



SMART FUNDS

SPECIFIC MANDATE ALTERNATIVE REGULATORY TEST FUNDS
an innovative solution to financial challenges

If you are an investment manager, attorney or trustee, or an individual involved with a small group of sophisticated investors, such as a family office, in need of a vehicle to give a collective investment scheme some structure, along with added transparency and a boost of prestige then, a *SMART* Fund is a viable solution for you.

Clients can take advantage of this sophisticated yet simple investment platform that allows them to structure their investment objectives in a regulated environment without neglecting confidentiality. Based in The Bahamas, a modern and dynamic international financial center, *SMART* Funds are licensed entities that can take the shape of an International Business Company, Segregated Account Company, Unit Trust or Partnership – often of significance to counterparties and investment banks in today's highly regulated investment environment.

This category of industry-driven funds has been designed to cater to sophisticated investors, assuring adequate regulatory oversight without sacrificing the flexibility needed to facilitate the transactions of today's innovative fund promoters and managers. In essence, this is a group of low-cost, specific purpose investment fund structures with the potential to be much more.

As of August 2012, seven different types of *SMART* Fund licenses have been approved (each defined by means of a template published by the Securities Commission of The Bahamas) in order to satisfy the required flexibility that may be required in modern day investment structures aggregating two new templates since its previous update in September 2007.

The most sought out subcategories are SMF002, SMF004 & SMF007, reflecting below the attractiveness of their main features:

SMART 2: Incubator Fund (SMF002)

An investment fund with a maximum of 10 eligible investors.

Key features:

- Maximum 10 "Eligible Investors" (*) to whom a Professional Fund may be offered
- Waiver of Audit
- May be licensed by an Unrestricted Fund Administrator (such as Winterbotham) on behalf of the Commission
- Limited disclosure requirements
- No prospectus required – simply a Term Sheet
- Majority of investors have the power to remove directors

Potential use:

As an incubator structure to generate performance history prior to upgrading the license to a Professional or Standard Fund in anticipation of a public offering.

(*) Eligible Investors- For example any person with annual income greater than USD 200,000 (or USD 300,000 jointly with spouse) or entities who's beneficial owners qualifies as such.

SMART 4: Private Client Fund (SMF004)

An investment fund with a maximum of 5 investors.

Key features:

- Limited to 5 or fewer Investors
- Private Placement only
- Limited disclosure requirement
- May be licensed by an Unrestricted Fund Administrator (such as Winterbotham) on behalf of the Commission
- Administrator not required where directors opt to carry out administrative duties
- If directors opt to carry out administrative duties, only the Commission will be able to license the fund
- Waiver of Audit
- No prospectus required – simply a Term Sheet

Potential use:

As a credible, licensed holding vehicle for a small group of related persons, perhaps under a Family Office structure

SMART 7: Super Qualified Investor Fund (SMF007)

An investment fund with an extended amount of investors reaching a maximum of 50, whom must make a minimum initial subscription of US\$ 500,000.

Key features:

- Limited disclosure requirements
- Administrator not required where directors opt to carry out administrative duties
- If the directors opt to carry out administrative duties, only the Commission will be able to license the fund
- In the case above, directors may outsource administrative functions to any reputable person in a jurisdiction.
- No prospectus required – Simply a Term Sheet
- Waiver of Audit
- May be licensed by an Unrestricted Fund Administrator (as Winterbotham) on behalf of the Commission

Potential use:

Investment vehicle designed for professional asset managers, institutional investors and ultra high net worth individuals.

The remaining subcategories are mainly characterized as follows:

SMART 1: Discretionary Management (SMF001)

An investment fund limited to the discretionary managed clients of Bahamian regulated financial institutions or financial institutions licensed in approved jurisdictions.

Key features:

- Promoter is a Financial Institution
- Investor is a customer of the promoter and are parties to a Discretionary Management Agreement
- Audit not required
- Limited disclosure requirements
- No prospectus required – simply a Term Sheet

Potential use:

As an investment vehicle for client funds managed under a discretionary management service.

SMART 3: Exempt Fund (SMF003)

This category of SMART Fund is restricted to “Exempt Funds” which existed prior to the introduction of the Investment Funds Act, 2003.

SMART 5: Private Client Fund II (SMF005)

Limited to 5 or fewer “Eligible Investors” to whom a Professional Fund may be offered.

Key features:

- May be administered by a financial institution
- Private Placement only
- Limited disclosure requirement
- Licensed Administrator not required
- Waiver of Audit
- No prospectus required – simply a Term Sheet

SMART 6: Side Pocket Fund (SMF006)

This category of SMART Fund is designed to provide fund operators with a simple, inexpensive mechanism to remove illiquid investments from a fund portfolio, whilst respecting fully the rights of current investors and creditors transferring said investments to a side pocket with out active management

The Bahamas’ modern investment fund administration sector has been further enhanced by the introduction of this unique style of collective investment vehicle which is governed by the Investment Funds Act, 2003.

SMART Funds encourage innovative structuring options that are looked upon favorably by the Securities Commission of The Bahamas whose regulatory approach is particularly supportive to the objectives of sophisticated investors.

SMART FUNDS GIVE YOU:

- the **OPPORTUNITY** to design a specific type of investment fund template, and are therefore not limited to designs of existing templates 1-7.
- **CREDIBILITY** and **ACCEPTANCE** in the eyes of counterparties and banks when doing international business, such as opening an overseas Bank or Brokerage account
- a **FAST-TRACK LAUNCH** as Unrestricted Fund Administrators, such as Winterbotham, may license *SMART* Funds (and Professional Funds) without prior processing by the Securities Commission of The Bahamas allowing the fund to launch without any bureaucratic delays
- significantly **REDUCED COSTS** as they are not required to prepare the traditional lengthy Offering Documents, and may waive external audit, subject to the prior approval of all investors
- the **OPTION TO UPGRADE** its license to that of a Professional or Standard Fund* as and when the promoters wish.

*Additional information provided on www.winterbotham.com



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OTHER POTENTIAL USES:

- **ASSET GROUPING TO LIMIT EXPOSURE** – *SMART* Funds can provide a vehicle to buy into a particular product or strategy, which in turn can be bought by another fund managed by the same manager. In this way a fund or group of funds are able to benefit from minimal exposure to a specialized asset class, managed internally and provided inexpensively.
- **SPECIAL PURPOSE VEHICLE WITH LIMITED LIFE** – Consider two scenarios: (1) Investor needs a credible but inexpensive vehicle to take a position in a single investment which is only expected to have a limited life, such as holding a promissory note with a fixed maturity date; or (2) a group of sophisticated investors may decide to pool resources to make a single application for a new issue. If the application is successful the shares may either be held or sold soon after issue and the fund liquidated.
- **FAMILY HOLDING COMPANY** – A family may wish to involve certain members in the ownership and/or management of specific family-owned assets. *SMART* Funds allow for a simple distribution amongst children by means of the issuance of shares (which may be divided into several classes with different participation and voting rights assigned to them).
- **FAMILY SEGREGATED ACCOUNTS COMPANY** – By using a *SMART* Fund set up as a segregated accounts company, specific assets may be separated from others and shares in these 'cells' passed to specific dependents. Each cell could have a different asset manager allowing, for example, a family business to be managed separately from other family assets, but owned within a single structure.
- **TRUST-LIKE FUND** – A family that wishes to benefit from certain features of a traditional trust, may opt to invest through a *SMART* Fund as joint shareholders. Joint shareholding limits the ability of dependents to redeem shares, but legal ownership and beneficial ownership are not separated as they would be in a traditional trust with the involvement of a trustee. *SMART* Funds thereby offer some advantages over a traditional trust arrangement and all within a more widely accepted and licensed corporate structure.



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