



RBC Investor &
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In the News

Sticking with tradition

Private Real Estate managers favour familiar domiciles as they face disruptive times

A PERE Interview with RBC I&TS's Priya Nair and Dirk Holz

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Sticking with tradition

Managers favor familiar domiciles as they face disruptive times, say RBC's **Priya Nair** and **Dirk Holz**

Unprecedented pressures are bearing down on fund managers' operating environments due to regulation, investor demands, data and technology. Priya Nair, managing director and global head of product management, and Dirk Holz, private capital lead at RBC Investor & Treasury Services, explain the key findings of a manager survey produced with PERE.



Holz: not surprising that Delaware and Cayman are top domicile choices, followed closely by Luxembourg

PERE: *Is choice of domicile more important now given the complex regulatory climate?*

Dirk Holz: Yes. We've seen more focus, discussion and scrutiny over domicile choice in the last five years. A high proportion of the PERE 100 are US fundraisers, so it's not surprising that Delaware and Cayman are top domicile choices in the survey. The flexible regulatory and tax framework of these jurisdictions is a key factor. There's

also been growth in fund structures based in Luxembourg, which was quick to react to AIFMD and continues to offer flexibility to private real estate funds by complying with new regulatory frameworks. The UK, Ireland and Channel Islands are the other popular European jurisdictions used to access European capital. But the UK's decision to leave the EU means there are unresolved questions about access to European investors in the long term.

PERE: *Brexit terms remain largely unresolved. How are RBC's clients preparing to minimize the potential impact and how is it determining domicile choice?*

DH: The impact could be significant. Many managers that before the referendum were planning to domicile in the UK to leverage the AIFM passport are now looking at Luxembourg or are creating parallel fund structures to navigate through the uncertainty. The latter approach limits the costs of establishing an EU investment management platform. However, ESMSA has warned that UK managers will have to prove 'substance' in the offices where funds are domiciled, so there's complexity

on how parallel fund structures will operate post-Brexit. The risk of a hard Brexit still exists and UK managers that have not already done so need to review operational set-ups and determine what they will require to re-domicile or consider establishing a third-party management company within the EU to minimize disruption.



PERE: *Outsourcing is gaining traction in some parts of the business. What's driving that?*

Priya Nair: A lot more complexity now exists in terms of fund structures and the size, scale and the multi-jurisdictional nature of managers, so the focus on creating operational efficiency is greater. There's a strong connection between domiciliation, regulation and outsourcing. The survey revealed fund administration

Nair: strong connection between domiciliation, regulation and outsourcing

as the most popular discipline for future outsourcing. That's not a surprise given AIFMD requires enhanced reporting, so there is a greater need to appoint a third party to help with oversight and reporting. Many of our clients recognize that fund administration is no longer part of their DNA and with market competition intensifying, asset managers are consciously choosing to focus on their core competencies.

However, part of the survey showed that aspects of the outsourcing value chain are still not part of managers' mindset. But with the size and scale I referred to, there's more need for managers to start thinking about how best to utilize outsourcing. I do see it as a trend that will continue to grow.

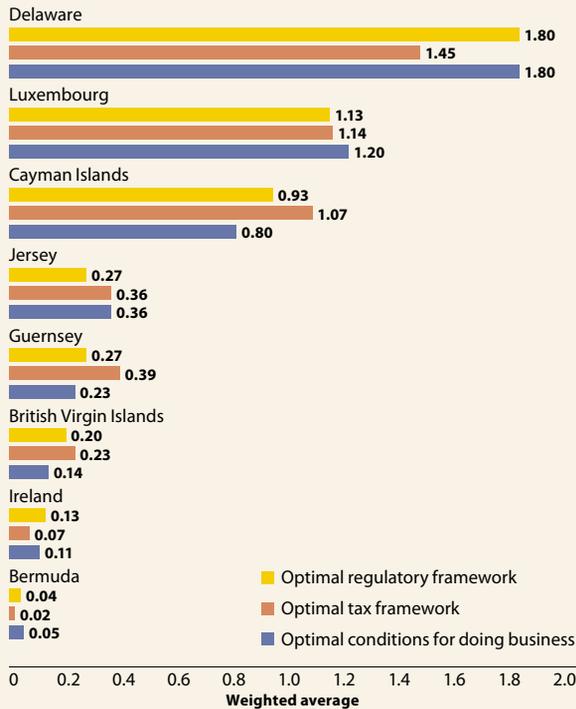
PERE: *How important are data management strategies and technology?*

PN: Currently only one in three respondents are thinking about outsourcing technology or data management strategies. We expect to see this increase over time as these tools become more advanced, and there's greater need for investment and expertise in these areas. We've pivoted our business to focus more on digitization. There's a great opportunity for us to partner with managers to help them utilize structured and unstructured data in a manner that offers value-add to investors and to their own operations. □

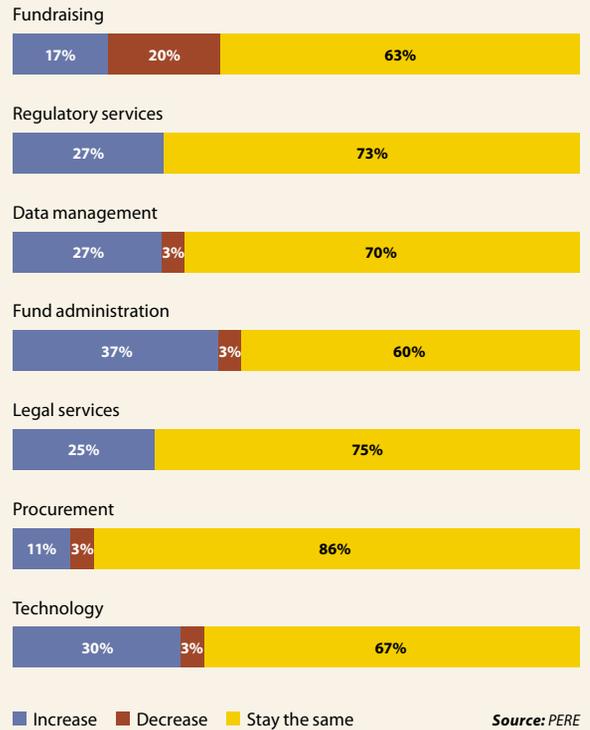
Methodology

PERE surveyed the 75 largest private real estate managers. We received 51 responses: 31 are headquartered in North America, 11 in Asia and nine in Europe. Answers were given on a strictly anonymous basis and the results aggregated. Where respondents were asked to give three answers, the first answer was given three points, the second two points and the third one point. An average was then taken of the total.

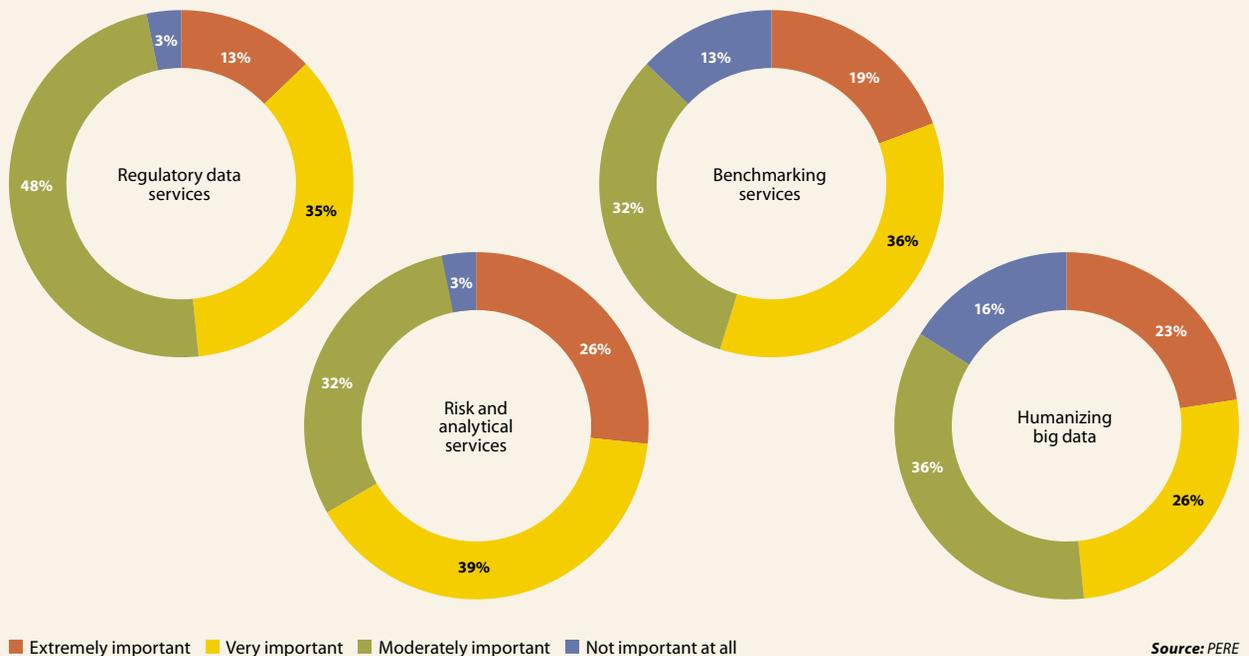
Which top three domiciles offer the following in 2018?*



How will you approach outsourcing of the following areas in 2018-19?



How important are the following data management strategies to your firm?





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