

# Qualifying Investor Alternative Investment Funds

## Overview

The Qualifying Investor Alternative Investment Fund ('QIAIF') is an Irish regulated fund structure and the vehicle of choice for holding global assets of both private clients and institutional investors. The total asset value of Irish QIAIFs is €302 billion<sup>1</sup>.

## Assets

The QIAIF is suitable for holding a very wide range of assets including:

- Publicly traded debt and equity securities;
- Bilateral loans, privately placed debt issues, and shares in unlisted companies;
- Loan Origination;
- Deposits, units or shares in collective investment vehicles, investments in exchange traded funds, and commodities;
- Real estate in any jurisdiction either directly held or via subsidiaries;
- Investment positions taken by way of derivatives including futures, options, forwards, swaps and other contracts or instruments;
- Special purpose vehicle ('SPV') entities including companies;
- Joint venture ('JV') entities including partnerships

## Taxation Benefits

- The QIAIF is not subject to any Irish tax on income or capital gains;
- There is no tax or withholding tax on distributions by a QIAIF to its international investors;
- There is no stamp duty on the purchase, redemption or transfer of QIAIF units or shares;
- The QIAIF provides access to Ireland's extensive treaty network (64 treaties in force and an additional 4 pending).

## Legal Format and Structure Choices

- *Choice of legal format:*
  - › Corporate entity;
  - › Unit trust;
  - › Limited partnership.
- *Choice of structures:*
  - › Stand-alone fund;
  - › One or more sub-funds under Davy umbrella fund;
  - › One or more sub-funds under stand-alone umbrella fund.

## Other Benefits

- A regulated structure in a respected onshore jurisdiction;
- Protection of investor confidentiality;
- Ability to raise funds from professional and institutional investors;
- Recognised internationally as tax efficient;
- Flexibility regarding leverage, liquidity and concentration of assets;
- No lower or upper limit on number of investors;
- Ability to use derivatives to manage risk or to take investment positions;
- Can be integrated into wider asset holding or tax planning structures;
- Accounting and custody duties delegated to regulated independent third parties;
- Can include sub-funds that are fully legally segregated from each other;
- Funds and sub-funds can be bought and sold tax efficiently, as a clean structure from a due-diligence perspective, and as an attractive regulated structure from a buyers perspective;
- Can delegate fund management decision making or bring in specialist investment advisors as required.

## Additional Benefits of Stand-alone Umbrella Fund

- Create specific portfolios of assets in separate sub-funds;
- Segregate liability between sub-funds;
- Hold assets for specific JVs;
- Position sub-funds for separate sale;
- Attract capital from specific investor groups.

## Other Considerations

- While meeting the regulatory requirements (see 'Regulatory Framework' below) may mean additional costs, there may be some offset against existing costs relating to internal accounting and custody functions being assumed by the QIAIF service providers;

<sup>1</sup> Source: Irish Funds Industry Association, October 2014

- Investors must meet specific criteria in order to invest in a QIAIF (see 'Regulatory Framework' below);
- While international investors are not subject to withholding tax on distributions by a QIAIF, tax may apply in their local jurisdiction.

### **Regulatory Framework**

QIAIFs are regulated fund vehicles under the supervision of the Central Bank of Ireland and as such there are a number of regulatory requirements that need to be met.

In meeting its requirements under AIFMD, a QIAIF may be a self-managed Alternative Investment Fund Manager ('AIFM') or it may appoint Davy Investment Fund Services ('DIFS') to act as an external AIFM in order to meet their obligations under AIFMD. The AIFM role may involve the delegation of certain duties to the other parties. The AIFM may undertake the investment management function or delegate this role to an authorised investment manager. DIFS as an authorised AIFM can delegate the investment management function to an approved third party such as J&E Davy or Davy Asset Management Limited, both of whom are authorised by the Central Bank for this purpose. DIFS, as an authorised AIFM, can also carry out the Risk Management Function on behalf of the QIAIF.

A QIAIF is also required to have a regulated Administrator, who calculates net asset values and provides accounting services, and a regulated Depository who oversees the manner in which the QIAIF is managed and who provides asset custody services. DIFS can appoint global investment firms to fill these roles.

Once established, a QIAIF may accept investments from investors who meet the Qualifying Investor criteria, which are:

- Minimum initial subscription €100,000; and
- Professional investors or capable of certifying knowledge of the asset class.

### **Alternative Investment Fund Manager Directive**

The Alternative Investment Fund Manager Directive ('AIFMD') was implemented by EU Member States on 22nd July 2013.

The principle benefit of AIFMD is to permit the cross border marketing of AIFMD approved fund structures to professional investors across the EU. Irish QIAIF structures are positioned to meet the regulatory requirements of AIFMD with the result that Investment Managers seeking to raise capital will be in a position to offer this regulated structure to institutional investors on a Pan-European basis. When one considers the level of global recognition for UCITS branded products in the retail sector, expectations are high that a similar level of success will be achieved by the AIFMD brand in becoming the onshore regulatory structure of choice for professional investors.

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## About Davy Fund Services

Established in 1926, Davy is Ireland's leading provider of wealth management, asset management, capital markets and financial advisory services. Employing over 560 people, we offer a broad range of services to private clients, corporations and institutional investors. Our activities are organised around five interrelated business areas: Asset Management, Capital Markets, Corporate Finance, Private Clients and Research.

Davy established its first regulated fund in 1997 and, as a result, we are very familiar with all aspects of managing and administering these structures. The range of assets managed within these vehicles varies depending on the fund's investment profile. In many cases, investments are confined to specific asset classes for example the commercial property sector, both domestically and overseas, while others follow a broader allocation incorporating quoted equities, private equity, hedge funds, debt securities and other alternative asset classes.

The following entities are directly involved in our fund services offering:

### **J&E Davy (Trading as Davy)**

Davy is an investment firm specialising in providing investment management services to both in-house and third party Collective Investment Schemes ('CIS'). The firm is also authorised to provide a number other key services to funds such as promotion, distribution and listing. Davy is a lead Sponsor for investment funds wishing to list on the Irish Stock Exchange and is one of only three Sponsors to be represented on the Stock Exchange's Investments Funds Listing Committee.

### **Davy Asset Management Limited**

Davy Asset Management Limited is an investment firm which focuses on providing investment management services to both in-house and third party CIS including UCITS ('Undertakings for Collective Investments in Transferable Securities') and Alternative Investment Funds. Davy Asset Management Limited has expertise in managing a broad range of asset classes including quoted equities, private equities, hedge funds, debt and real estate. Assets are managed through a range of regulated structures - UCITS and Alternative Investment Funds. Davy Asset Management can also act as a Promoter and Distributor of funds.

### **Davy Investment Fund Services**

Davy Investment Fund Services ('DIFS') is an Alternative Investment Fund Manager ('AIFM'). Alternative Investment Funds ('AIFs') are required to comply with their obligations under the Alternative Investment Fund Managers Directive ('AIFMD'). AIFs can appoint DIFS to act as an external AIFM in order to meet their obligations under AIFMD. DIFS as an AIFM offers the following functions to AIFs seeking to outsource their AIFM requirements.

- Risk Management Services;
- The additional capital requirements required under AIFM directive;
- An outsource solution for MIFID firms requiring an AIFM; and
- An efficient and cost efficient AIFMD support.

### **Regulatory Supervision and Control**

All three of the entities listed above are licensed and regulated by the Central Bank of Ireland. J&E Davy and Davy Asset Management Limited are authorised as Investment Firms under the European Communities (Markets in Financial Instruments) Regulations 2007 ('MiFID'). MiFID is an EU-wide Directive that sets out the regulatory framework for financial services firms operating in the EU. DIFS is authorised by the Central Bank as an Alternative Investment Fund Manager. The Central Bank of Ireland is responsible for prudential and conduct of business regulation and supervision of investment firms in Ireland.

In addition to external regulatory supervision a range of internal independent oversight functions are in place, including:

- A Compliance Team consisting of 12 employees, many with a background in the fund/ investment management industry;
- A Compliance Committee chaired by a non-executive director; and
- An Audit Committee chaired by a non-executive director.

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*J&E Davy, trading as Davy, is regulated by the Central Bank of Ireland. Davy is a member of the Irish Stock Exchange, the London Stock Exchange and Euronext. In the UK, Davy is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request.*

*Davy Asset Management Limited is regulated by the Central Bank of Ireland.*

*Davy Investment Fund Services is regulated by the Central Bank of Ireland.*

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