

# Alternative Wrappers: Repackaging for Funds

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# Overview

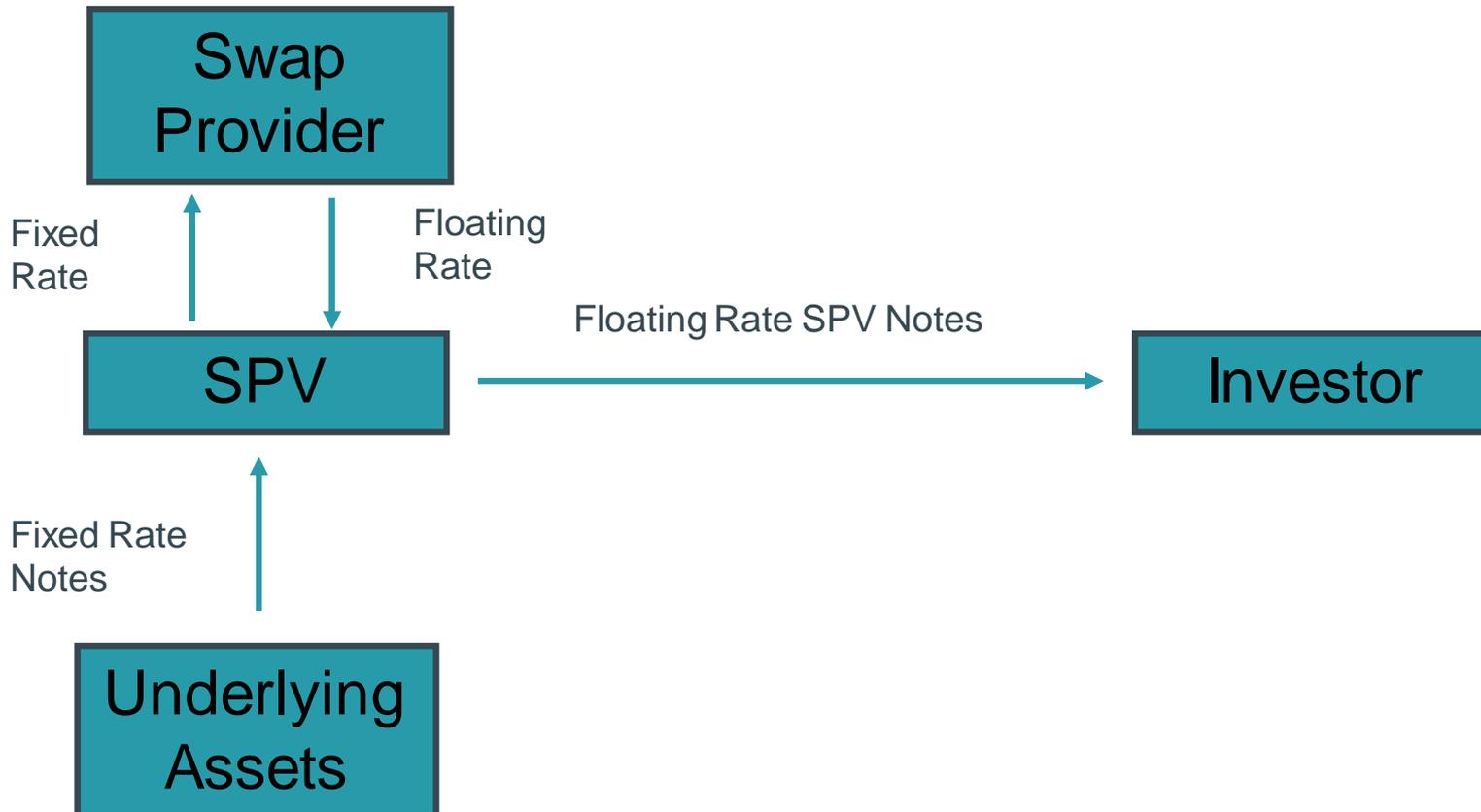
This presentation will cover the following:

- Repackaging as an alternative wrapper
  - what is a repackaging?
  - what assets can be repackaged – issues to consider
  - how to access the markets
  - regulatory considerations

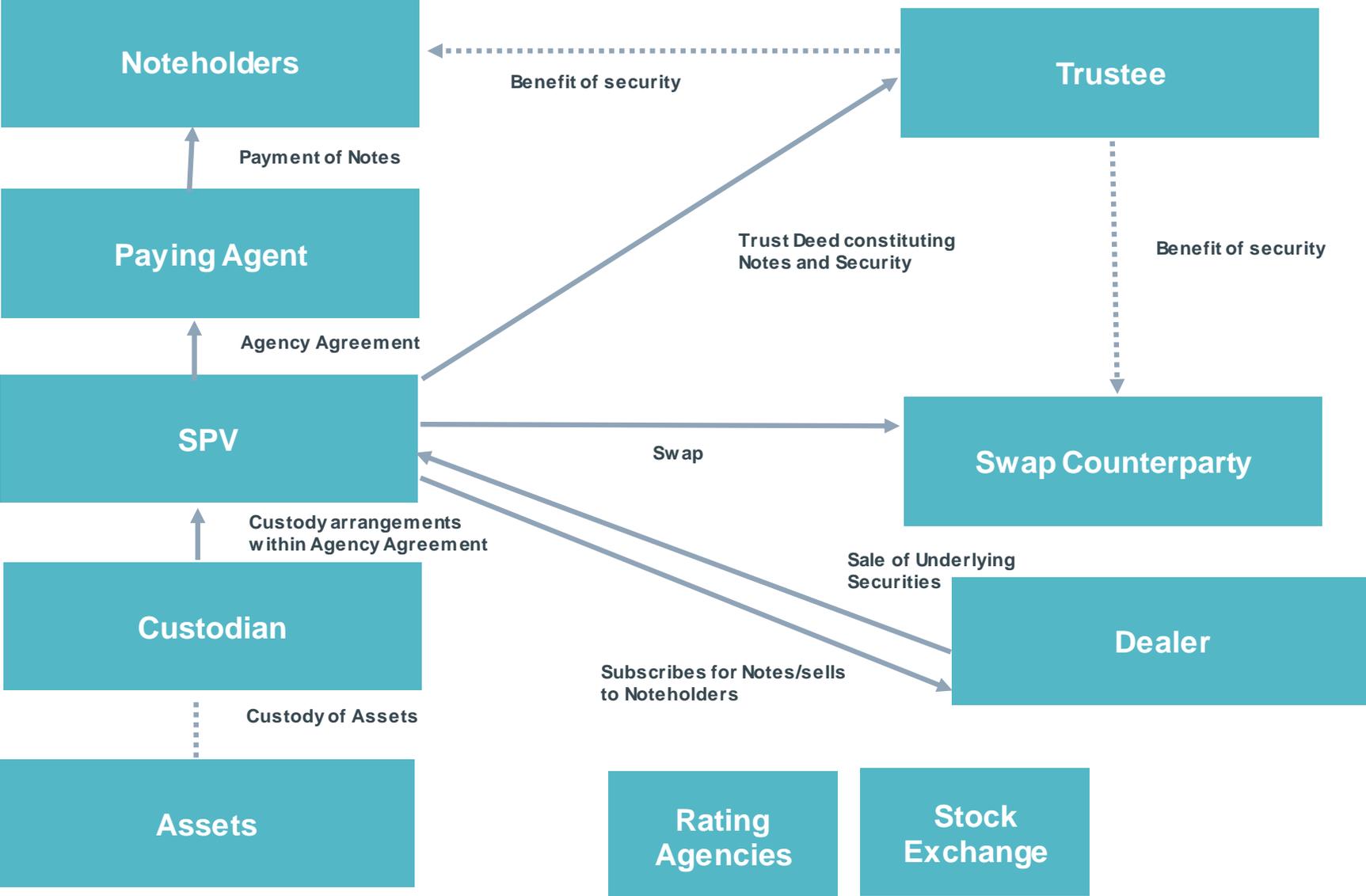
# What is a Repackaging



# Basic structure

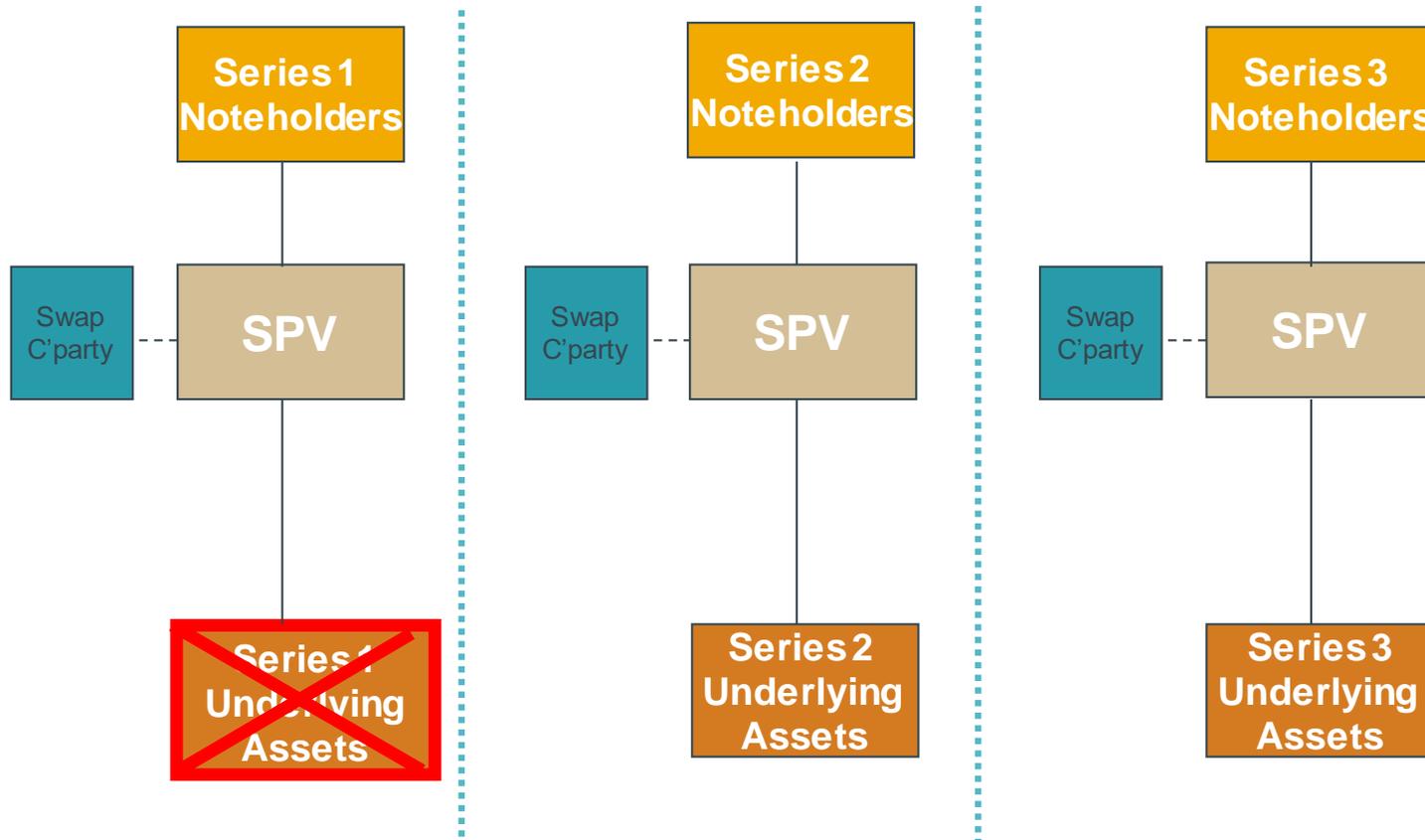


# Parties to a Repackaging Transaction



# Multi-issuance Programmes

- Possible for same SPV to issue multiple series of notes
- No **cross default** provisions contained in the notes for each series



## What Assets can be Repackaged



# Types of Underlying Assets

## ■ Bonds

- Euroclearable bonds
- Domestic bonds
- Convertible bonds

## ■ Funds/Shares

- Fund shares/Units/LPAs
- Equities (listed/unlisted)

## ■ Loans

- Bilateral/Syndicated
- Term (drawn)/Term (undrawn)/Revolving
- Unsecured/Secured

## ■ Exotic

- Letters of credit
- Warrants

# Considerations on repackagings of Fund Interests

- Key features to consider:
  - uncertain maturity date
  - liquidity (how often can you subscribe for/redeem interests in the fund?)
  - distributions/dividends?
  - fund events
    - affecting redemptions/subscriptions (e.g. conditions, suspensions, gates, fees, side pockets)
    - change in strategy/investment objectives of fund, change in manager, other?
  - Redemption in Instalments where Fund (e.g. where fund holds back payouts for tax purposes for a period)
  - dealing with ongoing funding obligations by the SPV (e.g. funding of costs by SPV as limited partner under a Limited Partnership investment)
  - viability of taking security – over what is security being taken?

# Considerations for Leveraged Fund linked Notes

- Leverage – leverage can be introduced into the Note structure most commonly by the Note arranger (although it can be a third party) providing the SPV with additional financing via a **Swap** or **Loan**
- The SPV uses both the proceeds of the Note issuance and the Swap/Loan financing to acquire the Fund Interests
- Leverage provider will usually require a senior ranking
- Triggers - Usually a **NAV trigger** or similar will be applied to cause the early redemption of the Notes – the level is set to ensure, to the extent possible, that the Leverage Provider's change of loss is minimised.

# Considerations for PE Linked Notes

- Type of PE Investment - The structure will depend on the manner in which the SPV obtains exposure to the private equity fund – often via **PE Shares** or as a **Limited Partner** but other investment structures (such as convertible bonds) are possible
- Limited Partnership Agreements - Consider adjustments required to standard **LPAs** to deal with an SPV as investor
- Maturity/Redemption Profile - Necessary to determine investment horizon and consequences – e.g. Note redemption upon IPO, what if no IPO occurs, how to deal with retention of distributions among others

# Considerations for Equity Linked Notes

- Listed Shares - Where the equities are **listed** – consider listing rule/regulatory considerations (e.g. disclosures of interests, material non-public information and similar)
- Local Law Security - Often securities cleared through local clearing systems may involve **local law security** granted by the SPV in favour of the trustee
- Adjustments/Disruptions - Incorporation of equity derivative style **disruption and adjustment** provisions – e.g.:
  - Merger Events
  - Delisting
  - Exchange Closures
- Disposal/Realisation - mechanisms to realise the equities to be hardwired – how to minimise downward price pressure of large scale disposals of shares/illiquidity of private company shares

# Considerations for Loan linked Notes

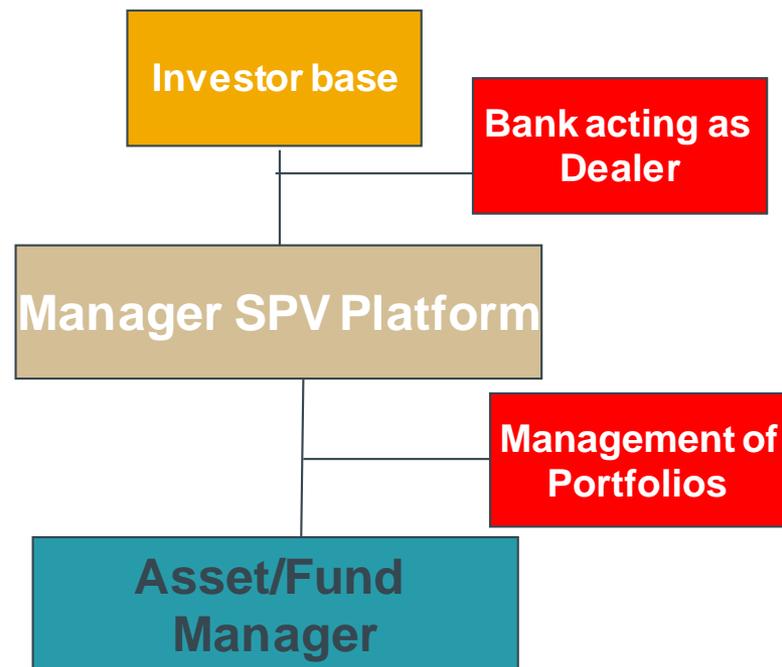
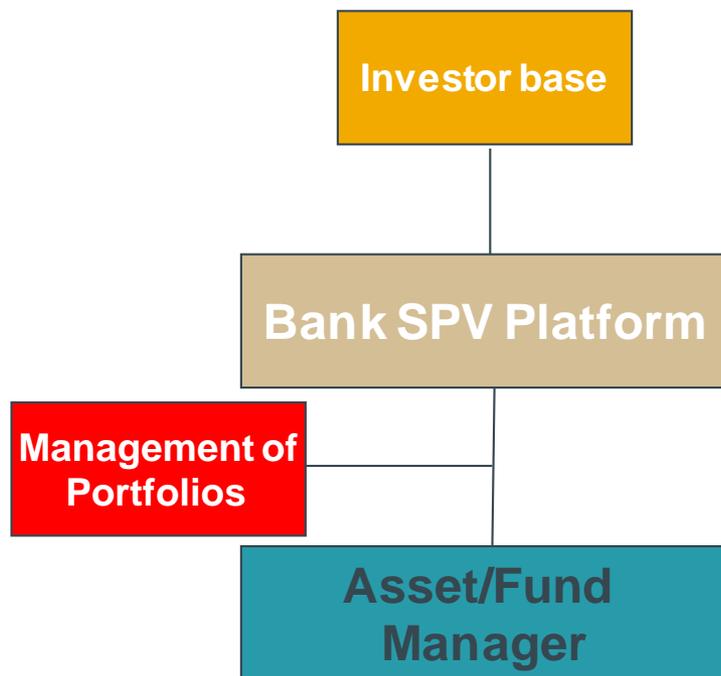
- Transferability – ensuring loan is capable of being transferred to the SPV and secured in favour of Trustee. Ease of realisation?
- Confidentiality – adjustments to standard confidentiality restrictions to allow disclosure to transaction parties/investors
- Voting Rights – considerations relating to whether (and if so, how) voting rights of SPV as Lender could be exercised
- Liabilities of the SPV – are there any ongoing funding obligations on the SPV? Even if not, can appropriate limited recourse provisions be included to avoid other liabilities (consider single-purposes SPV or an SPC)
- Tax – is there any withholding due on payments from Borrower to SPV as Lender
- Regulatory – does the SPV need to be licensed to lend in the jurisdiction of the Borrower
- Local law – how to perfect security granted by SPV in favour of Trustee.

# How to Access the Markets



# How to Access the Markets

- There are two principal ways by which an Asset/Fund Manager can offer repackaging products



# Standard Repackaging Documentation: What is it?

Consortium of four arrangers



**Deutsche Bank**

**NOMURA**

**Morgan Stanley**

# Standard Repackaging Documentation: What is it?

## The idea

Suite of freely-available standardised documents for creating a repackaging programme

Open-access website, no fee

Launched on 2 November 2016

Available at: [www.standard-repack-documentation.com](http://www.standard-repack-documentation.com)

# Standard Repackaging Documentation: Why?

## Consistency

Harmonise approach to repackaging across the market: easier to compare products across different arrangers

## Efficiency

Increased execution efficiency and reduced transaction costs

## Market Initiative

Increase market awareness of repackaging and assist growth of the market

## Timely replacement of parties

Facilitate timely replacement of service providers, swap counterparty and arranger

# Regulatory Considerations



# Regulatory and Legal Considerations

## ■ Identify jurisdictions for distribution

- Licensing requirements
- Collective Investment Scheme characterisation/exemptions
- Local disclosure requirements
- Interaction between regulatory regimes applicable to a Bank Arranger/Swap Counterparty (if any) and Asset/Fund Manager

## ■ Nature of Underlying Assets

- Methods of custody
- Viability of granting security

## ■ Listing

- Are Notes to be listed – if so where is feasible?

## ■ Securitisation Characterisation

- Any subordination of exposures?
- Identify investor classification to assess applicability of any local securitisation regimes

Q&A



# Contact Us



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