NORTHERN TRUST

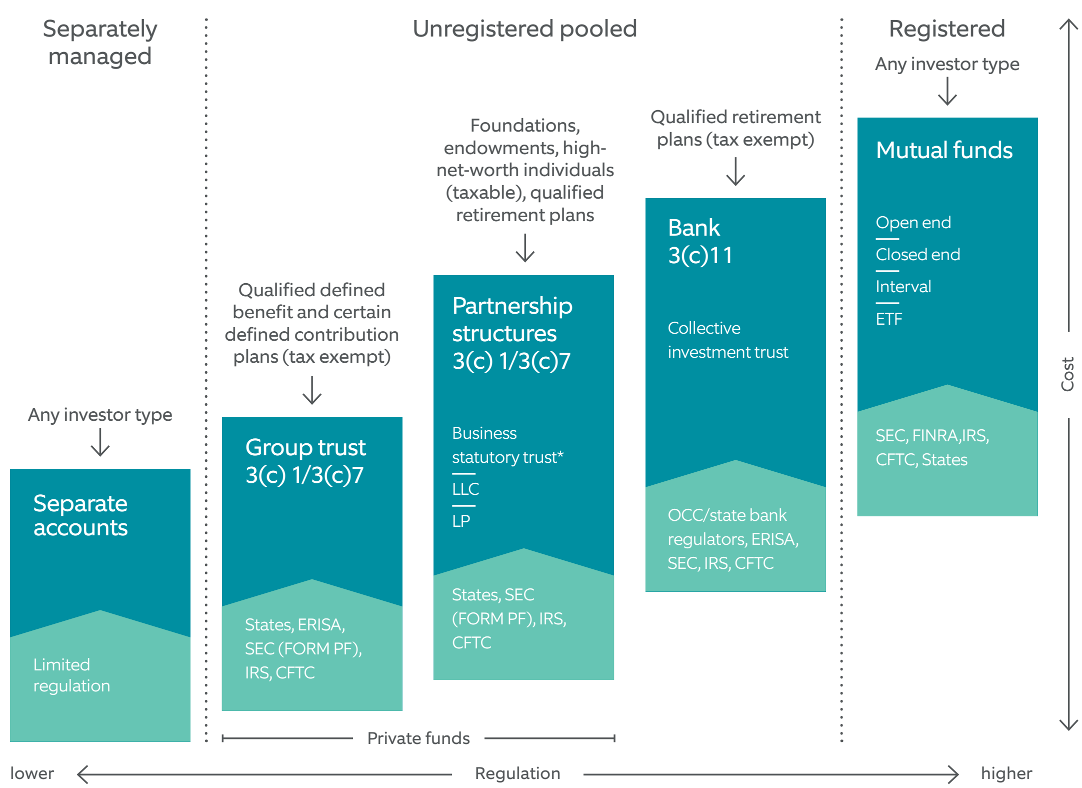
WHICH US FUND WRAPPERS WORK WITH YOUR DISTRIBUTION STRATEGY?

As European and UK investment managers continue to expand into the United States, a basic understanding of fund vehicles and structures, along with knowledgeable legal counsel, can help ease entry into a potentially lucrative new market.

Along with a defined strategy and successful performance track record, careful consideration of fund vehicles and regulations can help you navigate the US funds market

US FUND VEHICLE LANDSCAPE

US fund wrappers are generally classified in two main groups, based on whether or not the fund is registered under the Investment Company Act of 1940 ('40 Act). Different options exist within each group, some of which are purpose-built for retirement assets, and all of which present a scalable alternative to opening separately managed accounts (SMA) for each potential investor.



* Delaware/New Hampshire

REGISTERED FUNDS

A Trade-Off between Overhead and Investor Breadth

Registered US mutual funds represent the single largest fund market in the US (open-end, closed-end, interval and exchange traded funds; all registered investment companies). They are the most heavily regulated type of fund. Extensive filings and disclosures, along with significant oversight and diversification requirements, are designed to protect retail investors and can correlate to higher costs.

Sponsorship Arrangements

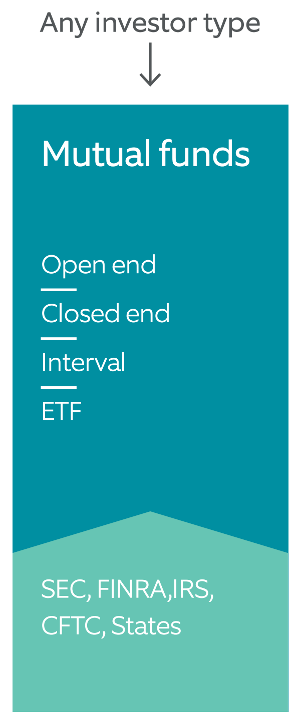
Proprietary trusts require advisers to establish their own board and governance operations. This can be time consuming and expensive, but provides advisers with solutions of their own design.

Series trusts are pre-established umbrella fund platforms (often by service providers) that enable unaffiliated advisers to leverage existing boards, oversight staff and policies. This is an attractive platform for non-US advisers or smaller funds seeking access to US investors. Governance and oversight are efficiently handled by the platform sponsor.

Regulatory Considerations

The Securities and Exchange Commission (SEC) oversees all registered funds, including rules around:

- Fund and adviser registration requirements
- Investor reporting and disclosure requirements
- Fund sales distribution rules
- Portfolio guidelines and diversification requirements
- Governance and fund oversight rules



UNREGISTERED FUNDS

A Viable Alternative in the Institutional Market... without Always Being an Alternative

Distinct from registered US mutual funds (and available to institutional/sophisticated investors only), unregistered funds provide advisers with alternative legal structures, which are viable both for alternative strategies and in the traditional long-only strategy space.

Securities Law Exemptions

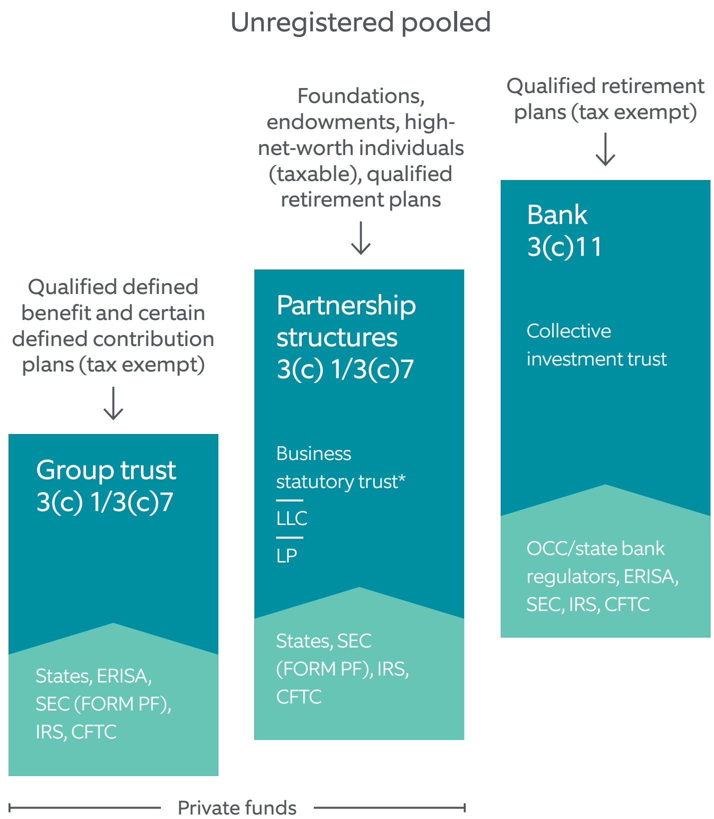
Carve-outs in the '40 Act allow funds to be established and operated outside the full force of fund regulations that mutual funds must follow.

Private Fund Exemptions 3(c)1 and 3(c)7: Sophistication and Head Count

- 3(c)1 permits up to 100 accredited investors; individual investors must have at least $1 million in investable assets and $200,000 annual income; institutions must have at least $5 million in investable assets
- 3(c)7 permits up to 500 accredited investors – in certain cases, 2,000 are permitted; individuals must have at least $5 million in investable assets; institutions must have at least $25 million

Bank Collective Fund Exemption 3(c)11: Bank Maintained/Retirement Assets

- 3(c)11 is an exemption under the same laws, which govern investor eligibility based on a bank sponsoring the fund and limiting investors to certain qualified retirement plan investors



PRIVATE FUND OPTIONS TAILORED TO YOUR TARGET INVESTOR MARKET

Group Trusts

- Private funds generally open only to qualified defined benefit (DB) retirement plan investors
- Commonly valued monthly to accommodate larger, more-infrequent flows of DB plans
- Recognised by foreign tax authorities, as plan assets enhance the tax reclaim process
- Regulatory Considerations
  - IRS: tax-free vehicle with tax-free retirement plan investors only
  - DOL/ERISA: fiduciary status, 5500 filing
  - SEC: adviser rules and Form PF disclosure

Partnership Structures

- Private funds open to a broad range of investors, including foundations, endowments, high-net-worth individuals and qualified retirement plans
- Can be organized under different legal entity structures to accommodate adviser or investor preference (primarily around liability), including:
  - Business statutory trusts: usually domiciled in Delaware or New Hampshire with a directed trustee
  - LLCs: often domiciled in Delaware with the adviser as managing member
  - LPs: often domiciled in Delaware with the adviser or affiliate as general partner
- Regardless of structure, each is considered a partnership for US tax purposes
- Regulatory Considerations
  - Domicile states: perfunctory fund filings
  - Investor domicile states: 506 Form D filings
  - DOL/ERISA: fiduciary status, 5500 filing if AUM > 25%
  - SEC: adviser rules; 506 Form D and Form PF disclosures

Qualified defined benefit and certain defined contribution plans (tax exempt)

↓

Group trust 3(c) 1/3(c)7

States, ERISA, SEC (FORM PF), IRS, CFTC

Foundations, endowments, high-net-worth individuals (taxable), qualified retirement plans

↓

Partnership structures 3(c) 1/3(c)7

Business statutory trust*

LLC

LP

States, SEC (FORM PF), IRS, CFTC

** Delaware/New Hampshire*

BANK FUNDS

A Way to Penetrate the US Retirement Market

Collective Investment Trusts (CIT)

- Specifically designed for retirement assets and well-suited for defined contribution (DC) market
- Plug-and-play with DC intermediaries supporting plans, just like mutual funds
- Pricing flexibility; one size does not fit all
- Platform concept can enable advisers to focus on strategy and marketing while governance and infrastructure handled by trustee and administrator
- No sophistication or head count limits

Regulatory Considerations

- Sponsored and overseen by state or OCC-chartered national bank
- IRS: tax-free vehicle with tax-free retirement plan investors only; viewed similarly by most foreign tax authorities
- DOL/ERISA: fiduciary status, 5500 filing
- SEC: to avoid registration, the bank must exercise substantial investment responsibility over the collective investment trust, and all anti-fraud provisions around marketing and describing these funds apply

FINAL CONSIDERATIONS AND KEY REMINDERS

- Is your target market well defined? Is the institutional market your true focus? Have you identified fund vehicles best suited to each market?
- You have options. The traditional US registered mutual fund, although a great tool for broad distribution, can be costly and burdensome to operate.
- The institutional investor market can accommodate several unregistered products, with the CIT a particulary attractive alternative for retirement assets.
- Have you obtained legal advice or guidance to help you arrive at the best solution?

Find out more about Global Fund Services at Northern Trust by visiting northerntrust.com or calling Senior Vice President Mike Blake at +1 312 444 5655