# Using SPCs as emerging manager platforms

## Interview with Richard Spencer

Flexibility, cost-effectiveness and speed to market are just a few of the advantages to electing to launch a fund on a pre-existing Segregated Portfolio Company (SPC) fund platform.

Alternatively, managers may choose to set up an SPC structure of their own, allowing them to add new segregated portfolios when they wish to offer separate investment strategies.

"We are seeing a lot of managers setting up their first Cayman Islands fund structure as an SPC so that if, in six or twelve months' time they identify a separate strategy, they know that they can establish an additional portfolio and that it will be quick and inexpensive to do so," explains Richard Spencer, Partner at law firm Campbells.

**Richard Spencer, Partner at Campbells**

On the other hand, SPC fund platforms are offered by an increasing number of fund administration and fiduciary services companies as a turnkey solution. They are often referred to as "Emerging Manager Platforms", or "Hosted Fund Solutions". "Their popularity is understandable, given the increasing regulatory burden and other barriers to entry that new managers face, not to mention the time pressure that some face from prospective investors," explains Spencer.

Whereas establishing a standalone Cayman Islands fund can be a time consuming process for an emerging manager, managers who join an existing SPC fund platform can typically get their fund up and running in no time at all.

"One of the benefits of using a platform is that there are typically a large number of portfolios in the umbrella structure, resulting in efficiencies and cost savings when taken against setting up a standalone fund. A second benefit is that the launch time is very quick; the structure is already in place and the SPC is typically registered with the Cayman Islands Monetary Authority (CIMA) as a regulated mutual fund pursuant to Section 4(3) of the Mutual Funds Law. Therefore, the creation of a new portfolio is a very straightforward process. Thirdly, some platform structures include a management company that is regulated in a jurisdiction where setting up and licensing a new manager may be prohibitively expensive and time consuming.

"A manager can start building a track record within a matter of weeks, which might enable them to gain additional investment into their fund early on. There is some desire by managers to use this turnkey solution, particularly when these platforms have well-known service providers in place," explains Spencer.

Indeed, when a manager is marketing to new investors, the familiarity of these service providers might make it easier for an unknown manager to raise capital.

Operationally, an SPC is quite straightforward. Each segregated portfolio (or 'sub-fund') on a platform has its own set of fund documents, brokerage trading account and fund bank account.

"The crucial point is that there is full segregation of assets and liabilities between each of the portfolios in an SPC fund structure. In particular, where leverage is to be used by a fund manager in respect of one strategy and not another, this ring-fencing feature is crucial in order to prevent cross contamination between portfolios," notes Spencer.

Given that SPC platforms have service agreements in place with multiple counterparties to support a wide range of sub-funds, this can create economies of scale which reduce the operating costs for a new manager. However, as Spencer points


out, if fund assets grow significantly, platform fee structures can become expensive.

"Clients should consider when to spin off the platform and set up their own fund structure, which they can typically do whilst maintaining their track record, subject to local marketing rules. It's advisable that they speak with Cayman Islands legal counsel at the outset as to the timing, process and cost of moving off the platform in due course.

"Also, if the manager has specific service providers in mind, they should ensure that the platform they opt for allows them that flexibility. There are different types of platforms; some have a predetermined set of service providers that managers are required to engage with, some allow managers to mix and match their service providers, whilst others will allow managers to fully select their own service providers, subject to the platform board's approval," explains Spencer.

He outlines the usual process for joining an SPC platform, as follows:

- The emerging manager enters into an agreement with the SPC platform provider.
- The emerging manager selects audit, fund administration and other service providers, which are typically available at competitive rates.
- The directors of the SPC resolve to create a new segregated portfolio.
- A supplemental offering memorandum for the new segregated portfolio is prepared.
- Many platforms allow managers to spin off into a stand-alone fund at any time.

One point to mention is that if a manager has a standalone fund, he has full control over who to appoint to the fund's board of directors. However, if an emerging manager engages with an existing platform, there will already be board members in place at the SPC level. When doing due diligence on SPC platforms, Spencer explains that it is worth checking who the board members are; typically they will be affiliated with the platform provider.

He says that in a world of increasing regulation, it is helpful to have a variety of SPC platform solutions available; however emerging managers should always discuss the pros and cons of platform solutions with their Cayman Islands legal counsel before committing to a fund platform rather than setting up their own standalone fund. ■