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NEWS

Conversation with Andrew Patrick – MARQ Private Funds

Funds Management partner Langton Clarke chats with MARQ Private Funds' managing director Andrew Patrick about regulatory challenges for fund managers, how the pandemic played out for MARQ, technology trends, and the future of impact investing.

Langton also invites Andrew, as a provider of services focused on establishing and operating wholesale managed investment funds in compliance with AFS licensing laws, to share some advice with new entrants in the investment funds industry.

LC *What do you see as the greatest regulatory challenge faced by investment/fund managers?*

AP In large pockets of the financial community there is a greater lack of knowledge and understanding about this space than we would hope to expect, despite the regime having been around for many years. In a somewhat staggering example, a partner from a mid-tier professional services firm recently claimed the rules and regulations did not apply to their client because they were 'just raising money'.

There is still a common misconception that where there are less than 20 people investing you do not need an AFSL. While the '20/12/$2 million rule' does provide an exemption, which loosely means a regulated disclosure document (ie a PDS) is not required, you still need to hold an AFSL and are bound by all the rules and regulations that apply to MISs.

The consequences need to be fully understood when advising people about raising money. If they get the structure wrong and do not understand the rules around raising money, then the whole thing can be at risk of being upturned by ASIC and the financial and civil penalties can be extreme. There is also the regulatory impact of a negative finding on a company or those behind it which can see them banned or disqualified for five years or more.

We spend a lot of time explaining to our clients the rules and regulations around raising money so they can go to the market and raise money with confidence.

Many of the funds we deal with are first timers that know their asset class 'backwards' but may not fully understand the financial product their investors are investing in. Bridging this gap is an important step in helping our clients grow strong and successful businesses as investment and fund managers.

LC *Many expected the funds management industry, along with many others, to be thrown into turmoil in the face of the pandemic. How did the pandemic play out for MARQ?*

AP We did not see the extensive turmoil that some predicted for our industry. What we saw was a pause in activity from about

March 2020—new enquiries and funds were put on hold and some capital-ready funds were held back, pending what we thought and hoped would be a shorter pause than the nine months that eventuated. The good news is those funds are still ready to go and will happen.

The other thing we saw, certainly in Melbourne during the lockdown period, is that people remained 'idea focused' while endeavouring to understand the impact of the pandemic. The private equity space has always been a very innovative game in Australia, so it was not surprising to find people looking beyond the pandemic.

Post pandemic, we have witnessed a few interesting and encouraging things.

In November 2020, one of our clients raised $49 million in eight days. This client is a very professional and well-managed investment manager with a group of happy investors, but to achieve that result mid-pandemic was very impressive. They were clearly working on this project throughout the pandemic, as others have been, and I am sure they are not alone in achieving such a positive outcome.

Since November 2020, our enquiry rate is better than ever with many proposals in the market. With investment capital being on pause for 12 months, there is a bank of investment capital waiting to be deployed. Many investment managers assessed projects during the lockdown, and are now ready to go and trying to get their product to market first to take advantage of the investment capital that is around.

Some of this is about being nimble—small to medium?size enterprises can often pivot quicker than their larger counterparts to turn a negative into a positive.

LC *If you could share one piece of advice with a new entrant in the investment funds industry, what would that be?*

AP First, as I mentioned earlier, it is critical to understand that an investment product is a financial product as distinct from the asset into which the fund is investing. A fund manager—and their investors—need to understand the rights and obligations of that financial product.

Secondly, compliance and governance are your friend. The more you subscribe to compliance and good governance as a feature of your business and make it part of your culture, rather than a bothersome chore, the better the protection afforded yourself and your investors.

Thirdly, we tell our investment managers that when it comes to risk and professional indemnity, having us do what we should do is their greatest safeguard. Then, if we both do what we are supposed to do, the better we will both be putting the product to market.

LC *What are the main drivers of 'impact' investing and where will it lead?*

AP We are currently dealing with a few 'impact' funds, including the likes of The Impact Fund with $115 million committed capital to invest in 'social' assets which yield an investment return.

Over the last 30 years, this landscape has transitioned from one of 'don't care', to one of 'do no harm', to one of 'do good and invest for a purpose'.

That is what The Impact Fund is doing. It is doing good and investing for a purpose, but at the same time generating an appropriate financial return.

I think the next phase of impact investing is around the financial value of 'ecosystem services' which is increasingly guiding economic decision-making and government policy and was on the agenda at the World Economic Forum meeting in Davos recently. A recent article in *The Guardian* explores this theme.

LC *Technology and digital transformation have emerged as key issues in the wake of the pandemic. What industry trends are you seeing in this space?*

AP COVID brought about a rapid acceptance of remote ways of meeting (eg Zoom), with many who used these tools rarely prior to the pandemic becoming very proficient. It has also brought about an acceptance of remote signing of documents with the likes of DocuSign now being commonplace. We are enjoying remote ways of identifying investors with registration procedures now happening instantaneously and online. Also, information memoranda, marketing material, and much more are happening electronically rather than in printed form.

While this is changing some of the ways we do business, it is also changing the connection points of fund and investment managers with investors and the broader community.

Another aspect is the increasing number of funds looking at technology as an asset class. Things like a pandemic focus your mind on how to make things work better than in the past. Australia, being full of innovative smart people who are readily adaptable, has kept coming up with new ideas to make things more efficient. So, if we can help put a funds management structure around it to help them raise the capital they need to deliver these technologies to the market then that is a great thing for all of us.

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