence in three cases where the legal personality of the fund is gained via the management company, namely – FCP in Luxembourg, CCF in Ireland, or ACD in the UK –.

These cases apart, the great majority of directors are drawn from a wide bench of candidates in Luxembourg, who should meet the criteria for being an independent director. FundRock can help clients to identify them. Good practice is typically for at least two directors to be independent. There can also sometimes be demand to have some directors drawn from the manco but these would not be independent.

With the exception of designated persons and conducting officers, Wood does not see the costs of independent governance rising in Luxembourg as a consequence of the recently announced capacity limits.

Luxembourg, Ireland or elsewhere?

FundRock's history dates back to RBS's trustee business 1935, and it is present in Ireland, the UK and Singapore, as well as Luxembourg. FundRock is actively involved with industry associations such as ALFI in Luxembourg, Irish Funds in Ireland, the Investment Association in the UK and EFAMA in Brussels.

This gives FundRock a good vantage point from which to observe cross-border fund mergers, which became possible under UCITS IV, and can eliminate duplication of costs and ranges. Wood has seen very little appetite re-domiciliation however.

"Clients drive the selection of domiciles, based on factors such as the product and distribution strategy and structure" he sees.

In big picture terms, Wood explains that more liquid strategies may have preferred an Irish domicile due to lower withholding taxes on US equity dividends (typically 15% for Irish-domiciled vehicles versus 20% for Luxembourg-domiciled vehicles), whereas the historical absence of a LP structure has made Luxembourg the go-to domicile for private equity and real estate strategies. From 2019 Ireland is expected to offer its own LP structure.

Separately, "the minimum diversification criteria for Luxembourg RAIFs rules out some more concentrated strategies that can fit into an Irish QAIF" adds Wood.

Brexit contingency planning is creating demand for Ireland and Luxembourg structures, while some managers are also examining UK structures, which might be required for inbound-UK marketing under some Brexit scenarios.

Wood does not believe that the choice between Ireland's common law system and Luxembourg's civil law system is a deciding factor, as it is EU rules and regulations that are most relevant in both cases.

"And in some cases, the choice of domicile is a matter of personal preference, like Coca Cola versus Pepsi", admits Wood.

Global distribution

Distribution strategies also help to determine the choice of domiciles.FundRock clients are marketing funds in at least 30 countries, and the SEB relationship continues with a two-way strategic alliance. FundRock uses SEB for bank and brokerage distribution of funds in the Nordics, while SEB’s hedge fund solutions unit can make use of funds on the FundRock platform.

Fund Rock’s distribution footprint include many countries outside Europe, including Chile, Peru, Taiwan, Hong Kong, South Korea and Singapore.

FundRock recently signed a strategic partnership deal with Australia’s Perpetual Corporate Trust to create Australian-domiciled feeders for Luxembourg master funds. Australia has the world’s fourth largest pension assets of around US $2 trillion. FundRock has other partnerships and solutions in Hong Kong and Singapore.

Vehicles sitting on the FundRock platform are generally not marketed in the US, but may have a parallel master/feeder relationship with Cayman and/or Delaware vehicles that are more often distributed in the US. Managers may also work with local broker-dealers to access US investors, who account for around 70% of global hedge fund assets.

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