

Singapore is solidifying its standing as a jurisdiction of choice in the Asian region. **Dermot Butler** of Custom House Group tells *HFMWeek* the secrets behind the Asian city's success

# Success story

**S**ingapore's hedge fund administrator industry is booming. With top of the range services matched by its high quality, diligent staff, Singapore is proving it has what it takes to become a jurisdiction of choice in the Asian region.

**HFMWeek (HFM):** What makes Singapore a suitable place to administer hedge funds?

**Dermot Butler (DB):** In January 2007, we first went to Singapore where Swiss Financial and Fortis had already set up. Today, practically everybody has operations in Singapore. Singapore is a central hub for the Asian region and has a lot to offer. Firstly, the regulator/the government is business-friendly towards the hedge fund industry and administrators. Secondly, geographically, Singapore is within striking distance of Hong Kong and Tokyo, as well as India and China. Finally, we have found that the Singapore workforce leads the world in terms of quality. The Singaporeans are very procedure-orientated, diligent and hard working.



Dermot SL Butler is chairman of Custom House Administration & Corporate Services Ltd., which offers full hedge fund administration service through its office in Dublin and representative offices in Chicago and Singapore. He is also deputy chairman of AMIA.

**HFM:** What influence have environmental factors had on hedge fund managers choosing Singapore over Hong Kong?

**DB:** The hedge fund industry is a young industry, with young families, that are certainly not going to want to bring up their children in a highly polluted environment. Health reasons may encourage some Hong Kong managers to move to Singapore, which will encourage more administrators to relocate to Singapore.

I visited Hong Kong last year and I thought I may have gone in a bad week; the pollution was appalling. Recently, I read an article in *The Irish Times* regarding the unacceptable levels of pollution in Hong Kong – apparently one day earlier this year, the Hong Kong government issued

a warning that stated that pollution levels were dangerously high and recommended that the young and the old should not go out at all and, if they did, it was recommended that they should not carry out any serious physical activity. Most governments don't admit to problems unless they have to. And if they do, it usually means the problem is worse than they are letting on.

**HFM:** What changes and developments in regulations have aided the hedge fund industry in the region?

**DB:** I am not aware of there having been any major developments in regulation, but I think this is liable to change worldwide. The Singapore government is considering bringing in legislation that would see the introduction of a Singapore fund vehicle, like a SICAV or an OIC (Offshore Investment Company). The launch of that fund would probably mean more regulations, but at the moment, there are only a few. The one thing we know about Singapore is, if you fail to file something, people want to know why. So, if you don't get your accounts in on time, the Singapore authorities are going to be tougher on you than, perhaps, authorities might be anywhere else in the world. Singapore is well-regulated to the extent that they have regulations. If they begin introducing funds and investment vehicles, the government is liable to consider some regulations, although it will most likely be very light, the regulatory environment will probably be similar to that of Cayman – light, but effective.

**HFM:** What challenges does Singapore face in trying to lure hedge fund managers to the area?

**DB:** One of the main challenges is that a lot of managers are so entrenched in Tokyo and Hong Kong. I understand that there has been some change in the Japanese taxation of hedge fund

managers, which is driving them into Singapore, so that's going to have a positive affect. Of course, with more managers, there will come more demand for administration.

**HFM:** What does Singapore have to offer as a domicile that Hong Kong and Tokyo do not?

**DB:** Expense, for a start. There is a lower cost centre and a friendly government in Singapore. The Hong Kong government is not antagonistic, but is also not proactive. Singapore offers a high volume of educated staff that is available at a lower cost than Tokyo and Hong Kong.

**HFM:** What effects, both positive and negative, will the imminent merger with Equity Trust have on your services?

**DB:** Equity Trust is quite a big name. Worldwide, it's going to be positive to the extent that we already have a 24/5 service. We open at midnight Dublin time on Sunday, when Singapore opens and closes at midnight Dublin time on Friday, when Chicago closes. Because we use one integrated system, the 'book' revolves, so we follow the sun and follow the clock. Through our operations in Chicago and Singapore, our situation has greatly improved, so we now produce some 80 or so daily-dealing NAVs. Furthermore, being in both Chicago and Singapore, we have scalability of staff.

In terms of negative aspects, every integration carries its own set of problems. But we should be able to absorb Equity Trust's fund services business without any major strain on our business model. We have capacity, so we can transfer new funds into our systems effectively and efficiently. We're not liable to have massive savings but we're going to be able to add more work, more business and take on more capacity without a pro rata increase in costs. We're not going to have to suffer as a lot of other hedge fund administrators have when they have been acquired by major banks because we share a simi-



lar entrepreneurial culture, we're going to be able to carry on running our businesses as a combined business. We can, and will, happily accept funds under US\$200m, which is against the current trend being set by the big banks. This gives us a bigger market share than we otherwise might have had if BISYS, Bank of Bermuda and BNYM had stayed independent because I would expect that they would still be operating in the under US\$200m market.

**HFM:** What made you seek out Singapore and Chicago as alternatives to the likes of Galway, Drogheda and Waterford in Ireland?

**DB:** We are a Dublin-based operation and we started that way. At the moment, there are well over 40 hedge fund administrators in Dublin. Nearly all of those, with very few exceptions, come from abroad and the Dublin operation is a branch, or one of a global network.

With inflation rising and the cost of living in Dublin on the increase, many

of the bigger players have found that Dublin is too expensive to operate in and that they can operate cheaply elsewhere in Ireland. Many have done it, including Citco, PFPC et al. They are now in Galway, Drogheda and Naas.

We wanted to develop a global footprint and if we had chosen to stay in Ireland, we would have really limited ourselves to Europe. We took the view that we needed to go global and then we looked at where would be the best place to do it. I did a trip five years ago and came back with the conclusion that we had to go to America first and somewhere in South East Asia second.

We selected Chicago for a number of reasons; it's in central US so we could theoretically pick up business anywhere in the US and Canada. It is one hour nearer to the US West Coast and Asia than New York, is cheaper and there is a lot of business outside New York. In addition, I happen to believe Chicago is the most beautiful city in the States. It has a thriving futures market and in terms of the workforce, Chicago has the advantage of the famous Midwest work ethic.

**HFM:** What plans for expansion into other regions does Custom House have?

**DB:** We don't have any specific plans, although, with the merger, we will add a fully operational licensed administration office in Luxembourg. What we are going to have to work out is how we absorb; Equity Trust has 32 offices around the world with 1000 employees excluding us. So, there are lots of opportunities there.

**HFM:** With a look to the future, what changes do you think Singapore will experience over the next few years?

**DB:** I think it's running steady. When hedge fund managers move anywhere, they put prices up, particularly rents. We've seen very substantial increases in rents in Singapore in the last year and that's going to be a problem, but they were quite cheap beforehand. Singapore is now in the big city world.