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Professional Investor Funds

One of the structures increasingly used by multi-family offices for their (Ultra) High Net-Worth ((U)HNW) clients is a professional investor fund (in some jurisdictions also known as a specialised investment fund). A professional investor fund (PIF) is a collective investment scheme only available to a limited number of sophisticated investors.

A PIF is an investment fund, which cannot be distributed to ‘retail’ clients (investors who only hold relatively small amounts to invest or are not qualified to invest for other relevant reasons). It is only open to certain classes of well-informed (sophisticated) investors, like institutional and professional investors, and as the case may be (U)HNW individuals or families. As retail clients are not allowed to invest in PIFs, the applicable regulatory requirements are generally less stringent than for investment vehicles aimed at retail clients. The more substantial the amount which investors (are able to) invest the fewer regulations apply, as this category of investors is considered to be sufficiently knowledgeable and experienced so as to be able to weigh the risks and merits related to this type of investments.

Jurisdiction and form

PIFs are offered out of several jurisdictions. Some of the better-known jurisdictions for establishing this type of structure are Ireland, Luxembourg, Malta and the United Kingdom, but they are, for example, also offered out of the Channel Islands. In some of these jurisdictions several types of PIFs are available (depending on the overall wealth of the investors and on how intensely they are regulated), yet in some only a single type is available.

In most jurisdictions the investors can decide for themselves which type of (corporate) vehicle they will use to establish the PIF. The PIF can therefore take the form of e.g.:

- an investment company,
- a unit trust or
- a limited partnership.

The preferred form and jurisdiction of the fund depend primarily on the fiscal regulations in the home country of the investors, the (investment) goals of the investors and other criteria.

Establishment of a Professional Investor Fund

As a PIF is a collective investment scheme, it is important that there are at least several participants. In the case of a family this is often easily arranged: if not via the individual members of the family, then by creating several (corporate) structures which all invest in the same investment fund depending on the specifications and requirements of the investors. In order to establish a PIF it will be necessary to file an application for authorisation of the PIF with the financial supervisory authorities of the jurisdiction of choice. Drafting of an offering memorandum might be necessary as part of the regulatory requirements. Depending on the jurisdiction of choice the whole process will in a normal case take between 2-6 months. Where in the past wealth owners were often focussed on cost efficient offshore structures which were quick and easily established, we now see that (U)HNW families and their family offices are primarily focussed on sustainable structures in onshore jurisdictions. The fact that PIFs are regulated is therefore considered as one of the main benefits.

The goal of a Professional Investor Fund

Investment flexibility, compliance, tax deferral and privacy are important factors for wealth owners to take into account when investing. A PIF allows a combination of all those factors. A family office mostly sets up a PIF as a dedicated investment fund for one family. Individual members of the family invest in the fund, or else legal entities controlled by family members and acting on their behalf.

Investment flexibility

Where retail investment funds are bound by rules with respect to diversification and leverage, this does not apply to PIFs. The PIF can hold a wide range of investment classes, like private equity, alternatives, real estate and listed and non-listed securities, via one single fund or via several sub-funds. The PIF is also allowed to concentrate its investments in only one asset class.

A major advantage of the PIF is that the family office can decide on your behalf on the investment manager of the fund. Therefore, contrary to a normal investment fund, the family office is in full control of the investment strategy or could, under certain conditions act as the investment manager itself. As a result the PIF offers a lot of investment flexibility and can therefore also function for the family as a kind of family holding company.

Taxation

One of the other main benefits of a PIF is that the realised investment proceeds are usually completely exempt from corporate taxation in the jurisdiction where it was established. Returns realised at the level of the fund itself are therefore automatically net returns. In most jurisdictions the PIF can also distribute returns to the investors without any taxes being withheld.

Due to the fact that these types of investment funds are registered with and regulated by the financial services authorities in the jurisdiction of their establishment, they are in most other jurisdictions considered as 'regular' investment funds for personal taxation purposes. This means that in a considerable number of jurisdictions the fund will result in deferral of taxation for the investors till the moment that the fund actually distributes its profits to them*. As long as the returns on investments are re-invested within the PIF no taxation will take place at the individual level, depending on the investor's jurisdiction.

Privacy

A professionally established PIF can also protect the privacy of the wealth owners to a certain extent.

A multi-family office in Switzerland which is strong in wealth planning will be able to support you with the establishment of a PIF as one of its family office services.

* The tax consequences of a professional investor fund are different for every country.

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