

Singapore, growing from strength to strength

Interview with Allard de Jong

Introduction of the Variable Capital Company into Singapore

"The introduction of the Variable Capital Company ("VCC") structure earlier this year has been the latest in a number of initiatives undertaken by the Singapore government to grow the city state's fund management industry and achieve its ambition of being the gateway to asset management opportunities in Asia", says Allard de Jong, Head of the Fund Administration, Corporate Trust and Custody team of the Portcullis Group.

Singapore's asset management industry has grown significantly over the last 10 years. Assets under management grew from SGD864 billion to SGD3.44 trillion from 2008 to 2018. Assets under management in the Asia-Pacific region are expected to double from 2017 to about USD30 trillion in 2025, according to PwC's estimates, and Singapore's vibrant asset management ecosystem is well placed to serve this regional trend.

This new VCC structure now provides an opportunity for funds managed by Singapore based fund managers to be domiciled in Singapore itself. Fund managers taking advantage of Singapore's new VCC structure will benefit from considerable cost savings and streamlined operations. Domiciling the fund in Singapore will allow processes to be more efficient by maintaining the operational cost and regulatory controls within a single jurisdiction.

"Having a fund based in another jurisdiction while operating from Singapore as a fund manager results in several additional cost elements, which, though they may be small, do add up. These will no longer be applicable for managers who choose to set up a VCC in Singapore instead", remarks de Jong. Examples of these additional costs are overseas registration fees, auditors,

lawyers and professional directors. This is in addition to accounting for the differences in data protection and AML laws.

Development of Singapore as an asset management and fund domicile hub

Since Portcullis started its fund administration offering in 2007, it has seen various initiatives by the Singapore government aimed at growing Singapore's fund management industry. Many training initiatives were rolled out in Singapore to foster the talent pool in the fund administration sector, for example through the Fund Administration Certificate Program offered by Nanyang Polytechnic pre GFC which continues to this day. Singapore also introduced the Limited Partnership Act (LPA) in 2009, which was used by many fund managers as their fund structure. However, it is worth noting that LPA structure requires at least SGD50 million of assets under management to be tax efficient.

Singapore has been used as a fund jurisdiction for several years prior to the introduction of VCC's, especially in the Private Equity (PE) and Venture Capital (VC) space. According to de Jong, "The key to offering a conducive operating environment for Singapore-based fund managers are the 13CA, 13R and 13X tax incentive schemes which are offered to fund vehicles managed by Singapore-based fund managers". These tax exemptions, while applicable to VCC's, are also offered to other fund structures.

The alternative investment sector, in particular, the PE, VC and real estate space has expanded greatly in Singapore over the last few years. In line with the industry, Portcullis has grown its offerings to provide services tailored for PE and VC managers and has seen its client mix shift in the last eight



years from predominantly mutual funds and hedge funds to more PE and VC funds. The growth of VC funds in particular, has been supported by the introduction of the VC fund management regime in October 2017. This regime simplified and shortened the authorisation process and ongoing obligations for VC Managers in Singapore. And, as the number of VC managers has surpassed the 100 mark, de Jong believes this will continue to be a source of growth for the jurisdiction going forward.

Further initiatives, such as the jointly developed set of standardised investment documentation launched in October 2018 by the Singapore Academy of Law and the Singapore Venture Capital and Private Equity Association ("SVCA"), known as the Venture Capital Investment Model Agreements ("VIMA"), show Singapore's eagerness to develop this segment.

Furthermore, Singapore's regulator, the Monetary Authority of Singapore (MAS) has been very supportive of fintech, innovation and sustainable finance. Portcullis has seen a growing trend of various fund managers in the ESG and impact investing space and is providing fund administration services to various fund structures with charity, impact and environmental objectives, such as the Insitor Impact Asia Fund and The Ocean Fund, LP, and expects this area to continue to grow substantially over the coming years.

What's ahead for the VCC?

De Jong believes that there are hundreds of fund managers in Singapore with a large number of fund structures that are still domiciled outside of the jurisdiction – often in the Cayman Islands.

"Having a structure like the VCC is a boon for the Singapore funds industry. Not just to attract more fund managers here but also to bring all the fund servicing into Singapore," he notes.

VCC structures in Singapore has had increasing publicity and could become a new hotspot, with more fund managers looking to domicile locally. De Jong notes: "In the region, Singapore has a great reputation and is known for stability and a sound legal and regulatory environment, so we are predicting that many Asian fund managers will be looking to set up VCC's in Singapore."

Launching a new product or structure is not without challenges. According to de Jong, the most significant hurdle the VCC needs to clear is around familiarity: "When managers are marketing a fund to new investors, they want the questions to be about their management or investment style, and their team. They do not want to spend time explaining or justifying their choice of fund domicile and outlining the pros and cons of that decision."

"Many institutional investors are very familiar with Cayman corporate funds. It ticks the box because they are familiar with it and understand it."

However, some need to take the plunge for this structure to become a standard in the industry and de Jong notes that MAS has been working hard to promote VCC's.

In a further bid to support the growth of the VCC, the MAS launched the Variable Capital Companies Grant Scheme (VCCGS) to co-fund qualifying expenses paid to Singapore-based service providers for work done in Singapore, in relation to the incorporation or registration of a VCC. Under this scheme, the regulator offers 70% co-funding of the cost of legal or tax services as well as administration or regulatory compliance services.

The effect of Covid-19 on the fund industry

Under the current Covid-19 situation, the fund-raising environment has been a challenge for fund managers, including those active in Singapore. In de Jong's experience, "Raising assets is hard, especially given the difficulty for managers to meet potential investors face to face. As a result, a number of funds are postponing their launch or launching at a lower AUM than expected."

Given the Covid-19 environment, many managers have been digitising their business, driven by the higher incidence of working from home. Managers in Singapore have also benefited greatly from a number of funding schemes which have helped to support these developments.

"Various clients of ours have been able to build out and improve their business continuity plans based on this funding. Everyone has dealt with the pandemic in different ways and the shift towards digitisation and improving processes through the use of IT has been an immense step forward for the industry," comments de Jong. ■

Allard de Jong
Director, Portcullis Group



Allard de Jong is a director of the Portcullis Group with responsibility for Fund Services and Fund Administration. Allard has over 20 years of fund administration experience, having worked for Citco Fund Services in the Dutch Caribbean and the Netherlands, for Bank of Bermuda and for HSBC, where he was the head of HSBC's Alternative Fund Services in Singapore. Allard was director of Operational Due Diligence for KBC Alpha, an Asian focused Fund of Hedge Fund, which subsequently became part of PAAMCO. Allard was chairman of the Singapore Fund Administration Association from 2009 until 2014 and is currently non-executive director for several Impact investment funds and vehicles.