

**INSTITUTIONAL STRENGTH
BOUTIQUE SERVICE**

MARKET DRIVERS

Private fund managers typically structure funds to comply with either Section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 (1940 Act) to avoid having to register pooled funds as investment companies and to utilize exemptions from certain SEC regulations and reporting requirements. One such regulation is the 100-investor rule, which prohibits a fund from exceeding 100 shareholders in the strategy. Exemption from this regulation requires not only careful calculation of the fund's ownership, but also skillful navigation as the fund grows and expands its distribution so that it does not create a compliance issue for the manager

CLIENT BACKGROUND

Homrich Berg (HB) is a registered independent adviser that serves clients across the country. It was founded in 1989 in Atlanta by Andy Berg and David Homrich to fill an emerging need for individualized and fiduciary wealth management services for families, individuals and not-for-profit organizations.

With a core belief that investors deserve fiduciary advice, HB provides comprehensive financial planning and investment advisory services on an independent, fee-only basis and today serves more than 2,000 clients and advises approximately \$7bn in assets under management (AUM).

“Ultimus Fund Solutions was a critical partner for us as we navigated the complexities of registering our Private Fund. They guided us through the process from start to finish, including helping us to select the right service providers and guiding us through the regulatory process. Since launching the Fund, Ultimus has taken the lead on all aspects of administration for the Fund, allowing us to focus on portfolio management and serving our investors.”

**Ford Donohue – Director, Investments
Homrich Berg**

STRATEGIC IMPERATIVES FOR THE CLIENT

HB created a 3(c)(1) fund in January 1999 to provide their high-net-worth and institutional investors ready access to a diversified portfolio of hedge funds. Initially used internally for select advisory clients, the fund steadily garnered interest among other HB clients looking to diversify.

As interest in the fund grew and the constraint of the 100-investor rule loomed, HB began exploring ways to continue expanding the investor pool without negatively affecting existing shareholders. They knew they needed a service provider with registered fund product knowledge, experience in converting private funds to registered funds, and the ability to tap into broader future distribution opportunities.

BRIEF OVERVIEW: INTERVAL AND TENDER OFFER FUNDS

Interval and Tender Offer Funds are two types of 1940 Act registered, unlisted closed-end funds. They can significantly expand a fund manager's business by providing access to alternative asset classes through a broader potential distribution footprint, including family office, high-net-worth and retail investors.

These flexible structures uniquely combine many of the benefits of both private and registered products including:

- SEC-regulated investment structure overseen by a board of trustees.
- Investment flexibility which permits holding illiquid asset classes.
- Investor liquidity defined in the prospectus at specified intervals.
- Lower investment minimums for retail investors that are typically only offered to institutional investors.
- Available for distribution to an unlimited numbers of investors, including through advisers and traditional 1940 Act mutual fund platforms.
- 1099 tax reporting.

STRUCTURE COMPARISONS

REGISTERED FUND SOLUTIONS

	Mutual Fund	Closed-End Fund	Interval Fund	Tender Offer Fund	Hedge Fund
Investor Limitations	None	None	None	Depends on underlying investments	Accredited investors 3(c)(1) – 100 investors 3(c)(7) – unlimited qualified purchasers
Tax Treatment	1099	1099	1099	1099	K-1
NAV Calculation	Daily	Daily – Exchange Listed	Weekly/Daily	Flexible (Monthly/Quarterly)	Monthly
Redemption Frequency	Daily	Daily	3, 6 or 12 months	Discretionary: 3, 6 or 12 months	Periodic and Flexible
Liquidity Restrictions	Illiquid securities limited to 15% of net assets	None	Flexible; must maintain liquid assets sufficient to meet repurchase offers during repurchase offer period	None	None
Liquidity Structure	Must meet daily redemptions	<ul style="list-style-type: none"> Intraday trading on secondary market Primary market create/redeem activity daily 	Repurchase offers required at interval chosen by fund (quarterly, semi-annually or annually)	Frequency and amount of tender offers at discretion of the Board	Manager discretion

KEY 3(c)(1) TO '40 ACT CONVERSION MILESTONES

After careful consideration of its options, HB decided to transition the existing fund into a closed-end tender offer fund, which would allow the fund to continue adding new investors and expand its availability through new distribution channels. Upon completion of the conversion on January 3, 2017, the fund was also able to retain its 17-year performance history and allow HB to continue use of historic performance data in its marketing.

This type of product-to-product conversion is typically completed in four to six months and requires current investors and the custodian(s) to grant the release of funds and approve movement into the new fund.

In converting the 3(c)(1) fund, the Ultimus conversion team – professionals spanning legal, compliance and operations (Fund Accounting and Transfer Agent) departments – joined with HB’s fund counsel and adviser personnel to develop and execute a comprehensive project plan. The conversion process included:

- Selecting key service providers
- Identifying fund trustees and officers
- Preparing and filing of the registration statement on Form N-2
- Developing the trust compliance program
- Preparing for and holding the organizational board meeting
- Setting up a repeatable valuation process
- Designing a tender offer process appropriate for the fund and its investors
- Developing FINRA compliant fund marketing materials

**One note of caution for advisers considering transitioning a private fund into '40 Act interval or tender offer fund, the SEC has provided guidance that a fund should not be created solely for the purpose of establishing a performance record.*

RESULTS – PEACHTREE ALTERNATIVE STRATEGIES FUND

- **PURPOSE:** Organized as a Delaware statutory trust and registered under the 1940 Act, the fund provides accredited investors access to investments previously available only to qualified purchasers.
- **INVESTMENT OBJECTIVE:** Through a diversified portfolio of hedge fund strategies, the fund seeks to generate (a) attractive, risk-adjusted returns relative to traditional asset classes; and (b) a return stream not highly correlated to equity market performance.
- **INVESTMENT STRATEGIES:** To achieve the investment objectives, the adviser invests in a variety of professionally managed portfolio funds utilizing various strategies, including equity long/short, credit long/short, distressed credit, merger arbitrage, discretionary macro, event driven, structured credit arbitrage, statistical arbitrage and multi-strategy.

FUND DETAILS

Strategy	Multi-Strategy Fund of Hedge Funds
Fund Structure	Registered Investment Company Registered under 1933 and 1940 Acts
Subscriptions	Monthly
Redemptions	Quarterly; Board discretion. At least 45 days prior to the valuation date.
Minimum Investment	\$25,000
Tax Reporting	Form 1099
Mgmt Fee/Exp. Cap	0.75% / 1.25%
Eligible Investors	Accredited investors

- Homrich Berg realized asset growth from \$90m to over \$200m and was able to expand from 100 to nearly 700 new investors and counting.
- Homrich Berg was able to expand access of the product from proprietary clients to accredited investors at other registered investment advisors.
- The firm incorporated operational best practices and simplified/streamlined its processes. This facilitated a broader understanding of the registered fund space, which impacts many of the firm's decisions across data warehousing, sales reporting, marketing and branding.
- Working with an institutional-grade, full-service fund administrator enabled Homrich Berg to focus on client engagement and asset growth rather than day-to-day operations.
- The entire conversion process was highly efficient as a result of choosing partners with proven track records in this type of structure-to-structure product transition.
- The Homrich Berg-Ultimus relationship continues, as the two firms align across numerous strategic initiatives and day-to-day service delivery, collaborating on product and feature offerings, regulatory and compliance trends and best practices, 1940 Act education and common regulatory industry practices, marketing and distribution, and evolving technologies.

An investment in the Fund will involve significant risks, including the loss of the amount invested. Investment in the Fund is suitable only for certain financially sophisticated investors who have no need for immediate liquidity in their investment and can bear the risk of an investment for an extended period of time, this is a closed-end management company. There is no guarantee that the Fund will achieve its objectives.

CLOSING OBSERVATIONS

Traditional investment management and alternative asset management are converging. Retail investors are demanding access to non-correlated strategies and illiquid asset classes in their continual quest for yield. Interval and Tender Offer funds offer managers a flexible wrapper that combines many of the benefits of both 1940 Act and private fund structures. Interest in these products has increased significantly in the past decade and we anticipate the volume of both new launches and structure conversions to continue well into the future.