

# Bermuda Hedge Fund Services 2008



**A practical  
approach to fund  
regulation**

**Focus on  
intelligent fund  
administration**

**Building on a  
strong servicing  
foundation**

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# A practical approach to fund regulation

By Sally Hodge

“One of the trends that we are seeing is the globalisation and institutionalisation of the hedge fund industry,” says Jessel Mendes, a partner in Ernst & Young’s Bermuda hedge fund practice. And as hedge funds have moved into the mainstream and are no longer viewed as niche products, and the larger investment groups are getting in on the act, the type of investors they attract has also changed. Increasingly, institutions are forming a larger proportion of the investor base of many hedge funds and their requirements, and those of their investment consultants, in terms of performance, the level of manager access and transparency and investor protection, are placing more and more demands on the hedge funds themselves.

In Bermuda, this trend towards an increasing number of institutional investors including a hedge fund element in their portfolios is viewed by many in the fund services arena as a positive one for the jurisdiction. “Given this trend, Bermuda holds a very favourable position,” says Mendes.

“Bermuda clients in the funds sector continue to be predominantly institutional, highly sophisticated investors who understand the hedge fund market and its associated risks,” says Pat Phillip-Bassett, Assistant Director, Corporate Governance & Communications with the Bermuda Monetary Authority. “Bermuda has a strong reputation,” says Chris Harkness, Managing Director of Bermuda-based fund administrator Swiss Fund Services. “It has been able to maintain a good balance of transparency while still maintaining market integrity and investor protection,” he adds. “One of Bermuda’s strongest selling points is its highly respected regulatory body,” Harkness comments. “The Bermuda Monetary Authority has a strong reputation both locally and overseas.” The BMA’s approach to regulation takes into account the on the type of funds and investors that Bermuda attracts. “A very significant portion of our mutual fund sector comprises hedge funds of various kinds, including funds of hedge funds, with sophisticated investors that can reasonably

▶ p6

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# Growing expectations of hedge fund directors

By Jessel Mendes, Chad Critchley and Chris Gauk

Institutional investors are forming a larger proportion of the investor base of hedge funds globally. These institutions are highly demanding in terms of the level of returns they seek, transparency they expect and investor protection they demand. Demand for greater investor protection has led to the need for improved corporate governance, which can only be good for the hedge fund industry in general.

It is no surprise that, as institutional investors push for stronger corporate governance, more is being demanded from fund directors. It follows that the role of the fund director has changed dramatically, from one perceived as a largely non-active, fee collector, to a truly active, hands-on player who is not afraid of asking tough questions of management and respective service providers.

At Ernst & Young, we have seen a marked growth in the number of fund board meetings we are invited to attend and the substance of those meetings, with directors posing questions about subjects such as audit, the business, and management. The auditing rules are also evolving. The Statement of Auditing Standards No. 114, The Auditor's Communication With Those Charged With Governance, effective for financial periods beginning on or after 15 December 2006, requires auditors practicing under US standards to communicate with those charged with governance (directors), certain significant findings and issues relating to and from the audit. From our perspective, these communications have been generally well received by directors and fund management alike.

For boards to become even more effective, the shift towards more independent directors must continue to grow. In the past, fund boards were made



**Jessel Mendes (top), a partner with Ernst & Young since 1999, Chad Critchley (middle), a partner since 2002, and Chris Gauk (bottom), a partner since 2005, work with numerous investment vehicles in the onshore and offshore markets**

up of representatives of the investment manager and service providers, such as administrators and lawyers. More independent directors are now being invited to join fund boards, which is a positive step in terms of both the avoidance of conflicts of interest and looking out for the interests of shareholders.

Hedge fund boards will increasingly be expected to function like those of public companies and registered funds, thus, more will be expected from their independent directors. As a result, these directors will be forced to invest more time on boards, monitoring and communicating with the manager and service providers, keeping up to speed with compliance and regulatory issues, and being more strategic in their thinking in this evolving industry. However, the increased involvement will allow them to command a higher fee.

Clearly there are challenges to overcome. Given the pace at which hedge funds are being launched, one has to wonder whether there are enough independent directors out there. A limited supply of independent directors could result in them being spread too thin to truly be effective. Conflicts of interest and confidentiality issues could arise, with directors serving on the boards of funds that could potentially cross-invest in each other. What about litigation and reputational risk? Perhaps the trending of higher fees will help mitigate and manage these challenges.

Regardless, the role of the hedge fund director is changing for the better and should bring nothing but positive long-term benefits to investors and the viability of the hedge fund industry. ■

*The views expressed herein are those of the authors and do not necessarily reflect the views of Ernst & Young Ltd.*

p3 be expected to make quite expert investment decisions. We also take this fact into account when applying on going regulatory oversight for those funds,” comments Phillip-Bassett.

“The authority’s approach to fund regulation continues to support Bermuda’s success as a quality fund domicile,” says Phillip-Bassett. “We continue to apply a practical and effective risk-based approach to regulating funds, which includes hedge funds, and the primary focus in our approach remains on proper disclosure and market discipline.” Given the sophisticated nature of the Bermuda market, the BMA is able to rely in large part on the tough initial vetting of the individuals and service providers, as well as their own detailed scrutiny of a fund’s prospectus and related material to ensure proper disclosure to investors. The authority operates by setting certain ‘triggers’ for exceptional matters to be reported to them. However, Phillip-Bassett points out that, if specific concerns arise at any time about the running of a particular fund, the BMA can intervene quickly to establish the facts and take such action that is deemed necessary. “Our approach is largely consistent with the report of the President’s Working Group Recommendations on Hedge Fund Regulation published late last year in the US, which cited no need at present for additional regulatory development in relation to hedge funds but rather a focus on proper disclosure, market discipline, ongoing vigilance of the regulator and having the power to intervene if there are issues with a fund,” says Phillip-Bassett.

According to Phillip-Bassett, the implementation of the Investment Funds Act 2006, which repealed the previous (Collective Investment Schemes Classification) Regulations 1998, has been received positively by the market. A key component of the new legislation has been to introduce new classifications for funds that, Phillip-Bassett believes, better reflect the products sold in today’s marketplace. Authorised funds may be established as companies, unit trusts or for the first time as partnerships, which may now have legal personality separate from the individual partners if they elect to do so under the Partnership Amendment Act 2006. Companies may be



established as segregated accounts and operate individual funds at a cell level. The Act also introduces a new provision confirming the segregation of assets in unit trust funds operating separate and distinct accounts.

The legislation defines three fund classifications. The classification of administered funds - a concept that is wholly new to Bermuda - has been introduced to streamline the regulation of funds that have a Bermuda-licensed fund administrator. Administered funds must be administered by a fund administrator licensed in Bermuda, and be either listed on a recognised stock exchange or have a minimum investment of \$50,000. Institutional funds are administered by a fund administrator licensed in Bermuda, and are either listed on a recognised stock exchange or have a minimum investment of \$100,000. The final classification is standard funds, which includes any fund that does not fall into any other class of fund.

The legislation has also introduced enhanced powers for the BMA for the regulation of the funds industry. It is now the BMA, rather than the Minister of Finance, that has the power to create, modify or waive rules to be followed by authorised funds. The Authority may investigate suspected cases of funds conducting business without authorisation or operations providing fund administration services without a licence. “Refined powers under the p9



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# A uniquely positioned exchange with global recognition

By Greg Wojciechowski

The Bermuda Stock Exchange (BSX) has been in existence since 1971 and has carved a niche in the global stock exchange industry, with nearly 550 listed issuers with a combined market capitalisation of around USD350bn. Offering a complete stock exchange solution in one of the world's most respected and sophisticated offshore financial centres, the BSX trades and settles stock and cash transactions daily through its electronic trading, settlement and depository systems.

The development and success of the BSX has helped the growth of Bermuda's capital market and has provided opportunities for international clients. The BSX's commercially sensible regulatory approach dovetails with that of the jurisdiction, and is based upon currently accepted international regulatory and operational standards.

It seeks to achieve an appropriate balance between providing issuers with access to the market at the earliest opportunity, and investors with certain safeguards and timely information for the purpose of enabling them to make informed decisions on the value, risk and merit of listed securities.

With the development of the Launch 'n' List product the exchange is able to provide an accelerated timeframe in which a hedge fund can be incorporated and listed on the BSX, with the regulatory authority and the exchange working on the fund's documents simultaneously.

Launch 'n' List was developed as a result of industry feedback, which indicated a growing frustration among practitioners with the length of time they experienced when creating, domiciling and listing a structure.



**Greg Wojciechowski is president and chief executive of the Bermuda Stock Exchange**

Launch 'n' List is a direct response to this frustration, as the procedure seeks to reduce and eliminate duplicate effort, which in turn reduces the amount of time to market.

With effect from December 4 last year, the board of the UK's HM Revenue and Customs has designated the BSX as a "recognised stock exchange". The designation extends to the entire BSX and as such, securities listed on the exchange will meet the HMRC interpretation of "listed".

Designation by HMRC is a significant development for the BSX, expanding the services provided by an offshore stock exchange to unprecedented levels. The exchange embarked on a path in the 1990s to create a fully operational, modern stock exchange platform in the offshore world that is well regulated and globally recognised.

The HMRC designation is further evidence of the BSX commitment to fulfil this goal. Designation required not only due diligence and detailed analysis of the BSX by HMRC during the application process, but also the involvement and support of Bermuda's minister of finance, her financial secretary and the ministry.

The needs of the clients of the BSX were the main driver in seeking this designation. Many clients have indicated an interest in having their investment universe of qualifying investments expanded, or in other instances in having an alternative to the current listing venues for the listing of their Eurobond or debt products. The exchange is proud to have been able to deliver on both counts and looks forward to further growing its international business. ■



p6 ▶ Act have allowed us to drive forward our risk-based approach by carefully differentiating the obligations on retail and wholesale funds,” says Phillip-Bassett. “Industry consultation was an important part of the development of this new legislation and it has been generally well received by the market. We believe that, as the Authority continues to enhance Bermuda’s regulatory framework for financial services, the enhanced supervisory regime for investment funds and administrators underpinned by this new legislation will provide Bermuda with a secure framework for the further development of the fund industry,” he adds.

The final component of the Investment Funds Act 2006 was the introduction of a new licensing regime for fund administrators in Bermuda. Fund administrators have a period of one year from the date on which the Act comes into force within which to obtain a licence from the BMA, and the Act makes it an offence to carry on the business of fund administration in Bermuda without a licence. The Act introduces a list of minimum criteria for licensing which must be fulfilled both at the application stage and on an ongoing basis and the Authority may revoke a fund administrator’s licence if it considers that the minimum criteria have not been fulfilled, if the company has not complied with any provision of the Act or has provided the Authority with false, misleading or inaccurate information. As with funds, fund administrators and any affected officers and controllers may appeal a decision of the Authority to the appeals tribunal. The BMA is currently developing codes of conduct dealing with the duties, requirements and standards that fund administrators should adhere to. Phillip-Bassett says that the

Authority has already received, and is in the process of assessing, license applications from fund administrators.

The fact that Bermuda’s fund administrators now have to be licensed by the BMA and comply with the standards set down by the Authority are certainly not dissuading administrators from starting up on the island. Bermuda is seeing increasing numbers of niche administrators setting up there and Bermuda can boast a wealth of global administrators and fund service providers. “We are seeing many new administrators setting up here and expanding globally,” says Mendes.

The increase in numbers of fund administrators globally is another product of the institutionalisation of the funds industry. “We used to see more hedge fund managers doing in-house administration of their funds,” says Harkness, “yet due to heightened scrutiny and increased institutional demand, fund managers look to third party administration extras a means by which to enhance the overall level of investor comfort.” Increasingly, also, Harkness believes that managers are willing to pay for quality when it comes to choosing an administrator and this is another area where Bermuda gains a significant advantage over other jurisdictions. “In addition to the nearly 70 fund administrators currently operating from within its jurisdiction, Bermuda is home to many of the leading offshore law firms and all of the large audit firms. Thus, offshore service providers are able to build close ties and strong working relationships by leveraging Bermuda’s diverse financial landscape,” Harkness says. Mendes is in agreement. “I think we are known globally for being a quality jurisdiction with effective regulation, sound infrastructure, talent and an excellent track record for attracting and retaining business,” he comments. “When it comes to hedge fund incorporations, we are not seeing the quantity some of the other jurisdictions may be experiencing, but we are noting the big institutional type managers setting up funds in Bermuda, hopefully a direct result of our reputation,” says Chris Gauk, a partner in Ernst & Young’s Bermuda hedge fund practice. In Mendes’ opinion, Bermuda is well placed to capitalise on the future growth of the hedge fund industry. ■



# Building on a strong reputation

By Sally Hodge

“Bermuda has long been one of the world’s leading offshore financial services centres,” says Chris Harkness, Managing Director of Bermuda-based fund administrator Swiss Fund Services. Historically Bermuda’s financial services industry has always enjoyed a very strong reputation. “Bermuda has a very developed and reputable financial services market,” says Jessel Mendes, a partner in Ernst & Young’s Bermuda hedge fund practice. “I think we are known globally for being a quality jurisdiction with effective regulation, sound infrastructure, talent and an excellent track record for attracting and retaining business,” he adds.

“One of Bermuda’s strongest selling points is its highly respected regulatory body,” says Harkness. “Over the past fifty years Bermuda has developed a tightly-knit culture in which

the private and public sectors are able to operate with great efficiency. As such, Bermuda offers innovative investment products and flexible client solutions,” he adds. Harkness recalls an anecdote about a manager asked why they had not chosen Bermuda, but instead went to an alternative jurisdiction. “Their response was basically that there isn’t any regulation in that other jurisdiction, whereas Bermuda has a strong regulatory body that both governs and watches,” he says. “In Bermuda, we are quite happy to hear that kind of story,” he adds, “because it shows that the legislation, regulation and oversight is not only working but also attracting the right type of investor and manager – the type that we want to work with.” Chad Critchley, a partner in Ernst & Young’s Bermuda hedge fund practice,

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# In-depth understanding means intelligent fund administration

By Raymond Morrison

Olympia Capital was founded in 1990 and its net assets under administration have grown from \$650 million at inception to over \$66 billion as of March 31, 2008. We are a full service administrator and service funds domiciled in key offshore and onshore jurisdictions out of our offices located in Bermuda, United States, Canada and Ireland.

We service all types of investment managers both large and small. Some of our clients are small start-ups with 3-4 employees whilst our largest client has approximately 150 employees. We offer a high quality fund administration service and strive to provide a true one-on-one service for our clients. Generally, the investment managers we work with value the fact that they need only interact with very few individuals at Olympia. In many cases, an investment manager often speaks to just two individuals: one for NAV calculations and a second for shareholder services.

For start-up hedge funds, we will deal directly with the individual(s) behind the creation of the fund. For this type of manager, having very few points of contact at the fund's administrator, and being able to build a relationship with that administrator, is a very important factor. For larger hedge fund managers employing hundreds of people, where staff turnover can be an issue that they themselves are facing, building a long-term, one-on-one relationship with an individual at their fund administrator is not so much of a burning issue.

In order to be able to provide this one-on-one service for our hedge fund managers, Olympia employs highly educated accountants who have an in-depth understanding of the products and the



**Raymond Morrison is president of Olympia Capital (Bermuda)**

securities in which hedge funds invest. In Bermuda, from our staff of 28 accountants, 20 hold a professional accounting designation – the vast majority of whom are chartered accountants – meaning that they have the knowledge to converse with investment managers about their complex portfolios.

To enable relationships to be built between a hedge fund manager and an accountant, a fund administrator must maintain a low staff turnover. This is something that remains one of the top priorities for Olympia. We have found that work that is interesting and challenging is far more likely to entice an employee to stay with the company than repetitive work requiring little thought. We believe that the level of exposure that we give our staff to our clients and the fund products makes their work much more interesting and engaging. We also strongly believe in the importance of a work/life balance, where overtime is kept to a minimum outside of those occasions when it is strictly necessary.

Olympia has always been a highly regarded hedge fund administrator with an excellent reputation for its skilled and experienced people. We are in the process of ensuring that our systems operate at the same high level as our staff with the introduction of Advent's global investment management and accounting system, Geneva, as well as their Partner system for investor accounting and servicing. The acquisition of Olympia by the CACEIS group in November 2007 will further enable us to deliver new and innovative services to our clients on a global basis. ■

p10 ◆ does not believe that the regulation is too onerous. "I actually believe it's flexible and business friendly," Critchley says.

"We have some work ahead of us in getting folks to consider Bermuda as another viable option," says Chris Gauk, a partner in Ernst & Young's Bermuda hedge fund practice. "With recent changes to our funds legislation and many of the local industry players working together to market Bermuda, we are starting to see some success in changing the perception so to truly demonstrate to the world what Bermuda has to offer." However, Bermuda's reputation for quality and regulation has been regarded by some as a double-edged sword in terms of its effect on the growth potential of its fund services industry. The jurisdiction has always been well known for the extent to which it has carried out due diligence on anyone wanting to do business in Bermuda, with the aim of protecting that reputation. Companies wishing to incorporate in Bermuda have had to undergo an extensive and often lengthy checking process. The rigour of Bermuda's due diligence has allowed the island to maintain its solid reputation over the years, however it has also led to the perception in some quarters that incorporation in Bermuda is a difficult and time-consuming process compared to other jurisdictions. "From my perspective," says Gauk, "our biggest challenge is overcoming the current perception of how slow and expensive it is to incorporate in Bermuda. That may have been true a few years back but is definitely not so today."

There is little doubt that a much greater number of hedge funds still incorporate in Cayman than choose Bermuda. Certainly, in the last five years, Cayman has exploded with the incorporation of new hedge funds, leaving Bermuda trailing behind. Many in the fund services industry believe that if it was once the case that a fund could be incorporated in Cayman in a fraction of the time that the same process would take in Bermuda, this is no longer true. Speed, of course, is not the only reason for choosing one jurisdiction over another, however when a manager with a track record and reputation for providing performance has made the decision to strike out on their own, and has a product and investors ready, they want



their fund set up as quickly as possible to be able to begin building assets and performance. If they and their lawyers believe that choosing Bermuda will mean a two-month delay, whereas choosing Cayman will be both quicker and cheaper, then it is no great surprise that Cayman is the first jurisdiction that most lawyer and managers turn to.

Over recent times Bermuda has responded to the view that Cayman is the jurisdiction of choice for hedge fund incorporation. The 'Launch 'n' List' product, available to the hedge fund industry since last year, is a direct response to the growing frustration among practitioners with the length of time they experienced when creating, domiciling and listing a structure. "Launch 'n' List' was the result of collaboration between the Bermuda International Business Association (BIBA), the Bermuda Monetary Authority (BMA) and the Bermuda Stock Exchange (BSX)," says Greg Wojciechowski, president and chief executive of the Bermuda Stock Exchange. "The procedure seeks to reduce and eliminate duplicate effort, which in turn reduces the

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The logo for Swiss Fund Services features the word "SWISS" in a large, bold, sans-serif font. The letters "S", "W", and "I" are red, while "S", "S", and "S" are white. A white horizontal bar is positioned above the "S" in "SWISS". Below "SWISS", the words "fund services" are written in a smaller, lowercase, sans-serif font, colored red.

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# A reputation for quality in a sector poised for expansion

By Chris Harkness

Established three years ago with one single fund of hedge funds mandate, Swiss Fund Services now administers more than 45 funds from its offices in Hamilton, Bermuda and Johannesburg, South Africa. The company also has a US presence in New York, and is looking to add a European office during the first half of 2009. Swiss is a member of Atree Financial, a financial services company regulated by the Bermuda Monetary Authority.

Most offshore funds incorporate in the Cayman Islands, as many attorneys have grown comfortable with the islands as a legal jurisdiction. Although Bermuda recently launched its new Launch 'n' List initiative to attract more fund incorporations, the nation is nowhere near the size of Cayman in terms of domiciled funds.

However, a considerable number of Cayman-incorporated funds are currently administered from Bermuda. The reason for this unusual dynamic is due in large part to the fact that Cayman imposes no requirement for a local fund administrator. As a result, Bermuda's administrative presence has grown considerably and is presently the domicile of choice for administration with around 70 administrators providing a diverse array of fund administration services from front- to back-office support.

Bermuda has long been a major player in the financial services industry, with a history that stretches back more than 50 years. After initially fulfilling a pivotal role in global insurance and reinsurance, Bermuda has rapidly expanded into servicing the alternative investment industry. Despite recent market turbulence, alternative asset management inflows continue to increase, and are driving the demand for Bermuda-



**Chris Harkness is the  
Managing Director of Swiss  
Fund Services**

based administration services.

Over the past few years, there has been a notable increase in the establishment of Bermuda-based fund service providers as the industry's demand for high quality administrators has dramatically increased. As a result, newly-established fund administrators tend to view client service as a priority deliverable.

Swiss offers a complete suite of administration services, including but not limited to portfolio valuation, shareholder services and real-time reporting. Although Swiss provides individual administrative services on an ad hoc basis, fund managers elect to use the firm because of our experience, expertise and breadth of service.

In the fund administration sector, Bermuda has a strong reputation for regulatory oversight and benefits from the credibility of its regulatory body. Co-operation between the private and public sector has fostered a synergistic balance of transparency, market integrity and investor protection.

Looking ahead, we believe that Bermuda will attract the majority of administration business from fund managers across the globe. Although industry growth will be limited to the extent with which Bermuda can readily attract and retain experienced administrative professionals, Swiss benefits from a robust technological infrastructure that enhances the overall level of client service while simultaneously providing a flexible work environment for administrative professionals and staff. At present, the firm's clients include funds of funds, single strategy and multi-strategy funds, master/feeder funds, US partnerships, managed accounts and private equity funds. ■



p13 amount of time to market," he adds.

"From what I've gathered, 'Launch 'n' List' is gathering some steam in the industry. I would say that 'Launch 'n' List' has created a buzz," says Harkness. Mendes says that he has not yet seen a lot of funds launching and listing, however, in his opinion, the 'Launch 'n' List' product highlights the innovative thinking within Bermuda. "It is fairly new, so perhaps we'll see more funds taking advantage of it. Having the additional oversight of our internationally recognised stock exchange should be a big plus for investors and managers," he says. Others in the industry are a little more cautious when it comes to the potential impact of 'Launch 'n' List'. The growing number of institutional investors incorporating hedge funds into their portfolios will certainly lead to more hedge funds listing, however this will apply more to the medium to large hedge funds and not to the vast majority of smaller funds, where their investor base does not demand that the fund be listed. Also, in much the same way as Cayman is seen as the number one place to consider when choosing a hedge fund's domicile, both the Irish and Luxembourg Stock Exchanges top the current charts for hedge fund listings, leaving Bermuda in all probability likely to experience only slow growth in the number of hedge funds launching and listing on the Bermuda Stock Exchange.

'Launch 'n' List' is going some way towards changing attitudes towards Bermuda as a relatively slow and costly jurisdiction for a hedge fund to consider, however perception, as in so many areas of life, is

still lagging behind reality. "Most of the incorporations are handled by lawyers and legal counsel. Many prefer Cayman because that's where they know," says Harkness. "Many people hold the belief that Cayman is both easier and cheaper. Yet that is a misnomer as Bermuda is often less expensive and much less complicated than Cayman," he adds.

Although Bermuda cannot compete with Cayman in terms of numbers of fund incorporations, the island does see a significant number of the funds domiciled in Cayman looking to Bermuda when seeking an administrator. "Most funds incorporate in Cayman," says Harkness, "they are miles ahead of anyone else in terms of funds being launched and registered. With only 1,200 registered funds, Bermuda is nowhere near the size of Cayman. However, the majority of Cayman funds are most probably administered from Bermuda." "Many funds incorporated in other jurisdictions are actually being administered in Bermuda," says Critchley. "From an administrator's point of view, we don't mind where the fund is launched, incorporated or registered, because we can administer just about any jurisdiction," says Harkness. "While Bermuda may not be the preferred launch site for investment funds, it is certainly the domicile of choice with respect to funds administered," he adds.

Of course Cayman is not the only jurisdiction that Bermuda needs to be conscious of in terms of competition. "Fund administration in Bermuda is facing more and more global competition coming from onshore locations like London and New York as well as offshore locations like Cayman and the BVI," says Harkness. Traditional offshore locations like Bermuda also need to keep a watchful eye on the newer locations, such as Dubai and Qatar, which could present a growing challenge in future years. "One of the things that will enable Bermuda to compete globally is its suite of competent third party providers - law firms, accounting firms, auditors and of course fund administrators," says Harkness. "We have a very developed fund administration industry represented by global and niche players," says Critchley.

Bermuda's administrators have generally

been supportive of the recent legislation that states that they must be licensed by the Bermuda Monetary Authority. The widely held view is that the licensing process has not been an onerous one and that Bermuda's administrators were largely already complying with the licensing standards. In many cases, prior to the legislation being in place, investors carrying out due diligence on a fund administered in Bermuda would ask for details of the administrator's license, despite the fact that the island did not have a administrator licensing system in place. The fund's administrators were able to demonstrate that they had all the expected internal procedures, checks and balances in place and that they would meet the licensing standards of other jurisdictions, but the lack of licensing legislation in Bermuda was seen by some investors as a hurdle. According to Harkness, Bermuda's licensed administrators have added increased credibility, comfort and protection to investors and funds.. "The BMA now has the ability to go into an administrator and conduct reviews, which only helps to increase the attractiveness and reputation of our regulated jurisdiction," says Critchley.

The introduction of the legislation has certainly not deterred fund administrators from setting up in Bermuda. "A lot of those who have been setting up are the boutique style, high client service oriented administrators," says Harkness. "The markets have been hit quite hard this year, but numbers show that the amount of money coming into the hedge fund industry has continued to increase, hence the increasing need for quality administrators."

Two advantages that Bermuda can offer are the quality of its operational and technical infrastructure and of its intellectual capital. "We have some of the top name law firms in the offshore community, all of the large audit firms and there are approximately 70 licensed administrators in Bermuda," says Harkness. "It's not onerous to set up and run a business here - this is a very big selling point for those companies looking to do business with Bermuda and set up businesses here," he adds. "The intellectual capital of our workforce is also a big advantage," says Critchley. Harkness believes that the wealth of experienced people and



personnel in Bermuda is second to none. He does, however, caution that with 70 administrators on the island and these numbers more likely to increase than decrease, the task of trying to find and keep quality staff is challenging.

With the constraints of a small local supply of trained accountants, lawyers and experienced fund administration personnel, service providers find themselves having to recruit from overseas, which is also becoming more difficult as the fund service industry itself grows. Bermuda also faces the challenge of being compared as a relocation destination with the other jurisdictions, including the newer attractions of places like Dubai and Qatar. Maintaining a low staff turnover is also a priority for many fund service providers. "It's not so challenging for a small to medium sized boutique company to retain talent because the environment within a boutique company is more enticing," says Harkness. It is the larger administrators who feel the pinch more in terms of the sheer numbers of staff they need to recruit and in retaining staff. Indeed, some of Bermuda's larger administrators are increasingly moving the bulk of their work such as NAV calculations onshore to places like India whilst retaining a share register type group on the island.

Harkness, for one, believes that Bermuda has a bright future. "It's a stable and growing economy and the legislation framework and the government working hand in hand with industry has allowed us to keep ahead of the game in terms of global requirements and what funds are looking for from their providers," he says. ■