



ALTERNATIVE  
INVESTMENT  
CORPORATE

## The Specialist Fund Market

Introducing a New Market for Specialist Investment Funds

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*On 1 November 2007 the London Stock Exchange welcomed a new category of traded investment funds when its latest initiative, the Specialist Fund Market, opened its doors.*

### What is the Specialist Fund Market?

The Specialist Fund Market (SFM) is the London Stock Exchange's (LSE) regulated market for highly specialised investment entities that seek to target institutional, professional and highly knowledgeable investors only.

The SFM further enhances London's appeal to specialist investment managers seeking a flexible and adaptable route to accessing permanent capital from a highly sophisticated global investor base.

The SFM will appeal to managers of large hedge funds, private equity funds and certain emerging market and specialist property funds seeking admission to a public market in London.

### Background

In July 2007 the LSE announced its proposal to launch the SFM. In effect, the SFM is designed to attract and distinguish non-retail alternative asset investment funds, such as private equity capital pools, hedge funds and specialist geographical funds, from the mainstream investment and unit trust market.

The initiative is partly market-driven, especially in response to the recent success of Euronext Amsterdam in attracting the attention of relatively high-profile fund managers such as Apollo Management, Marshall Wace and most recently KKR. The other driver is regulatory, in view of the Financial Services Authority's (FSA) proposed March 2008 closure of the lighter-touch Chapter 14 Main Market listing regime for foreign based investment funds.

The LSE hopes a listing on the SFM will provide specialist funds and their managers with meaningful visibility on a separate exchange. The alternative, following the Chapter 14 changes, would be to seek admission on AIM, the LSE's junior market designed primarily for small and emerging growth companies. This has already occurred with certain types of special purpose acquisition companies and specialist geographical funds, particularly former Soviet Bloc real estate country funds. A dedicated fund-focused trading platform should enable the LSE to accommodate international demand for a market which will be attractive to deep-pocket, sophisticated investors, since the SFM is not designed to be open to retail investors.

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## Admission Criteria and Process

The admission criteria for candidate fund issuers are surprisingly light, but also extremely focused, as they are designed to attract only investment entities that are highly specialised. Beyond predictable requirements that relevant securities will be freely transferable and negotiable with an electronic settlement facility, fund managers and their advisers will also need to demonstrate that the fund fits the sophisticated investment proposition profile.

Promoters will not be required to show a relevant investment track record, nor will they be required to retain a conventional sponsor. Rather, what is termed a 'corporate adviser' will be responsible for managing the admission process and getting the prospectus/offering document approved by the FSA (wearing its UK Listing Authority hat) or a non-UK equivalent. In the case of non-European applicants (US applicants, for example), funds would need to seek FSA prospectus approval. We suspect that, in many cases, the retention of a *de facto* sponsor would be advisable to support the integrity of the offering.

Securities that are admitted to trading on the SFM will be treated as 'unlisted securities' (i.e. not admitted to the Official List), and thus the FSA's Listing Rules do not apply. The LSE's Admission and Disclosure Standards will, however, need to be observed.

In addition, there are provisions for transferring investment entities from AIM and the Main Market, as well as passporting from another EU Regulated Market.

## What is the Next Step?

Brown Rudnick's London Capital Markets and Funds teams have already developed a set of template materials for an SFM admission and would be pleased to hear from any intending applicants or their promoters with a view to providing a cost-effective and efficient service to secure a successful float on the SFM.

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