



NAVIGATING THE INVESTMENT MENU: A CULINARY GUIDE TO FUND STRUCTURES



By **TRAN D. HOANG (HENRY)**
Partner at
Herman, Henry & Dominic

Picture a vast food market, where each stall represents a unique way of serving and presenting dishes. In the world of finance, these stalls can be likened to various fund structures, each designed for specific investment needs and preferences. However, understanding these different structures can often feel like navigating a complex menu in a foreign cuisine. In this series, we aim to demystify these complexities. By using straightforward analogies and relatable examples, we'll break down and explain some of the most common fund structures, making them easy to grasp.

1. Master-Feeder Structure

Imagine you're at a grand dinner party, and everyone is being served food from a central kitchen. Think of this kitchen as the **master fund**. Now, each table at this party represents a different group of guests with their unique dining preferences. These tables are your **feeder funds**. Even though they're all enjoying meals from the same kitchen, some might have dietary restrictions or specific tastes.

In the financial world, the master-feeder structure works somewhat similarly. Here's a breakdown:

The Central Kitchen (Master Fund): This is where the magic happens. Hedge funds use a master-feeder structure to pool money both from local and overseas investors. This centralized fund, the master fund, handles all the investment decisions and trading. It's the heart of operations.

The Dining Tables (Feeder Funds): Investors pour their money into these feeders. Think of them like

specific bank accounts or pots of money. Once the cash is in, these feeder funds buy "shares" in our central kitchen (the master fund). Just like you'd buy shares in Apple or Google.

- The twist? When a feeder fund buys into the master fund, it gets its share of the master fund's income - from interest, gains, and even dividends.

The Bill (Fees): When it's time to pay, charges like management and performance fees are settled at the feeder fund level, not the central kitchen.

Variety is the Spice: Now, not all tables at our dinner want the same thing. Similarly, feeder funds can have their own flavors. They can vary in the type of investors they cater to, fee structures, minimum investment amounts, and more. They aren't tied to one specific master fund recipe and have the freedom to invest in various master dishes.

Popularity in the Hedge Fund World: While this two-tiered setup might remind you of other structures, like "funds of funds," it's a star player in hedge funds. Why? It lets fund managers gather a lot of capital (from that grand dinner party) but still offer dishes that cater to specific tastes.

The Common Setup: Usually, you'll find one main offshore master fund paired with two feeders: one domestic and one international. It's a dance of variety and choice, allowing for a range of investment tastes and needs.

In essence, the master-feeder structure provides the perfect blend of centralized efficiency and customized flexibility. It's all about having a grand dinner party but ensuring everyone gets their preferred dish.

2. Fund of Funds (FOF)

Imagine walking into a gourmet food hall, where each stall offers a unique delicacy from various cuisines around the world. Instead of tasting just one dish, you get a sampler platter, allowing you to enjoy bits from multiple stalls. This is the essence of a **Fund of Funds (FOF)**.

Here's a simple breakdown of this gourmet investment approach:

What's on the Platter?: At its core, an FOF is a pooled investment pot. But instead of directly buying ingredients like bonds, stocks, or other securities, it buys "tastes" from other fund stalls. Essentially, its portfolio is a delicious mix of other funds' portfolios.

Where Does It Shop?: An FOF typically fills its basket from other mutual or hedge funds. But here's the catch - it can either have a favorite shopping list or a wanderlust for variety.

- Favorite Shopping List (Fettered): It only picks from stalls (funds) managed by its home food company (managing company).
- Wanderlust (Unfettered): It's adventurous and can select from any stall in the market, regardless of the chef or company behind it.

A Taste of Everything: The magic of FOF lies in its aim for a diversified tasting experience. It aims to offer bites from various fund categories, all assembled on one platter for the investor to relish.

Variety of Dishes: Just as food halls offer everything from sushi to pasta, FOFs come in different varieties. They can be structured as mutual funds, hedge funds, private equity funds, or investment trusts. And



remember, they can stick to a favorite list or be adventurous in their selection.

Why Order the Sampler Platter?: FOFs are perfect for those foodies (investors) who don't want to risk eating a whole plate of something unfamiliar. Instead of directly diving into the vast sea of securities or sticking to just one fund, an FOF offers them a curated tasting experience, managed by professional chefs (wealth managers).

Accessibility to Gourmet Delights: Some gourmet stalls, especially those fancy hedge funds, have a high price tag or exclusive entry requirements. But with an FOF, even those with a modest appetite and budget can get a taste of these exclusive investment flavors, which might be out of reach if approached directly.

In the vast food hall of investments, an FOF offers a delightful tasting journey, blending both safety and variety. So, for those unsure of what investment cuisine to indulge in, an FOF sampler platter might just be the answer.



3. Parallel Fund Structures:

Imagine you have two favorite restaurants sitting side by side on a bustling street. Both serve nearly identical exquisite dishes. One, however, is tailored for local diners, while the other caters to international food enthusiasts. This is the flavor of **Parallel Fund Structures**.

Let's dive into this culinary world of finance:

Why Two Restaurants?: Parallel fund structures are like having twin restaurants to cater to a wider crowd. They offer personalized menus, suiting diners' unique tastes and dietary requirements, while still serving dishes from the same beloved recipe book (portfolio of assets).

Twin Dining Experience: Each parallel fund (restaurant) operates alongside the main fund (primary restaurant). They buy ingredients (invest) and update their menu (divest) at the same rhythm, usually matching each other bite for bite (on a pro rata basis). Their kitchen operations and menu policies are pretty much in sync.

Why Not Just One Big Restaurant?: Each parallel fund (or restaurant) might have small tweaks in its setup. These aren't just whimsical changes, but



adaptations made to ensure the place suits the dining (regulatory, tax, or investment) requirements of its patrons.

Delectable Features of Parallel Restaurants: While these eateries are twins, they boast some standard features that make them shine:

- **Same Master Chef (Fund Manager):** Both places are run by the same culinary genius, ensuring consistent taste and quality.
- **Nearly Identical Menus:** Diners enjoy the same, or almost the same, delicious dishes in both restaurants.
- **Unified Cooking Philosophy:** Both places source ingredients, create dishes, and even manage their staff in much the same way.
- **Shared Responsibilities:** If one restaurant faces a hiccup, like an ingredient shortage or unexpected expenses, its twin is there to share the burden.

In essence, parallel fund structures are about casting a wider net, capturing the varied tastes and needs of investors, while ensuring they all get to savor the delicious offerings of the main portfolio. So, whether you're a local food lover or an international gourmet, there's a seat waiting for you in this twin-dining world!

4. Umbrella Funds:

Imagine walking into a grand culinary plaza, where under one giant roof, you find an array of unique eateries, each specializing in different cuisines. From spicy Asian delights, classic European pastries to fresh Mediterranean salads, each stall is a world in itself. This is what an **Umbrella Fund** feels like in the investment realm.

Let's embark on this gourmet tour:

One Plaza, Diverse Cuisines: An umbrella fund is like this culinary plaza. It's one entity, but inside, it houses a myriad of distinct food stalls (sub-funds). Each stall has its special recipes (investment strategies) and flavor profiles (risk levels). Yet, they all operate under the same health and safety regulations (legal and regulatory framework).

Why Wander Multiple Streets?: Instead of wandering through numerous streets (setting up multiple funds) to savor different cuisines, just stroll through this plaza. Fancy some spicy equity? Or perhaps a mild bond soup? Maybe even a fusion dish from alternative investments? The choice is yours. You pick what satisfies your palate (investment needs).

Famed Culinary Plazas: Think of HSBC Investment Funds or UBS Funds as renowned culinary plazas. They're well-established, house a variety of food stalls (sub-funds), and are recognized in popular locales (like Luxembourg).

Master Chefs at Work: These stalls are run by the crème de la crème of chefs (professional asset management firms or financial institutions). They are masters in their respective cuisines, ensuring that each dish (sub-fund) they serve is crafted with expertise. They use the finest ingredients (assets), and their recipes (strategies) are tailored for optimal taste and satisfaction (returns).

Personalized Dining Experience: When you spend at this plaza, you decide where your money goes. Each stall operates individually, with its flavors, recipes, and culinary rules. This means you can indulge in a spicy dish (high-risk asset) here, and a mild dessert (low-risk asset) there, diversifying your meal experience and ensuring you don't end up with just a fiery mouth (risk of single asset class)!

In essence, umbrella funds are your one-stop culinary plazas in the investment world. They offer a bouquet of flavors, managed by the best chefs, and let you enjoy a diversified dining experience tailored to your taste and hunger levels.