VARIABLE CAPITAL COMPANIES

Unlocking innovation in Singapore

In conversation with UBS Asset Management, TSAO Family Office and Simmons & Simmons

Introduction

When asset managers look to launch new investment funds, they typically think of frontrunners like the Cayman Islands, Luxembourg, Delaware and Ireland. However, in recent years, Singapore has also emerged as an attractive alternative.

In 2022, the Asia-Pacific (APAC) region recorded US$27.2 trillion in total assets under management (AUM).[1] It was the fastest-growing region between 2011 and 2022 at 14 percent, outpacing the global average of 9 percent. APAC is now expected to set the pace in AUM in the years to come. According to a recent analysis, AUM growth rates in the region will be approximately 50 percent higher than in North America by 2027.[2]

While the Chinese mainland is by far the biggest APAC market with US$10.8 trillion AUM, Singapore is second with US$4.2 trillion,[3] largely due to its vibrant institutional market and recent retail growth.

An example of Singapore's impressive development as an asset management centre is the rapid increase in family offices situated in the country. According to the Monetary Authority of Singapore (MAS), the number of family offices has leapt from 50 in 2018 to around 1,400 by the end of 2023.[4] This growth is a result of the conscious effort by MAS and government agencies – such as the Economic Development Board (EDB) of Singapore – to introduce policies that make the country more competitive for international wealth managers.

1. "Growing in a Turbulent World." KPMG. https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2023/12/growing-in-a-turbulent-world.pdf
2. "Asset and wealth management revolution 2023: The new context." PWC. https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-and-wealth-management-revolution-2023.html
3. "Growing in a Turbulent World." KPMG. https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2023/12/growing-in-a-turbulent-world.pdf
4. Monetary Authority of Singapore. Written reply to Parliamentary Question on family offices (mas.gov.sg)

Variable Capital Companies

The introduction of the Variable Capital Companies (VCC) product in January 2020 is a good example of an innovative development that has prompted an influx of foreign investors into Singapore from across APAC.

Indeed, it has triggered a VCC boom in the city state, with fund managers launching more than 1,000 open- and closed-ended funds representing over 2,000 sub-funds in both public and private markets.

MAS, which launched the scheme together with the Accounting and Corporate Regulatory Authority of Singapore (ACRA), initially presented an attractive incentive that was slated to run for three years. This incentive, albeit revised, has now been extended to January 2025 taking into account the investors' interest in the VCC scheme. Market participants say that the VCC pipeline remains both strong and increasingly innovative.

So, how does the VCC framework support Singapore's value proposition as an asset and wealth management location of choice? And what successes have its adopters experienced to date?

To find out, we spoke to Kevin Hardy, Head of State Street in Singapore, Bryan Goh, CEO of TSAO Family Office, Jek-Aun Long, Asia Head of Funds at Simmons & Simmons, and Thomas Kaegi, Head of Singapore & SEA at UBS Asset Management to understand their perspectives.

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Why VCC in Singapore?

Kevin Hardy: The VCC structure gives clients access to technological advantages, speed to market, and a modern product within a regulatory environment that is not only supportive of funds and fund structures, but is probably – from a financial services perspective – one of the best regulated countries in the world.

Attracting asset managers to a new market will always be a challenge because there are so many well-established options already out there. Recognising this, MAS has been providing generous incentives to those launching new VCCs. The current grant scheme co-funds up to 30 percent of the qualifying expenses paid to Singapore-based service providers, capped at SG$30,000 per launch.

The VCC structure also benefits from tax efficiencies and a strong, well-established approach to the rule of law, as well as access to Singapore's thriving broader finance and capital markets hub. For investors based elsewhere in APAC, Singapore represents a springboard into the global markets.

Investors' strong interest in VCCs is significant because while there are several long-established fund management hubs around the world, there are fewer options within APAC. Despite Hong Kong and Australia also launching new fund types in recent years, Singapore has taken the lead in the region.

Jek-Aun Long: The VCC scheme has established itself as the dominant Singapore investment fund vehicle of choice for many managers since its introduction in 2020. We have observed that VCCs are popular as a fundraising vehicle with managers at all levels and for a spectrum of product ranges and asset classes, ranging from established institutional managers targeting sovereign wealth funds and government linked companies, to emerging managers, and from private funds to public funds, including listed funds.

Investors globally are also becoming increasingly familiar with the scheme, and we have seen significant uptake by investors in the United States, Europe, China and Southeast Asia, in particular a trend towards using VCCs as a fundraising vehicle for attracting investments from high-net-worth investors and family offices in Singapore and around the region.

Qualifying expenses paid to Singapore-based service providers by the current grant scheme is up to

30%

What are the key considerations and requirements when setting up a VCC?

Kevin Hardy: A VCC is Singapore's take on the well-established Luxembourg Société d'investissement à Capital Variable (SICAV). That is, one legal entity with multiple sub-funds beneath it. However, the VCC concept is incredibly flexible: It can be adopted as an umbrella structure with multiple sub-funds or as a non-umbrella structure with no sub-funds. They can be structured as feeder funds, master funds or special purpose vehicles for existing group funds.

A major factor for those considering establishing a VCC is that investors are only just getting used to the concept. However, this lack of familiarity can also work in its favour: As a new product, the VCC is free from any potential reputational concerns that investors might associate with certain established offshore fund structures.

Jek-Aun Long: Our law firm has been actively involved with the VCC scheme, from the formulation and creation of the model VCC constitutions to the successful launch of numerous open-ended and closed-ended VCCs for clients in the private and public segments of the investment funds industry. From a legal and technical standpoint, the VCC is as robust and flexible as other alternative options that are commonly utilised in other jurisdictions.

Bryan Goh: Adding to the above, the servicing component of VCCs is also an important consideration. Finding a partner that was able to provide full services across custody, fund administration and investor services was very important for our VCC.

Thomas Kaegi: Singapore's sophisticated fund ecosystem consists of many leading global fund administrators, custodians, law firms and other fund service providers which allow for VCCs to be well-supported by a robust asset servicing infrastructure.

Another key consideration is the strong commitment by the MAS to improve the adoption of VCCs through various policies and initiatives such as tax-incentive schemes, financial innovation grants, as well as ongoing industry engagement to strengthen investors' confidence in the VCC framework.

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The Singapore asset management survey 2022 by MAS mentioned that alternative assets are being set up in Singapore; do you see them utilizing the VCC structure?

Jek-Aun Long: Yes, we have assisted clients of all categories across the full spectrum of the fund management industry (including institutional and global fund managers) with the establishment of VCCs. The VCCs that we have established in the alternatives space employ a wide array of investment strategies (e.g., hedge, private equity, venture capital, real estate and private credit).

Could you shed some insights on the fund strategy under the VCC framework? Do you anticipate a continuous uptake in the adoption of VCCs?

Jek-Aun Long: Yes, the VCC has rapidly established itself as the dominant Singapore investment vehicle of choice for many managers since its introduction.

Enhancements to the VCC framework are in progress, and the MAS may issue a consultation paper in the near future. The VCC regime is expected to evolve and improve to become more attractive for investors in the years ahead. More recently, tokenisation of the VCC is a significant feature of the MAS' Project Guardian, which has been extremely beneficial for fund managers. We have been at the forefront of these efforts.

What are the regulatory guidelines governing the VCC in our current landscape?

Jek-Aun Long: The VCC is primarily regulated under the VCC Act. MAS mainly supervises the VCC regime from an anti-money laundering and countering the financing of terrorism perspective. Additional requirements apply to VCCs that are offered to retail investors under the MAS' Code on Collective Investment Schemes and such public VCCs must be authorised by the MAS.

The key regulatory requirements applicable to VCCs include the following:

1. A VCC is required to be managed by certain regulated entities in Singapore (which includes a holder of a capital markets services licence for "fund management").

2. A VCC is also required to have at least one director who is ordinarily a resident of Singapore, and at least one director who is a director or representative of the fund manager (such person may be the same person appointed as the resident director). The directors must also be fit and proper persons. Additional requirements apply to a MAS-authorised retail public VCC.

How has your firm leveraged the VCC structure? What are some of the benefits?

Kevin Hardy: Most VCC launches we were initially involved in were vanilla money market, fixed income and equity products. Since then, we have also worked on an increasing variety of structures with alternative investors and those looking at the VCC structure for tokenised funds. It is seldom that you find a single umbrella structure that allows you to do all sorts of structures underneath it, be it alternative or traditional – that's where VCCs score very highly.

Thomas Kaegi: We have established two umbrella VCC funds to meet product requirements from retail, institutional and wealth management investors. VCCs provide a potential cost-efficient fund structuring alternative to existing fund platforms. Another advantage of VCCs is the flexibility to hold all asset classes and investment strategies, from traditional funds to alternative funds within the same umbrella fund to allow for economies of scale.

In September 2023, we have also launched our first blockchain-native tokenised VCC fund pilot as part of Project Guardian, a collaborative industry initiative led by MAS that seeks to bring real-world assets onto blockchains. Although the tokenisation and on-chain activities were conducted in-house, we worked closely with different service providers to ensure that the fund setup can also support the tokenisation setup in parallel.

Bryan Goh: Singapore is a major and growing market for single-family offices, and these organisations have embraced the VCC concept. In 2020, we launched a public credit VCC. The process was incredibly smooth: Once an interested party has its capital market license from MAS, the next stage is an online application, which takes a matter of days. There are challenges associated with the VCC in that it's a fairly new structure, so European investors are not used to it. However, Singapore has recently attracted more talent in legal advice, fund administration and asset servicing, because all these factor in for a successful VCC.

We have experienced myriad benefits since establishing our VCC; most notable is that it allows the organisation to segregate its previously mixed portfolio into different asset classes, each as VCC sub-funds. This makes it feasible for external investors to invest alongside us, because not everyone has the same asset allocation targets or plans as we do. This feature of the VCC will allow us to scale the assets beyond the proprietary capital of the Tsao Trust.

What are your future plans for VCC?

Thomas Kaegi: We plan to establish our VCCs as one of UBS's key fund platforms by broadening the product offering to include alternative private market strategies. Our VCCs platforms will continue to evolve in anticipation of investors' requirements via new distribution channels on public and private blockchain networks.

Bryan Goh: The tax incentive schemes implemented for single family office structures has definitely made the VCC structure more appealing. Our outlook strategy is already global. I'm hoping that we can raise capital alongside the proprietary capital that we run. Our investment team is equipped with ESG analysis and an impact agenda. We have a fully functional back office reducing incremental cost of acquiring third-party assets.

Given that we have captive proprietary capital, we can be very competitive on cost. So, we can offer products at a lower cost than investment managers with no proprietary capital. However, if you're going to take third-party capital, then we need a vehicle. And the VCC is a convenient and efficient fund structure for that.

Kevin Hardy: We've worked with traditional, alternatives, private markets and hedge – there's a lot of knowledge and experience that we've picked up over time. For many firms within the region, they look to a location like Singapore to be a springboard into the global markets. Yes, they could feasibly create a Cayman vehicle, but if they wanted to attract the Asian client base, they've got other options too. And that is what VCCs give them.

Conclusion

The outlook for VCCs in Singapore is bright. The innovation, flexibility and efficiency that the VCC structure offers makes it an appealing option for investors, and its attractiveness is further supported by Singapore's broader range of incentives and its stability as an asset management hub. Looking ahead, we can expect the VCC scheme to attract growing interest from international fund managers and investors.

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