



New SMART Fund Model Announced

In August 2012 the Securities Commission of The Bahamas (the “**Commission**”) approved a new SMART fund model, increasing the total number of approved SMART fund models to seven.

What is a SMART fund?

“SMART” is an acronym for *Specific Mandate Alternative Regulatory Test* fund. As investment needs may vary from client to client, SMART funds provide the option for promoters to tailor-make an investment vehicle. This allows promoters or clients with unique investment ideas to create a fund model which can be submitted to the Commission for approval. However, promoters are free to structure their funds based on the models already approved. The Bahamas introduced the SMART fund concept in 2003, with the enactment of the *Investment Funds Act, 2003*. The SMART fund concept has proven to be a unique twist on the traditional way of structuring funds.

Why is a SMART fund attractive?

A SMART fund strikes just the right balance for those desirous of a privately held investment vehicle with the added bonus of being a licensed and regulated entity, which can provide an additional layer of credibility to the investment structure.

SMART funds can be relatively cost-effective, as they are not required to have an offering memorandum and, in some cases, only a term sheet (a short form offering memorandum) is required, although the fund is free to issue an offering memorandum. Additionally, investors can opt to waive the requirement for audited financial statements and costs can be kept to a minimum with the directors of the fund administering the fund (depending on the model).

The SMART Fund 007:

The newest ‘kid’ on the block, the SMART fund 007, can be used for “private placement” purposes requiring a minimum initial investment of US\$500,000 per investor with the number of investors not exceeding fifty. It can also be used in an offshore-onshore/master-feeder fund structure as the offshore fund counterpart to an onshore fund attracting high net worth investors.

Industry executives feel that the new SMART fund model is a great step for The Bahamas in making itself more appealing to Latin and South American markets, for instance Brazil.

Other SMART funds:

In addition to the newest SMART fund, promoters can use the SMART fund model 002 to test a particular fund strategy. That is, a fund can be structured permitting a



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maximum of only ten investors; if the investment strategy proves successful, the promoter can then convert the fund to a professional fund which would allow for a greater number of investors (with no limitation on the number of investors).

Another model that has proven to be extremely popular in the private wealth management arena is the SMART fund 004. This fund model is ideal as a privately held investment vehicle for a small group of related persons (no more than five) sharing common investment goals.

For more information on SMART funds and investment funds generally contact partner Samantha Knowles-Pratt (skpratt@delaneypartners.com).

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