DEMYSTIFYING MANAGED ACCOUNT PLATFORM PROVIDERS

Abali Hoilett | Co-Head Funds Fiduciary
Benoit Sansoucy | Vice President

Demystifying Managed Account Platform Providers

Canadian institutional investors have been at the forefront of investing in the alternative investment space, utilising innovative bespoke structures that reduce operational and investment risk and enhance returns. The widespread adoption of managed account platforms ("MAPs"), which create optimal conditions to generate and preserve alpha, while mitigating the risk from investing in commingled structures, has seen the vast majority of Canadian institutional investors engage a managed account platform provider ("MAPP").

This trend, in contrast to the preference of their counterpart investors in the US, accelerated following the financial crisis and a number of well-documented frauds within the industry. It has also gained greater relevance today, amid the significant challenges of the current market environment.

When structuring MAPs, Canadian institutional investors regularly look to engage MAPPs to overlay their MAP structure whereas aside from a small number of more sophisticated players, most US participants, be it pension plans, endowments or family offices, tend to lag their Canadian peers in the use of MAPPs. Instead, albeit with the use of side letters, there is a clear tendency towards funds of one or separately managed accounts ("SMAs") despite the inherent principal agent risk in commingled structures.

Benefits of MAPPs

Managed accounts ("MAs") can reduce the operational risk typically associated with investing in commingled structures and the use of a MAPP allows the investor to leverage the MAPP's technology, reporting, risk and legal expertise in negotiating agreements. That negates the need to rely on their own internal infrastructure and resources, at the same time, bringing enhanced liquidity, cash efficiency and a level of transparency not traditionally associated with investing in commingled structures.

Investors can select the underlying trading advisor ("TA") and delegate that function via an investment management agreement ("IMA") negotiated by both the MAPP and the investor. This agreement provides the authority to manage a pool of capital with a specific investment mandate and risk and return target profile. The mandate can mirror existing strategies of a particular commingled fund but with enhanced liquidity and risk measures embedded. Investors, in conjunction with their MAPP, can incorporate greater control over the portfolio construction and asset allocation, which can be highly advantageous in times of market turmoil and volatility.

Investors can also leverage the MAPP's reporting functionality and risk attribution tools to parse their

MAP's portfolio of TAs or if preferred, enable direct data feeds into an investor's risk management systems.

Furthermore, while there may have previously been some perception within the market that utilising a MAPP is only beneficial in highly liquid strategies, this is no longer the case. From our work supporting many of the largest and most prominent Canadian institutional investors in this regard, we have seen a significant uptick in credit related strategies with varying liquidity profiles now being on-boarded via a MAPP.

Another misnomer is that the use of a MAPP is cost prohibitive for smaller investors. Changes in technology and the competitive nature of the industry have materially reduced the cost of using a MAPP for such investors. These developments, combined with the ability to extract potential management fee concessions with the TA, can in fact mean the cost of a MAPP is neutral or even beneficial when compared to a traditional form of allocation and therefore should be considered as a means of complementing an investor's existing exposure to alternative investments.

Selecting a MAPP

As with any service provider, it is imperative that proper due diligence be conducted by the investor in the selection of a MAPP. Hence, a formal request for proposals should be sent to prospective target entities, including some of the following points of discussion:

- Due Diligence – Does the MAPP have an experienced dedicated team to conduct investment and operations due diligence on the TA?
- Risk Oversight – Does the MAPP have a risk team and customised reporting functionality in order to meet the requirements of the investor, or have the ability to feed portfolio position level data to the investor's risk aggregator on a frequent basis?
- Operational Bench Strength – Does the MAPP have the required back office functionality and controls including cash management, margin calculation, expense processing, NAV reconciliation, financial statement preparation, etc.?
- Reporting – Does the MAPP have the required reporting functionality? Can they extract, organise, and analyse data while layering in an investor's KPIs?
- Legal – Does the MAPP have a complement of well-seasoned legal staff to take on the heavy lifting in order to negotiate the multitude of agreements (administration, ISDA, custodial, banking, IMA, etc..) required to on-board a TA?
- Information Technology – Does the MAPP have a robust redundant IT infrastructure and the systems required to support all of its functions?
- Regulatory and Tax – Is the MAPP itself a registered and regulated entity and does it have the staff and systems to monitor and oversee regional regulatory requirements and can they actively monitor and follow up on any TA investment guidelines?

Structuring Considerations

The actual MAP structure an investor will wish to implement will depend on its jurisdictional preference; however, well-established MAPPs will have significant experience in working with a variety of onshore and offshore legal and fiduciary service providers. That will allow a structure and a range of services to be specifically tailored to meet the investor's needs. The MAPP will work in conjunction with an investor's own tax and legal advisers who will advise on the appropriate investment structure and whether this should be implemented via a Delaware GP / LP, LLC Master / Feeder, Cayman Limited Master / Feeder, Cayman SPC, Cayman GP / LP or other structure.

It is also important that investors determine the appropriate ownership structure of the platform and consider if the management shares are to be owned by the investor or held by a charitable trust to be administered by a trustee. The use of an orphan structure can be useful in order to mitigate both tax and aggregation concerns.

Implementation of the MAPP

Once the selection of the MAPP and the structuring is decided, a platform agreement will need to be put in place between the investor and the MAPP to govern the activities of the MAPP in relation to the investor's MAP. This may include, but is not be limited to, the type of reporting, compliance affirmation, due diligence activities, notices, financial statement preparation, net asset value calculations, trading level and other portfolio and financial information as well as monitoring of investment guidelines as required by the investor. The agreement will also govern numerous other considerations such as the types of service providers engaged, conflicts of interest, the valuation policy applied, warranties and representations, MAPP fees and portfolio construction control, among others.

Depending on the structure and jurisdictions involved, various other constitutional documents will be required and agreed to. Similar to the contractual agreement outlined above, the platform management agreement will govern how the MAPP will discharge its duties. In addition, the IMA entered into will dictate the terms in which the TA will execute the investment strategy and at a high level, include the investment guidelines and restrictions, compliance requirements, fees to be paid, indemnities and terminations provisions. There will also be a need for subscription agreements, director services agreements, board support agreements and fund administration agreements, as well as agreements for other outsourced functions.

Although these requirements may seem exhaustive, a MAPP with experienced legal staff coupled with onshore and offshore legal counsel, will greatly facilitate the negotiations of all relevant agreements. Once finalised, these agreements can then be used as a template for any new TAs to be on-boarded to the platform with the majority of the changes occurring with the IMA. Once the platform is set up it can therefore be quite quick to on-board a new TA.

Oversight of the Platform

Once the MAP is structured and the first TA is ready to be on-boarded, it is important that proper governance protocols are adhered to through a formal launch meeting and regularly scheduled board meetings. This will allow the independent directors the opportunity to review the launch resolution, constitutional documents, service provider agreements, investment management agreement and due diligence reports and direct questions to the platform manager. Furthermore, regularly scheduled and properly minuted board meetings will allow the independent directors to ensure that proper ongoing governance of the MAP and its service providers is maintained.

Termination of a Trading Advisor

Redemption from the TA will be in accordance to the subscriptions documents and negotiated notice periods. If the investor's investment with the TA is fully being redeemed then, depending on the structure, the MA may need be liquidated in accordance with the laws of the jurisdiction in which it has been established.

The Maples Group

As the alternative investment fund industry continues to evolve, so have the tools available to the sizeable pension plans gaining greater sophistication and looking to increase exposure to this space. This objective can be more effectively achieved through the adoption of customised products that extend benefits across the operational infrastructure and risk spectrum, to greater control, higher levels of transparency and better governance, which represent key priorities for institutional investors. The Maples Group has extensive experience in structuring and servicing MAPs, which includes providing Cayman Islands resident directors to both Delaware and Cayman structures and Irish / Luxembourg based directors to Irish and Luxembourg entities. On the structuring side, our legal services team can provide the necessary assistance with a Cayman, Irish or Luxembourg fund set up, advise on matters related to local laws and in some cases act as the registered office.

As a market leader in fiduciary services, the Maples Group provides experienced independent directors to a multitude of MAPs, across a broad range of strategies and structures. With extensive backgrounds in the legal, accounting and investment management spheres, our teams of directors bring greater comfort to investors from a governance standpoint, with vigorous oversight over the dedicated MA, the MAP and the various service providers, in addition to direct interaction with the underlying investor as desired.

About the Authors

Abali Hoilett

Abali is Co-Head of the Maples Group's Cayman Islands Funds Fiduciary business, servicing a wide range of investment fund structures including hedge funds, private equity funds and unit trusts. He primarily serves as a director to funds for clients across the Americas and Asia and brings specific expertise in the infrastructure and renewable energy sectors. Abali has authored several articles and participated in numerous industry panels on a variety of topics that explore the evolution of both the investment funds industry and corporate governance practices globally. Abali was previously a Vice President at Intertrust Fund Services (Cayman) Limited providing director and trustee services to a wide range of investment fund structures and strategies. Prior to that, Abali was employed by RBC Dominion Securities (Global) Limited (a wholly owned subsidiary of RBC Dominion Securities Inc.) where he was responsible for creating and managing investment portfolios for institutions and high net worth clients.

Benoit Sansoucy

Ben is a Vice President in the Maples Group's Cayman Islands Funds Fiduciary business. He serves as an independent director on a wide range of alternative investment funds including hedge funds, fund of funds, segregated portfolio companies, private equity vehicles and related structures. Ben has over 15 years' experience in the alternative investment industry, ten of which were dedicated to operational due diligence and fund governance. Prior to joining the Maples Group, he was responsible for the development, implementation and execution of the University of Toronto Asset Management's (UTAM) operational due diligence programme in its oversight of all external investment managers and service providers. Previously, Ben was a Senior Manager of Operational Due Diligence at Ontario Teachers' Pension Plan (OTPP) from 2012 until 2016, where he identified and mitigated operational risks related to OTPP's global external manager investment programme, consulting on operational best practices for start-up managers seeking to secure institutional capital. Prior to this, he was a Senior Manager at the Canada Pension Plan Investment Board (CPPIB) from 2007 until 2011, performing multiple operational roles including investment related compliance functions, fund level management reporting, public equity accounting and the establishment of an operational due diligence function for the external manager investment programme. Ben also worked with Fortis Prime Fund Solutions in the Cayman Islands, in fund administration and had responsibility for the internal control function of the business. Ben holds a Bachelor of Business Administration degree from Mount Saint Vincent University and the Accredited Director designation from the Institute of Chartered Secretaries and Administrators Canada. He is a Chartered Professional Accountant, Chartered Accountant and a member of the Chartered Professional Accountants of Ontario and the Cayman Islands Directors Association.