



EQUITY

BANK AND TRUST BAHAMAS LIMITED

The Bahamas SMART Fund

The Specific Mandate Alternative Regulatory Test Fund (SMART® Fund) was introduced under the Investment Funds Act, 2003, as an additional style of a collective investment vehicle. It was designed to provide industry with a new private wealth management tool with the flexibility to find application within areas not traditionally associated with investment fund administration. The primary facility offered by the SMART Fund concept is an open architecture which allows practitioners to design innovative structures, akin at times to special purpose vehicles, without reference to inflexible regulatory criteria predefined in legislation.

Where investment funds essentially are private arrangements, they can now enjoy a supervisory environment appropriate for the limited, specific nature of the project and need not suffer the 'broad brush' regulatory approach. Whereas other jurisdictions only differentiate between public and private funds by criteria such as number of investors or value of minimum investment, applicants for a SMART Fund licence need only demonstrate to the regulator that the structure is an appropriate use of an Investment Fund, and in keeping with the best traditions of Bahamas financial services.

Similar to other licensed fund structures, SMART Funds can generate economies of scale and other efficiencies for investment structures. Furthermore, SMART Funds offer the ability to achieve cost-based structuring by scaling the complexity of the fund structure to meet the requirements of its promoter and investors.

In order for an Investment Fund, as defined in the Investment Funds Act, to be licensed as a SMART Fund, it must satisfy the parameters and requirements of a specific set of Rules that are approved and published by the Securities Commission.

The Securities Commission has pre-approved seven SMART Fund mandates and published the criteria for each by means of SMART Fund 'templates'.

- **SFM001:** An Investment Fund where the promoter is a financial institution and the investors in the Investment

Fund are also customers of the financial institution and party to a Discretionary Management Agreement with the financial institution.

- **SFM002:** An Investment Fund that has no more than ten investors who hold equity interests in the Investment Fund who meet the criteria of an 'Eligible Investor' in a Professional Fund and the majority of whom have the power to appoint and remove the operators of the Investment Fund. The fund may be licensed and launched on the same day through an Unrestricted Fund Administrator or have a 72-hour response through the SCB.

- **SFM003:** An Investment Fund that has no more than 15 investors holding equity interest in the Investment Fund, the majority of whom have the power to appoint or remove the operators of the Investment Fund.

- **SFM004:** An Investment Fund with a maximum of 5 investors operating as a private investment company. It may be used as a credible, licensed holding vehicle.

- **SFM005:** An Investment Fund with a maximum of 5 investors holding equity interests and operating as a private investment structure for individuals/families. Each investor must be a person to whom a Professional Fund may be offered, permitting same day launch by a unrestricted fund administrator or 72-hour response through the Securities Commission of The Bahamas.

- **SFM006:** A special purpose vehicle designed to hold the illiquid or 'hard-to-value' assets of another Bahamas investment fund which offers a significantly lighter administrative and cost effective environment for the assets whilst respecting the ownership rights of the investors and creditors (if any) of the original fund.

- **SFM007:** An investment fund that may be offered, on a private placement basis, to up to fifty (50) 'super-qualified investors' who must each make a minimum initial subscription of US\$500,000. This SFM has been designed for use mainly by institutional investors, such as pension funds, funds of funds and master-feeder structures; however natural persons and private entities



EQUITY

BANK AND TRUST BAHAMAS LIMITED

are also eligible investors. Due to the very significant minimum investment amount per investor, the SFM007 has a reduced structural risk profile and counter parties may benefit from maximum flexibility with respect to appointment and domicile of service providers.

Structures

Company (including Segregated Accounts Company), Limited Partnership, Unit Trust.

Requirements

- Bahamian Administrator required in most cases – delegation to foreign sub administrator is acceptable.
 - A Foreign Administrator may be appointed for SFM005 or SFM007 SMART Funds.
 - A SFM005 SMART Fund must appoint an administrator that is a financial institution.
 - SFM004, SFM006, and SFM007 SMART Funds do not require an administrator. The operators may administer the fund but this will not be treated as a self-administered fund.
 - SFM001 and SFM006 SMART Funds are not required to have financial statements audited but the annual unaudited statements and the semi-annual performance report must be filed with the Securities Commission.
 - The financial statements of the SFM002, SFM003, SFM004, SFM005 and SFM007 SMART Funds shall be audited annually unless unanimously waived by the investors, and where there is such waiver a performance report shall be filed with the Securities Commission within six months of the waiver and every six months thereafter as long as the waiver exists.
- A term sheet is not required for a SFM001, SFM004 or SFM005 SMART Fund; however if a term sheet is prepared it must contain prescribed disclosure requirements. A term sheet or offering memorandum is required for the SFM002, SFM003, SFM006 and SFM007 SMART Funds and must contain the prescribed disclosure requirements.

Eligible Investors

Eligible Investors may be:

- A bank or trust company, securities firm or insurance company licensed in The Bahamas or in a prescribed Jurisdiction.
- A Bahamian Investment Fund or investment fund regulated in a prescribed jurisdiction.
- Natural person (joint w/spouse) with a net worth of \$1,000,000.00.
- A Trust with a minimum of \$5,000,000.00 in assets.
- Natural person who had minimum income of \$200,000.00 for the last 2 years (\$300,000.00 w/spouse) and has reasonable expectation of same for current year.
- An entity owned by one of the above.