SEI New ways. New answers.®

SEI Global Asset Management

PRODUCT GUIDE

The investment management industry experienced several record events during the financial crisis in 2008 — nearly all of them negative. In the ensuing years, the markets have recouped their losses and major markets are functioning more smoothly, albeit with a higher level of volatility. However, the combination of bruising losses, illiquidity and epic scandals have empowered investors and introduced a higher degree of regulatory interest and oversight.

In this new era, investors and their representatives increasingly dictate how they access a manager's strategy, which necessitates managers embracing vehicle agnosticism and flexible product packaging. Simultaneously, regulators are attempting to limit systemic risk and protect investors. As a result, managers need a comprehensive resource for understanding the predominant product structures they can use to package their investment strategies. To satisfy this need, SEI has developed the Global Asset Management Product Guide.

SEI Knowledge Partnership
Insights for Investment Managers

SEI GLOBAL ASSET MANAGEMENT GUIDE
PRODUCTS AT A GLANCE

PRODUCTS	PROS	THINGS TO CONSIDER
U.S. MUTUAL FUND	› Allows for pooling of assets, which can lead to scale benefits › No investor qualification requirements (unless a performance fee is charged) › No limit on the number or types of investor (e.g., individual, retirement plan, corporation, endowment) › Daily liquidity provided to investors at end of trading day › Can raise capital (i.e., offer shares) on a continuous basis › ERISA blocker—not subject to the Employee Retirement Income Security Act (ERISA) Plan Asset Rules › Considered transparent products (although holdings are only required to be disclosed on a quarterly basis with a 60-day lag) › UBTI blocker—not considered Unrelated Business Taxable Income (UBTI) › Wide array of investment strategies possible (e.g., equity, fixed income, active, passive, sector, geographic region)	› Cannot tailor fees for particular investors; must charge same advisory fee to all U.S. Mutual Fund investors › May have a performance fee but all investors must be "qualified clients" unless "fulcrum fee" used › Limited flexibility for capital structure (e.g., no senior class of securities permitted) › Limited ability to use leverage and other substantive investment limits (e.g., shorting, diversification) under the Investment Company Act of 1940 ('40 Act) › Investing in commodities and commodity-linked derivatives complicated due to Internal Revenue Code (IRC) requirements › Illiquidity limit as U.S. Mutual Fund must provide investors with daily liquidity › Portfolio turnover and capital gains can be triggered by investor redemptions › More expensive to organize and operate than private funds and separate accounts › Cannot tailor investment strategy for particular investors › Cannot pass through losses › Speed to market not as fast as a private fund, separate account or CIT—at least a 90-day SEC review period required for U.S. Mutual Funds

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS	PROS	THINGS TO CONSIDER
EXCHANGE-TRADED FUND (ETF)	› Allows for pooling of assets › Daily intraday liquidity via secondary market › Transparent products (particularly index tracking ETFs) › Generally tax efficient due to redemption in-kind process and low turnover in the case of index-based ETFs › Capital gains not generally triggered by investor redemptions due to redemption in-kind process › Generally low cost although trading costs including bid/ask spread must be considered › ERISA and UBTI blocker › Can raise capital on a continuous basis › No investor qualification requirements or limit on number or types of investors	› Wide bid/ask spreads may deter investors › For active ETFs, portfolio holdings disclosure can lead to front running › Must charge same advisory fee to all investors › More expensive to organize and operate than private funds and separate accounts › Substantive ’40 Act investment restrictions apply › Cannot pass through losses › Speed to market — SEC exemptive relief required, which currently ranges from 6 to 18 months (SEC has a pending rule proposal that would dramatically reduce this time frame) › Legacy recordkeeping systems and commissions on trades have been hurdles to widespread use in defined contribution plans › Must comply with exchange listing requirements

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS AT A GLANCE (CONTINUED)

PRODUCTS	PROS	THINGS TO CONSIDER
CLOSED-END FUND (CEF)	› Allows for pooling of assets › Less restrictive leverage limits than U.S. open-end Mutual Funds › If listing on an exchange, daily intraday liquidity via secondary market › May invest in illiquid investments › Permanent capital base › Can issue senior securities › ERISA and UBTI blocker	› Secondary market price may be at a discount or premium to net asset value (NAV) › Generally difficult to raise significant additional capital › Initial Public Offering (IPO) process, if listing on an exchange, may be an organizational distraction › Must charge same advisory fee to all investors › More expensive to organize and operate than private funds and separate accounts › Speed to market longer if using IPO process › Must comply with exchange listing requirements
PRIVATE FUNDS (SECTION 3(c)(1) and 3(c)(7) FUNDS)	› Allows for pooling of assets › Unlimited flexibility for types of investment strategies › Unlimited flexibility for product design structures such as fees and liquidity (although appropriate disclosure is important due to pooling of assets from different investors) › Currently, managers can structure so that performance fees taxed at the capital gains rate › Less expensive to organize and operate relative to U.S. Mutual Fund and Closed-end Fund › Speed to market—can be launched more quickly than a U.S. Mutual Fund › Can raise capital on a continuous basis	› Shares must be privately offered; no public offer permitted, although general solicitation is permissible if certain requirements are met › Limits on the number of investors › Investor qualification requirements › Limited to “qualified purchasers” for Section 3(c)(7) funds › Limited to “qualified clients” if a performance fee is to be charged › Limited to “accredited investors” for Section 3(c)(1) funds › The number and investor qualification requirements limit private funds to institutional and high-net-worth investors › Depending on the investor base, may be subject to ERISA Plan Asset Rules

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS	PROS	THINGS TO CONSIDER
COLLECTIVE INVESTMENT TRUST (CIT)	› Allows for pooling of specific types of institutional assets › Greater flexibility for types of investment strategies than U.S. Mutual Funds › Less expensive to organize and operate relative to U.S. Mutual Fund or Closed-end Fund › From investor perspective, relatively lower cost structure compared to a U.S. Mutual Fund › Trading of CIT interests on par with trading of U.S. Mutual Fund shares › Speed to market on par with a private fund › Is exempt from taxation under current IRS guidance	› Must be "maintained by a bank" › Investors limited to certain types of tax-qualified retirement plans (i.e., defined contribution and defined benefit plans), governmental plans, other collective trusts, and insurance company separate accounts › Offer limited to qualified investors (i.e., plans) › Individual Retirement Accounts, funded welfare plans, nonqualified plans, and foundations and endowments cannot be accepted › Limitations on advertising
SEPARATE ACCOUNTS	› Unlimited flexibility for types of investment strategies › Unlimited flexibility for product design structures such as fees and liquidity › No prescribed limits on number of investors or investor qualification, other than "qualified client" requirement if a performance fee is charged › Can customize investment strategy for a client › Investors not affected by redemptions by other investors › From investor perspective, there is transparency, custody control, liquidity › Speed to market faster than any other product packaging › Tax efficiency—may pass through losses	› No pooling of assets so may be difficult to realize scale benefits › Direct legal and contractual relationship between advisor and each client required › Clients must be allowed to dictate investment limitations

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS AT A GLANCE (CONTINUED)

PRODUCTS	PROS	THINGS TO CONSIDER
UNDERTAKING FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (UCITS)	› Allows for pooling of assets › Can have share classes that charge different management fees › No investor qualification requirements › No limit on the number of investors › No limit on the type of investor › Daily liquidity typically provided to investors › Can raise capital on a continuous basis › Ability to market shares throughout the European Union (EU) ("passport") › Accepted product structure in other jurisdictions (e.g., Hong Kong) › UCITS typically domiciled in tax-neutral jurisdictions such as Ireland or Luxembourg › Allows for fund-of-funds structure › Management company may be domiciled in different EU country	› Speed to market—lengthy authorization process in UCITS domicile › UCITS IV Directive has faciliated cross-border transactions › More expensive to organize and operate than private funds, qualifying investor alternative investment funds (QIAIFs) or separate accounts › If marketing outside the host country, need to comply with other countries' local marketing requirements, which may also include the appointment of a local representative agent

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS	PROS	THINGS TO CONSIDER
IRISH QUALIFYING INVESTOR ALTERNATIVE INVESTMENT FUND (QIAIF)	› Allows for pooling of assets › No limit on number of investors › Range of eligible assets is broad › No minimum liquidity requirement › Can raise capital on a continuous basis › Speed to market—capable of being authorized within 24 hours › Exempt from Irish tax on income and gains › No investment restrictions or diversification requirements	› Investor subscription and eligibility requirements apply › A non-UCITS regulated product that facilitates cross-border marketing within Europe › Preferred structure for use in the regulated alternative investment arena › The manager (AIFM) rather than the product is regulated—the regulatory requirements for an AIFM are currently more onerous than those for a manager of a UCITS
IRISH COLLECTIVE ASSET MANAGEMENT VEHICLE (ICAV)	› Able to elect classification under the U.S. check-the-box taxation rules › Governed by specific legislative regime tailored for ICAVs › May be established as an umbrella structure › Listed on stock exchanges › Continuous redemption of shares	› Available from March 12, 2015, pursuant to the ICAV Act of 2015

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS AT A GLANCE (CONTINUED)

PRODUCTS	PROS	THINGS TO CONSIDER
LUXEMBOURG SIF/AIF	› Allows for pooling of assets › No limit on number of investors › Range of eligible assets is broad › No minimum liquidity requirement › Can raise capital on a continuous basis › Exempt from Luxembourg tax on income and gains › Minimal diversification requirements › May be set up with various legal forms (e.g., mutual fund, corporation or partnership)	› Investor subscription and eligibility requirements apply › A non-UCITS regulated product that facilitates cross-border marketing within Europe › Preferred structure for use in the regulated alternative investment arena
LUXEMBOURG SICAR	› Not technically a fund (although may be an AIF) › No limit on number of investors › Tailor-made for private equity/ venture capital investments › No minimum liquidity requirement › Can raise capital on a continuous basis › Not subject to diversification requirements › May be set up with various legal forms (e.g. mutual fund, corporation or partnership) › Exempt from wealth tax and withholding tax › If in form of limited company: any income derived from securities held by SICARs is fully tax exempt	› Investor subscription and eligibility requirements apply › Assets must be invested in securities representing risk capital (subject to prudential guidelines) › Cannot directly acquire real estate › If AIF, facilitates cross-border marketing within Europe

Sources: SEI, Morgan Lewis, Matheson (2015).

PRODUCTS	PROS	THINGS TO CONSIDER
LUXEMBOURG “PART II” FUND	› Allows for pooling of assets › No limit on number of investors › May be marketed to retail investors › Range of eligible assets is broad › No minimum liquidity requirement › Can raise capital on a continuous basis › Exempt from Luxembourg tax on income and gains › Minimal diversification requirements › May be set up with various legal forms (e.g. mutual fund, corporation or partnership)	› Qualifies automatically as an AIF › A non-UCITS regulated product that facilitates cross-border marketing within Europe › Needs to appoint an AIFM or to be authorized as self-managed
U.K. OPEN-END INVESTMENT COMPANY (OEIC)	› Allows for pooling of assets › Can be continuously offered › Can be promoted to the U.K. general public › Exempt from U.K. tax on its capital gains but subject to income tax › Certain OEICs may be promoted as UCITS	› No segregation of liabilities between sub-funds › Authorization can take up to 6 months depending on complexity › Not all OEICs are considered UCITS [e.g., non-UCITS retail schemes (NURS)]

Sources: SEI, Morgan Lewis, Matheson (2015).

SEI GLOBAL ASSET MANAGEMENT GUIDE
PREDOMINANT PRODUCT PACKAGING BY CHANNEL

	DISTRIBUTION SEGMENTS	
ASSET POOLS	**USA**	**EUROPE**
TRADITIONAL INSTITUTIONAL	› Corporate defined benefit (DB) and defined contribution (DC) plans › Public DB plans › Taft-Hartley (union) plans › Endowments › Foundations	› Corporate DB and DC plans › Public DB plans › Charities › Sovereign wealth funds › Foundations › Insurance company (on balance sheet assets)
INSTITUTIONAL GATEKEEPER/WHOLESALERS	› Retirement plans › Wrap program sponsors › Sub-advisory › Family offices	› Fund of funds › Insurance company funds › Private banks (discretionary assets) › Subadvised funds › Family offices
INDIVIDUAL INVESTOR	› High net worth (HNW) › Ultra high net worth (UHNW) › Emerging affluent › Mass affluent	› HNW › UHNW › Emerging affluent › Mass affluent

Sources: SEI, Spence Johnson, Strategic Insight (2015).

<table>
<tr><th colspan="2">DISTRIBUTION CHANNELS</th><th colspan="2">PREDOMINANT PRODUCT PACKAGING WITHIN CHANNELS</th></tr>
<tr><th>USA</th><th>EUROPE</th><th>USA</th><th>EUROPE</th></tr>
<tr><td>› Consultants
› Manager-of-managers programs
› Fund of hedge funds (FoHF)
› Direct</td><td>› Investment and employee benefit consultants
› Manager-of-managers programmes
› FoHF
› Direct to DB fund trustees
› Fiduciary implemented consulting managers
› LDI programme managers</td><td>› Separate accounts (institutional)
› Private funds
› CITs</td><td>› Separate accounts (institutional)
› LDI programme
› Private funds
› Structured products
› Hedge funds
› ETFs</td></tr>
<tr><td>› Retirement plan recordkeepers
› Retirement plan advisors
› Wrap sponsors (i.e., wirehouses, TAMPs, IBDs)
› Manager-of-managers programs
› Variable annuity sponsors
› Third-party marketers</td><td>› Fund/IFA/wrap platforms
› Bank platforms/gatekeepers
› Investment and employee benefit consultants
› DC pensions providers/ administrators
› Private banks
› Fund of funds (asset managers)</td><td>› Mutual funds
› CITs
› Separate accounts (wrap)
› Model portfolios (i.e., submission of model portfolios)</td><td>› Structured products
› Hedge funds
› Cash funds
› ETFs
› Discretionary portfolios
› Advisory portfolios</td></tr>
<tr><td>› Family offices
› Independent investment advisors, registered investment advisors (RIAs)
› Wrap sponsors (i.e., wire houses, TAMPs, IBDs)
› FoHF
› Direct</td><td>› International banks/private banks
› Retail and local savings banks
› Regional savings banks
› Independent financial advisors
› Wealth managers
› Stockbrokers
› Family offices
› Fund/wrap platforms
› Bank platforms
› Trust companies and advisors
› Lawyers and accountants</td><td>› Mutual funds
› Separate accounts (wrap)
› ETFs
› FoHF
› Model portfolios (i.e., submission of model portfolios)
› Closed-end funds</td><td>› Pooled investment funds
› Structured products
› Tax-efficient wrappers
› Hedge funds
› Property funds
› Cash funds
› ETFs
› Closed-end funds
› Self-directed portfolios (discretionary or advisory)</td></tr>
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