

## THE VIRTUAL INVESTOR

*How we can help you minimize operating expenses, without compromising the quality of your infrastructure.*

One unintended consequence of excessive regulation in the investment management industry in Europe and the UK is that it continues to spur innovation. While the AIFMD may have sought to solidify the incumbency of the larger industry players at the expense of small managers, something different is happening. Regulatory incubation platforms have lowered barriers to entry. The start-up investment management scene

*Economies of scale in regulatory infrastructure mean more access at lower cost for emerging managers*

is healthy. Economies of scale in regulatory infrastructure mean more access at lower cost for emerging managers. There may even be *too much supply* – a topic for another white paper.

To create opportunities, it is important to keep pushing innovation boundaries. At Eschler, we do this by asking, *“when we started a decade ago, what would have helped us most as an emerging manager?”*. The answer: lower cost of entry, combined with more effective regulatory oversight. We had to set things up from scratch – a real financial burden. And despite all the upfront cost, we initially didn't have the working capital resources to cover all the ongoing regulatory bases. In a perfect world, the emerging manager should be able to launch quickly and at extremely low cost while

*When we started a decade ago, what would have helped us most as an emerging manager?*

benefiting, in the background, from all the resources of a regulated incumbent.

Eschler's first evolution toward an emerging manager-oriented firm involved providing outsourced regulatory incubation. We were not the first emerging manager platform, but we aim to be the best. Eschler provides regulatory licenses in the UK, USA, and the Cayman Islands. We provide regulatory capital, audited management company, in-house and external compliance resources, compliance training, risk oversight, regulatory filings and notifications (including responses to regulator examinations), insurance, financial promotion approval, MiFID compliant data retention, offshore fund platform, template agreements etc. The list goes on. *We were not the first emerging manager platform, but we aim to be the best.*

Innovation will drive Eschler's future development: Our private label fund solution will allow the emerging manager to also benefit from our fund and trading infrastructure, in addition to our regulatory expertise. We have generally advised against launching a Cayman fund with less than \$10-20m in launch AUM. This ensures a reasonable total expense ratio. What we are now suggesting is that if you have income or working capital to pay living expenses, minimum AUM is lower. Start building your audited fund track record with \$5m while maintaining a low total expense ratio.

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Sure, running MiFID compliant separately managed accounts on Interactive Brokers (IB) is great. But have you tried giving

investors a regulated fund with independent governance, third-party NAV calculations, big potential tax savings, audited returns and the ability to invest whether they are in the UK, USA or EEA?

IB is a great solution for a certain investor demographic but not for institutions, and not, for example, for EEA-based investors delegating portfolio management to a U.K. AIFM. IB imposes arbitrary limits on EEA investor numbers for a UK AIFM like Eschler and there is nothing we can do about it.

Enter Eschler's Cayman master fund. Here is the idea: Instead of launching your own fund and incurring an absolute minimum of \$30,000 (usually more) in start-up costs – not to mention \$70k-100k+ of ongoing fund operating expenses! -- as a portfolio manager already seconded to Eschler by your appointed representative entity, just launch “your fund” as a

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separate share class of our master fund. You choose the name of your fund displayed on your factsheet. The footnote discloses that your fund is share class X of Eschler's Cayman master fund. Two of our

managers already run multiple different “funds” on their own Cayman structure just like this, each “fund” being a separate share class of a single entity. With Eschler's private label solution

your investors receive the exact same service experience as they do from their investments in other well-established funds. This includes a total expense ratio that approximates your management fee, with minimal further operating cost burden.

To summarize, Eschler is proposing 1) that it is possible to outsource not just your regulatory infrastructure, but also your fund infrastructure and 2) that there is very little initial cost associated with this route. If you want to work your assets harder, extend your financial runway and expand the capability of your virtual fund management business, please get in touch. We would be happy to discuss all the mechanics and the myriad advantages, as well as address perceived disadvantages.

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