HEDGENORDIC

JUNE 2021

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SPECIAL REPORT PRIVATE MARKETS

The Irish Limited Partnership:

A FLEXIBLE STRUCTURE FOR PRIVATE MARKETS

By Hamlin Lovell – HedgeNordic

The long-awaited Irish Limited Partnership (ILP) investment vehicle structure is attracting strong interest from clients at Royal Bank of Canada (RBC) managing private equity, private debt, infrastructure, real estate, and impact and ESG strategies.

"Ireland has historically been a big player in UCITS and liquid alternatives including hedge funds but with the ILP in place, this could be a real game-changer putting Ireland on the map for both asset owners and asset managers. We are seeing a lot of interest from managers in North America, the US and the Nordics. Historically, Nordic managers preferred domestic

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Head of Private Capital Services, Product Management
RBC Investor & Treasury Services

www.hedgenordic.com – June 2021 HEDGENORDIC

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Scandinavian structures, and the Channel Islands – Jersey and Guernsey – and over the years leveraged Luxembourg AIFMD structures. Now Ireland is a complementary option," says Dirk Holz, Director, Head of Private Capital Services at RBC Investor & Treasury Services.

Key features of the structure will put Ireland on a level playing field with other leading domiciles. An umbrella feature allows for economies of scale through common costs being shared across vehicles. Segregation ensures that liabilities do not spread between cells or sub-funds, and investors should have limited liability. It can also house multi-manager or fund of funds strategies. The ILP is tax transparent and tax neutral, meaning taxes are paid by the end investors and not levied at the vehicle level. It can provide US tax reporting, and is flexible enough to accommodate new and innovative asset classes and strategies, such as carbon capture in the impact space. ILP can cater for unlimited numbers of limited partners. It avails of the AIFM marketing passport to expedite distribution throughout the European Economic Area (the EU plus Norway, Iceland and Liechtenstein). Irish funds in general are also distributed in dozens of countries outside the EU, including the UK.

Ireland has a long history of servicing alternative funds domiciled elsewhere, using well-established leading service providers including RBC. "There are some smaller nuances to service an LP but it is generally straightforward," says Holz.

Another advantage of the ILP is Ireland's common law legal system which is based on English law, and therefore aligns more seamlessly with English language and culture. These differentiators will appeal to managers and investors in parts of the Anglo-Saxon world, including North America, where RBC is headquartered. "When Nordic asset managers want to raise assets from North America it may be more attractive to use an Irish structure," says Holz. "We service most Canadian pension funds, who were early adopters of real estate, infrastructure, private equity and private debt investments," he adds.

Private assets have historically and primarily been distributed to institutions and wealth managers, but an important new development is distribution to retail investors. "Over the past 12-18 months we have seen a lot of big US and Nordic asset managers starting to approach retail investors. This is a significant trend, which is likely to provide a new investor base for private investment funds going forward," says Holz. The flexibility of an ILP means it can be structured as a Retail Investor Alternative Investment Fund (RIAIF), marketed to retail investors, or a Qualified Investor Alternative Investment Fund (QIAIF), which can only be marketed to qualified investors.

COMPLEMENTARY

The ILP is not necessarily competing with other domiciles in all cases – in some instances, it could be complementary: "some managers may set up an ILP running parallel to, or as a feeder for funds in other domiciles," points out Holz.

GROWTH PROSPECTS TO BE DETERMINED

There is optimism for growth with local industry association, Irish Funds, projecting that the ILP will bring EUR 20 billion of capital raised in private assets. Holz remains open-minded about what choices are made by managers and investors. "It is too early to predict how big a success ILP will be and it might take a few years to test its popularity, judging by the experience of Luxembourg, where RBC also operates. Luxembourg was quick to set up private asset vehicles after AIFMD in 2013, and 3-4 years ago it set up the SCS Limited Partnership structure, which has gained interest globally from Nordic and US managers. So far only a handful of ILPs have launched. We saw the same with the Luxembourg SCS." Another accelerator is the fact that ILP can use a fast-track Central Bank of Ireland approval process, speeding up time to market.

STRUCTURES AND COSTS FOR LARGER AND SMALLER MANAGERS

The ILP can also work with self-managed structures and platforms. "Larger managers running at least 500 -1,000 million euros in assets might also set up their own management company, while smaller ones could use a third-party management company platform," says Holz.

The Nordic region is home to some smaller private equity and venture capital managers running only tens of millions, and the ILP structure might not appeal to some of the smallest alternative asset managers: "the costs related to an ILP likely make sense for assets of at least USD 150 to 200 million. This is a regulated structure with full AIFMD, depositary oversight, and other reporting requirements," says Holz.

"Early indications show that costs and pricing will be quite similar to Luxembourg AIFMD vehicles," he adds.

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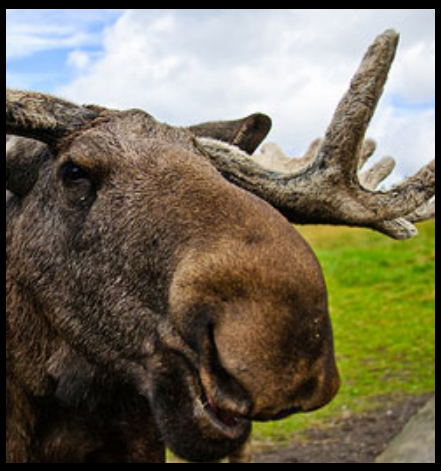

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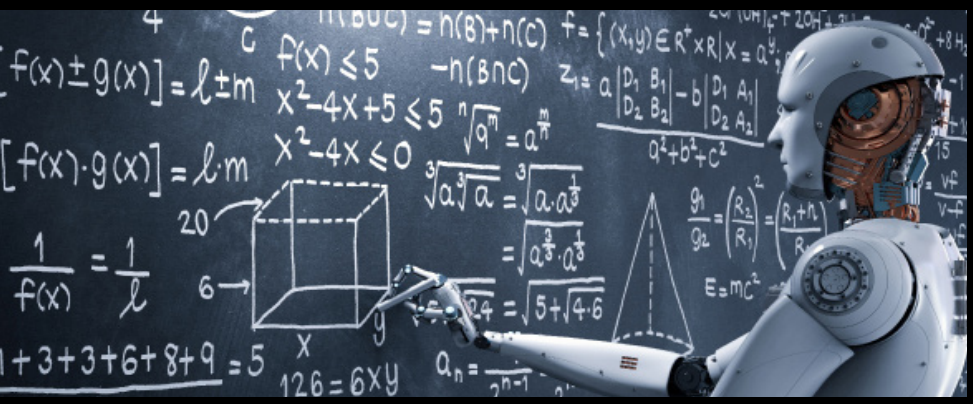

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