

HFMWEEK

SPECIAL REPORT

HOW TO START A HEDGE FUND IN THE US 2015

TECHNOLOGY

Cyber security and data access are essential to a start-up

RAISING CAPITAL

Sophisticated investors demand a developed business plan

LEGAL REQUIREMENTS

Making sure your fund documents are watertight



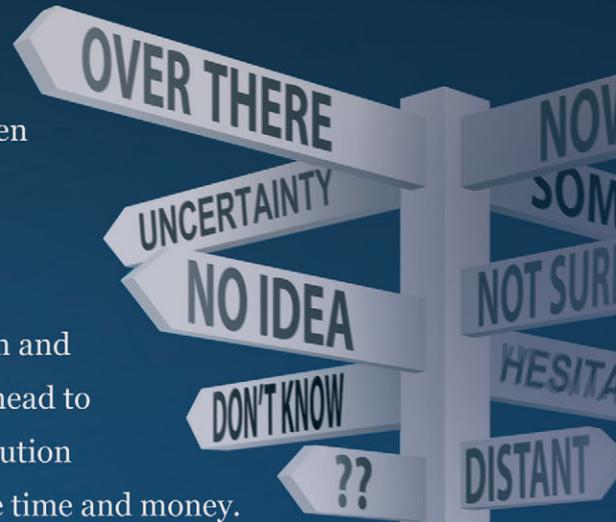
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“To know the road ahead,
ask those coming back.”

Navigating the alternative investment fund formation landscape, as well as attracting the right institutional investors, can both be daunting tasks when starting a new fund.

Fund Formation and Administration:

Our expertise in domestic and offshore fund formation and fund administration will help you navigate the road ahead to find your pathway for success. Our comprehensive solution streamlines the formation process, saving you valuable time and money.



STONEGATE

GLOBAL FUND SERVICES

Offering Innovative Alternative Fund SolutionsSM for:

- Hedge Funds
- Venture Capital Funds
- Private Equity Funds
- Real Estate Funds
- REIT Funds
- Oil & Gas Funds
- Fund of Funds

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THE COMPETITIVE HEDGESM IN CREATING A SUCCESSFUL HEDGE FUND

JOHN MCCORVEY III AND WILLIAM CHONG OF BLUEFLAME GLOBAL WEALTH MANAGEMENT AND MICHAEL BLACKBURN OF STONEGATE GLOBAL FUND SERVICES DISCUSS THE MOST SUCCESSFUL APPROACH TO FUND FORMATION AND GLOBAL MARKETING TO SOPHISTICATED INSTITUTIONAL INVESTORS



John McCorvey III is the CEO of BlueFlame Global Wealth Management and Stonegate Global Fund Services. McCorvey is a successful investor and entrepreneur involved in venture capital, private equity and hedge funds. McCorvey has created and run numerous successful businesses in the financial services industry, including wealth management, electronic trading, prime brokerage and fund administration.

In the competitive world of finance the hedge fund industry is seen as the most gruelling and competitive business. Alternative asset management is a performance-driven industry and having a competitive edge is critical for both portfolio management and operational management success. Managers need every advantage in order to achieve true organisational and financial success.

PORTFOLIO MANAGEMENT

Analysing a globally connected macro-economy, evaluating micro-economic environments, geo-political concerns, business cycles, industry trends, company analyses for position decisions, as well as technical analysis for trading those positions; these are all basic requirements in the portfolio management decision chain fuelling the ability to consistently outperform the overall markets and provide alpha to fund investors.

For those investment management teams that are fortunate enough to generate solid investment performance, the above dissertation does not factor in all of the other critical aspects of running the 'business of the business'; which are just as important for the organisation to achieve true success and attract institutional capital.

FUND FORMATION & OPERATIONAL MANAGEMENT

During the start-up phase, the management team has the task of evaluating and selecting key service providers for fund formation, regulatory and compliance, legal counsel, prime brokerage, fund administration, audit and tax services.

In order to garner significant capital, the manager must build an institutional quality infrastructure inclusive of trading and order management systems, middle office

and back office staff and technology. The fund manager also needs to develop a national or global marketing plan, create a corporate branding and marketing package, and build an investor relations and marketing team in order to bring awareness to the fund and attract additional assets.

YOUR COMPETITIVE HEDGESM IN FUND FORMATION & OPERATIONAL MANAGEMENT

In order to assist alternative fund managers in achieving operational success, Stonegate Global's comprehensive solution streamlines the formation process for the management team and also supports the ongoing operations of the fund. Its Innovative Alternative Fund SolutionsSM

consists of fund formation, regulatory and compliance services, fund administration, and an array of prime brokerage/custody options including many of the world's largest custodians, as well as audit and tax services through a number of its strategic relationships.

Stonegate Global takes a strategic business advisory role by creating innovative fund structures that consider each client's current and projected needs. Our clients have an end in mind and the Stonegate team creates a road map to achieve these objectives. The Innovative Alternative Fund SolutionsSM concept is based on an old Chinese proverb – 'to know the road ahead, ask those coming back'. Stonegate helps its

clients understand what's around the next corner by leveraging the firm's extensive experience in global, multi-asset class fund formation, fund administration, prime brokerage, capital raising, global fund marketing and distribution. Stonegate evaluates all aspects of each client's project to select the most appropriate jurisdiction, customise various structural elements, implement multi-jurisdictional tax mitigation strategies, develop global marketing campaigns, and provide other critical value-added services to

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STONEGATE GLOBAL TAKES
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”

assist its clients in creating and running successful alternative investment fund businesses.

Our expertise in domestic and offshore fund formation ranges from hedge funds, commodity pools, venture capital funds, private equity, real estate funds, REIT funds, ABL funds, oil and gas funds and fund of funds.

CAPITAL FLOW TRENDS & OPERATIONAL REQUIREMENTS OF INSTITUTIONAL INVESTORS

Trends in the institutional investor arena have changed dramatically over the past few years, and even more so in the past 12 months. Institutional investors account for over 60% of all hedge fund investments. Given the global financial crisis of 2008, the Madoff scandal, and other recent events, institutional investors have become much more risk conscious and require significant transparency in terms of portfolio risk. Considering that over half of asset manager failures are associated with operational risks, it's not surprising that institutional investors are highly concerned and focused on operational infrastructure, organisational strength, governance and independent verification, as well as investment performance.

Although the alternative investments industry as a whole continues to grow, and is anticipated to continue on its unparalleled track of asset growth, there are numerous concerns. In 2014, Calpers, one of the largest pension funds in the US, along with pension funds in New Jersey, Ohio, and other well-known pension funds, announced significant reductions in hedge fund allocations. This is a very strong signal that a substantial paradigm shift in the industry is underway. Large institutional investors followed Calpers in the late 1990s and early 2000s by investing in hedge funds, and it appears that the institutional community has taken notice.

Although it is unlikely that institutional investors would completely move away from the hedge fund asset class, this new industry shift will certainly lead to institutional investors and sophisticated family offices demanding performance and economic alignment from hedge fund managers. This is already being demonstrated by a demand for lower management fees, an increase in the use of hurdle rates, risk transparency, and through other aspects of the relationship with alternative investment fund managers.

Institutional investors consider expertise and risk transparency just as important as investment performance. They are seeking institutional quality infrastructure, operational strength as regulations continue to evolve, sophisticated reporting and stronger governance frameworks, including independent verification of controls and procedures.

Institutional hedge fund investors are now pushing for managers to follow best practices of their private equity peers, based on the 'industry best practices' which was issued by institutional investors of private equity funds in 2009.

INDUSTRY REGULATORY CHANGES

In addition to the aforementioned infrastructure mandates from institutional investors and the costs thereof, portfolio managers must also consider regulatory elements.

They must manage and budget for AIFMD requirements for AIF managers in the EU, Dodd-Frank regulations and RIA/LA requirements and other recent regulatory changes



Michael Blackburn

associate counsel of Stonegate Global Fund Services, assists clients with domestic and offshore fund structuring, as well as regulatory and compliance matters. Blackburn has industry experience in wealth management, trust formation and estate planning for high-net-worth and ultra-high-net-worth clients. He also brings experience from both Merrill Lynch and Empire Wealth Strategies.



William Chong

is the chief operating officer of BlueFlame Global Wealth Management and also serves as the SVP head of alternative fund services at Stonegate Global. Chong has more than 15 years of experience in the financial services industry, having served as head of fund administration at HSBC, also as the chief financial officer for an \$800m hedge fund, and as an audit manager at Ernst & Young.

in the US due to the new JOBS Act, Ucits IV requirements for cross-border marketing, upcoming Ucits V regulations which were approved in 2014, and Basel II and III banking initiatives which impact custody and prime brokerage.

Moreover, the Solvency II EU directive's impact on the hedge fund market, IFRS/GAP accounting standards, GIPS compliant reporting requirements, new CAQ AI-CPA guidelines released in late 2014, SEC independence rules, Fatca tax reporting requirements, and other global regulatory and operational issues must be considered by portfolio managers.



HEDGE FUNDS AND OTHER ALTERNATIVE INVESTMENT FUNDS CONTINUE TO BE THE MOST ENGAGING AND EXCITING INVESTMENT VEHICLES



ATTRACTING INSTITUTIONAL CAPITAL

In the wake of the shifting and evolving demands from institutional investors, as well as an ever-changing regulatory landscape, successful portfolio management teams must budget significant capital to fund their operational infrastructure to meet the aforementioned requirements. These additional costs could range from a few hundred thousand dollars per year to well over \$1m per year, all depending on the investment strategy, investor mandates, and the goals and objectives of the portfolio manager.

BlueFlame Global Wealth Management offers select portfolio managers a 'plug and play' solution into its existing institutional multi-strategy fund infrastructure.

BlueFlame maintains all of the necessary operational staff and infrastructure, along with handling all aspects of fund compliance and operations, investor relations, global and cross-border marketing and distribution. It provides seasoned and credentialed portfolio management teams with the independence and autonomy as a portfolio manager of a completely separate fund product, while simultaneously operating as a part of a much larger institutional organisation. Current hedge fund managers can also migrate existing fund products onto the BlueFlame platform.

CONCLUSION

Hedge funds and other alternative investment funds continue to be the most engaging and exciting investment vehicles for savvy institutional investors and family offices. Given the vast array of investment strategies, a myriad of structural options, as well as various tax advantages, alternative investment funds should continue to attract significant amounts of capital for the foreseeable future. Having the appropriate infrastructure offers successful portfolio management teams the best opportunity to continuously attract assets from sophisticated global institutional investors and family offices. ■