

7TH ANNUAL FUND GOVERNANCE REVIEW

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CEO ADDRESS BY ANNE STORIE



ANNE STORIE
CHIEF
EXECUTIVE
OFFICER

We are pleased to present our annual Fund Governance Review. 2019 was a busy and challenging year for investors and managers. The latter part of the year saw turbulent times as the Brexit outcome looked increasingly uncertain and markets responded with a lack of confidence. Our industry also saw some significant regulatory changes across the globe, with increased scrutiny placed on independent directors and risk assessment practices in Europe. In particular, the Cayman Islands and the Asia-Pacific region also saw notable developments in legislation and governance practices.

Despite these changes and the shifts in focus for our industry, DMS remains the trusted leader in worldwide governance, risk and compliance and a name that clients continue to turn to for expertise and sound advice. Our 20 years of experience and depth of knowledge means we are at the forefront of industry changes, allowing us to keep our clients ahead of the game at all times.

2019 has been another significant year of growth and success for DMS and as we celebrate our 20th anniversary, we are extremely proud of our achievements as we expand to match the continued demand for our services across the globe. Notably, our acquisition of Host Capital in September last year means our London operation has been able to expand considerably both in terms of service offering and talent. Last year also saw DMS add an additional location in Ireland following the acquisition of Aviation Corporate Services in Cashel, Ireland. DMS now operates from two locations in Ireland, significantly increasing our European footprint.

We look forward to continued growth in 2020.



DMS EXPANDS AND STRENGTHENS ITS LONDON OPERATION WITH KEY ACQUISITION

In September, 2019 DMS acquired Host Capital Limited, an independent Authorised Corporate Director (ACD) with a strong and experienced team, allowing DMS London to expand its European products and bespoke solutions to asset managers operating U.K. regulated investment funds and provide tailored solutions to assist with Brexit concerns.

The Host team has over 10 years of experience in offering ACD services to the industry, providing DMS with both the licence and the expertise with which to service clients from inception to launch of FCA Authorised Collective Investment Schemes. DMS is now uniquely placed to offer this service and expertise to the market.

The DMS London operation now benefits from an enhanced location with its new office located centrally in Bedford Row, Holborn and is headed by Noelle White who oversees the strategic growth of DMS' growing London-based team. Noelle's extensive experience in financial product development, operations and oversight, across a wide range of investment funds including UCITS, Exchange Trade Funds and Alternative Fund models such as private equity, venture capital and real estate funds means she is well-placed to lead the growing London team.



CONTINUED EXPANSION IN IRELAND AND A NEW OPERATION IN CASHEL, CO. TIPPERARY

DMS moved to substantially increase its Ireland-based workforce by creating an additional 50 highly-skilled financial service positions in its new location in Cashel, Co.Tipperary in September last year.

The announcement follows DMS' acquisition of Aviation Corporate Services ("AvCS") in June 2018 and is an addition to its previous announcement of 50 newly-created jobs at the time of acquisition. The project was supported by the Irish government through IDA Ireland

DMS' recent expansion both in Cashel and Dublin brings DMS' commitment to jobs in Ireland to over 200. When DMS initially acquired Aviation Corporate Services

("AvCS") in Cashel, it was extremely impressed with the quality and experience of their existing team. As a result of this significant growth, DMS are now placing several global centres of excellence in the new Cashel office.

It is not only an endorsement of the local management, but also of the availability of talent in the region.



DEVELOPMENTS IN ASIA-PACIFIC INVESTMENT FUNDS

Over the past year, the introduction of new corporate structures for investment funds has placed Hong Kong and Singapore alongside other top global fund hubs.

The Hong Kong Open-Ended Fund Company was introduced under the Securities and Futures Ordinance, allowing investment managers to establish investment funds in corporate form to be used by public and private investment funds.

Additionally, the Singapore Variable Capital Company is a new corporate structure for investment funds in Singapore that can be utilized for a variety of strategies and structures, including both open-ended and close-ended and is intended to be set up as an umbrella entity with multiple sub-funds. The current tax incentives for funds and its managers will also be applicable to VCC and its managers.

Read out latest updates on the VCC launch [here](#).

Profit Tax Exemption Regime

In addition, the new profit tax exemption regime for privately offered funds came into operation on 1 April 2019. This new tax regime removes the ring-fencing features by introducing an additional exemption, the Private Funds Exemption. An investment vehicle will qualify for profits tax relief under the Private Funds Exemption

whether or not the vehicle is resident in Hong Kong. It unifies the profits tax exemptions for privately offered funds (onshore or offshore, regardless of their structure, location of central management and control, or their size) into one comprehensive regime.

Limited Partnership Regime for Private Funds in Hong Kong (LPF Regime)

On 31 July 2019, the Hong Kong government issued a consultation on its proposal to establish a limited partnership regime for funds considering a wealth of opportunities coming from the pivotal role Hong Kong plays in the Greater Bay Area. As with other funds, an LPF can enjoy profit tax exemption in Hong Kong, provided it meets the exemption conditions. This regime gives market players more flexibility in structuring and domiciling with commercial substance.



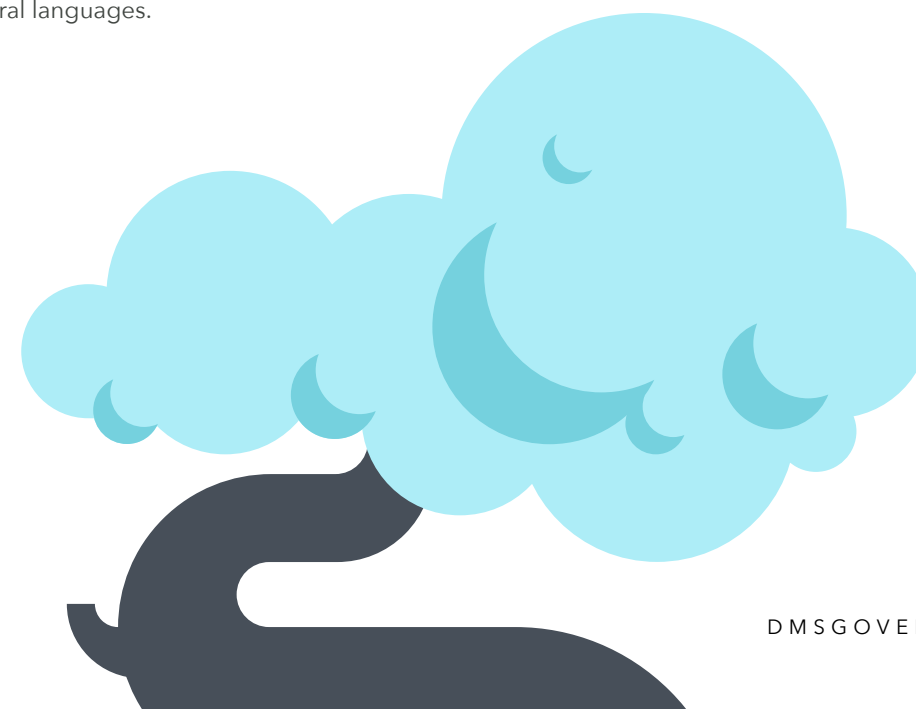
Governance seeing an upwards trend

Today, there is significantly more awareness surrounding the importance of getting governance right. Global funds are increasingly looking to enhance governance as they come under increasing pressure from institutional investors and sophisticated individual investors wanting to ensure that independent non-executive directors have an appropriate background and expertise, can devote time to meetings with fund managers as well as briefings on industry developments and regulatory requirements.

DMS has a diverse pool of skilled and experienced professional independent directors in most major fund management centres, our Singapore and Hong Kong based professional independent directors demonstrate their considerable experience and skill set including an understanding of business in their region and an ability to communicate in several languages.

DMS is at the forefront when promoting all aspects of board diversity and effectiveness including gender, cultural and professional experience.

Over the past year, with a growing client base in Asia, DMS has expanded its team in Asia with additional staffing across all business lines. Driven by geographical advantages, the DMS Singapore office is well-positioned to increasingly serve South-East Asia based managers while Hong Kong has maintained its significant focus to North Asia based managers given the proximity to the markets.



THE DMS MARKET REPORT

As the regulatory landscape across global markets continues to evolve, clients are facing more onerous and complex requirements for their funds and their boards. DMS has taken the lead in examining the various options available to clients, allowing them to better manage the impact of these new challenges. DMS' deep understanding of the complexity of the marketplace, current trends and its developments makes it well-placed to advise clients.

A recent report from DMS focuses on the market challenges that clients are experiencing and how they are responding to them.



You can read the
full report [here](#)

You can read the previous report [here](#)

RENEWED EMPHASIS ON REGULATORY SUPERVISORY ENGAGEMENT FOR IRISH DOMICILED FUNDS

The Central Bank advised the industry last year that a thematic review will commence which will aim to measure and evaluate how firms have implemented CP86 since its introduction in July 2018.

Two important speeches delivered by the Central Bank of Ireland's Deputy Governor and the Director of Asset Management and Investment Banking last year brought renewed focus on key issues being faced by asset managers and board of directors with fund investment vehicles domiciled in Ireland.

The implication for individual firms is a Central Bank supervisory engagement which aims to understand how they have structured themselves, with a heavy emphasis on the six key managerial roles performed by Designated Persons (DPs). The 3-step process will be:

1. **A questionnaire with a 5th July deadline has already been issued to firms by the Central Bank**
2. **A desk-top review by the Central Bank**
3. **An on-site inspection by the Central Bank.**

A questionnaire was issued by the Central Bank on 21st June, with a deadline for completion of 5th July, and will bring renewed spotlight on how individual firms are managing key managerial functions on a day-to-day basis, bringing into focus questions of, seniority, experience and expertise of Designated Persons; measures in place for ensuring the monitoring of risk on a daily basis.

DMS feels that to ensure continued investor protection and for the Irish fund industry to remain competitive with domiciles such as Luxembourg, a number of the current operating models in place supporting SMICs will come under further scrutiny from regulators, asset managers, board of directors and ultimately investors over the coming months.

DMS has maintained a unique industry position, through its ongoing engagement with key industry stakeholders. The continued evolution of the Irish funds industry, together with demand from investors, indicates that a third-party management company that can provide the appropriate substance, expertise, knowledge, independent daily risk management and ability to discharge the six key managerial functions, is an option that asset managers and board of directors should now be considering.



CONTEXT, CONVERGENCE & CONTRAST: REGULATORY THEMES FOR 2020

It has been the case for many years that countries have been affected by similar regulatory trends for financial services and asset management in particular, but in recent years the thematic convergence has intensified. The main drivers are FATF anti-money laundering efforts (and related matters such as combatting the financing of terrorism) as well as tax initiatives such as the OECD Base Erosion and Profit Shifting ("BEPS") project supported by parallel EU efforts. The effects of BEPS in previous years have been mainly seen in larger countries with traditional tax systems, but we are now seeing the direct and indirect effects in the low and zero direct tax jurisdictions.

Transparency

Information regarding ownership and control is a key component of regulation and enforcement of various requirements for AML and tax, as we can see with central beneficial ownership registers, both public (in the EU) and those that are only available to law enforcement and regulatory agencies in the Cayman Islands and many other traditional fund domiciles. These initiatives increase investigatory efficiency, building on existing record-keeping and cooperation requirements and agreements.

The below changes regarding directors and members/shareholders are further steps regarding recordkeeping and/or transparency and the beneficial ownership fine increases boost the robustness of the regime.

Service providers and fund sponsors must work together to assist investors in adjusting to this new reality. We have found that engagement with larger and more complex investors in advance of, for example, redemption requests will avoid last minute conversations about updating their documentation in line with prior changes.

Regulatory Convergence (but not complete alignment)

The Private Funds Bill, 2020 ("PFB") and Mutual Funds (Amendment) Bill, 2020 will expand the scope of regulation of both closed end funds such as private equity and previously exempted hedge funds. These changes are not arbitrary, nor have they been driven by considerations specific to the Cayman Islands. Similar changes are occurring in other jurisdictions such as the BVI and are resulting from the same sources noted above. Regulation of private funds by a competent authority does two things:

1. It increases the effectiveness of the AML regime (closed end funds are already covered by the AML Regulation); and
2. It more fully aligns Cayman domiciled funds with the EU so that their exclusion from the economic substance requirements noted below can be justified.

Careful readers of the PFB will note that certain provisions are similar to the depository provisions in the AIFMD. This is one example of the increasing conceptual alignment that will characterize 2020 and the years beyond.

ASIA-PACIFIC REGION - REGULATORY UPDATE

2019 saw significant activity for the Asia-Pacific region in terms of regulatory and industry updates. Issues including cyber hygiene, new corporate structure options such as the Open-Ended Fund Company (OFC) and Variable Capital Company (VCC) and other key updates are all included within our overview of changes for the Asia-Pacific region.

To see how these latest changes could affect you and your business [click here](#) to read the full report on our website.

CAYMAN ISLANDS - REGULATORY UPDATE

The third quarter of 2019 saw a series of changes in Cayman Islands legislation. These latest legislative changes cover a variety of aspects involved in carrying out business in the Cayman Islands including, Director transparency, Economic Substance and Data Protection Law.

[Click here](#) to read the latest Cayman Islands regulatory updates on our website.

MORE HEDGEWEEK AWARD WINS FOR DMS

DMS is pleased to report that it has been voted Best Offshore Regulatory Advisory Firm for the last six years by Hedgeweek readers. In addition, DMS has received the Hedgeweek award for Excellence in Hedge Fund service for the last four years, cementing its place as an industry leader.



THE CAYMAN ISLANDS EXPECTS A SWIFT RESOLUTION TO THE EU BLACKLIST INCLUSION

It was announced at the end of February 2020 that the Cayman Islands had been included by the finance ministers of the EU member states ("ECOFIN") in the list of non-cooperative jurisdictions for tax purposes. The Cayman Islands Government is working with EU Officials on the ongoing measures to address the concerns and has issued the following statement regarding this process, its commitment and the current legislative changes that are in place, which can be [read here](#).

Following this inclusion, The Cayman Islands Government has begun the process of removing Cayman Islands from the blacklist. The current list will be reviewed for additions and removals twice annually commencing in October 2020. The Cayman Islands Government confirmed its commitment to take any necessary steps with respect to legislative change that would be required for de-listing. How will the listing affect my fund and what does it mean in practical terms?

- EU investors **can continue** to stay invested in funds domiciled in the listed jurisdictions.
- EU investors **can increase** their investment in funds domiciled in the listed jurisdictions.
- Funds domiciled in the listed jurisdictions **can be marketed** to EU investors under the existing private placement regimes.

The EU member states have been working both independently and in collaboration with the Organisation for Economic Co-operation and Development ("OECD")/ G20 Inclusive Framework on Base Erosion and Profit Shifting ("BEPS") to put an end to tax avoidance strategies that exploit gaps and mismatches in tax rules in order to avoid paying tax. The BEPS Inclusive Framework comprises the work of over 135 countries, including the Cayman Islands.

The Cayman Islands as a jurisdiction has worked with the EU and the OECD for many years to implement measures to combat tax evasion and avoidance, including:

1. the EU Savings Directive.
2. the OECD Common Reporting Standards.
3. Economic Substance legislation.
4. Private Funds Law.
5. The Mutual Funds (Amendment) Law.

The final two measures listed above are intended to establish the widest possible regulatory coverage for funds in order to demonstrate that the transparency requirements have been adequately fulfilled. [View DMS updates here](#).

2020 Investment Funds + Summit

DMS 2020 Investment Funds Summit Highlights



Thursday the 23rd January 2020 saw the fourth annual DMS Investment Funds Summit held in New York. We were delighted to have over 500 attendees this year from both our global client base and key sectors of the industry.



We were pleased to welcome to the event the following speakers:

Ed Morse, Managing Director, Global Head – Commodities, Citi Research

Vuk Jeremic, President of the Centre for International Relations and Sustainable Development

Miriam Roiter, Managing Director & Chief Technology Officer, Tudor Investment Corporation

Valerie Szczepanik, Head of Strategic Hub for Innovation and Financial Technology, SEC

Ciaran Madden, Consul General of Ireland, New York

Bill Reeves, Director Strategic Partnerships and Technology Innovations, Mathematica Policy Research

Suzanne Brenner, Partner, Chief Investment Officer, Private Wealth Management, Brown Brothers Harriman

Sue Kolasa, Managing Director, JP Morgan Asset Management

Joseph Zidle, Managing Director and Chief Investment Strategist, Private Wealth Solutions group, Blackstone



KEY GLOBAL CONTACTS



**ANNE
STORIE**

CHIEF EXECUTIVE OFFICER
Cayman Islands
astorie@dmsgovernance.com
+1.345.749.2584



**DEREK
DELANEY**

CHIEF OPERATING
OFFICER
Dublin
ddelaney@dmsgovernance.com
+353.1.619.2300



**DAVID
MORRISSEY**

MANAGING DIRECTOR
Ireland
dmorrissey@dmsgovernance.com
+353.1.619.2342



**CAOIMHGHIN
O'DONNELL**

MANAGING DIRECTOR
Dublin
codonnell@dmsgovernance.com
+353.1.619.2375



**COLM
O'DRISCOLL**

MANAGING DIRECTOR
Cayman Islands
codriscoll@dmsbank.com
+1.345.749.2795



**NIAZ
KHAN**

MANAGING DIRECTOR
Hong Kong
nkhan@dmsgovernance.com
+852.3478.3822



**ALAINA
DANLEY**

MANAGING DIRECTOR
Cayman Islands
adanley@dmsgovernance.com
+1.345.749.2455



**KEVIN A.
PHILLIP**

MANAGING DIRECTOR
Cayman Islands
kphillip@dmsgovernance.com
+1.345.749.2590



**JOHN
D'AGOSTINO**

GLOBAL LEADER,
INVESTOR ENGAGEMENT
New York
jdagostino@dmsgovernance.com
+1.212.257.5051



**DANIEL
FORBES**

EXECUTIVE DIRECTOR
New York
dforbes@dmsgovernance.com
+1.212.257.5052



**MATTHEW
BROWN**

MANAGING DIRECTOR
New York
mrbrown@dmsgovernance.com
+1.212.403.2793



**DON W.
EBANKS**

MANAGING DIRECTOR
Cayman Islands
dwebanks@dmsgovernance.com
+1.345.749.2562

